BASEL III, PILLAR 3 DISCLOSURES

Bermuda Commercial Bank Limited | March 31, 2019

BCB®

Bermuda Commercial Bank Limited

Table of Contents

Introduction

Background

The disclosure and analysis provided in this document relate to Bermuda Commercial Bank Limited ("BCB" or "the Bank") which is incorporated in the island of Bermuda as a limited liability company. It is intended to be read in conjunction with the relevant Annual Audited Financial Report which includes important details about the Bank's capital adequacy, risk management, and other information. The disclosures are prepared on a consolidated group basis.

BCB's accounting policies conform to International Financial Reporting Standards ("IFRS").

The Bank has a banking licence under the Bank and Deposit Companies Act, 1999. These disclosures are solely in the context of the local regulatory requirements and guidelines provided by the Bermuda Monetary Authority ("BMA" or "Authority") under Pillar 3 "Market Discipline of New Capital Adequacy Framework". The Pillar 3 disclosures have been designed to complement the minimum capital requirements in Pillar 1 as well as the Supervisory Review and Evaluation Process in Pillar 2. The accepted aim of Pillar 3 is to promote market discipline by allowing market participants access to information of risk exposures and risk management policies and processes adopted by the Bank.

Frequency

The disclosures in this report are required to be updated on a semi-annual basis and more frequently if significant changes to policies are made. This report has been updated as at March 31, 2019 and policies disclosed within are effective at this time. All disclosures are published semi-annually in conjunction with BCB's annual (September 30) financial reporting processes.

Report Conventions

The disclosures in this report have not been audited by an external auditor and there is no requirement for this to be done. However, the disclosures have been prepared on a basis consistent with information submitted to the Authority and at the same level of internal review and internal control process as information provided in the Bank's financial statement reporting.

Basel II & Basel III

Until the end-December 2015, Bermuda Banks were required to follow the Basel II capital adequacy framework, and since 1st January, 2016 the Bank has adopted the Basel III framework, of which this disclosure forms a part. This incorporates transitional arrangements until full implementation in 2019. These reforms strengthen capital and liquidity rules with the goal of promoting a more resilient banking sector that is able to absorb shocks arising from economic and financial stress.

BCB monitors its capital position against the Basel III framework and all businesses are operating cognisant of this. New transactions at BCB are also now evaluated on a fully implemented Basel III basis. Basel III seeks to raise the quality, consistency and transparency of the capital base, limit the build-up of excess leverage and increase capital requirements for the banking sector. Basel III adopts Common Equity Tier 1 ("CET1") capital as the predominant form of regulatory capital as measured by the CET1 ratio. The BMA requires Bermuda Banks to maintain a CET1 ratio of at least 7.0% of its Risk Weighted Assets ("RWA"), which is inclusive of a minimum CET1 ratio of 4.5% and a capital conservation buffer of 2.5%. Basel III also introduced the following additional requirements:

- Counter-cyclical buffer of up to 2.5% composed of CET1-eligible capital may be implemented by the BMA when macroeconomic indicators provide an assessment of excessive credit or other pressures building in the banking sector, potentially increasing the CET1, Tier 1 and total capital ratios by up to 2.5%. No Counter-cyclical buffer has been implemented to date;

- Net Stable Funding Ratio ("NSFR") with a minimum requirement of 100%, with implementation effective for Bermuda banks from 1 January 2018.

The Basel III rules also address the areas of Leverage and Liquidity.

The Authority has adopted a minimum 5% Leverage Ratio calculated as the ratio of Tier 1 Capital to Total Exposure. The BMA requires Bermuda Banks to maintain Tier 1 capital of at least 8.5% of RWA, inclusive of a minimum Tier 1 ratio of 6% and a capital conservation buffer of 2.5%. The BMA also requires Bermuda Banks to maintain Total capital of at least 10.5% of RWA, inclusive of a minimum total capital ratio of 8% and a capital conservation buffer of 2.5%. The Bank is currently in excess of this requirement.

