

*Our journey*

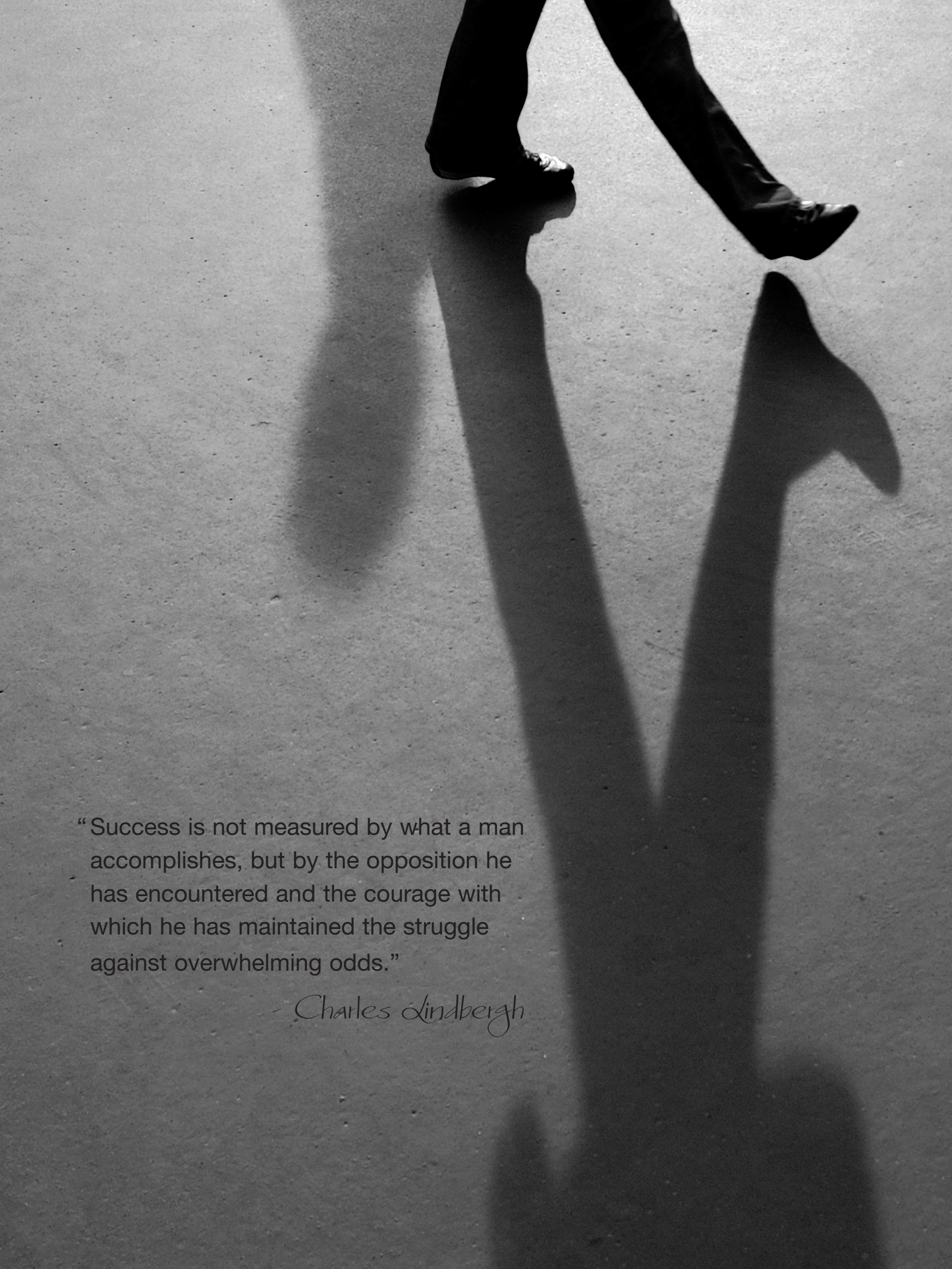
A BILLION DOLLARS AND GROWING



**ANNUAL  
REPORT  
2006**







“Success is not measured by what a man accomplishes, but by the opposition he has encountered and the courage with which he has maintained the struggle against overwhelming odds.”

*- Charles Lindbergh*



# Our journey

A BILLION DOLLARS AND GROWING



## *The passage from our beginning to our future:*

Our journey began in earnest in 1984 when the Bank was purchased by a group of Bahamian Investors. These Investors were energized by a vision and a promise to offer working Bahamians the opportunity to improve their standard of living by providing them with access to leading edge banking products and services.

The Bank stands as a testament to the Bahamian spirit and resolve and has remained steadfast in ensuring that Bahamians have banking services and facilities that are strategically positioned to meet their current and anticipated needs.

While we can look fondly on what has been achieved since 1984, we cannot stand still. Our commitment to focusing on Bahamians remains steadfast. Propelling this focus is our vision to be the ***“First Choice of Bahamians for all Banking Services”***.

We look forward to the future and continuing on *Our Journey* with an intense resolve to create further value for Bahamians at all levels and to lead by example to effect positive change throughout The Bahamas.

**1984**

100% Bahamian  
Ownership

Total Assets of  
\$15 Million

**1995**

Total Assets  
exceeded  
\$250 Million

**2006**

Total Assets  
exceeded  
\$1 Billion

Total Assets  
exceeded  
\$100 Million  
**1988**

Total Assets  
exceeded  
\$500 Million  
**1999**

A BILLION DOLLARS AND GROWING



## *Our Vision*

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First choice of Bahamians for all Banking Services

## *Our Mission*

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

- Delivering superior quality service to our customers
- Retaining and developing employees with outstanding capabilities
- Creating value for our shareholders
- Promoting economic growth and stability in our community

## *Core Values*

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We will:

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



# Contents

Strategic Priorities	6
Financial Highlights	7
Chairman's Report	9
Branch Openings	11
President's Report	13
Customer Loyalty	15
Rupert W. Roberts, Jr., OBE-1st Chairman	17
Robert H. Symonette-2nd Chairman	19
T. Baswell Donaldson, CBE-3rd Chairman	21
Employee Commitment	22
Management Discussion & Analysis of Operating Results	23
Shareholder Confidence	29
Board of Directors	31
Executive Team	33
Branch Managers	34
AVPs & Department Managers	36
Management Responsibility	38
<b>FINANCIALS</b>	
Independent Auditor's Report	39
Consolidated Balance Sheet	40
Consolidated Statement of Income	41
Consolidated Statement of Changes in Equity	42
Consolidated Statement of Cash Flows	43
Notes to Consolidated Financial Statements	44
Report of the Nominating Committee	63
Report of the Executive Committee	64
Report of the Audit Committee	65
Report of the Premises Committee	66
Report of the IT Committee	67
Charter of Expectations	68
Corporate Governance	69
Community Involvement	70
Shareholder Information	71
Services & Locations	72



# Strategic Priorities

2006 Strategic Priorities	2006 Initiatives and Accomplishments	2007 Strategic Priorities
<b>Be responsible and effective financial managers.</b>	<ul style="list-style-type: none"> <li>• Our Financial targets for ROE, ROA and EPS growth were achieved.</li> <li>• Our target for maintaining regulatory capital in excess of minimum requirements was achieved.</li> <li>• Enhanced our Efficiency Ratios.</li> <li>• Dividend Payout increased by 50% over 2005 while remaining within our long term average goal of 65%.</li> </ul>	<p><b>Drive strong returns and disciplined growth of existing and anticipated products with firm financial targets in place for all activities.</b></p> <p><b>Seek a more balanced approach to revenue generation.</b></p>
<b>Lead by example to effect positive change.</b>	<ul style="list-style-type: none"> <li>• Maintained our position as a leader in governance, sound risk management and productive systems in 2006.</li> <li>• Sustained our commitment to young Bahamians through continuous support to College of The Bahamas scholarships and vocational scholarships provided through the Lyford Cay Foundation.</li> </ul>	<p><b>Sustain effective governance through sound policies, procedures and processes of control.</b></p> <p><b>Confirm our commitment to sustain the development of Bahamian youth through scholarship programs and support of community services.</b></p>
<b>Provide meaningful opportunities for stakeholders to have input.</b>	<ul style="list-style-type: none"> <li>• Introduced the use of performance metrics to assist with ongoing decision making and governance issues.</li> <li>• Sought avenues to provide further access to the public and stakeholders of the Bank's governance and business operations.</li> </ul>	<p><b>Place additional emphasis on the further development of performance metrics to assist with the development of profitable products and services.</b></p> <p><b>Continue the Bank's program of increasing transparency of its operations to shareholders and other stakeholders.</b></p>
<b>Ensure Commonwealth Bank is a great place to work.</b>	<ul style="list-style-type: none"> <li>• Further developed our fair and equitable performance measurement process.</li> <li>• Continued to encourage personal and team development to assist with the continuity of effective and sound management for the Bank.</li> <li>• Developed and implemented an employee satisfaction program.</li> </ul>	<p><b>Ensure succession planning is in place for all key individuals and further develop the quality of our personnel through effective focused training.</b></p> <p><b>Continue to develop attractive "Pay for Performance" compensation plans.</b></p>
<b>Provide customers with outstanding services.</b>	<ul style="list-style-type: none"> <li>• Golden Gates Branch became fully operational in January 2007.</li> <li>• CB Online, our internet banking system, became fully functional in 2006.</li> <li>• Leveraged the results of the 2005 customer promotions.</li> <li>• Launched Small Business Loan Fund.</li> </ul>	<p><b>Seek further market penetration of the CB Online product and expand offering of the Bank's card products.</b></p> <p><b>Build a high performing customer-focused organization supported by proven technology based products and services.</b></p>



# Financial Highlights

For the years ended 31 December  
(B\$ 000's)

2006

2005

2004

2003

2002

## INCOME STATEMENT DATA:

Interest Income	\$ 104,375	\$ 87,548	\$ 84,032	\$ 79,336	\$ 78,463
Interest Expense	(32,194)	(25,596)	(25,929)	(26,298)	(27,959)
Net Interest Income	72,181	61,952	58,103	53,038	50,504
Provision for Loan Losses	(11,758)	(9,678)	(13,803)	(11,934)	(10,752)
Net Interest Income after Provision for Loan Losses	60,423	52,274	44,300	41,104	39,752
Non-interest Income	21,214	17,857	14,384	12,437	11,509
Non-interest Expenses	(41,204)	(38,328)	(33,340)	(30,615)	(29,323)
Net Income	40,433	31,803	25,344	22,926	21,938

## PER SHARE DATA:

Book Value	\$ 3.25	\$ 2.78	\$ 2.30	\$ 2.05	\$ 1.83
Cash Dividends	0.68	0.45	0.39	0.34	0.34
Year End Share Price	12.51	9.11	7.10	6.24	6.49
Weighted Average Common Shares Outstanding (000's)	32,583	31,567	31,266	31,259	31,241
Dividend growth (total)	15.11%	15.38%	14.71%	0.00%	0.00%

## BALANCE SHEET DATA:

Total Assets	\$ 1,018,643	\$ 853,976	\$ 765,657	\$ 702,910	\$ 683,781
Securities	86,057	75,179	60,999	65,307	48,329
Loans	828,547	705,312	602,284	570,031	560,044
Net Write-offs	5,969	9,934	16,982	13,811	7,478
Total Deposits	798,394	680,331	615,263	555,740	541,447
Total Shareholders Equity	191,461	149,446	132,961	125,098	118,152

## PERFORMANCE RATIOS:

Price/Earnings	11.59	10.72	11.09	10.95	12.25
Price/Book Value	3.85	3.28	3.09	3.04	3.55
Dividend Yield (Annual Dividend/Year End Price)	5.44%	4.94%	5.49%	5.45%	5.24%
Earnings Per Share	1.08	0.85	0.64	0.57	0.53
Return on Average Assets	3.76%	3.44%	2.78%	2.55%	2.42%
Return on Average Shareholders' Equity	34.82%	33.35%	28.79%	28.68%	29.38%
Ordinary Dividend Payout Ratio	62.82%	52.72%	61.31%	60.82%	64.43%
Efficiency Ratio	46.67%	51.14%	49.74%	51.01%	51.84%
Net Interest Margin	6.59%	6.69%	6.88%	6.77%	6.59%

## ASSET QUALITY RATIOS:

Non-accrual Loans to Total Loans	1.46%	1.32%	3.28%	4.97%	6.62%
Non-accrual Loans to Total Assets	1.19%	1.09%	2.58%	4.03%	5.42%
Net Write-offs to Average Loans	0.77%	1.56%	2.90%	2.45%	1.35%
Provision for Loan Losses to Total Loans	2.29%	1.86%	2.23%	2.91%	3.30%
Provision for Loan Losses to Non-accrual Loans	156.52%	141.42%	67.85%	58.55%	49.81%

## LIQUIDITY RATIOS:

Average Cash and Securities to Average Total Assets	16.68%	17.69%	18.31%	18.92%	18.70%
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## CAPITAL RATIOS:

Leverage Ratio Average Shareholders' Equity to Average Total Assets	18.53%	18.28%	18.04%	17.60%	17.15%
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## CONSOLIDATED CAPITAL ADEQUACY:

Tier 1 Capital	\$ 106,478	\$ 88,588	\$ 71,970	\$ 64,107	\$ 57,161
Tier 2 Capital	84,983	60,858	60,991	60,991	57,161
Total Capital	191,461	149,446	132,961	125,098	118,152
Total Risk Adjusted Assets	829,500	732,439	607,226	573,744	564,087
Tier 1 Ratio	12.84%	12.09%	11.85%	11.17%	10.13%
Tier 1 + Tier 2 Capital Ratio	23.08%	20.40%	21.90%	21.80%	20.27%

Number of Employees Average for the Year	467	460	440	427	427
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Certain figures have been restated to be consistent with the current year's presentation.



**T. BASWELL DONALDSON, CBE**  
Chairman



# Chairman's Report

In 2006, your Bank achieved a significant milestone in its history that is, passing the \$1 Billion in Total Assets Threshold. This milestone is by any standard momentous when you consider the origin of the Bank. The Bank became fully owned by Bahamians in 1984 with the underlying vision, mission and core values dedicated to offering working Bahamians the opportunity to improve their standard of living through access to consumer loans and other leading edge banking facilities and services. The Bank has and remains steadfast in directing its efforts to maintaining its vision and core values.

As Chairman, my goal is to provide leadership that will enable the Board to add value to the Bank's performance and to ensure that the Bank is positioned strategically to ensure that what has been achieved since its inception can be sustained and, where appropriate, further developed.

Always with a focus on our customers and consistent performance, your Bank, once again achieved record results for the tenth consecutive year in 2006. The Board was pleased with the performance of the Bank in 2006 and acknowledges that sustainable success does not come easy. It requires continued focus on our fundamental strengths while ensuring sufficient investment is made to address strategic initiatives and anticipated market developments. The Board has been fortunate to be able to work closely with a dedicated management team that is committed to the future of the Bank and its customers.


The Bank remains the largest public company traded on the BISX (Bahamas International Securities Exchange). More and more Bahamian individual investors are becoming increasingly aware of Commonwealth Bank Limited's story. Commonwealth Bank was the leader in terms of value of shares traded on the BISX accounting for more than \$7.3 million worth of shares or in excess of 25% of the total value that was traded on the BISX in 2006.

During 2006, our shareholders once again, have participated in the success of the Bank. Quarterly dividends were again increased in 2006 and when coupled with the special dividends, shareholders received \$0.68 per share during 2006. If the dividends were fully invested along with the stock appreciation of approximately 37%, shareholders were provided with a return on their investment of almost 45% in 2006.

Public companies are continually held to higher standards of corporate governance. Your Bank continues to be recognized as a leader in its approach to governance and it is a responsibility the Board takes very seriously. Strong and effective governance has always been a high priority for your Board as a strong governance regime is an important element in creating sustainable shareholder value. An effective governance regime mitigates risk, promotes safety and soundness and provides the Bank with a solid platform on which to deliver leading financial returns. Your Board continually reviews and reassesses its governance regime to ensure the governance framework adopts and applies internationally accepted best practices that are directed at maintaining our position in the marketplace as well as to assist with anticipating and meeting changing shareholder and other stakeholder needs and requirements.

Your Board is also dedicated to the strategic oversight of the business activities and operations of Commonwealth Bank. It has remained highly engaged and vigilant in 2006. Every Director accepts full accountability for their fiduciary responsibilities which is not only to provide independent and constructive guidance to management of the Bank but also to support the Bank in its journey... A Billion Dollars and Growing.

On this special occasion and on behalf of the Board, I would like to acknowledge the ongoing contribution of the individual directors and the personnel throughout the Bank who have and continue to contribute to the growth and success of the Bank. The proof of their high level of commitment, professionalism, creativity and interest in Bahamians is clear. I am confident that the Bank will continue to seek opportunities to sustain the trust we have earned for many more years.

