## **Independent Auditors' Report**

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To the Shareholders of Commonwealth Bank Limited

We have audited the consolidated financial statements of Commonwealth Bank Limited and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at December 31, 2022, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information shown on pages 9 to 94.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

#### **Basis for Opinion**

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

#### **Key Audit Matters**

allowance of \$75.98 million.

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

#### Impairment assessment of loans and advances to customers ("Loans") (see notes 9 & 24)

#### Key audit matter As at December 31, 2022, Loans comprise 42.89% of the Group's total assets, with total gross Loans of \$862.23 million and the related expected credit loss ("ECL") impairment

The Group determines its Loans ECL as a function of four key factors: Probability of Default ("PD"), Loss Given Default ("LGD"), Exposure at Default ("EAD") and the discount rate. The Group models these factors independently and uses various assumptions to develop the models. Key judgments and elements driving higher degrees of estimation uncertainty in the Loans ECL are as follows:

- PD model: The Group has developed and implemented a subjective risk parameter PD model based on migration probabilities between the risk ratings in a one-year period. The migration probabilities are assembled in a form of a transition matrix. The PD method applied requires significant judgement.
- Significant increases in credit risk "SICR": To assess whether an individual loan facility has experienced a SICR since initial recognition, the Group relies on a subjective internally developed risk rating system described further below. The selection of criteria for identifying SICR is highly dependent on judgement and may significantly impact the staging of loan facilities.
- Forward Looking Indicator ("FLI") adjustments: The Group developed a scorecard to assess the impact of macroeconomic factors on the Loans ECL and specifically the FLI adjustment for the PD. The macroeconomic variables chosen, reflect management's judgement relating to the behaviour of the economy and the impact on the performance of the Group's portfolios.

- Internal risk rating ("IRR") model and assumptions: Internal ratings are assigned to each loan facility according to the Group's risk management framework and dependent upon management's selected risk characteristics. Each loan facility is assigned a risk rating from 1-8 based (on a calculated risk score) on the borrower's performance pattern and loan characteristics. Specifically, the following data inputs are used to determine the risk rating:

- · Credit scores assigned to each loan at the inception of the loan
- Days past due number of days late on a loan payment
- · Loan status (restructured, re-written or current) Payment type – (interest & principal or principal only)
- Loan type (e.g. automotive, education, vacation) Recency of payment (only applicable to consumer loans)

Description of key audit matter

- Discounted collateral value (applicable to mortgages, commercial, and equity
- financed consumer loans) LGD model: The LGD model applied by the Group is based on subjective factors that are qualitatively set by the management, without any statistical calibration.

The ECL is a complex calculation, involving various models derived from management's judgments and assumptions resulting in a high degree of estimation uncertainty. In addition, the Loans ECL is calculated in an ECL model with a specific algorithm. The conceptual soundness of the model's algorithm impacts the overall precision of the ECL. Finally, the ECL on Loans is material to the consolidated financial statements as a whole and for these reasons, we deem this a key audit matter.

#### How the matter was addressed in our audit

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East Bay Street Nassau, Bahamas

Montague Sterling Centre

As part of our procedures, we performed the following:

- Updated our understanding of the methodology, model and assumptions used in the calculation of the Loans ECL.
- For adjustments identified, we tested the control over the review and approval of such adjustments by those charged with governance. On a sample basis, we tested the accuracy of relevant data inputs through direct confirmation
- with external parties and by validating internal information obtained from the Bank (loan balances, interest rates, contractual maturities, collateral values, days past due, credit scores, loan status, etc.) used in the calculation of the final risk rating.
- We performed analytical procedures over internal data to assess the appropriateness of the staging of restructured loans, credit impaired loans, loans modified during the year, and loans with increases in days past due at the reporting date.
- We selected a sample of collateralized loans, and obtained the latest appraisal report. We assessed whether the estimation approach for the collateral is in line with the requirements of IFRS 9, and the appraised value when compared to other comparable assets, is considered

We engaged our KPMG credit specialists, to assist us in performing the procedures below:

Assessed the theoretical soundness and appropriateness of the methodology of the Loans ECL models with respect to the models' design and objective. Models with higher estimation uncertainty evaluated by our credit specialists include (PD, SICR, LGD, IRR and FLI). Performed a walkthrough of the Loans ECL model inputs, outputs and processes.

Executed a supervised replication that generates model parameters to calculate the model outputs and Loans ECL results. Performed an evaluation of the Bank's methodology used to calculate its ECL and to assess the

appropriateness of the methodology and all final parameters including the final calculation, the PD, the PGD, EAD, expected lifetime of credit facilities, SICR, effective interest rate and FLI. Performed a retrospective evaluation of the 12-month PD for the period 2018 to 2022 to identify bias in management's assumptions underlying the estimates for the loans ECL and analyzed the ECL model's predictive power.

