



BERMUDA COMMERCIAL BANK

Financial Results for the Three Months Ended December 31, 2013



NOTICE TO READERS

This report has been prepared for the three month period ended December 31, 2013 and is current as at February 27, 2014. This report should be read in conjunction with the accompanying interim financial statements for the three months ended December 31, 2013.

Chairman's Report

The Bank recorded a profit of \$4.29 million for the December 31, 2013 quarter compared with a profit of \$4.39 million for the quarter ended December 31, 2012. Total revenues for the period were \$9.69 million compared to \$9.06 million in the prior year period.

INTEREST INCOME

Interest income for the quarter was \$5.83 million up from \$4.33 million last year due to a larger balance sheet following a 12% annual increase in customer deposit balances. Interest on loans accounted for the majority of the increase - the Bank recorded an increase in interest income on its loan portfolio following an increase in year-on-year average loan levels and increased average interest yields on these loans. Additionally, we now classify our asset backed loan notes as loans and advances following our discontinuation of the held-to-maturity accounting classification.

Interest expense increased to \$0.98 million from \$0.91 million in the comparative quarter. This increase resulted from a slightly higher average interest rate on the Bank's term deposits.

NON-INTEREST INCOME

Total non-interest income was \$4.85 million for the quarter compared with \$5.63 million in 2012. This change resulted primarily from gains, hedging and prior period impairments on the Bank's financial Investments with underlying revenues showing a year on year improvement.

Fees and commissions increased to \$1.34 million for the quarter from \$1.05 million a year earlier primarily due to non-recurring items in the December 2012 quarter along with increases in trust and corporate secretarial fees.

The Bank incurred foreign exchange and other hedging costs of \$1.46 million for the quarter primarily in relation to our investment portfolio. This compares to a gain of \$0.41 million in the prior year. In order to manage risk within the Bank's investment portfolio, BCB operates a strategy utilising equity indices put options. Due to the positive performance of the market, the Bank recorded a loss for the quarter on these indices options. This loss partially offset the strong realised gain recorded during the quarter on the Bank's investment portfolio and the additional unrealized gains recorded within equity.

Gains from the sale of financial investments were \$4.63 million for the quarter compared to gains of \$5.10 million last year. As part of BCB's risk and liquidity management process, portfolio securities are sold from time to time resulting in gains and losses for the Bank. With the Bank's investment portfolio performing strongly most sales during this quarter and the prior year quarter resulted in solid gains for the Bank. While welcome, these gains have inflated both the Bank's current and prior year quarterly revenues over normal expected levels.

The Bank recorded no impairment losses on financial investments during the current quarter. Impairment losses of \$1.16 million were recorded in the prior year quarter.

EXPENSES

Payroll costs for the quarter were \$2.82 million compared with \$2.86 million in the prior year. This decrease occurred despite increased employee numbers due to larger variable compensation costs in the prior year quarter.

General and administrative expenses at \$2.38 million increased relative to 2012 (\$1.60 million) due to higher performance linked expenditure. Following the annualised growth of our investment portfolio, as well as increased

management and reporting requirements, investment advisory fee costs increased to \$1.10 million from \$0.37 million one year ago. The majority of this increase, \$0.79 million (2012: \$Nil), consisted of performance fees payable to the Bank's investment adviser, ICM Limited, following the strong performance of the Bank's investment portfolio.

FINANCIAL POSITION

All changes in financial position are made in reference to the Bank's last audited financial statements as at September 30, 2013.

ASSETS

Total assets were \$642.70 million at December 31, 2013 up from \$591.67 million at September 30, 2013 due to increased customer deposit balances.

Cash and term deposits increased to \$259.43 million from \$192.61 million at September 30, 2013. This increase mirrored the increase in customer deposit balances which were predominantly short term in nature and therefore matched with corresponding short term high quality interbank deposits.

Investment securities at \$252.07 million remained at similar levels to September 2013 (\$252.61 million). The Bank's financial investment portfolio consists of corporate debt securities, debt securities issued by banks, asset-backed securities along with a lesser percentage of equities and portfolio funds. Within each category, securities are heavily diversified across industry, currency, and jurisdiction. During the quarter \$20.0 million of short dated US Treasuries matured and were offset by net purchases of other securities and a \$6.55 million improvement in market valuations. The Bank's strategy continues to encompass a low risk balance sheet with future changes in the level of financial investments driven by the deposit activities of our customer base.