  
T. Baswell Donaldson, CBE  
Chairman

# Branch Openings



**ABACO**



**OAKESFIELD**



**TOWN CENTRE MALL**



**FREEPORT**

At Commonwealth Bank, we have established ourselves as a community-oriented bank dedicated to providing quality banking products and services for our customers. This dedication and commitment is an integral part of our successful growth.

Our journey to success was first apparent with the rapid physical growth of the Bank after the Bank became 100% Bahamian owned in 1984. This growth placed tremendous strain on the facilities in our Branch network. Branches that had sufficed under stagnant foreign ownership quickly became cramped and ill suited to the needs of our dynamic rejuvenated Commonwealth Bank.

Our new Board took clear steps to expand the Bank's branch facilities and not only undertook a program of branch expansion but also determined that every Commonwealth Bank Branch would be a first class facility to serve our customers. Relocation from our cramped location at Dunmore Lane was the first priority and was successfully achieved in 1986 when we opened our new branch and then Head Office at 610 East Bay St. To service our ever expanding, multi-island customer base, a continuous expansion program followed, adding new branches in Abaco, Oakes Field and Cable Beach.

In 1990, our Bank was approved by The Central Bank of The Bahamas to become a Clearing Bank, and also became an Authorized Dealer, completing our transformation from a Savings and Loan institution to a complete service bank. This transition increased the demand for larger, more streamlined branches. In 1992, in order to more efficiently service our customers in the south, our older, cramped branches at Robinson Road and our Golden Gates Supermarket Sub-branch were combined into the larger, state-of-the-art Town Centre Mall Branch.

In 1993, determined to recognize the importance of Grand Bahama to the investment of our Shareholders, the Bank opened its first "Flagship Branch" by relocating our Freeport Branch from the Arcade Building, in Downtown Freeport to East Mall Drive. The newly designed branch showcased a larger facility capable



**EAST BAY STREET - First Branch**

**CABLE BEACH****THE PLAZA****WULFF ROAD****LUCAYA**

of efficiently handling the higher increased volume of our customer base. Three short years later, we were finally able to move out of our small Cable Beach premises at the Nassau Beach Hotel to our second “Flagship Branch”. The new location on the southern side of West Bay Street, opposite the Cable Beach resorts could handle the increasing business at this location. Also in 1996, to accommodate the increased demand of our back office support structure, we relocated our Head Office from our branch at 610 East Bay Street to The Plaza on Mackey Street. The Bank further expanded in 2000 by opening its third “Flagship Branch” on Wulff Road providing more convenient access to our ever growing customer base in South East New Providence.

In 2004, we purchased The Plaza building, to enable us to manage the expansion of our back office operations to meet the growing demand of the Bank. 2005 was also notable as our commitment to our customers and their way of life resulted in the new “Virtual Branch” with the introduction of Internet Banking through CB-Online making us a 24 hour banking facility. Our pursuit to lead by example and promote positive change throughout The Bahamas continued into 2007 as we opened our newest branch expansion in Southern New Providence at the Golden Gates Shopping Centre. This new branch brings our total number of branches to ten.

Our commitment and focus on Bahamians remains steadfast with our main objective as the First Choice of Bahamians for all

Banking Services. Our Journey continues and we will continue to intensely focus on further value creation for Bahamians at all levels, while remaining “The Leader in Personal Banking Services”.

**GOLDEN GATES** - Newest Branch





**WILLIAM B. SANDS, JR.**  
President & CEO

# President's Report

The theme of this year's annual report is Our Journey... A Billion Dollars and Growing! Underlying this theme is our vision to lead by example and effect positive change in our communities. There is clarity to our vision and a clear difference in our approach to each aspect of our business. This approach sets us apart and leads to long-term success and value for shareholders as well as encourages us to reinforce the need to be the First Choice of Bahamians for all Banking Services.

Our key priorities in 2006 were sustainable revenue growth, effective capital management, leadership in all our business segments while ensuring an effective process of control was sustained. We delivered solid performance in each of these areas as we met all of our financial and core value objectives.

Commonwealth Bank is also very proud of the fact that during 2006, we achieved a new level of prominence for a Bahamian owned bank, that is, reaching the \$1 Billion Dollars In Assets Threshold. This achievement is notable by itself but what is also equally important for shareholders and customers is that the growth in assets was accompanied by our tenth consecutive year of record earnings. The Bank has continued to benefit from our focus on deepening existing relationships with customers and attracting new ones.

## THE BANK'S OPERATING PERFORMANCE

Gross revenues reached \$81.6 Million, an increase of 16.4 % with the net income contribution of \$40.4 Million, an increase of more than 27%, over the previous year; both historical highs for the Bank. Earnings per share increased to \$1.08 a further increase of 27% over the previous year with our shareholders also participating in the earnings growth through dividends of \$0.68 per share an increase of greater than 50% over dividends paid in 2005.

Return on Equity (ROE) and Return on Assets (ROA), commonly used ratios to measure bank performance increased appreciably in 2006. ROE was 34.82% an increase of 4.2% while ROA was 3.76% increasing 9.9%. Our overall efficiency ratio which takes into consideration our non-interest expenses, compared to the Bank's revenue generation was 46.7%, a further improvement over 2005. Our efficiency ratings are reflective of the Bank's objective to ensure that any expense growth is matched by increased revenue generation and optimum customer service. The Bank will continue to place ongoing attention to improving operational effectiveness and seeking more cost-effective ways to sustain and develop our products and services.

A strong capital base is a core element of a Bank's safety and soundness. Effective capital management remains a key priority as we actively manage our capital to ensure sufficient cost effective capital is available to address existing and potential business opportunities. Our tier 1 regulatory capital ratio is a primary measure of our balance sheet strength. In 2006, tier 1 capital achieved the level of 12.84% and total capital amounted to 23.08% which represented increases of 5.3% and 12.3% respectively. The continued expansion of the Bank's capital base which is well in excess of The Central Bank's minimum requirements is a direct result of the Bank's underlying earnings capability and the resiliency of Commonwealth Bank's customer base.

## PRODUCT CONTRIBUTIONS

While loan growth is an important element in the overall development of the Bank, loan quality must be considered as the core element of any success. The Bank continued to refine its credit risk management practices in 2006 with emphasis on ensuring our credit risk management techniques, and administrative practices continued to be reflective of the credit risk undertaken. We are pleased to advise that while we have again been able to experience double digit loan growth, loan quality remains strong as represented by our well controlled impaired loan to total loan and total asset ratios. We were also pleased that our contribution to small business expanded appreciably in 2006 to the extent that at the year-end more than half of our ten million dollar commitment to small business was taken up.

Through effective credit risk management practices, problem situations are identified promptly and where required, an aggressive provisioning methodology is applied. This is evidenced by the provisioning ratio against gross impaired loans (156%). The aggressive provisioning is followed by disciplined credit recovery practices which contributed in excess of \$5 Million in 2006. A significant amount of the Bank's gross impaired loan total resides in Grand Bahama which continues to experience a general economic downturn. We continue to work with these customers to seek avenues to assist them with their financial difficulties.

2006 was the first full year that "CB Online", the Bank's on-line banking product, was available to our customers. We have been pleased with the positive response and will continue to expand this 24 hour banking product in 2007. Focus on product and service expansion in 2007 will be directed at enhancing existing products and services with emphasis on providing our customers more cost effective deposit and credit card innovations.



# President's Report

(continued)

Continued investment in technology is important and, as in the past, our investment will continue to be directed at ensuring Commonwealth Bank has the infrastructure, staff and support essential to provide a secured product environment for all our customers.

The successful opening of our new Golden Gates Branch in January 2007 was an exciting and rewarding undertaking. Customers' response has been positive and we look forward to providing banking services to this new area. With the opening of the Golden Gates Branch, Commonwealth Bank now has ten full service branches.

## OUR JOURNEY - \$1 BILLION AND GROWING

While 2006 was an exceptional year, we have very high expectations for the future and look to build on our past progress. Financial targets for the coming year include aggressive objectives for asset, revenue and net income growth. We feel these targets are challenging, yet attainable, with the continued execution of our proven business plan.

We would be remiss however, if we did not outline the challenges we see with attaining the expectations we have set out. Any credit expansion is dependent on the expansion of the amount of liquidity available within the marketplace. The Central Bank of The Bahamas has recently confirmed the shrinkage of available market liquidity which if the current situation continues will have material implications for credit, consumer demand and ultimately further economic growth. In addition, delays in the development of major projects such as Baha Mar and the unknown implications of the impact on tourism as a result of increased homeland security requirements in the United States will have to be followed closely.

The Bank is also looking forward in 2007 to the implementation of The Central Bank and The Clearing Bank's Association project designed to introduce an Automated Clearing House (ACH). This facility which is supported by the Bank is expected, when introduced, to be able to expedite cheque clearing throughput.

## OUR COMMITMENT - TO CUSTOMERS

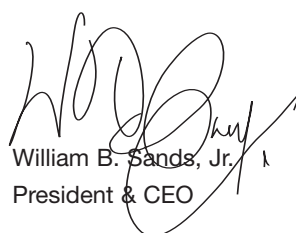
Commonwealth Bank's commitment to customers has and remains inextricably intertwined with an intense strategic focus on value creation. Value creation is not limited to monetary returns and every Commonwealth Bank employee in any capacity understands and is motivated to do "what is right" for Bahamians. The Bank will continue to contribute to the development of the youth of The Bahamas through enhanced scholarship and

vocational programs at The College of The Bahamas and through the Lyford Cay Foundation. In addition, the Bank will remain active and willing to assist in a positive way should any unforeseen adverse situations occur within The Bahamas.

## OUR COMMITMENT - TO STAFF

The true drivers of growth and success are the individual staff members whose dedication to customers and day to day discipline sets Commonwealth Bank apart from the rest. All of our accomplishments – and those anticipated – would not be possible without the ongoing support and dedication of our staff. I am truly appreciative of their continued commitment.

The Bank will continue to reinforce employee satisfaction and engagement through internal and external educational opportunities as well as through employee surveys directed at ensuring the Bank is making every effort to provide challenging and rewarding opportunities for all employees. The Bank is committed to its Core Value of ensuring that "Commonwealth Bank is a great place to work."



William B. Sands, Jr.  
President & CEO



# Customer Loyalty



“The secret to success is consistency of purpose.”

*- Benjamin Disraeli*

A journey of increased growth and strength is a direct reflection of customer loyalty. Along Our Journey to achieving \$1 Billion in Total Assets, we have consistently provided working Bahamians with the products, services and confidence to achieve their personal goals.

Our commitment to our customers has lead to high levels of customer loyalty and satisfaction that has deepened our existing relationships and expanded our customer base.

As we continue on Our Journey, we remain committed to our vision of being the first choice for our customers. We continue to provide them with the consistent and superior quality service they deserve and have come to expect.





RUPERT W. ROBERTS JR., OBE  
Chairman



# Rupert W. Roberts Jr., OBE

1st Chairman 1984-1992

First Chairman of Commonwealth Bank Ltd., Rupert W. Roberts, Jr., OBE has helped establish the Bank as a financial powerhouse, offering a success-driven mix of historical perspective and contemporary savvy, relied upon by thousands of Bahamians everyday. During his tenure as Chairman, Rupert Roberts placed emphasis on strategic growth and expansion, focusing on the un-banked market in The Bahamas. Under his leadership, Commonwealth Bank experienced a tremendous turnaround, improved performance and achieved record growth in the period immediately following Bahamianization.

Mr. Roberts was instrumental in fostering the Bank's reputation for effective results that benefited the community and maximized returns to our shareholders. On his watch, total assets increased by more than 600% and net income grew from \$0.26 cents per share in 1984 to \$0.62 cents per share by 1992.

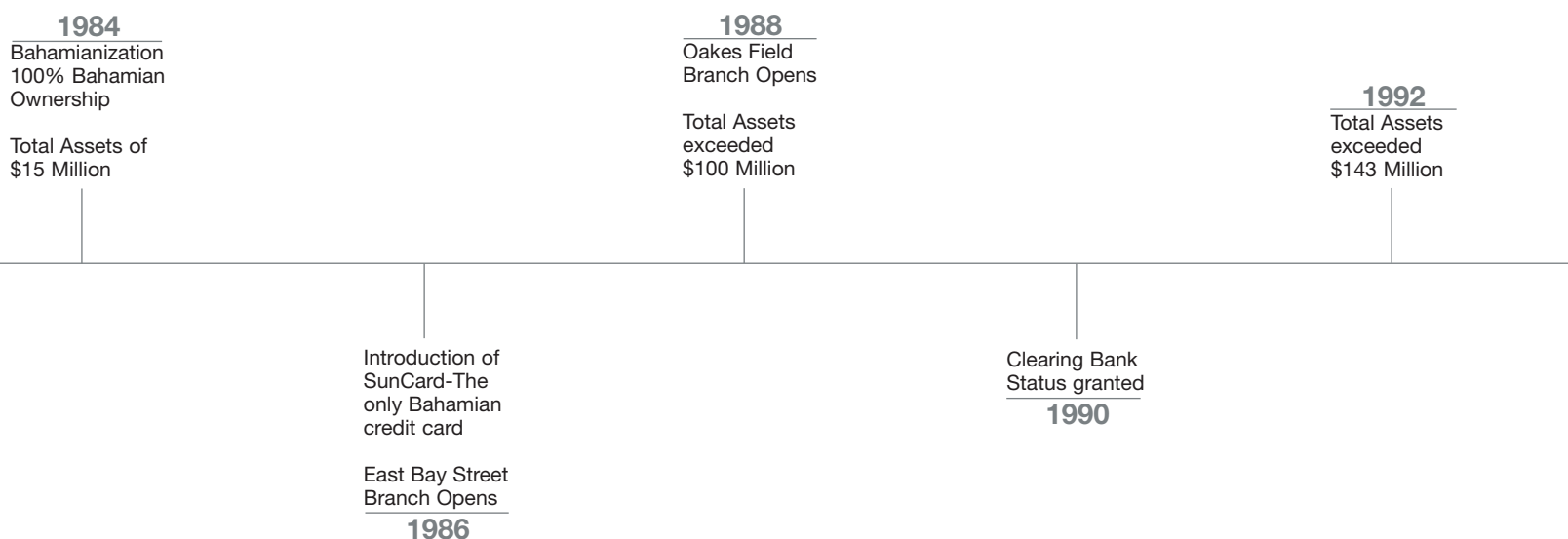
His huge appetite for innovation led the Bank and its then 250 dedicated and passionate employees through eight years of robust growth and technological advancement.

Under his leadership, the Bank was fully computerized, successfully introduced the first-ever Bahamian credit card and achieved full Clearing Bank status in 1990.

Mr. Roberts is a current member of the Board of Directors, where he heads the Nominating Committee and is a member of the Board Executive Committee.

A leading businessman, Mr. Rupert Roberts, Jr. is President of Super Value Food Stores and has extensive holdings in commercial real estate and financial ventures throughout The Bahamas. Those interests include: South Bimini International Ltd., Bahamas Paper Converting, Bed and Bath Ltd., Checkard Limited, Abaco Food Stores, Price Right Food Ltd. and Maxwell's Food Store Ltd. As founder of Super Value, Mr. Roberts created the country's largest all-Bahamian food store chain.

As Chairman, Mr. Roberts' created an exceptional legacy of achievement.