## Impairment assessment of investments carried at amortized cost (see notes 8 & 24)

Description of key addit matter	now the matter was addressed in our addit
As at December 31, 2022, Investments carried at amortized cost ("Investments"), comprise 39.29% of the Group's total assets, with total gross investments carried at	As part of our procedures, we performed the following:
amortized cost of \$723.60 million and the related expected credit loss ("ECL") impairment allowance of \$3.24 million.	<ul> <li>Updated our understanding of the methodology, model and assumptions used in the calculation of the Loans ECL.</li> </ul>
	- For adjustments identified, we tested controls over the review and approval of the adjustments b
Key judgments and estimates driving higher degrees of estimation uncertainty in	those charged with governance.
respect to the ECL on investments carried at amortized cost are summarized below:	<ul> <li>On a sample basis, we tested the accuracy of key data inputs through direct confirmation wit external parties and with internal information obtained from the Bank (investment balance</li> </ul>
- I GD model: To determine an appropriate I GD for Bahamas' sovereign exposures the	contractual maturities interest rates) used in in the Investments FCL calculation

Group analyzed actual losses experienced in recent debt restructurings of various Caribbean nations. Management applied a weighting mechanism for best, base and worst case scenarios. Given the very limited data on sovereign recovery rates, the estimates used to determine the LGD for Bahamas sovereign exposures are highly

- · <u>SICR:</u> The selection of criteria for identifying SICR is internally developed and highly dependent on judgement and may significantly impact the Investments ECL.
- <u>FLI:</u> Significant judgement is considered when selecting macroeconomic forecasts. Such macroeconomic factors are used to calculate the Investment ECL under multiple probability weighting scenarios.

Given the level of significant management judgements involved in determining the LGD and FLI models for the Investments carried at amortized cost and considering the Investments ECL is material to the consolidated financial statements as whole we deem

## How the matter was addressed in our audit

facilities, SICR, discount rate and FLI.

We engaged our KPMG credit specialists, to assist us in performing procedures below:

Assessed the theoretical soundness and appropriateness of the methodology of the Investments ECL models with respect to the models' design and objective. Models with higher estimation uncertainty evaluated by our credit specialists include (LGD, SICR and FLI).

- Challenged management's assumptions used in determining the LGD for the Government of the
- Bahamas' Sovereign instruments and applied benchmarking analysis.
- Performed a walkthrough of the Investments ECL model inputs, outputs and processes. Performed an evaluation to assess the appropriateness of the methodology and all final parameters including the final calculation, the PD, LGD, EAD, expected lifetime of investment

# this a key audit matter.

Other Information Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements and our auditors' report thereon

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

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

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

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

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

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

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

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

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

#### Independent Auditors' Report (continued)

#### Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

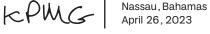
- · Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk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

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

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

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

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



#### **Commonwealth Bank Limited**

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

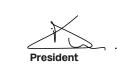
As at December 31, 2022, with corresponding figures as at December 31, 2021 (Expressed in Bahamian \$000s)

	2022	2021	
Assets			
Cash and deposits with banks	\$ 264,223	\$ 192,458	
Investments, net	729,036	698,857	
Loans and advances to customers, net	786,245	767,541	
Other assets	7,985	9,680	
Right of use assets	1,182	1,301	
Premises and equipment	44,558	47,068	
Total Assets	\$ 1,833,229	\$ 1,716,905	
Liabilities and Equity			
Deposits from customers	\$ 1,513,397	\$ 1,462,218	
Life assurance fund liability	581	1,011	
Lease liabilities	1,242	1,369	
Other liabilities	 30,215	13,816	
Total liabilities	 1,545,435	1,478,414	_
Equity			
Share capital	1,951	1,946	
Share premium	13,544	11,667	
Retained earnings	 272,299	224,878	
Total equity	287,794	238,491	
Total Liabilities and Equity	\$ 1,833,229	\$ 1,716,905	

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

These consolidated financial statements were approved by the Board of Directors on April 26,2023 and are signed on its behalf by:





## Commonwealth Bank Limited

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended December 31, 2022, with corresponding figures for 2021 (Expressed in Bahamian \$000s)

2022 2021 Income Interest income, effective interest rate method \$ 120,224 132,591 (17, 254)(17, 105)Interest expense 102,970 115,486 Net interest income Credit life insurance premiums 4,639 4,159 Fees and other income 24,547 20,432 Net change in unrealised gain on equity investment at FVTPL 629 Total other income 29,815 24.643 Total income 132,785 140,129 Non-interest evnense

Non-interest expense		
General and administrative	77,830	67,794
Impairment (reversals) losses on financial assets	(27, 294)	93,001
Insurance claims	2,200	4,538
Change in insurance reserves	(430)	(1)
Depreciation on right of use assets	586	661
Other depreciation	3,603	3,700
Finance cost on lease liabilities	51	149
Loss on disposal of premises and equipment	10	12
Directors' fees	308	282
Total non-interest expense	56,864	170,136