Loans and advances were \$72.70 million at December 31, 2013 down from \$78.05 million at year-end with the decrease resulting from the sale of asset backed loan notes during the quarter. The Bank's portfolio of customer loans and overdrafts remained broadly similar to the prior quarter.

Receivables from related parties showed a quarter on quarter reduction following payments to the Bank post fiscal year-end.

Other balance sheet assets remained at similar levels to September 2013.

LIABILITIES

Total customer deposit balances increased to \$515.46 million from \$467.50 million at September 30, 2013. The majority of this increase resulted from short-term transactional deposits. However excluding these short-term funds the Bank still recorded improvements in its customer position as measured by its key customer performance metrics - customer numbers and customer concentration.

Other balance sheet liabilities remained at similar levels to September 2013.

CAPITAL

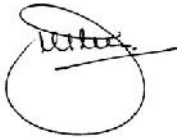
The Bank's capital position increased to \$117.80 million at December 31, 2013 from \$109.46 million at September 30, 2013. This improvement resulted from a \$6.55 million unrealised mark to market gain on the Bank's investment securities portfolio along with \$1.79 million of retained profits for the quarter.

The Bank's regulatory capital ratio was 20.36% at December 31, 2013 while the tier one ratio was 21.73%. The Bank's total risk weighted assets were \$428.71 million. BCB maintained its extremely conservative 'risk asset' leverage ratio of less than 4:1 comparing favourably to industry averages of more than 12:1 and the Bank's proforma Basel III leverage ratio of approximately 18% is also significantly stronger than global standards.

OUTLOOK

The Bank seeks to consistently grow its capital base and to strengthen the depth and diversity of our deposit base. We are also in the process of strengthening our management team by the addition of a number of key roles. We believe these steps along with our consistently strong leverage ratios will lead to a greater market share and growth in long term sustainable earnings. We achieved these goals this quarter and by adhering to our conservative growth model we hope to continue these gains into the future.

I would like to thank our shareholders and clients for their continued support. I would also like to express my appreciation to our dedicated staff and management for their on-going commitment and contribution to the success of the Bank.

A handwritten signature in black ink, appearing to read "J. Michael Collier", is written over a circular stamp or seal.

J. Michael Collier, JP
Chairman

February 27, 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(expressed in United States dollars - unaudited)

Assets	DEC 31, 2013	SEP 30, 2013*
Cash and term deposits:		
Due on demand	\$ 61,153,099	\$ 37,571,268
Term deposits	198,280,632	155,043,268
Total cash and term deposits	259,433,731	192,614,536
Receivable from a related party	10,870,409	21,412,350
Derivative financial instruments	1,689,500	4,173,271
Interest receivable	3,494,403	3,940,765
Other assets	13,097,180	9,352,690
Investment securities	252,069,217	252,613,417
Loans and advances to customers	72,695,005	78,049,354
Investment in an associate	18,845,715	18,795,921
Property and equipment	3,445,754	3,526,583
Goodwill and other intangible assets	7,063,672	7,194,752
Total assets	\$ 642,704,586	\$ 591,673,639
Liabilities		
Deposits:		
Demand deposits	\$ 320,504,682	\$ 258,040,418
Term deposits	194,955,987	209,462,667
Total deposits	515,460,669	467,503,085
Derivative financial instruments	2,239,739	6,582,691
Interest payable	4,105,467	3,821,665
Customer drafts payable	713,136	2,173,421
Other liabilities	2,383,679	2,129,497
Total liabilities	\$ 524,902,690	\$ 482,210,359
Equity		
Capital stock	\$ 16,807,963	\$ 16,807,963
Share premium	22,131,188	22,131,188
Reserves	16,991,985	10,444,463
Share of other comprehensive income of an associate	(404,716)	(404,716)
Retained Earnings	62,275,476	60,484,382
Total equity	117,801,896	109,463,280
Total liabilities and equity	\$ 642,704,586	\$ 591,673,639

*Audited

CONSOLIDATED STATEMENT OF INCOME

(expressed in United States dollars - unaudited)