A BILLION DOLLARS AND GROWING





**ROBERT H. SYMONETTE**  
Chairman



# Robert H. Symonette

2nd Chairman 1992-1998

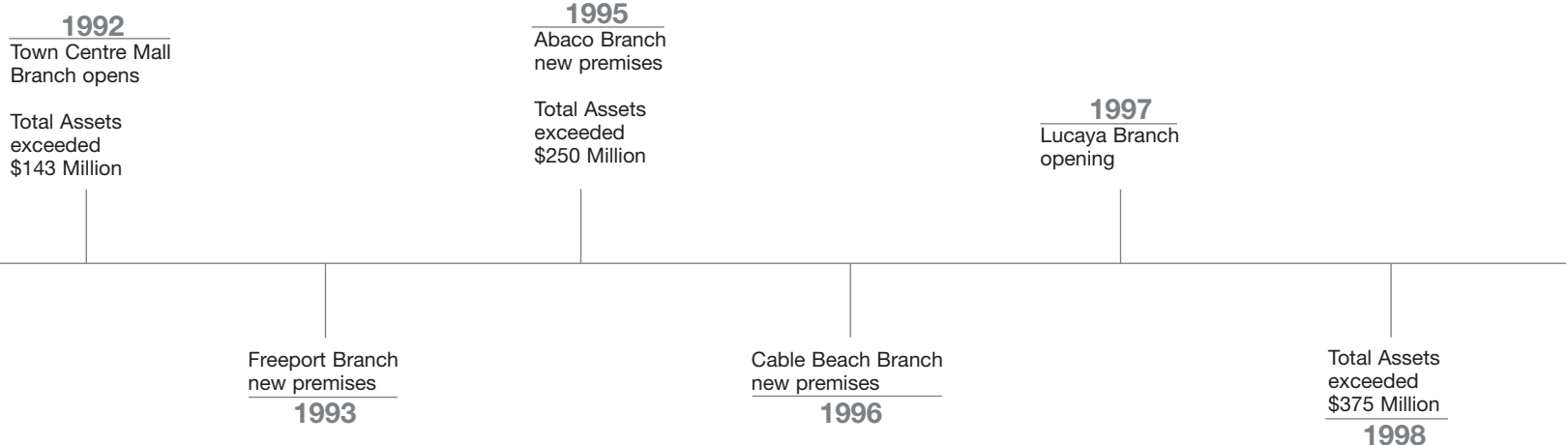
Robert H. Symonette became the second Chairman of the Board of Directors of Commonwealth Bank Ltd. A respected and inspiring leader, Mr. Symonette along with Lady Symonette are credited with compiling the group of Bahamian Investors that purchased and Bahamianized Commonwealth Industrial Bank - giving birth to the Bank we know today. He was passionate that Commonwealth Bank should paint the correct picture of itself on the local banking arena's canvas by making the transition from a Finance Company to a full fledged commercial bank.

Through his vision and passion, Robert Symonette strengthened Commonwealth Bank's strategy and focus by catapulting the Bank from the \$15 Million fledgling bank acquired in 1984 into a \$375 Million institution by 1998. This lead to, among other things, the creation of outstanding and often unique products and services that not only differentiated us from our competitors, but spoke directly to our core customers' needs, providing increased value for both Commonwealth Bank and its customers.

The son of Sir Roland Symonette, The Bahamas' first Premier, R. H. "Bobby" Symonette, distinguished himself in politics, business and sports. He was a shrewd businessman who played a crucial role in the building of The Bahamas. During his lifetime, he co-founded several companies including: Nassau Underwriters Agency, Burns House Limited, Meter Taxi, Automotive and Industrial Distributors (AID), and Bahamas First General Insurance Company - the first Bahamian owned insurance company.

In addition to growing the Bank's assets, Mr. Symonette as Chairman, carved out a niche - pioneering the Community Banking concept by introducing new branches in Lucaya, Cable Beach, Town Centre Mall, Freeport and Abaco.

Robert Symonette's belief in the integrity of the average Bahamian, set the stage for Commonwealth Bank's evolution.







**T. BASWELL DONALDSON, CBE**  
Chairman

R. BRENT MALONE '98



# T. Baswell Donaldson, CBE

Chairman 1998-Present

A Board member since the early 1980's, T. B. Donaldson, CBE, became the third Chairman of the Board in 1998. Possessing a reputation as extremely able and ferociously committed to his role, Mr. Donaldson has presided over the impressive growth of the Bank, increasing total assets from \$375 Million to over \$1 Billion today. The restless and forthright Mr. Donaldson knew he had found a microcosm of what he believed was the future of banking when he took the helm at Commonwealth Bank. He expertly guided the Bank through the most successful IPO in Bahamian history. His chairmanship has seen the Bank move from a closely held private company to the largest and most lucrative Bahamian public company, with Net Income to Common Shareholders more than tripling from \$10 Million in 1997 to over \$35 Million today.

Mr. Donaldson's two over-riding beliefs – a confidence in the Bahamian customer and the unrelenting need for staff training and professional development – have propelled Commonwealth Bank to become a state-of-the-art, 21st century financial institution. Significant improvements in the Bank's computer processing software, introduction of automated banking machines, international credit card services and corporate web site, complete with on-line banking and bill pay feature, are product expansions and technological advancements realized under his leadership.

Mr. Donaldson obtained a Bachelor's degree from Fisk University followed by a Masters Degree in Mathematics from the University of Minnesota and gained a second Masters Degree in Public Administration from Columbia University. He successfully completed a Diploma Course in Public Finance from the International Monetary Fund. He is also a Fellow of the London Institute of Bankers, the Bahamas Institute of Financial Services and the Caribbean Institute of Financial Services.

T. B. Donaldson, CBE was the architect of The Central Bank of The Bahamas, becoming its first Governor. He also served as the Chairman of the Bahamas Securities Commission, and was the Ambassador to the United States. Mr. Donaldson currently serves as Chairman of the Private Trust and United European Bank and Trust.

As Chairman of Commonwealth Bank, Chairman of the Board Executive Committee and a member of the Nominating Committee, Mr. Donaldson's rigorous intellect, extensive experience, ability to intuit economic indicators, and his steadfast belief that good corporate governance is the foundation upon which a solid, well run organization is built, will continue to advance Commonwealth Bank to even higher heights.

**1998**  
Total assets  
exceeded  
\$375 Million

**2001**  
Introduction  
of ABMs

**2006**  
Total Assets  
exceeded  
\$1 Billion

Largest Bahamian  
Public company as  
a result of Initial  
Public Offering (IPO)

Wulff Road Branch  
opens

**2000**

Introduction of  
MasterCard  
**2002**

Golden Gates  
Branch opens  
**2007**

A BILLION DOLLARS AND GROWING

# Employee Commitment



## 2006 MBA GRADUATES

Left to Right:

**Daria Bain**, Manager, The Plaza Branch, **Maxwell Jones**, Sr. Manager, Golden Gates Branch, and **Monique Mason**, Manager, Credit Card Centre.

“Desire is the key to motivation, but it's the determination and commitment to an underlying pursuit of your goal - a commitment to excellence - that will enable you to attain the success you seek.”

- *Mario Andretti*

Through hard work, dedication to customers and commitment towards a common goal, Commonwealth Bank's employees have delivered sustained solid performance.

To ensure ongoing employee satisfaction, Commonwealth Bank will continue to provide educational opportunities and an environment that fosters personal growth and development.

# Management Discussions

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis of our financial condition and results of operations is provided to enable a reader to assess our financial condition, material changes in our financial condition and our results of operations, including our liquidity and capital resources, for the fiscal year ended December 31, 2006, compared to the preceding years. For a complete understanding of trends, events, uncertainties and the effect of critical accounting estimates on our results of operations and financial condition this Management's Discussion and Analysis should be read carefully together with our Consolidated Financial Statements and related notes. This Management's Discussion and Analysis is dated February 7, 2007. All amounts are in Bahamian dollars and are based on financial statements prepared in accordance with International Financial Reporting Standards.

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

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

## EXECUTIVE SUMMARY

Commonwealth Bank is the largest wholly owned Bahamian Clearing Bank in The Commonwealth of The Bahamas as measured by assets and market capitalization and is the first wholly owned Bahamian Clearing Bank to surpass \$1 Billion in Total Assets. The Bank now ranks alongside Royal Bank of Trinidad and Tobago and Citizens Bank also located in Trinidad and Tobago as other indigenous Caribbean banks surpassing \$1 Billion in Assets.

Our focus is on being the complete personal banker. We employ approximately 480 Bahamians and Bahamian permanent residents. The Bank has no employees on work permits and has not had any for over nine years. As part of our commitment to be "The First Choice of Bahamians for all Banking Services", the Bank opened its tenth full service branch in the Golden Gates Shopping Centre on January 15th, 2007. We look forward to servicing our new customers in this growing area.

Success in the financial services industry cannot be dependent upon continued growth and expansion alone, the growth and expansion must be accompanied by an effective governance regime, in-depth risk management process and an overriding effective process of control. Throughout this Annual Report and highlighted in the appropriate Management Discussion and Analysis comments and representations

are comments supporting and linking how these important elements of an effective governance regime are inextricably linked.

In keeping with ongoing changes in the application of Generally Accepted Accounting Principles and Standards, additional disclosures have been added to the financial statements, and will be commented on as appropriate in this discussion and analysis.

## OVERVIEW OF 2006

Our business strategies and actions are guided by our corporate vision of being the "First Choice of Bahamians for all Banking Services" and our core values of building expertise and teamwork while focusing on enhancing client satisfaction and loyalty in a cost effective manner. We believe this focus can help generate strong and sustainable revenue and earnings growth, continuous improvements in productivity and quality financial performance while maintaining an effective and integrated process of control.

In 2006 we were able to achieve our significant financial objectives and continue to expand and diversify our portfolio of loan and other consumer based products. Accelerated growth of our mortgage portfolio which expanded by 36% to approximately \$196.1 million building on the 38% increase in 2005 was coupled by continued expansion of our consumer and credit card receivables which also experienced double digit growth to approximately \$568 million and \$32 million respectively. For the second consecutive year the Bank achieved an overall 17% growth rate in its loan portfolio.

## MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING RESULTS

### 2006 PERFORMANCE - An Overview

- Tenth consecutive year of record profits
- Net Income increased 27.1% over 2005
- Net Income Available to Common Shareholders up 31.2%
- Total Assets \$1,019 million up 19.3%
- Earnings per share 108 cents up 27% on 2005
- Return on Common Shareholders equity 34.8%
- Common Share Dividends 68 cents up 51.1% on 2005
- Gross Revenues increased 18.0%
- Efficiency Ratio improved to 46.7%
- Total Capital exceeds \$191 million up 28.1%
- Construction completed on Golden Gates Branch

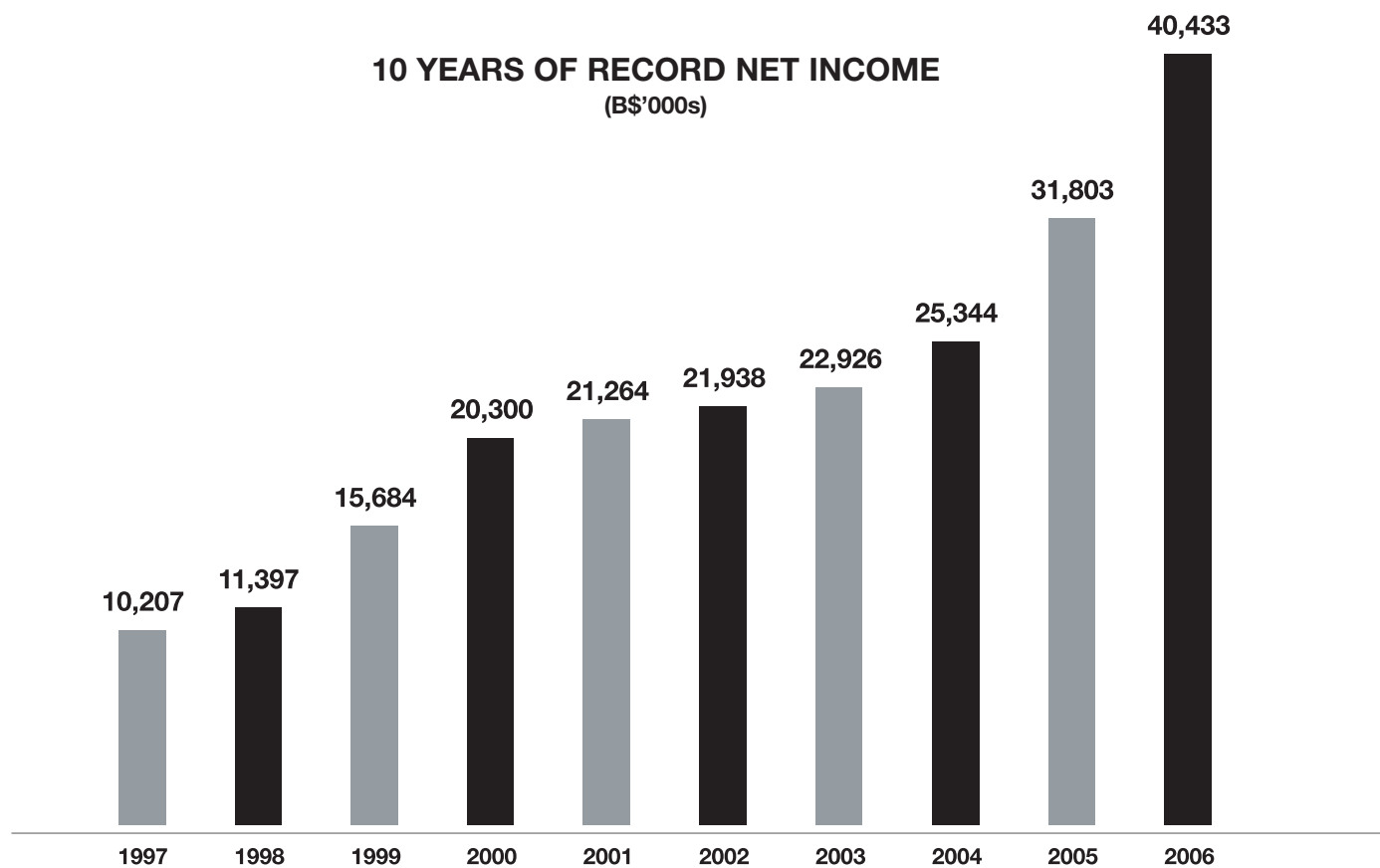
For the year ended December 31, 2006, reported Net Income was \$40.4 million, an increase of \$8.63 million or 27.1% over 2005. Net Income Available to Common Shareholders (Net Income less Preference Share Dividends) increased \$8.39 million or 31.2% to \$35.3 million.

Earnings per share was \$1.08 per share compared to 85 cents per share in 2005, an increase of 27%. Return on equity was 34.8% compared to 33.4% in 2005. Dividends paid to shareholders increased 51% to 68 cents per share (2005: 45 cents) as a result of the increase in quarterly dividends from 8 cents to 12 cents per share and an extraordinary dividend of 12 cents paid in April 2006 and an 8 cents extraordinary dividend paid in November 2006. Total dividends paid represented 62.8% of Net Income Available to Common Shareholders (2005:52.7%).

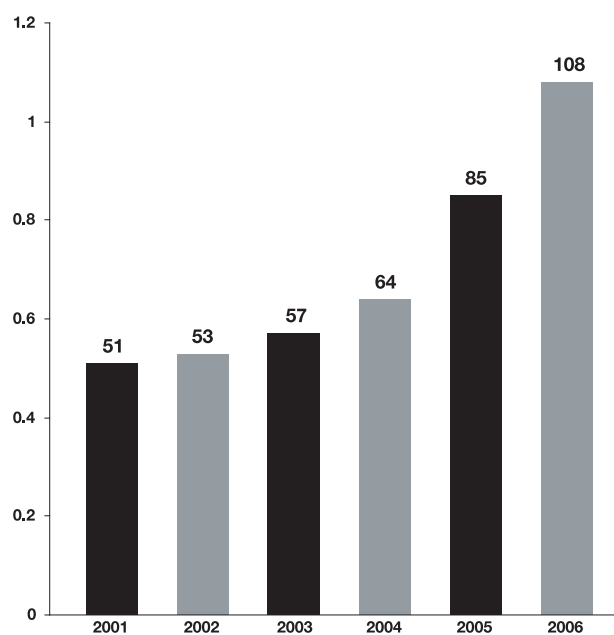


# Graphs

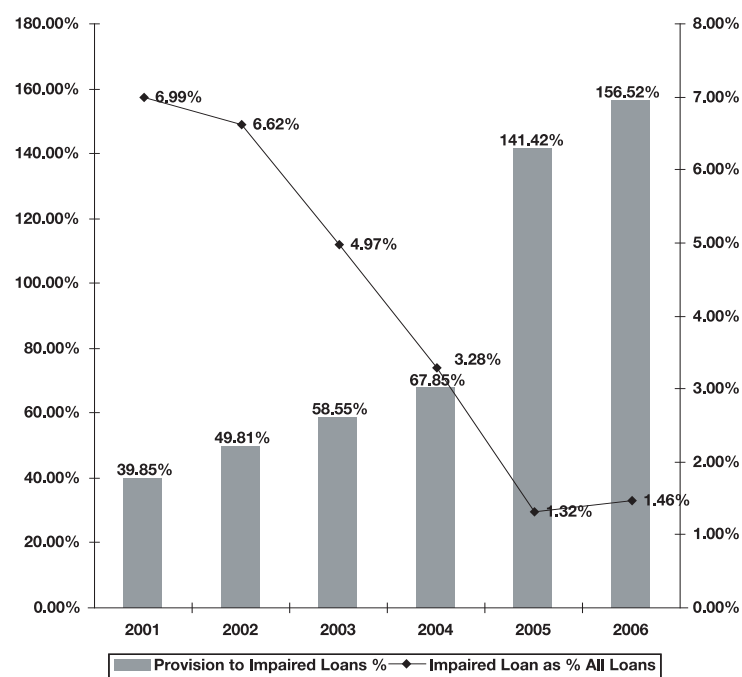
## 10 YEARS OF RECORD NET INCOME (B\$'000s)



## EARNINGS PER SHARE (cents)



## LOAN QUALITY



# Management Discussions

With the expansion in the lending sector of a systemic nature, the banking system began to experience reduced liquidity which placed pressure on the Bank's ability to achieve a lower cost funding base. To augment its ongoing funding activities, the Bank was successful in placing an oversubscribed Preference Share Issue in mid year to raise \$24 million. The placement of this well accepted offering allowed the Bank to continue to expand its loan portfolio in a profitable manner throughout the 2006 fiscal year.