75,921 \$ (30,007)

## Other comprehensive income

**Total profit (loss)** 

Items that will not be reclassified subsequently to profit or loss:

Remeasurement of defined benefit obligation	766	9
Total comprehensive income (loss)	\$ 76,687	\$ (29,998)
Earnings (loss) per common share		
(expressed in dollars)	\$ 0.26	\$ (0.10)

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

#### **Commonwealth Bank Limited**

**Consolidated Statement of Changes in Equity** 

As at December 31, 2022, with corresponding figures as at December 31, 2021 (Expressed in Bahamian \$000s)

	2022					
		re Capital ommon)	Share Premium	Retained Earnings		Total
As at December 31, 2021	\$	1,946	\$ 11,667	\$ 224,878	\$	238,491
Comprehensive income						
Total profit		-	-	75,921		75,921
Remeasurement gain of						
defined benefit obligation		-	-	766		766
		-	-	76,687		76,687
Transaction with owners						
Repurchase of common share	es	(3)	(1,119)	-		(1,122)
Sale of treasury shares		8	2,996	-		3,004
Dividends - common shares		-	-	(29, 266)		(29, 266)
		5	1,877	(29, 266)		(27,384)

As at December 31, 2022 \$ 1,951 \$ 13,544 \$ 272,299 \$

Dividends per share \$0.10

(expressed in dollars)

2021

				2021			
		Share Capital (Common)		Share Premium	Retained Earnings		Total
As at December 31, 2020	\$	1,918	\$	1,048	\$ 266,453	\$	269,419
Comprehensive loss							
Total loss		-		-	(30,007)		(30,007)
Remeasurement gain of							
defined benefit obligation		-		-	9		9
		-		-	(29,998)		(29,998)
Transaction with owners	_						
Repurchase of common shar	es	(1)		(257)	-		(258)
Sale of treasury shares		29		10,876	-		10,905
Dividends - common shares		-		-	(11,577)		(11,577)
		28		10,619	(11,577)		(930)
As at December 31, 2021	\$	1,946	\$	11,667	\$ 224,878	\$	238,491

Dividends per share \$0.04 (expressed in dollars)

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

### **Commonwealth Bank Limited**

**Consolidated Statement of Cash Flows** 

Year ended December 31, 2022, with corresponding figures for 2021 (Expressed in Bahamian \$000s)

2021 2022 Cash flows from operating activities \$ 75,921 \$ (30,007)Total profit (loss) Adjustments for: Depreciation on right of use assets 586 661 Other depreciation 3,603 3,700 Finance cost on lease liabilities 51 149 Impairment (reversals) losses on financial assets (27, 294)93,001 (120, 224)(132.591)Interest income 17,254 17,105 Interest expense 10 Loss on disposal of premises and equipment 12 Net change in unrealised gain on equity investment at FVTPL (629)(52)(50,722)(48,022)4.893 Change in loans and advances to customers 5,124 Change in minimum reserve requirement (1,673)(1,931)2 691 Change in restricted deposit Change in right of use assets and other assets 1,994 13,189 Change in lease liabilities and other liabilities 16,859 (3,284)(430)Change in life assurance fund liability (1) 37,023 Change in deposits from customers 48,443 124,307 164,068 Interest received (7,820)Interest paid (14,518)129,384 Net cash from operating activities 160,806 Cash flows from investing activities (960,838)(951, 132)Purchase of investments Redemption of investments 930,670 716,778 (7,186)Purchases of premises and equipment (1,212)Proceeds from sale of premises and equipment 109 31 (241,509) (31, 271)Net cash used in investing activities Cash flows from financing activities

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

(29, 266)

(1, 122)

3,004

(638)

(28,022)

70,091

135,132

205,223

(11,577)

10,905

(258)

(742)

(1,672)

(82,375)

217,507

135,132

## Commonwealth Bank Limited

Repurchase of common shares

Net cash used in financing activities

Cash and cash equivalents, end of year

Net increase (decrease) in cash and cash equivalents

Cash and cash equivalents, beginning of year

Payment of lease liabilities

Dividends paid

Sale of treasury

**Notes to Consolidated Financial Statements** 

which are expressed in Bahamian \$000s)

Year ended December 31, 2022, with corresponding figures as at and for the year ended December 31, 2021 (All amounts stated as actual amounts, except tabular amounts

## 1. BASIS OF PREPARATION

The accompanying consolidated financial Information is an extract from the consolidated financial statements of Commonwealth Bank Limited as at December 31. 2022 and for the year then ended, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and is used to submit to the Group's regulators.

The auditors' report included herewith should be read in conjunction with the full set of consolidated financial statements, which can be obtained from Commonwealth Bank Limited's website www.combankltd.com