Income	For the three months ended	
	DEC 31, 2013	DEC 31, 2012
Interest income:		
Cash and term deposits	\$ 31,321	\$ 87,509
Money market funds	-	51,866
Loans and advances to customers	1,492,666	110,046
Financial investments	4,301,380	4,084,781
Total interest income	5,825,367	4,334,202
Interest expense	(984,014)	(905,967)
Net interest income	4,841,353	3,428,235
Fees and commissions (Note 8)	1,344,337	1,045,852
Net exchange gains (losses)	(170,238)	199,131
Hedging of investment securities	(1,288,190)	211,238
Dividend income	268,712	153,001
Gain from sale of financial investments	4,625,789	5,102,784
Impairment losses on financial investments	-	(1,160,184)
Share of profit of an associate	49,794	59,450
Other operating income	23,312	20,719
Total income	9,694,869	9,060,226
Expenses		
Salaries and employee benefits	2,817,880	2,862,775
Depreciation	78,570	79,857
Amortisation	131,492	132,075
General and administrative expenses	2,375,833	1,599,266
Total expenses	5,403,775	4,673,973
Net income	\$ 4,291,094	\$ 4,386,253

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(expressed in United States dollars - unaudited)

Income	For the three months ended	
	DEC 31, 2013	DEC 31, 2012
Net income for the period	\$ 4,291,094	\$ 4,386,253
Other comprehensive income:		
Net gain on financial investments	11,173,311	8,920,874
Reclassification of gains realised in income	(4,625,789)	(2,794,267)
Other comprehensive income	6,547,522	6,126,607
Total comprehensive income	\$ 10,838,616	\$ 10,512,860

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended December 31, 2013 (expressed in United States dollars - unaudited)

	CAPITAL STOCK		SHARE PREMIUM		RESERVES		SHARE OF OTHER COMPREHENSIVE INCOME OF AN ASSOCIATE		RETAINED EARNINGS		TOTAL	
October 1, 2012	\$	16,807,963	\$	22,131,188	\$	8,260,549	\$	77,213	\$	57,479,154	\$	104,756,067
Total comprehensive income						6,126,607				4,386,253		10,512,860
Dividends (Note 7)										(3,000,000)		(3,000,000)
Net purchase of treasury stock												-
December 31, 2012	\$	16,807,963	\$	22,131,188	\$	14,387,156	\$	77,213	\$	58,865,407	\$	112,268,927
October 1, 2013	\$	16,807,963	\$	22,131,188	\$	10,444,463	\$	(404,716)	\$	60,484,382	\$	109,463,280
Total comprehensive income						6,547,522		-		4,291,094		10,838,616
Dividends (Note 7)										(2,500,000)		(2,500,000)
Net purchase of treasury stock												-
December 31, 2013	\$	16,807,963	\$	22,131,188	\$	16,991,985	\$	(404,716)	\$	62,275,476	\$	117,801,896

CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended December 31, 2013 (expressed in United States dollars - unaudited)

Operating activities	DEC 31, 2013	DEC 31, 2012
Net income	\$ 4,291,094	\$ 4,386,253
Adjustments to reconcile net income to cash flows used in operating activities:		
Depreciation	78,570	79,857
Amortisation	131,492	132,075
Share of profit of an associate	(49,794)	(59,450)
Gain on sale of investment securities	(4,625,789)	(5,102,784)
Increase in derivative financial instruments	(1,859,181)	(1,887,596)
Impairment losses on financial investments	-	1,160,184
Decrease in receivable from related parties	10,541,941	-
Decrease in interest receivable	446,362	1,577,336
(Increase) decrease in other assets	(3,744,490)	1,673,215
Increase in interest payable	283,802	221,653
(Decrease) increase in customer drafts payable	(1,460,285)	2,694,821
Increase in other liabilities	254,182	246,026
Net cash provided by operating activities	4,287,904	5,121,590
Investing activities		
Net decrease (increase) in loans and advances to customers	5,354,349	(3,367,652)
Proceeds from sale of investment securities	52,053,259	64,543,791
Purchases of investment securities	(40,335,748)	(58,560,708)
Disposal (purchases) of property and equipment	2,259	(28,075)
Purchases of goodwill and other intangible assets	(412)	(90,772)
Net cash provided by investing activities	17,073,707	2,496,584
Financing activities		
Net increase in deposits	47,957,584	12,235,844
Dividends paid	(2,500,000)	(3,000,000)
Net cash provided by financing activities	45,457,584	9,235,844
Net increase in cash and cash equivalents	66,819,195	16,854,018
Cash and cash equivalents, beginning of period	192,614,536	226,914,057
Cash and cash equivalents, end of period	\$ 259,433,731	\$ 243,768,075

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended December 31, 2013 (expressed in United States dollars - unaudited)

1. Basis of Preparation

These interim consolidated financial statements for the three month period ended December 31, 2013 have been prepared in accordance with International Accounting Standards (IAS 34), Interim Financial Reporting.

These interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Bank's annual financial statements for the year ended September 30, 2013.

The Bank's interim results are not materially affected by seasonal factors.

2. Significant Accounting Policies

The accounting policies used in the preparation of these interim consolidated financial statements are consistent with those used in the Bank's annual financial statements for the year ended September 30, 2013.

3. Cash and Term Deposits

Cash and term deposits include:

	DEC 31, 2013	SEP 30, 2013*
Cash and demand deposits	\$ 61,153,099	\$ 37,571,268
Term deposits:		
Deposits maturing - within 1 month	198,280,632	155,043,268
Deposits maturing - 1-3 months	-	-
Deposits maturing - 3-12 months	-	-
Total Term Deposits	198,280,632	155,043,268
Total	\$ 259,433,731	\$ 192,614,536

* Audited

4. Investment securities

Available-for-sale investment securities

The fair values of available-for-sale investment securities by major classifications of investment securities were as follows:

	DEC 31, 2013	SEP 30, 2013*
Debt securities issued by banks	\$ 44,795,535	\$ 40,336,900
Government debt securities	631,566	20,683,157
Corporate debt securities	129,178,900	114,821,553
Asset-backed securities	31,679,864	36,636,969
Equities	22,129,969	17,543,985
Portfolio funds	23,653,383	22,590,853
	\$ 252,069,217	\$ 252,613,417

* Audited

5. Loans and Advances to Customers

Loans and advances to customers and the allowance for loan losses at December 31, 2013 were as follows:

	DEC 31, 2013			SEP 30, 2013*		
	GROSS	ALLOWANCE	NET	GROSS	ALLOWANCE	NET
Commercial overdrafts	\$ 19,823,984	\$ -	\$ 19,823,984	\$ 15,025,797	\$ -	\$ 15,025,797
Commercial loans	52,255,485	-	52,255,485	62,423,256	-	62,423,256
Consumer mortgage loans	417,141	50,000	367,141	411,887	50,000	361,887
Credit cards	164,715	-	164,715	192,700	-	192,700
Others	83,680	-	83,680	45,714	-	45,714
Total	\$ 72,745,005	\$ 50,000	\$ 72,695,005	\$ 78,099,354	\$ 50,000	\$ 78,049,354

Allowance for loan losses consists of:

	DEC 31, 2013	SEP 30, 2013*
Balance at beginning of period	\$ 50,000	\$ 50,000
Credit loss during the period	-	-
Credit loss recovery during the period	-	-
	\$ 50,000	\$ 50,000

* Audited

6. Deposits

	DEC 31, 2013	SEP 30, 2013*
Demand deposits	\$ 320,504,682	\$ 258,040,418
Term deposits:		
Deposits maturing - within 1 month	52,882,488	70,858,634
Deposits maturing - 1-3 months	26,960,979	28,581,571
Deposits maturing - 3-12 months	51,304,074	43,554,267
Deposits maturing - 1-5 years	63,808,446	66,468,195
	194,955,987	209,462,667
Total	\$ 515,460,669	\$ 467,503,085

* Audited

7. Dividends

Dividends on ordinary shares declared and paid during the three month period:

2014: \$2,500,000 (2013: \$3,000,000)

8. Fees and Commissions

	For the three months ended	
	DEC 31, 2013	DEC 31, 2012
Corporate services	\$ 733,227	\$ 623,145
Trust	464,951	395,813
Banking services	146,159	26,894
	\$ 1,344,337	\$ 1,045,852

9. General and Administrative Expenses

	For the three months ended	
	DEC 31, 2013	DEC 31, 2012
Rent and premises	\$ 231,868	\$ 206,490
Advertising and marketing	63,304	129,108
Professional fees	157,700	62,684
Information technology and systems	235,651	167,762
Banking services and license	179,415	191,774
Investment advisory fees	1,097,534	365,000
Board costs	48,351	48,351
Administrative	362,010	428,097
	\$ 2,375,833	\$ 1,599,266

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