The mega project and redevelopment of Cable Beach, as indicated in our last year's report will require the relocation of our Cable Beach Branch. We have completed negotiations with the developer which allow for a new branch to be constructed before we move from the existing premises. No capital expenditure, expense or disruption of service to the Bank is anticipated should the Branch be relocated.

For 2007, our strategic objectives will be focused on further leveraging and building on our strengths. We expect to achieve our objectives through further expansion of our existing product mix and through the expansion of existing products and services and introduction of innovative new products and services.

## OUTLOOK FOR 2007

The outlook for 2007 remains positive despite the expected system-wide pressure on available liquidity which may slow the level of economic growth compared to that experienced in 2006. The expected continued competition for deposit liabilities could also impact historical gross margins on each of our consumer based products. However, demand for lending products should remain high as a result of low unemployment rates with any significant growth in our loan base likely to be tempered by the level of liquidity available in the banking system. The anticipated expansion of foreign reserves is expected to come from the timing of anticipated capital inflows from the projected and announced development projects.

Earnings per share was \$1.08 per share compared to 85 cents per share in 2005, an increase of 27%. Return on equity was 34.8% compared to 33.4% in 2005. Dividends paid to shareholders increased 51% to 68 cents per share (2005: 45 cents) as a result of the increase in quarterly dividends from 8 cents to 12 cents per share and an extraordinary dividend of 12 cents paid in April 2006 and an 8 cents extraordinary dividend paid in November 2006. Total dividends paid represented 62.8% of Net Income Available to Common Shareholders (2005: 52.7%).

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies are outlined in Note 3 of the Consolidated Financial Statements. Certain of these policies along with estimates made by management in applying these policies are recognized as critical since they require the Bank to make judgments about matters that are inherently uncertain or because of the possibility that significantly different numbers could be reported if different assumptions were applied or different conditions prevailed. Our critical accounting policies and estimates relate to the provision for loan loss,

the estimation of fair value, accounting for pension benefits and the life assurance fund. These are discussed further in Note 4 of the Consolidated Financial Statements. Our critical accounting policies and estimates are reviewed and approved at least annually by the Audit Committee in consultation with Management.

## CURRENT AND FUTURE CHANGES IN ACCOUNTING POLICIES

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

## BALANCE SHEET MANAGEMENT

The Bank's Risk Management structure promotes the making of sound business decisions by balancing risk and reward. As a result, our Balance Sheet Management policies and procedures coupled with our revenue generating activities are consistent with the level of risk the Bank wishes to accept and as prescribed in the corporate policies approved by the Board of Directors. Risk Management policies address amongst other factors credit risk, liquidity risk and operational risk which are measured and monitored through the Bank's governance regime and overall process of control.

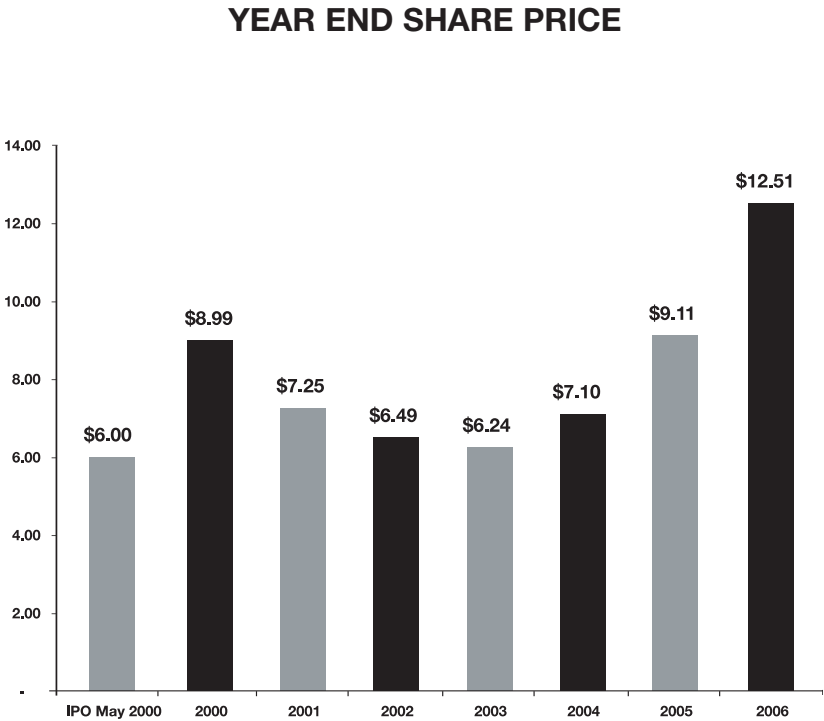
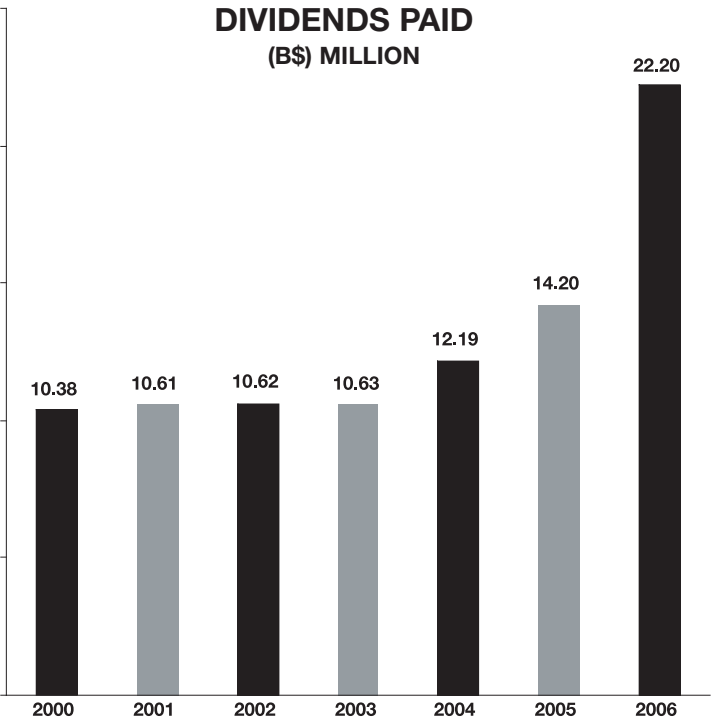
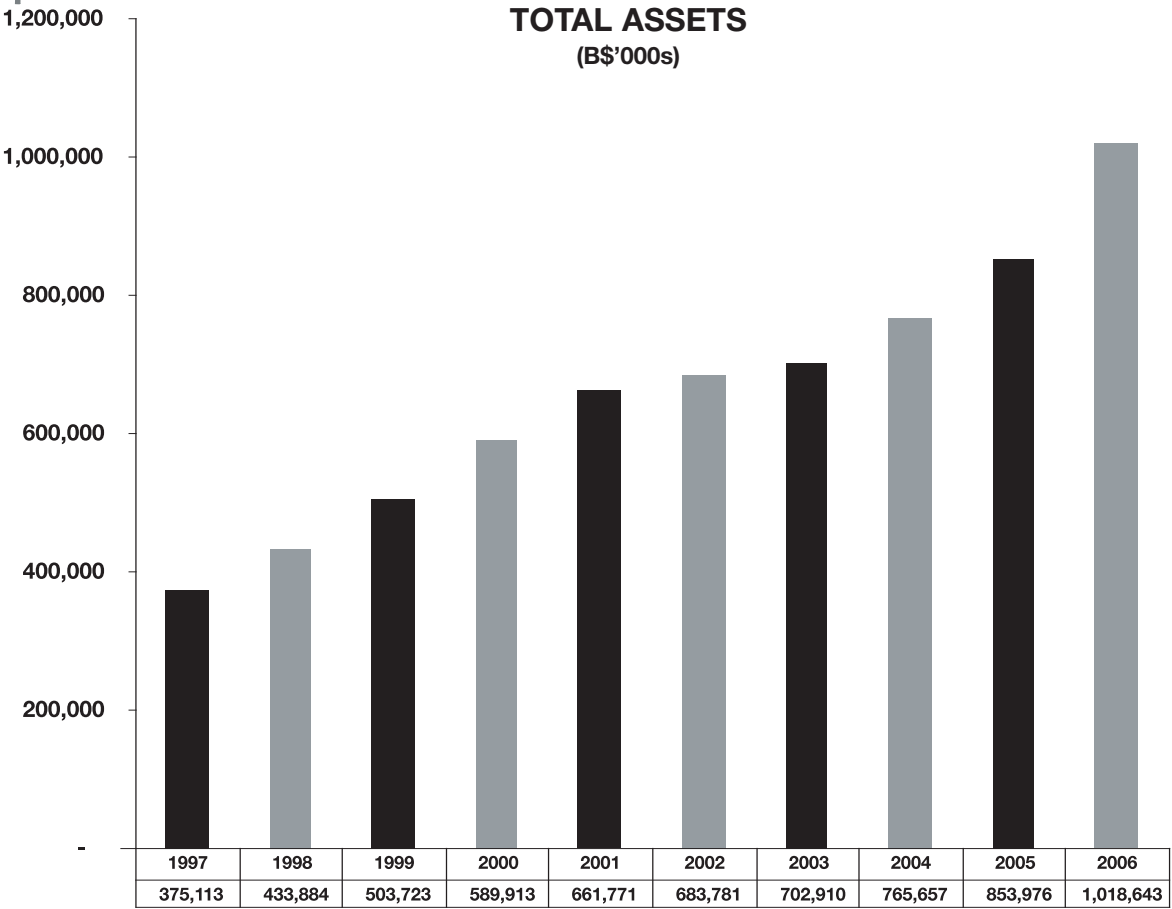
Total Assets were \$1,019 million at 31st December 2006, up 19.3% from \$854 million at December 31st, 2005. The achievement of the \$1.0 Billion asset threshold by the Bank in 2006 was considered notable.

Loans in 2006 increased \$123.2 million to \$828.8 million or 17.5% (2005: \$705.3 million or 17.1%). Deposits increased \$118.1 million (17.3%) to \$798.4 million, (2005: \$65.1 million increase or 10.6%). Cash and liquid assets also experienced expansion of \$31.9 million or 52.8% to \$92.3 million, (2005: \$29 million decrease or 32.4% decrease).

The lending environment in 2006 continued to be very competitive especially in the personal and mortgage lending market. Nevertheless, the Bank introduced a successful campaign that resulted in mortgage balances increasing \$51.9 million to \$196.8 million with outstanding mortgage commitments approximately \$23.5 million. This represented an increase of nearly 30% in mortgage activity for the year.

Credit Card operations were also able to benefit in 2006 from a successful marketing campaign. Credit card receivables increased \$6.1 million to \$32.3 million (23.0%); (December 2005: \$4.8 million increase to \$26.2 million, 22.3%). As in the prior year, our efforts were directed at expanding our point of sale network. In addition, a significant amount of our resources were directed at gaining expanded acceptance of SunCard through focused marketing efforts.

# Graphs





# Management Discussions

## MANAGEMENT OF CAPITAL RESOURCES

The Bank's total available capital resources continued to expand in 2006 with Shareholder Equity increasing 28.1% to \$191.5 million. Contributing to the increase was the additional \$24 million preferred share issues with the balance augmented by the retained profit from continuing operations. The percentage common share dividend payout increased appreciably to 62.8% (2005: 52.7%) which reflected the increased earnings of the Bank and the Bank's objective of returning approximately 65% of available earnings to shareholders.

## THE COMPONENTS OF CAPITAL

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

- Tier 1 Capital, which consists primarily of common shareholders' equity, totaled \$106.5 million at December 31, 2006 up \$17.9 million or 20.2% over 2005.
- Tier 2 Capital, consists mainly of cumulative preference shares and cannot exceed Tier 1 Capital. At December 31, 2006, the Bank had \$85.0 million of Preference Shares, which qualified as Tier 2 Capital.

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

As at December 31, 2006 Total Capital was \$191.5 million an increase of \$42 million or 28.1 %.

The Total Capital Ratio, at 23.1%, at December 31, 2006 is in excess of 2.9 times the minimum capital level required by the existing regulatory requirements.

## CONSOLIDATED RESULTS FROM CONTINUING OPERATIONS

The Bank achieved record earning performance in 2006, reflecting strong growth of our consumer based business while seeking further integration and expansion of our existing consumer based products and services. The earnings performance in 2006 was the tenth consecutive year of record earnings for the Bank.

Surplus liquidity was available at the beginning of the year which allowed for accelerated credit growth. Throughout the balance of the year, liquidity levels declined appreciably. This situation contributed to a demand for deposits which resulted in pressure to increase deposit rates and in some cases limited the expansion of credit at historical interest rate spreads. Through timely execution and placement of a preferred share issue, the Bank was able to minimize a certain amount of downside potential of liquidity restraints allowing the loan portfolio to expand in a well controlled manner.

Net Income from continuing operations amounted to \$40.4 million an increase of \$8.6 million or 27.1%. All products and services contributed to the improved performance with the performance further augmented by the Bank's ability to enhance overall efficiency levels.

## NET INTEREST INCOME

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

Net Interest Income for the year ended December 31, 2006 was \$ 72.2 million compared to \$62.0 million in 2005, an increase of \$10.2 million or 16.5% (2005: \$61.9 million an increase of \$3.8 million or 6.6%). Net interest margin declined marginally from 6.7% to 6.6% which reflects positively in part on the Bank's prudent decision to seek placement of the additional preferred share issue in 2006 while operating in an environment of increased deposit costs as a result of systemic pressure on available liquidity.

Year-end deposits were \$798.4 million an increase of 17.5% over 2005, however, interest expense at \$32.2 million increased 25.8% over 2005. As a result of the demand for deposits, continued pressure on available liquidity plus the ongoing maturity of the deposit portfolio. We expect continued pressure on net interest yields in 2007.

## LOAN LOSS PROVISION

The improvements in credit quality achieved by the Bank in recent years continued through 2006. The ratio of net loans written off to average loans fell from 1.56% in 2005 to 0.77% in 2006. The total loans written-off in 2006 fell from \$14.9 million in 2005 to \$11.7 million and amounts recovered on written-off loans increased to \$5.7 million from \$5.0 million in 2005. In its commitment to credit quality and in keeping with international best practice, the Bank writes off consumer loans at 180 days contractually past due without exception, and has done so since 2005.

Total impaired loans increased slightly as a percentage from 1.3% in 2005 to 1.5% at December 2006. This value represented an increase of \$2.8 million from \$9.3 million in 2005 to \$12.1 million. The percentage of impaired loans against the whole portfolio stabilized in 2006 after rapid improvements over the previous three years. Increases were anticipated as a normal part of the growth cycle of the portfolio, especially the credit card portfolio.

The overall economic situation in Grand Bahama continues to depress the performance of the portfolio, consumer loan impairment is at 2% in Grand Bahama compared to an overall average of 1.2%. Impairment in our business loan portfolio reflects several distressed loan situations. The Bank is working with all customers in an effort to improve the impaired loan portfolio.

Despite the slight increases in impairment, the Bank's provision for loss was \$18.9 million which represented 156.5% of impaired loans up from 141.4% in 2005 and 2.3% of total loans up from 1.9% in 2005. Specific provisions cover nearly 50% of impaired balances.

# Management Discussions

Having advanced its credit risk measurement techniques through credit scoring and risk rating systems, the Bank is now developing its methodologies for identifying historic trends and forecasting future impairment probabilities to solidify the estimated fair value of the loan portfolio reported in the financial statements. This is covered more fully in Note 4 to the Consolidated Financial Statements.

Loan loss provision expense was \$11.8 million for the year compared to \$9.7 million in 2005, an increase of \$2.1 million or 21.5%. This increase reflects both the increase in the portfolio of \$123.2 million, the increase in impairment and the improved methodology noted above.

The steps we have taken in the last few years have moved the Bank to the forefront of international best practices and enhanced the credit quality and ultimately the safety and soundness of the Bank.

## NON-INTEREST INCOME

Other Income of \$21.2 million exceeded 2005 by \$3.4 million or 18.8% (2005: 24.1% or \$3.5 million). Card products are becoming ever more important to the Bank as MasterCard, SunCard and ComCard all made significant positive contributions to the Bank's profitability in 2006. The Bank plans to continue to leverage its entrenched card products into 2007 and beyond, while at the same time enhancing the services offered. CB Online will form a natural part of this expanded portfolio of advanced technology-based products which is being demanded by the marketplace.

As noted last year, transaction based fee income is a strategically important source of revenue to the Bank as it represents a non capital intensive income stream to build a stronger bank.

Life Assurance income increased significantly (43%) in 2006. As projected last year, the increase in unearned premium reserve in 2005 flowed through to earnings in 2006.

## NON-INTEREST EXPENSE

Non-Interest Expense of \$41.2 million increased \$2.9 million or 7.5% compared to \$38.3 million in 2005 which experienced an increase of 14.9% over 2004. The positive impact of the efforts to control expense growth was a contributing factor to the improvements noted. Control of expenses will continue to be a major focus for the Bank in 2007. Non-interest expense ratios are expected to increase in 2007 as the full year's operating cost of the Golden Gates Branch are realized until profitability for the branch is attained. The Bank continues its ongoing commitments to leading edge technology, enhanced physical and logical security and staff development, which must be funded on a continuous basis in order to retain the Bank's competitive edge while maintaining a secure and sustainable operating environment.

The adjusted efficiency ratio for the twelve months ended December 31, 2006 (calculated by dividing total Non-interest expense by net interest income plus Non-interest income less preference share dividends) showed improvement in 2006. The efficiency ratio for 2006

was 46.7% compared to 51.1% in 2005. To achieve the levels attained, emphasis was again placed on introducing enhanced technology and where possible, continued centralization of operational functions in order to bring additional expertise, concentration and cost containment to repetitive and volume and control based activities.

Efforts in 2007, will continue to be directed at further assessment of existing policies procedures and work measurement processes in order to provide the level of service required by customers in a cost effective and increasingly efficient manner. Our objective for 2007 is to retain a level of efficiency of less than 50%.

At year end the Bank employed a full time equivalent complement of 481, compared to 460 for 2005. A significant attribute of the increase was associated with the opening of the Golden Gates Branch in January 2007. Total staff costs in 2006, increased by \$2.1 million to \$27.2 million or 8.4% (2005: \$3.8 million increase to \$25.2 or 17.4 %).

Depreciation expense decreased marginally to \$2.4 million or 8.24% in 2006 over 2005, however, the ongoing investment in the technical and physical infrastructure of the Bank to maintain its position as a "Leader in Personal Banking Services" is likely to result in a reversal of this trend in 2007 and the future.

## RISK MANAGEMENT

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

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

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



# Shareholder Confidence



**GOLDEN GATES BRANCH OPENING DAY** (Left to Right):

**William B. Sands Jr.**, President & CEO; **Shirley Cartwright**, Sr. VP Credit Risk; **Carole Strachan**, VP Internal Audit, Credit Inspection & CISO; **Charlene Paul**, VP Operations; **Ian Jennings**, Sr. VP & CFO; **Demetri Bowe**, Sr. Asst. Branch Manager, Golden Gates Branch; **Cindy Curtis**, Asst. Manager, Operations, Golden Gates Branch; **Anthea Cox**, VP Human Resources & Training; **Maxwell Jones**, Sr. Branch Manager, Golden Gates Branch; **Denise Turnquest**, VP Mortgage & Commercial Lending & **Charles Knowles**, VP Information Technology

“Dictionary is the only place that success comes before work. Hard work is the price we must pay for success. I think you can accomplish anything if you're willing to pay the price.”

*- Vince Lombardi*

The Bank has generated excellent returns for Shareholders by maintaining the customer focused strategy that has served us so well throughout the past four decades. The Bank's offering of tailored and responsive consumer lending products is highly distinctive in the marketplace. Our strategy is to deliver strong returns by capitalizing on this competitive edge with customers, while ensuring rigorous and effective control of risk. Our staff's ability to execute this strategy has resulted in strong growth, high asset quality and excellent shareholder returns.

# Board of Directors

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**J. BARRIE FARRINGTON, CBE**

**VAUGHN W. HIGGS**

**LARRY R. GIBSON**

**WILLIAM B. SANDS, JR.**  
**President & CEO**

**EARLA J. BETHEL**

**MICHAEL L. BARNETT**





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

**T. BASWELL DONALDSON, CBE**  
**Chairman**

**G. CLIFFORD CULMER**

**R. CRAIG SYMONETTE**

**IAN A. JENNINGS**  
**Sr. VP & CFO**

**FRANKLYN A. BUTLER, OBE**



# Executive Team

**CHARLENE PAUL**

**VP Operations**

**CAROLE STRACHAN**

**VP Internal Audit, Credit Inspection & CISO**

**SHIRLEY CARTWRIGHT**

**Sr. VP Credit Risk**

**ANTHEA COX**

**VP Human Resources & Training**

**WILLIAM B. SANDS, JR.**

**President & CEO**

**IAN JENNINGS**

**Sr. VP & CFO**

**DENISE TURNQUEST**

**VP Mortgage & Commercial Lending**

**CHARLES KNOWLES**

**VP Information Technology**









# Branch Managers

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**DARIA BAIN**  
Manager, The Plaza Branch



**LAVADO BUTLER**  
Manager, East Bay Branch



**JULIETTE FRASER**  
Manager, Oakes Field Branch



**JACQUELYN ESTEVEZ**  
Manager, Abaco Branch



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



**JEFFREY KERR**  
Manager, Town Centre Mall Branch



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





**MONIQUE MASON**  
**Manager, Credit Card Centre**



**NEIL STRACHAN**  
**Sr. Manager, Wulff Road Branch**



**KAYLA DARVILLE**  
**Manager, Mortgage Centre**



**CHARLENE LOW**  
**Manager, Lucaya Branch**



**MAXWELL JONES**  
**Sr. Manager, Golden Gates Branch**



**LERNIX WILLIAMS**  
**Manager, Accounts Control**

# *AVPs & Department Managers*

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**MAVIS BURROWS**  
**Asst. VP, Operations**



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**IAN WILKINSON**  
**Asst. VP, Information Technology**



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**PATRICK MCFALL**  
**Asst. VP, Corporate Accounts**



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



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**SILBERT COOPER**  
**Sr. Manager, Credit Inspection**



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



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**GODWIN BLYDEN**  
**Manager, Security & Administration**





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



**ANNE LIGHTBOURN**  
**Manager, Human Resources**



**LISA MAJOR**  
**Manager, Training**



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



**ERALD THOMPSON**  
**Manager, Internal Audit**



**FELIPE VEGA**  
**Manager, Information Technology**

# Management Responsibility

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


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

The financial information presented elsewhere in the Annual Report is consistent with that in the Consolidated Financial Statements.

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

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

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

  
**WILLIAM B. SANDS, JR.**  
 President & CEO

  
**IAN JENNINGS**  
 Sr. VP & CFO

**COMMONWEALTH BANK'S Management is responsible for presentation and preparation of the annual Consolidated Financial Statements, Management's Discussion and Analysis (MD&A) and all other information in the Annual Report.**





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Chartered Accountants  
and Management Consultants  
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<http://www.deloitte.com.bs>

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
Commonwealth Bank Limited:

We have audited the accompanying consolidated financial statements of Commonwealth Bank Limited (the "Bank") which comprise the consolidated balance sheet as of December 31, 2006, and the related consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free of material misstatement.

An audit involves procedures to obtain audit evidence about the amount and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the financial position of the Bank as of December 31, 2006, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

February 7, 2007

A member firm of  
Deloitte Touche Tohmatsu

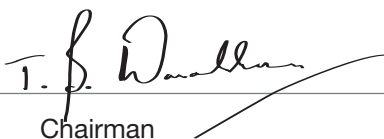
**COMMONWEALTH BANK LIMITED**  
**CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2006**

(Expressed in Bahamian \$'000s)

	2006	2005
<b>ASSETS</b>		
Cash and deposits with banks (Note 6)	\$ 31,380	\$ 18,293
Balances with The Central Bank of The Bahamas (Note 6)	60,915	42,125
Investments (Note 7)	86,057	75,179
Loans receivable (Notes 8, 17 and 20)	809,606	692,160
Premises and equipment (Note 9)	29,669	25,473
Other assets	1,016	746
<b>TOTAL</b>	<b>\$ 1,018,643</b>	<b>\$ 853,976</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Deposits (Notes 10, 17 and 20)	\$ 798,394	\$ 680,331
Life assurance fund (Note 11)	13,353	10,816
Other liabilities	15,435	13,383
Total liabilities	827,182	704,530
<b>SHAREHOLDERS' EQUITY:</b>		
Share capital (Note 12)	86,947	62,773
Share premium	26,429	21,725
General reserve (Note 13)	10,000	10,000
Retained earnings	68,085	54,948
Total shareholders' equity	191,461	149,446
<b>TOTAL</b>	<b>\$ 1,018,643</b>	<b>\$ 853,976</b>

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

These Consolidated Financial Statements were approved by the Board of Directors on January 29, 2007, and are signed on its behalf by:

  
Chairman

  
President & CEO



**COMMONWEALTH BANK LIMITED****CONSOLIDATED STATEMENT OF INCOME YEAR ENDED DECEMBER 31, 2006**

(Expressed in Bahamian \$'000s)

	<b>2006</b>	<b>2005</b>
<b>INCOME</b>		
Interest income (Notes 7 and 17)	\$ 104,375	\$ 87,548
Interest expense (Note 17)	(32,194)	(25,596)
Net interest income	72,181	61,952
Loan loss provision (Note 8)	(11,758)	(9,678)
	60,423	52,274
Life assurance, net (Note 11)	3,534	2,462
Fees and other income (Note 15)	17,680	15,395
Total income	81,637	70,131
<b>NON-INTEREST EXPENSE</b>		
General and administrative (Notes 16 and 17)	38,658	35,662
Depreciation and amortization (Note 9)	2,372	2,488
Directors' fees	174	178
Total non-interest expense	41,204	38,328
<b>NET INCOME</b>	<b>40,433</b>	<b>31,803</b>
<b>PREFERENCE SHARE DIVIDENDS</b>	<b>(5,099)</b>	<b>(4,861)</b>
<b>NET INCOME AVAILABLE TO COMMON SHAREHOLDERS</b>	<b>\$ 35,334</b>	<b>\$ 26,942</b>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES (thousands)</b>	<b>32,583</b>	<b>31,567</b>
<b>EARNINGS PER SHARE</b>	<b>\$ 1.08</b>	<b>\$ 0.85</b>

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

**COMMONWEALTH BANK LIMITED****CONSOLIDATED STATEMENT OF CHANGES IN EQUITY YEAR ENDED DECEMBER 31, 2006**

(Expressed in Bahamian \$'000s)

	2006	2005
<b>SHARE CAPITAL</b>		
Preference shares (Note 12):		
Balance at beginning of year	\$ 60,858	\$ 60,991
Redemption of Class "C" shares	-	(1,008)
Issuance of Class "C", "H", "I" shares	24,125	875
Balance at end of year	84,983	60,858
Common shares (Note 12):		
Balance at beginning of year	1,915	1,877
Issued	49	38
Balance at end of year	1,964	1,915
Total share capital	86,947	62,773
<b>SHARE PREMIUM</b>		
Balance at beginning of year	21,725	17,884
Issuance of common shares	4,996	3,828
Stamp tax on share capital increase	(300)	(120)
Share based payments (Note 14)	8	133
Balance at end of year	26,429	21,725
<b>GENERAL RESERVE</b>		
Balance at beginning and end of year (Note 13)	10,000	10,000
<b>RETAINED EARNINGS</b>		
Balance at beginning of year	54,948	42,209
Net income	40,433	31,803
Common share dividends: 68 cents per share (2005: 45 cents)	(22,197)	(14,203)
Preference share dividends	(5,099)	(4,861)
Balance at end of year	68,085	54,948
<b>SHAREHOLDERS' EQUITY AT END OF YEAR</b>	<b>\$ 191,461</b>	<b>\$ 149,446</b>

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



**COMMONWEALTH BANK LIMITED**  
**CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2006**

(Expressed in Bahamian \$'000s)

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest receipts	\$ 94,687	\$ 79,231
Interest payments	(32,194)	(25,596)
Life assurance premiums received, net	9,473	9,289
Life assurance claims and expenses paid	(2,850)	(2,621)
Fees and other income received	17,624	15,762
Recoveries	5,745	4,990
Cash payments to employees and suppliers	(37,547)	(32,859)
	54,938	48,196
Increase in loans receivable	(129,202)	(112,962)
Increase in deposits	118,063	65,068
Net cash from operating activities	43,799	302
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(89,573)	(88,392)
Interest receipts and redemption of investments	82,637	77,539
Purchase of premises and equipment (Note 9)	(6,568)	(3,093)
Net cash used in investing activities	(13,504)	(13,946)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends paid	(27,296)	(19,091)
Proceeds from common shares issued	5,045	3,866
Redemption of preference shares	-	(1,008)
Issuance of preference shares	24,125	875
Stamp tax paid on share capital increase	(300)	(120)
Share based payments	8	133
Net cash from (used in) financing activities	1,582	(15,345)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	31,877	(28,989)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	60,418	89,407
<b>CASH AND CASH EQUIVALENTS, END OF YEAR (Note 6)</b>	\$ 92,295	\$ 60,418

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

**COMMONWEALTH BANK LIMITED**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2006**

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

**1. INCORPORATION AND ACTIVITIES**

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

The principal activities of the Bank and its subsidiaries are described in Note 5.

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

In the current year, the Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on January 1, 2006.

The impact of the adoption of these new and revised Standards has been to expand the disclosure provided in these consolidated financial statements regarding the Bank's pension fund.

The Bank has elected to present information regarding its objectives, policies and processes for managing capital (see Note 22) as required by amendments to IAS 1 Presentation of Financial Statements in advance of the effective date for those amendments of January 1, 2007.

At the date of authorization of these consolidated financial statements, the following relevant Standards and Interpretations were in issue but not yet effective:

*IFRS 7 Financial Instruments: Disclosures* is effective for accounting periods commencing January 1, 2007.

The withdrawal of IAS 14 and application of *IFRS 8 Operating Segments* is effective for accounting periods commencing January 1, 2009.

The Directors anticipate that the adoption of these Standards will have no material impact on the Bank's consolidated financial statements.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**Statement of compliance** - These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

**Principles of consolidation** - The consolidated financial statements include the accounts of the Bank and its wholly-owned subsidiaries made up to December 31, 2006. All intra-group transactions balances, income and expenses have been eliminated in full on consolidation.

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

**a. Recognition of income**

- i. **Interest revenue** is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, except for impaired loans receivable (see Note 3c).
- ii. **Fee income** is recognized on a cash basis.
- iii. **Rental income** is recognized on a straight-line basis over the term of the relevant lease.
- iv. **Life insurance income** is recognized on the Rule of 78 basis over the term of the life policy. The amount taken to income is adjusted by the amount of any surplus or deficit after an annual actuarial valuation.

- b. **Loans receivable** - Loans receivable are carried at the principal amount outstanding, plus accrued interest receivable less provision for loan losses.

A loan is classified as impaired whenever, in management's opinion, there is no longer reasonable assurance of timely collection of the full amount of principal and interest. Whenever principal and/or interest is 90 days contractually past due on a loan it is classified



as impaired. When a loan is classified as impaired, all uncollected interest and fees are reversed from income. The amount of interest reversed on impaired loans at December 31, 2006 was \$1.0 million (2005: \$1.1 million).

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

- c. **Loans receivable provision and write-off policy** - The Bank makes provision for bad and doubtful debts by way of a charge to operating expense. The provision is decreased by loans written-off, net of recoveries. The provision reflects the losses inherent in the loan portfolio at the consolidated balance sheet date. There are two types of provision, specific and general, which are discussed below.

**Specific provision** - Specific provisions are made against individual loans and advances where there is no longer reasonable assurance of timely collection of the full amount of principal and interest due to a deterioration in the credit quality of the counter party. For the Bank's portfolio of relatively small homogenous advances such as residential mortgage, personal lending and credit card portfolios, specific provisions are calculated using a formula driven approach. These formulae take into account factors such as the length of time that payments from the customer are overdue, the value of any collateral held and the level of past and expected losses in order to derive an appropriate provision.

For other lending portfolios, specific provisions are calculated on a case by case basis. In establishing an appropriate provision, factors such as the nature and value of any collateral held, the costs associated with obtaining repayment and realization of the collateral, and estimated future cash flows are taken into consideration.

**General provision** - General provisions are made to cover bad and doubtful debts that have not been separately identified at the consolidated balance sheet date, but are known to be present in any loan portfolio. The level of general provision is determined in light of the Bank's past loan loss experience, current economic conditions and other factors affecting the business environment.

The Bank has decided that a general provision for losses on loans receivable should amount to a minimum of 1% of outstanding loan balances that have not been identified as impaired.

Consumer installment and credit card loans are written-off if principal and/or interest payments become 180 days contractually in arrears.

- d. **Life assurance fund** - All receipts from the life assurance business of Laurentide Insurance and Mortgage Company Limited ("Laurentide") are credited to a life assurance fund as required by The 1969 Insurance Act, under which Laurentide is registered. The fund is reduced in respect of expenses of the life assurance business and any surplus disclosed by actuarial valuation.
- e. **Foreign currency translation** - Assets and liabilities in other currencies have been translated into Bahamian dollars at the appropriate rates of exchange prevailing as of December 31, 2006. Income and expense items have been translated at actual rates on the date of the transaction. Gains and losses arising on foreign exchange translation are immediately recognized in the Consolidated Statement of Income.
- f. **Premises and equipment** - These assets are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are computed on a straight-line basis and are charged to non-interest expenses over the estimated useful lives of the assets as follows:

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

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 income.

- g. **Impairment of assets** - At the end of each balance sheet date, the Bank 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 (if any). Recoverable amount is the higher of fair value less costs to sell and value in use.

An impairment loss is recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent that there is revaluation surplus.

- h. **Earnings per share** - Earnings per share is computed by dividing the net income, after deducting dividends declared on preference shares, by the weighted average number of common shares outstanding during the year. There is no material difference between basic earnings per share and fully diluted earnings per share.
- i. **Retirement benefit costs** - The Bank maintains a defined benefit plan covering all employees in the active employment of the Bank who have at least 3 years of service or have reached the age of 25. The plan provides pensions based on years of service, contributions and weighted average earnings at retirement. The Bank's funding policy is to make monthly contributions to the plan based on triennial valuations. The Bank pays on demand to the plan such periodic contributions as may be required to meet the costs and expenses of the plan.

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

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

Pension costs are charged to general and administrative expenses.

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

- j. **Share-based payments** - The Bank issues equity-settled share-based payments to certain management staff. The Bank determines the fair value of stock options on their grant date using the Black Scholes Model and records this amount as compensation expense. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations. The fair value is recomputed over the period that the stock options vest, with a corresponding increase to share premium. The fair value determined at the grant date of the equity-settled share-based payments was expensed on a straight-line basis over the vesting period, based on the Bank's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. When the stock options are exercised the proceeds are recorded in share capital and share premium. All outstanding options at December 31, 2005, were either exercised or lapsed during the year.

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.

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

- k. **Deposits** - Deposits are stated at principal plus accrued interest.
- l. **Interest expense** - Interest expense is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.
- m. **Investments** - Investments are classified as held-to-maturity and are stated at cost plus accrued interest. Investment income is recorded in interest income in the Consolidated Statement of Income using the effective interest rate method.
- n. **Related parties** - Related parties include Officers, Directors and Shareholders with shareholdings in excess of 5% of outstanding common shares, and companies that are controlled by these parties.
- o. **Equity instruments** - An equity instrument is any contract that evidences a residual interest in the assets of the Bank after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.



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

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

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

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

- a. **Provision for credit losses** - The provision for credit losses represents management's estimate of identified credit related losses in the portfolio, as well as losses that have not yet been identified at the consolidated balance sheet date. The provision for credit losses is comprised of the specific provision and the general provision. 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 realisable 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.
- b. **Fair value of financial instruments** - Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transaction. The best evidence of fair value is quoted price in an active market. In most cases, however, the financial instruments are not typically exchangeable or exchanged and therefore it is difficult to determine their fair value. In these cases, management's judgment is required to estimate fair value. Since the calculation of fair value is based on management's estimates, which involve uncertainties, the actual fair value realised in a sale or immediate settlement of the instruments may differ from the estimated amount.
- c. **Pension benefits** - The Bank maintains a defined benefit plan covering all employees in the active employment of the Bank who have at least 3 years of service or have reached the age of 25. Due to the long term nature of pension plans, the calculation of benefit expenses and obligations depends on various assumptions such as discount rates, expected rates of return on assets, projected salary increases, retirement age, mortality, and termination rates.  
  
Actual experience that differs from the actuarial assumptions will affect the amounts of benefit obligation and expense.
- d. **Life Assurance Fund** - A surplus on the Life Assurance Fund arising from an actuarial valuation is credited to income. Due to the nature of actuarial valuations which depend on various assumptions such as discount rates, expected rates of return on assets, projected mortality, and policy termination rates, actual experience may differ from the actuarial assumptions.

#### 5. BUSINESS SEGMENTS

For management purposes, the Bank including its subsidiaries, is organized into two major operating units - Bank and Real Estate. The principal business of the Bank is that of providing full service personal banking including the acceptance of savings, fixed and demand deposits, providing consumer financing through loans, overdrafts and credit cards and mortgage financing on real estate and the sale of foreign exchange. The Bank also provides credit life insurance in respect of the Bank's borrowers through Laurentide. For management purposes, Laurentide activities are reported as part of the Bank and therefore are not treated as a separate business segment. The Bank also has a real estate company, C. B. Holding Co. Ltd., that owns and manages real property. The major tenant is the Bank, however there are also several unrelated tenants renting from the company. C.B. Securities Ltd., which was incorporated as an investment company on September 2, 1996, had no activity in the reporting period.

All of the activities of the Bank and its subsidiaries are deemed to be operating within the same geographical area. Inter-segment revenues are accounted for at competitive market prices. Inter-segment expenses are transferred at cost. All transactions between segments are eliminated on consolidation.

The following table shows financial information by business segment:

	Banking		Real Estate		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
<b>Revenue</b>								
External	\$ 81,411	\$ 69,804	\$ 226	\$ 327	\$ -	\$ -	\$ 81,637	\$ 70,131
Internal	511	432	1,131	987	(1,642)	(1,419)	-	-
Total Revenue	\$ 81,922	\$ 70,236	\$ 1,357	\$ 1,314	\$ (1,642)	\$ (1,419)	\$ 81,637	\$ 70,131
<b>Net Profit</b>								
Segment Net Profit	\$ 40,251	\$ 31,638	\$ 182	\$ 165	\$ -	\$ -	\$ 40,433	\$ 31,803
<b>Other Information</b>								
Capital Additions	\$ 2,318	\$ 2,132	\$ 4,250	\$ 961	\$ -	\$ -	\$ 6,568	\$ 3,093
Depreciation	\$ 2,221	\$ 2,339	\$ 151	\$ 149	\$ -	\$ -	\$ 2,372	\$ 2,488
<b>Assets</b>	\$1,017,953	\$ 853,260	\$ 12,570	\$ 8,224	\$ (11,880)	\$ (7,508)	\$1,018,643	\$ 853,976
<b>Liabilities</b>	\$ 827,604	\$ 704,745	\$ 11,458	\$ 7,293	\$ (11,880)	\$ (7,508)	\$ 827,182	\$ 704,530

## 6. CASH AND CASH EQUIVALENTS

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

	2006	2005
Cash and deposits with banks	\$ 31,380	\$ 18,293
Balances with The Central Bank of The Bahamas	60,915	42,125
Total	\$ 92,295	\$ 60,418

The Bank is required to maintain a percentage of customers' deposits as cash or deposits with The Central Bank of The Bahamas. At December 31, 2006, this reserve requirement was \$30.7 million (2005: \$25.3 million).

## 7. INVESTMENTS

Investments are as follows:

	Term to Maturity						2006		2005	
	Within 12 months		Over 12 to 60 months		Over 60 months		Total		Total	
	\$	Yield %	\$	Yield %	\$	Yield %	\$	Yield %	\$	Yield %
Bahamas Government										
Treasury Bills	\$ 9,954	1.839%	\$ -	-	\$ -	-	\$ 9,954	1.839%	\$ 21,994	0.107%
Bahamas Government										
Registered Stock	-	-	3,335	6.734%	68,269	6.123%	71,604	6.052%	49,131	6.381%
Bridge Authority	-	-	-	-	233	7.125%	233	7.125%	233	7.125%
Clifton Heritage	-	-	-	-	2,009	6.088%	2,009	6.088%	2,009	6.088%
United States										
Government Stock	-	-	-	-	990	6.990%	990	6.990%	989	6.990%
Other Equity	-	-	-	-	75	-	75	-	-	-
Accrued interest										
Receivable	-	-	-	-	-	-	1,192	-	823	-
Total	\$ 9,954	1.839%	\$ 3,335	6.734%	\$ 71,576	6.138%	\$ 86,057	5.613%	\$ 75,179	4.513%

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

	2006	2005
Interest income	\$ 3,943	\$ 3,327

## 8. LOANS RECEIVABLE

Loans receivable is as follows:

	2006	2005
Residential mortgage	\$ 196,795	\$ 144,860
Business	23,405	20,097
Personal	567,588	506,062
Credit card	32,288	26,249
Accrued interest receivable	8,471	8,044
	828,547	705,312
Less provision for losses	18,941	13,152
Total	\$ 809,606	\$ 692,160

Provision for losses is as follows:

	2006				
	Balance at Beginning of Year	Loans Written-off	Recoveries	Provision for Credit Losses	Balance at End of Year
Residential mortgage	\$ 3,463	\$ (111)	\$ -	\$ 283	\$ 3,635
Business	582	(18)	-	113	677
Personal	8,226	(10,849)	5,479	10,549	13,405
Credit card	881	(735)	265	813	1,224
Total provision for credit losses	\$ 13,152	\$ (11,713)	\$ 5,744	\$ 11,758	\$ 18,941
Specific provision	\$ 3,316	\$ (11,713)	\$ 5,744	\$ 8,668	\$ 6,015
General provision	9,836	-	-	3,090	12,926
Total	\$ 13,152	\$ (11,713)	\$ 5,744	\$ 11,758	\$ 18,941

	2005				
	Balance at Beginning of Year	Loans Written off	Recoveries	Provision for Credit Losses	Balance at End of Year
Residential mortgage	\$ 1,571	\$ (93)	\$ -	\$ 1,985	\$ 3,463
Business	418	(53)	-	217	582
Personal	10,931	(14,173)	4,843	6,625	8,226
Credit card	487	(604)	147	851	881
Total provision for credit losses	\$ 13,407	\$ (14,923)	\$ 4,990	\$ 9,678	\$ 13,152
Specific provision	\$ 8,867	\$ (14,923)	\$ 4,990	\$ 4,382	\$ 3,316
General provision	4,540	-	-	5,296	9,836
Total	\$ 13,407	\$ (14,923)	\$ 4,990	\$ 9,678	\$ 13,152



The general provision for losses on loans receivable that have not been identified as impaired is 1.58% (2005: 1.41%) of the non-impaired loans receivable.

Impaired loans receivable is as follows:

	Gross Impaired	2006 Specific Allowance	Net Impaired
Residential mortgage	\$ 3,883	\$ 1,037	\$ 2,846
Business	1,060	448	612
Personal	6,261	3,952	2,309
Credit card	897	578	319
Total	\$ 12,101	\$ 6,015	\$ 6,086

Percentage of loan portfolio 1.46%

Percentage of total assets 1.19%

	Gross Impaired	2005 Specific Allowance	Net Impaired
Residential mortgage	\$ 3,877	\$ 1,358	\$ 2,519
Business	389	322	67
Personal	4,771	1,536	3,235
Credit card	263	100	163
Total	\$ 9,300	\$ 3,316	\$ 5,984

Percentage of loan portfolio 1.32%

Percentage of total assets 1.09%

## 9. PREMISES AND EQUIPMENT

The movement of premises and equipment is as follows:

	Land	Buildings	Leasehold Improvements	Furniture, Fittings and Equipment	Total
<b>Cost</b>					
December 31, 2005	\$ 6,004	\$ 17,776	\$ 3,640	\$ 19,639	\$ 47,059
Additions	1,096	3,096	194	2,182	6,568
December 31, 2006	7,100	20,872	3,834	21,821	53,627
<b>Accumulated Depreciation and Amortization</b>					
December 31, 2005	-	3,454	3,154	14,978	21,586
Charge for the year	-	479	142	1,751	2,372
December 31, 2006	-	3,933	3,296	16,729	23,958
<b>Net Book Value</b>					
December 31, 2006	\$ 7,100	\$ 16,939	\$ 538	\$ 5,092	\$ 29,669
December 31, 2005	\$ 6,004	\$ 14,322	\$ 486	\$ 4,661	\$ 25,473

Depreciation and amortization expense is as follows:

	2006	2005
Buildings	\$ 479	\$ 479
Leasehold improvements	142	179
Furniture, fittings and equipment	1,751	1,830
Total	\$ 2,372	\$ 2,488

## 10. DEPOSITS

The composition of deposits is as follows:

	2006	2005
Demand deposits	\$ 60,119	\$ 51,076
Savings accounts	90,869	88,978
Certificates of deposit	633,197	527,750
Accrued interest payable	14,209	12,527
Total	\$ 798,394	\$ 680,331

## 11. LIFE ASSURANCE FUND

An actuarial valuation of the life assurance fund was conducted as of December 31, 2006. The calculation was based on the greater of the total of unearned premiums and the actuarial reserve which includes provision for mortality, surrender, expenses and adverse deviations. As a consequence, \$3.534 million (2005: \$2.462 million) being premiums distributable otherwise than to policyholders, was credited to income during the year. Assets of Laurentide representing the Life Assurance Fund are maintained as a separate account with the Bank.

## 12. SHARE CAPITAL

Share capital is as follows:

### Preference Shares:

	Rates		Rates		Rates	
	2006	2005	2006	2005	2006	2005
	Beginning of Year		Rate Changes		End of Year	
Class A	7.0%	9.0%	(2.0)%		7.0%	7.0%
Class B	7.0%	8.5%	(1.5)%		7.0%	7.0%
Class C	7.0%	8.0%	(1.0)%		7.0%	7.0%
Class D	7.0%	9.0%	(2.0)%		7.0%	7.0%
Class E	7.0%	9.0%	(2.0)%		7.0%	7.0%
Class F	7.0%	9.0%	(2.0)%		7.0%	7.0%
Class G	7.0%	9.0%	(2.0)%		7.0%	7.0%
Class H	7.0%	-	7.0%		7.0%	7.0%
Class I	7.0%	-	7.0%		7.0%	7.0%
Class J	-	-	7.0%	-	7.0%	-
Class K	-	-	7.0%	-	7.0%	-
Class L	-	-	7.0%	-	7.0%	-
Class M	-	-	7.0%	-	7.0%	-
Class N	-	-	7.0%	-	7.0%	-

B\$ 000's		Beginning of Year		Increase (Reduction)		End of Year	
		2006	2005	2006	2005	2006	2005
<b>Authorized</b>	<b>Par \$</b>						
Class A	500	\$ 15,000	\$ 15,000	\$ -	\$ -	\$ 15,000	\$ 15,000
Class B	500	5,000	5,000	-	-	5,000	5,000
Class C	100	5,000	5,000	-	-	5,000	5,000
Class D	100	10,000	10,000	-	-	10,000	10,000
Class E	100	10,000	10,000	-	-	10,000	10,000
Class F	100	10,000	10,000	-	-	10,000	10,000
Class G	100	10,000	10,000	-	-	10,000	10,000
Class H	100	10,000	-	-	10,000	10,000	10,000
Class I	100	10,000	-	-	10,000	10,000	10,000
Class J	100	-	-	10,000	-	10,000	-
Class K	100	-	-	10,000	-	10,000	-
Class L	100	-	-	10,000	-	10,000	-
Class M	100	-	-	10,000	-	10,000	-
Class N	100	-	-	10,000	-	10,000	-
<b>Total</b>		<b>\$ 85,000</b>	<b>\$ 65,000</b>	<b>\$ 50,000</b>	<b>\$ 20,000</b>	<b>\$ 135,000</b>	<b>\$ 85,000</b>

B\$ 000's		Beginning of Year		Issued (Redeemed)		End of Year	
		2006	2005	2006	2005	2006	2005
<b>Outstanding</b>							
Class A		\$ 15,000	\$ 15,000	\$ -	\$ -	\$ 15,000	\$ 15,000
Class B		4,985	4,985	-	-	4,985	4,985
Class C		-	1,008	5,000	(1,008)	5,000	-
Class D		10,000	10,000	-	-	10,000	10,000
Class E		9,999	9,999	-	-	9,999	9,999
Class F		9,999	9,999	-	-	9,999	9,999
Class G		10,000	10,000	-	-	10,000	10,000
Class H		875	-	9,125	875	10,000	875
Class I		-	-	10,000	-	10,000	-
Class J		-	-	-	-	-	-
Class K		-	-	-	-	-	-
Class L		-	-	-	-	-	-
Class M		-	-	-	-	-	-
Class N		-	-	-	-	-	-
<b>Total</b>		<b>\$ 60,858</b>	<b>\$ 60,991</b>	<b>\$ 24,125</b>	<b>\$ (133)</b>	<b>\$ 84,983</b>	<b>\$ 60,858</b>

All classes of Preference Shares are cumulative, non-voting and redeemable at the discretion of the Board. Dividend rates are variable with Bahamian Prime rate. At December 31, 2006, Prime rate was 5.5% (2005: 5.5%).



**Common Shares:**

	B\$0.06 each	
	Number 000's	B\$ 000's
<b>Authorized:</b>		
December 31, 2005 and December 31, 2006	75,000	\$ 4,500
<b>Issued and outstanding:</b>		
December 31, 2004	31,283	1,877
Issuance of new shares	633	38
December 31, 2005	31,916	1,915
Issuance of new shares	817	49
December 31, 2006	32,733	\$ 1,964

On January 29, 2007, the Bank declared a dividend of \$0.12 cents per common share payable on April 30, 2007.

**13. GENERAL RESERVE**

The general reserve is non-distributable and was created in 2003 to allow the Bank to address issues of an unusual or distress situation should they occur. No such situations have occurred since the reserve was created.

**14. EMPLOYEE SHARE BASED PAYMENT PLANS*****Stock Option Plan:***

On December 14, 1999, the Board of Directors approved an employee stock option plan for certain management staff with a grant of two million shares on May 1, 2000. Options vested over the period from the date of grant to April 30, 2005. Vested options not exercised at April 30, 2006 lapsed. There were no outstanding stock options at December 31, 2006.

***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 may purchase shares having a value not exceeding 15% of their salary at the time of the grant. Shares so purchased vest immediately but are released to the employee on payment for the shares. Pursuant to the plan, the Bank issued 7,712 shares in 2006 (2005: 2,628).

The following table summarises information about the Stock Option Plan:

	2006	Weighted Average Exercise Price	2005	Weighted Average Exercise Price
	Number of Stock Options		Number of Stock Options	
Outstanding at beginning of year	921,190	6.14	1,515,000	6.10
Granted	-	-	30,000	7.10
Expired or forfeited	(117,307)	6.37	-	-
Exercised	(803,883)	6.11	(623,810)	6.09
Outstanding at end of year	-	-	921,190	6.14
Of which vested at the end of the year	-	-	921,190	6.14
Options available to be granted at end of year	-		376,000	
Outstanding Stock Options as a percentage of outstanding shares	0.00%		2.89%	

The fair value of options at December 31, 2005 were calculated using the following inputs for the Black Scholes Model:

Weighted average share price	\$8.11
Weighted average exercise price	\$6.14
Expected life of options	0.33 Years
Risk free rate	5.75%
Expected volatility	13%

Expected volatility was determined by calculating the historical volatility of the Bank's share price over the previous three years.

The Bank recognized total expenses of \$8 thousand (2005: \$133 thousand) related to these equity settled share based payment transactions during the year.

## 15. FEE AND OTHER INCOME

Fee and other income is as follows:

	2006	2005
Fees and commissions	\$ 11,148	\$ 10,531
Service charges	2,893	2,298
Card service revenue	1,124	911
Net foreign exchange revenue and other income	2,515	1,655
Total	\$ 17,680	\$ 15,395

## 16. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses is as follows:

	2006	2005
Staff costs	\$ 27,232	\$ 25,158
Other	11,426	10,504
Total	\$ 38,658	\$ 35,662

Staff costs include pension costs of \$1.29 million (2005: \$1.27 million) (see Note 18).

**17. RELATED PARTIES' BALANCES AND TRANSACTIONS**

Related parties' balances and transactions are as follows:

	2006	2005
Loans receivable	\$ 8,643	\$ 10,635
Deposits	\$ 67,681	\$ 62,611
Loans guaranteed by related parties	\$ 423	\$ 436
Interest income	\$ 490	\$ 462
Interest expense	\$ 4,421	\$ 3,082
Rental expense	\$ 295	\$ 308
General expenses	\$ 439	\$ 447
Commitments under revolving credit lines	\$ 4,502	\$ 4,729

Rental commitments to related parties are as follows:

2007	\$ 166
2008	\$ 166
2009	\$ 166
2010	\$ 30

**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 Income is as follows:

	2006	2005
Short term benefits	\$ 4,595	\$ 3,573
Post employment benefits	\$ 219	\$ 215

**18. BANK PENSION SCHEME**

The following tables present information related to the Bank's defined benefit pension plan, including amounts recorded on the consolidated balance sheet and the components of net periodic benefit cost:

	2006	2005
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 23,711	\$ 19,868
Actual return on plan assets	3,443	2,682
Company contributions	1,253	978
Participant contributions	753	711
Benefits paid	(273)	(165)
Withdrawals from plan	(742)	(363)
Fair value of plan assets at end of year	\$ 28,145	\$ 23,711



	2006	2005
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 22,544	\$ 19,927
Employer service cost	1,233	1,116
Participant contributions	753	711
Interest cost	1,570	1,345
Benefits paid	(1,015)	(529)
Plan amendment	-	97
Actuarial gain on obligation	2,570	(123)
Benefit obligation at end of year	\$ 27,655	\$ 22,544
Reconciliation of funded status:		
Present value of plan assets in excess of obligations	\$ 490	\$ 1,167
Unrecognized actuarial gain	(590)	(1,230)
Accrued pension liability	\$ (100)	\$ (63)
Components of pension benefit expense:		
Current Employer service costs	\$ 1,233	\$ 1,116
Interest cost	1,570	1,345
Expected return on plan assets	(1,513)	(1,291)
Past Service Costs - Vested Benefits	-	97
Pension benefit expense included in staff costs	\$ 1,290	\$ 1,267
Movement in prepaid asset (accrued pension liability) recognized in the consolidated balance sheet:		
Balance at beginning of year	\$ (63)	\$ 226
Expense as above	(1,290)	(1,267)
Contributions paid	1,253	978
Balance at end of year	\$ (100)	\$ (63)
Actual return on plan assets:		
Expected return on plan assets	\$ 1,513	\$ 1,291
Actuarial loss on plan assets	1,930	1,391
Actual return on plan assets	\$ 3,443	\$ 2,682
Assumptions at beginning of year:		
Discount rate	6.25%	6.25%
Long term rate of return on plan assets	6.25%	6.25%
Rate of increase in future compensation	4.50%	4.50%
Assumptions at end of year:		
Discount rate	6.25%	6.25%
Rate of increase in future compensation	4.50%	4.50%

The Bank administers its own pension fund. The pension fund owns 487,117 (2005: 476,432) common shares and \$3.58 million (2005: \$3.46 million) preference shares of the Bank.

These shares have a market value of \$9.7 million (2005: \$7.8 million) which represents 34% (2005: 33%) of the pension fund's assets.

The major categories of plan assets and the expected rate of return at December 31, 2006 for each category is as follows:

	Expected Return		Fair Value of Plan Assets	
	2006	2005	2006	2005
Balances at Bank	3.75%	3.75%	\$ 1,583	\$ 611
Equity Instruments	8.25%	7.75%	8,321	7,432
Government Bonds	5.63%	6.13%	9,670	8,570
Preferred Equity	7.00%	7.50%	6,283	6,163
Other Assets	0.00%	0.00%	353	162
Weighted Average Expected Return	6.75%	6.75%	\$ 26,210	\$ 22,938

The overall expected rate of return for 2006 is the weighted average of the expected future returns of the various categories of plan assets as shown above, less a provision for expenses paid from the pension fund. The expected future returns for each category are reviewed periodically and may be changed in future years to reflect developments in financial markets.

The Bank expects that in 2007 the amount recognized in the Income Statement in respect of the pension plan will be \$1.2 million.

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

	2006	2005
Deposits	\$ 1,320	\$ 591
Interest expense	\$ 33	\$ 87

#### 19. MATURITY OF ASSETS AND LIABILITIES

The maturity of assets and liabilities are as follows:

	2006	2005
<b>ASSETS</b>		
On demand	\$ 86,245	\$ 64,352
3 months or less	89,127	37,494
Over 3 months through 6 months	5,699	9,365
Over 6 months through 12 months	16,417	18,069
Over 12 months through 24 months	39,029	25,412
Over 24 months through 5 years	250,470	228,456
Over 5 years	531,656	470,828
Total	\$1,018,643	\$ 853,976
<b>LIABILITIES</b>		
On demand	\$ 65,585	\$ 50,963
3 months or less	260,345	233,662
Over 3 months through 6 months	101,469	83,708
Over 6 months through 12 months	171,641	171,746
Over 12 months through 24 months	63,598	73,347
Over 24 months through 5 years	147,844	80,531
Over 5 years	16,700	10,573
Total	\$ 827,182	\$ 704,530

**20. CONCENTRATION OF LOANS RECEIVABLE AND LIABILITIES**

The concentration of loans receivable and liabilities are as follows:

	2006		2005	
	\$ 000's	Number of Accounts	\$ 000's	Number of Accounts
Loans receivable:				
Under \$50,000	\$ 585,819	56,451	\$ 511,864	51,355
\$50,001 - \$100,000	79,248	1,192	69,637	1,064
\$100,001 - \$150,000	53,280	433	39,512	321
\$150,001 - \$300,000	65,665	334	43,470	221
\$300,001 - \$500,000	19,078	51	18,475	51
\$500,001 - \$1,000,000	9,121	14	5,560	9
\$1,000,001 and over	7,865	5	8,750	6
Provision	(18,941)	-	(13,152)	-
Accrued interest receivable	8,471	-	8,044	-
Total	\$ 809,606	58,480	\$ 692,160	53,027
Liabilities:				
Under \$50,000	\$ 155,305	52,892	\$ 148,147	50,286
\$50,001 - \$100,000	64,484	888	59,578	832
\$100,001 - \$150,000	47,251	394	40,086	326
\$150,001 - \$300,000	76,665	356	66,402	307
\$300,001 - \$500,000	57,735	145	53,185	134
\$500,001 - \$1,000,000	124,449	166	102,229	137
\$1,000,001 and over	258,656	113	198,177	91
Accrued interest payable	14,209	-	12,527	-
Life assurance fund	13,353	-	10,816	-
Other liabilities	15,075	-	13,383	-
Total	\$ 827,182	54,954	\$ 704,530	52,113

**21. COMMITMENTS AND CONTINGENCIES**

a. In the ordinary course of business, the Bank had commitments as of December 31, 2006, as follows:

	2006	2005
Mortgage commitments	\$ 23,505	\$ 25,277
Revolving credit lines	27,039	21,354
Standby letters of credit	1,607	637
Capital expenditures contracted	205	179
Capital expenditure approved but not yet contracted	1,400	2,750
Total	\$ 53,756	\$ 50,197

**Revolving credit lines** - are undrawn lending facilities that have been approved by the Bank to meet the requirements of customers. They are revocable at the Bank's discretion. The amount shown represents the maximum amount of additional credit that the Bank could be obligated to extend. In practice many of these commitments will remain undrawn and the amount is not indicative of future cash requirements.

**Standby letters of credit** - are short-term instruments used to facilitate international trade typically on behalf of an importer, subject to specific terms and conditions. They are collateralized by the underlying shipments of goods to which they relate.



- b. The Bank is obligated under non-cancelable leases on property, all of which are operating leases, expiring no later than 2011, and on maintenance contracts for computer equipment and software expiring no later than 2009 on which the minimum annual rentals are approximately as follows:

Year	Minimum Rental Commitments	
	Leases	Computer Equipment and Software
	B\$	B\$
2007	328	266
2008	328	22
2009	311	22
2010	110	-
2011	53	-

- c. The Bank has an undrawn line of credit with Bank of America, Miami for US\$1 million which was established to service customer transactions. This credit line is secured by United States Government Stock US\$990 thousand disclosed in Note 7.
- d. The Bank has a line of credit with Bank of Butterfield. The credit line is unsecured and is in the amount of US\$10 million. The line was fully drawn at December 31, 2006. The line was repaid in full on January 12th, 2007.
- e. The Bank has a standby letter of credit with Citibank N.A. for US\$1 million, which was established to secure settlement transactions with MasterCard. This standby credit line is secured by a time deposit of B\$1 million, which is included in cash and deposits with Banks.

## 22. RISK MANAGEMENT

- a. **Capital Risk Management** - The Bank manages its capital to ensure that it exceeds regulatory capital requirements and will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The Bank's risk management structure promotes making sound business decisions by balancing risk and reward. It promotes revenue generating activities that are consistent with the risk appetite of the Bank, Bank 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 12 and 13. The Bank's 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 will manage its capital structure through the payment of dividends, new share issues, common or preference and the redemption of preference shares.

The Bank's strategy is unchanged from 2005.

- b. **Interest rate risk** - Interest rate risk or interest rate sensitivity results primarily from differences in the maturities or 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.

There is no developed derivative market in the domestic banking sector of the economy to assist the Bank in managing interest rate risk. The consolidated gap position shows more assets than liabilities repriced in periods greater than one year. This is a typical position for a financial institution with a large personal customer base. The following table sets out the Bank's interest rate risk exposure as of December 31, 2006, and represents the Bank's risk exposure at this point in time only:

As of December 31, 2006	Maturity or repricing date of interest sensitive instruments					Non-interest rate sensitive	Total	
	Within 3 Months	3 - 6 months	6-12 months	1 - 5 Years	Over 5 years			
<b>Assets</b>								
Cash equivalents	\$ 15,700 4.73%	\$ - -	\$ 300 1.50%	\$ - -	\$ - -	\$ 76,295 -	\$ 92,295 0.81%	
Investments	76,796 5.32%	- -	- 0.00%	- -	9,186 8.44%	75 -	86,057 5.65%	
Loans receivable	46,343 15.09%	226,696 7.91%	5,675 14.67%	254,999 14.82%	275,893 14.31%	- -	809,606 12.73%	
Premises and equipment	-	-	-	-	-	29,669	29,669	
Other assets	-	-	-	-	-	1,016	1,016	
TOTAL	\$ 138,839	\$ 226,696	\$ 5,975	\$ 254,999	\$ 285,079	\$ 107,055	\$ 1,018,643	
<b>Liabilities and shareholders' equity</b>								
Deposits	\$ 325,165 3.41%	\$ 99,561 4.80%	\$ 168,622 5.08%	\$ 193,442 6.00%	\$ 11,604 7.03%	\$ - -	\$ 798,394 4.62%	
Other liabilities	-	-	-	-	-	28,788	28,788	
Preference shares	84,983 7.00%	- -	- -	- -	- 0.00%	- -	84,983 7.00%	
Other equity	-	-	-	-	-	106,478	106,478	
TOTAL	\$ 410,148	\$ 99,561	\$ 168,622	\$ 193,442	\$ 11,604	\$ 135,266	\$ 1,018,643	
INTEREST RATE SENSITIVITY GAP	(271,309)	127,135	(162,647 )	61,557	273,475	(28,211)	-	
<b>CUMULATIVE INTEREST RATE</b>								
SENSITIVITY GAP	\$ (271,309)	\$ (144,174)	\$ (306,821 )	\$ (245,264)	\$ 28,211	\$ (0)	\$ (0)	
COMPARATIVE 2005	\$ (193,073)	\$ (138,361)	\$ (299,839)	\$ (213,240)	\$ 32,163	\$ -	\$ -	
Average Yield - Earning Assets	8.51%	7.91%	14.01%	14.82%	14.12%		11.53%	
Average Yield - Paying Liabilities	4.15%	4.80%	5.08%	6.00%	7.03%		4.20%	
Average Margin 2006	4.36%	3.11%	8.93%	8.82%	7.09%		7.33%	
Average Margin 2005	4.16%	4.67%	7.70%	8.73%	6.42%		7.82%	

- c. **Credit risk** - 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. Consumer credit portfolios are reviewed monthly to identify potential failure to perform according to the terms of the contract.
- d. **Liquidity risk** - Managing liquidity and funding risk is essential to maintaining both depositor confidence and stability in earnings.

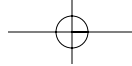
The Bank manages liquidity and funding risk by ensuring that sufficient liquid assets and funding capacity are available to meet financial commitments, even in times of stress. The Board of Directors' Executive Committee oversees the Bank's liquidity and funding risk management framework which, includes operating within clearly defined Board limits, regulatory liquidity requirements and strong effective processes to monitor and manage risk, including contingency plans to facilitate managing through a distress situation. Standby lines of credit are a significant part of the contingency plan and are disclosed in Note 21.

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

### 23. FAIR VALUE OF FINANCIAL INSTRUMENTS

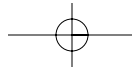
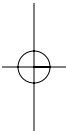
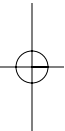
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms length transaction. The best evidence of fair value is quoted price in an active market. In most cases, however, the financial instruments are not typically exchangeable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





*Notes*

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# Nominating Committee Report



Rupert W. Roberts, Jr.,  
OBE



T. Baswell Donaldson,  
CBE



William B. Sands, Jr.



Vaughn W. Higgs



R. Craig Symonette



Michael J. Barnett

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

## YEAR IN REVIEW

**Assessed** the composition and size of the Board, examining its breadth and diversity of experience and the appropriateness of the number of Directors.

**Continued** to maintain a list of prospective director candidates with input from the Board.

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

**Conducted** the annual formal evaluation of the effectiveness of the Board and its committees, with participation by all directors. The conclusions were reviewed with the Board, and form the foundation for changes.

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

**Reviewed** the roles of Chairman and Chief Executive Officer and recommended to the Board that for the present these roles continue to be separated.

The Committee is satisfied that it has appropriately fulfilled its mandate to the best of its ability for the year ended December 31, 2006.

RUPERT ROBERTS, JR., OBE  
Chairman  
Nominating Committee

## 2006 SUMMARY OF BOARD AND COMMITTEE MEETINGS

For the year ended December 31, 2006

Board	8
Audit Committee	4
Nominating Committee	2
Executive Committee	7
Premises Committee	4
Information Technology Committee	4
Pension Fund Trustees Committee (a)	2

## BOARD MEETING ATTENDANCE

T. B. Donaldson	8
W. B. Sands, Jr.	8
I. A. Jennings	8
M. L. Barnett	7
E. J. Bethel	8
F. A. Butler	8
G. C. Culmer	7
J. B. Farrington	6
V. W. Higgs	7
R. W. Roberts, Jr.	7
R. C. Symonette	5
L. R. Gibson	6

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

# Executive Committee Report



T. Baswell Donaldson,  
CBE



William B. Sands, Jr.



Vaughn W. Higgs



R. Craig Symonette



Rupert W. Roberts, Jr.,  
OBE



Ian A. Jennings

**The Executive Committee** has the power to direct and transact all business of the Bank except that required to be performed by the Board as a whole. The Executive Committee is responsible for assisting the Board of Directors to ensure that human resources strategies support the Bank's objectives and sustain shareholder value. As part of this responsibility, non-executive members of the committee review the performance and approve the compensation of Executive Officers of the Bank. The Executive Committee supports the Board in fulfilling its oversight responsibilities in relation to the identification, documentation, measurement and management of significant risks affecting the Bank. The Committee also monitors the Bank's compliance with risk-related regulatory requirements and with its internal risk management policies and procedures. is responsible for developing and maintaining governance practices consistent with high standards of corporate governance.

## YEAR IN REVIEW

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

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

**Reviewed** the provision and allowance for credit losses prior to its approval by the Audit Committee.

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

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

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

**Reviewed** annual performance assessments submitted by the Chief Executive Officer for Bank Officers.

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

- enhancing the management of talent and succession, strengthening employee engagement while introducing cultural change, and
- matching training and development with business needs and implementing more cost-efficient training delivery models.

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

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

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

**Reviewed** the mandates of the Board Sub-committees, and secured its approval by the Board.

The Committee is satisfied that it has appropriately fulfilled its mandate to the best of its ability for the year ended December 31, 2006.

  
**T. BASWELL DONALDSON, CBE**  
 Chairman  
 Executive Committee



# Audit Committee Report



G. Clifford Culmer



William B. Sands, Jr.



Michael L. Barnett



Larry R. Gibson



Earla J. Bethel

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

## YEAR IN REVIEW

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

## FINANCIAL REPORTING

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

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

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

## INTERNAL CONTROL AND DISCLOSURE CONTROL

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

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

**Met** regularly with the VP Internal Audit and Credit Inspection as necessary without management present.

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

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

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

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

**Reviewed** recommendations of the Company's Auditors and external regulators, as well as management's response.

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

## COMPANY'S AUDITORS

**Recommended** to the Board Deloitte & Touche as best positioned to meet the Bank's extensive service requirements.

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

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

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

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

The Committee is satisfied that it has appropriately fulfilled its mandate to the best of its ability for the year ended December 31, 2006.

*G. Clifford Culmer*  
G. CLIFFORD CULMER

Chairman  
Audit Committee

# Premises Committee Report



Franklyn A. Butler, OBE

William B. Sands, Jr.

J. Barrie Farrington, CBE

Larry R. Gibson

Earla J. Bethel

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

## YEAR IN REVIEW

**Reviewed** proposals of Senior Management for expansion of the Bank into non-serviced geographical areas;

**Reviewed** proposals of Senior Management to purchase land and/or buildings for new locations or redevelopment of existing premises/structures;

**Reviewed** cost allocations proposed by Senior Management for all significant leases, leasehold allocations with a view of ensuring the most cost effective policies and procedures are in place to sustain the ongoing operations of the Bank;

**Assessed** the monitoring of Management's control of significant premises undertakings to ensure an effective oversight and reporting process is in place and that to the extent possible, an appropriate level of attention is being placed on the effective and efficient use of allocated funds;

**Assessed** the monitoring of the Bank's maintenance and administration of significant owned and leased property expense allocations to ensure the Bank's owned and leased properties present the Bank in a most favorable position and in a cost effective manner.

**Provided** the appropriate recommendations to the Board of Directors.

The Committee is satisfied that it has appropriately fulfilled its mandate to the best of its ability for the year ended December 31, 2006.

FRANKLYN A. BUTLER, OBE

**Chairman**

Premises Committee

# IT Committee Report



R. Craig Symonette



William B. Sands, Jr.



Ian A. Jennings



Vaughn W. Higgs



J. Barrie Farrington, CBE

**The Information Technology (IT) Committee** provides independent oversight of significant management and Board of Director approved technology based platforms and the associated business applications to ensure they are developed in accordance with established system development guidelines and are maintained and sustained in a cost effective, controlled and secure manner.

## YEAR IN REVIEW

**Reviewed** significant technology based proposals to ensure they are compatible with the strategic and business plans of the Bank.

**Ensured** cost benefit analysis are to be introduced as an integral part of the project development process.

**Ensured** that post-implementation reviews are to be introduced as part of the project implementation process.

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

**Reviewed** and recommended for approval by the Board of Directors the Bank's technology development and maintenance based plan.

**Reviewed** on a quarterly basis, project development plans and progress to ensure progress being achieved, parallels established performance objectives and project development plans.

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

The Committee is satisfied that it has appropriately fulfilled its mandate to the best of its ability for the year ended December 31, 2006.

**R. CRAIG SYMONETTE**  
Chairman  
IT Committee



# Charter of Expectations

## BOARD RESPONSIBILITIES

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

## STRATEGIC PLANNING PROCESS

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

## MONITORING TACTICAL PROCESS

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

## RISK ASSESSMENT

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

## SENIOR LEVEL STAFFING

- Select, monitor, and evaluate the Chief Executive Officer, Executives and Senior Management.
- Ensure that an effective management succession plan is in place.
- Ensure that the Bank's compensation plans are consistent with the sustainable achievement of the Bank's business objectives, the prudent management of its operations and the risks to which it is exposed, and adherence to its processes, policies, procedures and controls.

## INTEGRITY

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

## OVERSIGHT OF COMMUNICATIONS AND PUBLIC DISCLOSURE

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

## MATERIAL TRANSACTIONS

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

## MONITORING BOARD EFFECTIVENESS

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

## OTHER

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

## DIRECTOR ATTRIBUTES

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

## INTEGRITY AND ACCOUNTABILITY

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

## GOVERNANCE

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

## FINANCIAL LITERACY

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

## COMMUNICATION

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

## TRACK RECORD AND EXPERIENCE

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

## INDEPENDENCE

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

# Corporate Governance

## BOARD RESPONSIBILITIES

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

### Strategic Planning Process

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

### Monitoring Tactical Process

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

### Risk Assessment

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

### Senior Level Staffing

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

### Integrity

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

### Oversight of communications and public disclosure

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

## Material Transactions

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

## Monitoring Board Effectiveness

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

## Other

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

## DIRECTOR ATTRIBUTES

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

### Integrity and Accountability

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

### Governance

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

### Financial Literacy

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

### Communication

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

### Track Record and Experience

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

### Independence

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

# Community Involvement



## CENTRE FOR THE DEAF

“Success is to be measured not so much by the position that one has reached in life as by the obstacles which he has overcome while trying to succeed.”

*-Booker T. Washington*

Whether it's an island or a neighbourhood, our mission is to help develop every community where we do business - fostering a good place to live, work and raise and educate children. We do this by building relationships, inspiring philanthropy and promoting goodwill both inside and outside the Bank.

The diverse needs of our various communities, the interests of our employees, and our company's goals and values are the driving force behind Commonwealth Bank's community support activities.



# Shareholder Information

## BOARD OF DIRECTORS

### **T. BASWELL DONALDSON, CBE** **Chairman**

Commonwealth Bank Ltd.

### **WILLIAM B. SANDS, JR.** **President & CEO**

Commonwealth Bank Ltd.

### **IAN A. JENNINGS** **Sr. VP & CFO**

Commonwealth Bank Ltd.

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

Super Value Food Stores Ltd.

### **R. CRAIG SYMONETTE** **Chairman**

Abaco Markets Ltd.

### **FRANKLYN A. BUTLER, OBE** **President & CEO**

Milo Butler & Sons Co. Ltd.

### **VAUGHN W. HIGGS** **VP & General Manager**

Nassau Paper Co. Ltd.

### **LARRY R. GIBSON**

#### **Vice President**

Atlantic Pension Services

### **G. CLIFFORD CULMER** **Partner**

BDO Mann Judd

### **MICHAEL L. BARNETT** **Partner**

Graham, Thompson & Co.

### **J. BARRIE FARRINGTON, CBE** **Vice President**

Kerzner International

### **EARLA J. BETHEL** **President**

DanBrad Ltd.

## REGISTERED OFFICE

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

## PRINCIPAL ADDRESS

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

## AUDITORS

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

## TRANSFER AGENT & REGISTRAR

Colina Financial Advisors Ltd.  
4th Floor, 308 East Bay Street  
P.O. Box CB-1267  
Nassau, Bahamas  
Tel: 242-502-7010  
Fax: 242-356-3677

## STOCK EXCHANGE LISTING

(Symbol: CBL)

## COMMON SHARE LISTING

Bahamas International Securities Exchange (BISX)

## INTERNET ADDRESS

[www.combankltd.com](http://www.combankltd.com)

## SHAREHOLDER'S CONTACT

For change of address, change to dividend instructions and estate transfers, Shareholders are requested to write the Bank's Transfer Agent, Colina Financial Advisors Ltd., at their mailing address or call the Transfer Agent at 242-502-7010.

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

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

## DIRECT DEPOSIT SERVICE

Shareholders may have their dividends deposited directly to an account at any financial institution. To arrange this, please write to Colina Financial Advisors Ltd. at their mailing address.

## INSTITUTIONAL INVESTOR, BROKER & SECURITY ANALYST CONTACT

Institutional investors, brokers and security analysts requiring financial information should contact the Corporate Secretary, Investor Relations, by writing us at our Principal Address or by calling:

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

## DIVIDEND DATES FOR 2007

Subject to approval by the Board of Directors

RECORD DATE	PAYMENT DATE
March 14	March 31
June 13	June 30
September 15	September 30
December 15	December 31



**CHARLENE A. PINDER**

### **Corporate Secretary**

Commonwealth Bank Ltd.

# Services & Locations

- |                          |                            |                              |
|--------------------------|----------------------------|------------------------------|
| • Auto Loans             | • Overdraft Facilities     | • Automated Banking Machines |
| • Personal Lending       | • SunCard                  | • Foreign Exchange Services  |
| • Mortgage Financing     | • MasterCard               | • Personal Chequing Accounts |
| • Real Estate Financing  | • Certificates of Deposit  |                              |
| • Online Banking         | • Savings Accounts         |                              |
| • Small Business Lending | • Christmas Club Savings   |                              |
| • Commercial Lending     | • Student Savings Accounts |                              |

## NEW PROVIDENCE

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

## BRANCHES

The Plaza, Mackey St. 502-6100  
Bay & Christie Streets 322-1154  
Town Centre Mall 322-4107  
Oakes Field 322-3474  
Cable Beach\* 327-8441  
Wulff Road\* 394-6469  
Golden Gates\* 461-1300

## GRAND BAHAMA

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

## ABACO

Marsh Harbour 367-2370

## CREDIT CARD CENTRE

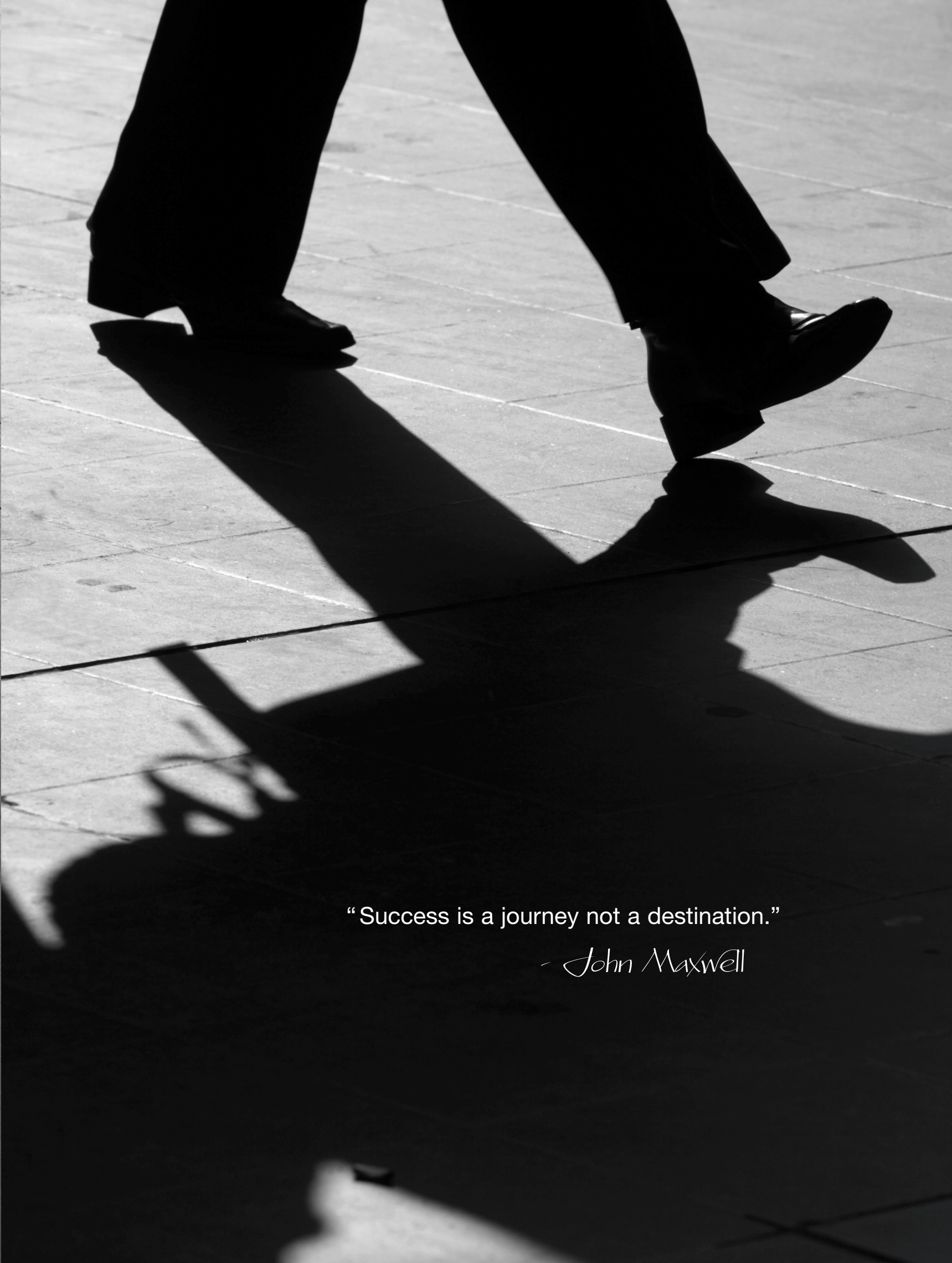
Nassau 502-6150  
Freeport 352-4428  
Merchant Help Line 502-6150

## OFF-SITE ABM LOCATIONS

Super Value (Cable Beach, Winton & Golden Gates)  
Freeport Airport

\*Drive thru ABMs available

[www.combankltd.com](http://www.combankltd.com)



“Success is a journey not a destination.”

- *John Maxwell*