The Authority adopted the Liquidity Coverage Ratio ("LCR") implementation timetable consistent with that published by the Basel Committee beginning on 1st January 2015, with a minimum requirement of 60% rising in equal annual steps to reach 100% on 1st January 2019 which is the present required minimum. The LCR is designed to ensure that banks have a sufficient stock of unencumbered High-Quality Liquid Assets ("HQLA") to survive a significant liquidity stress scenario lasting 30 days. The LCR is calculated as HQLA divided by total net cash outflows over the period of the next 30 days. Total net cash outflows are calculated in accordance with rules prescribed by the BMA. The Bank is compliant with the LCR 100% ratio requirements.

BCB has adopted the Basic Indicator Approach as being most appropriate for the scale and scope of the Bank's operations. Accordingly, the Bank has agreed its Capital Adequacy and Risk Profile ("CARP") document with the BMA. BCB's position at March 31, 2019 exceeds the Basel Committee's 2019 fully implemented Basel III requirements, i.e. minimum ratios plus capital conservation buffer.

Overview of the Bank

Bermuda Commercial Bank Limited ("BCB" or the "Bank") began by an Act of Parliament in February 1969. The Bank operated under the management of Barclays from its inception until May 1993. A decision was made by Barclays to sell its minority shareholdings world-wide in the early 1990's and this set the stage for the Bank to acquire a new shareholder who would bring a new focus and direction.

In April 2010, the majority shareholding in the Bank was purchased by an investor group through Permanent Investments Limited ("Permanent"). In October 2011, BCB expanded its trust and corporate administration services business through the acquisition of two established Bermuda companies. This was consistent with the Bank's strategic objectives and overall business goals of creating a full-service financial services institution in Bermuda.

In October 2012, as part of a strategic restructuring, BCB merged with BNL I Limited, a wholly owned subsidiary of Somers Limited ("Somers", formally known as "Bermuda National Limited" or "BNL"), resulting in BCB becoming a wholly-owned subsidiary of Somers. BCB delisted from the Bermuda Stock Exchange ("BSX").

In November 2015, BCB implemented a state-of-the-art core banking system, along with a suite of products, including internet banking, This allowed the Bank to grow its channel offerings and business lines, as well as providing better reporting and analysis. It also improved the Bank's exceptional customer service. In June 2016, the BCB Group of Companies moved into a new location at 34 Bermudiana Road.

In September 2015, BCB announced the acquisition of PCF Group plc, formerly known as Private and Commercial Finance Group plc ("PCFG"), a UK-based finance house quoted on the AIM stock exchange with a focus on vehicle financing in the business and consumer sectors. In 2016, PCFG became a licensed bank in the UK and continued to be a subsidiary of BCB until June 2018.

In 2019, BCB celebrates its 50-year anniversary of providing banking services to Bermuda and internationally.

The management of risk is an important criterion to all users of financial services. The Bank has established a policy of managing its risk by following a conservative policy in balance sheet management. The Bank maintains a conservative leverage ratio, strong liquidity and follows other principles and policies on risk management which are aligned to BMA regulations.

Scope of Application

The capital adequacy framework implemented in Bermuda and these disclosures apply to BCB and its subsidiaries.

BCB is incorporated in Bermuda with limited liability. The Bank has a number of wholly-owned and controlled subsidiaries. These subsidiaries are subject to consolidation requirements under IFRS and under the capital adequacy framework.

Directly-owned Subsidiary Undertakings

Name	Location
BCB Charter Corporate Services Limited	Bermuda
BCB Paragon Trust Limited	Bermuda
BCB Asset Management Limited	Bermuda
BCB Management Limited	Bermuda
BCB Management Services Limited	Bermuda
Bercom Nominees Limited	Bermuda
VT Strategies Holdings Limited	Bermuda

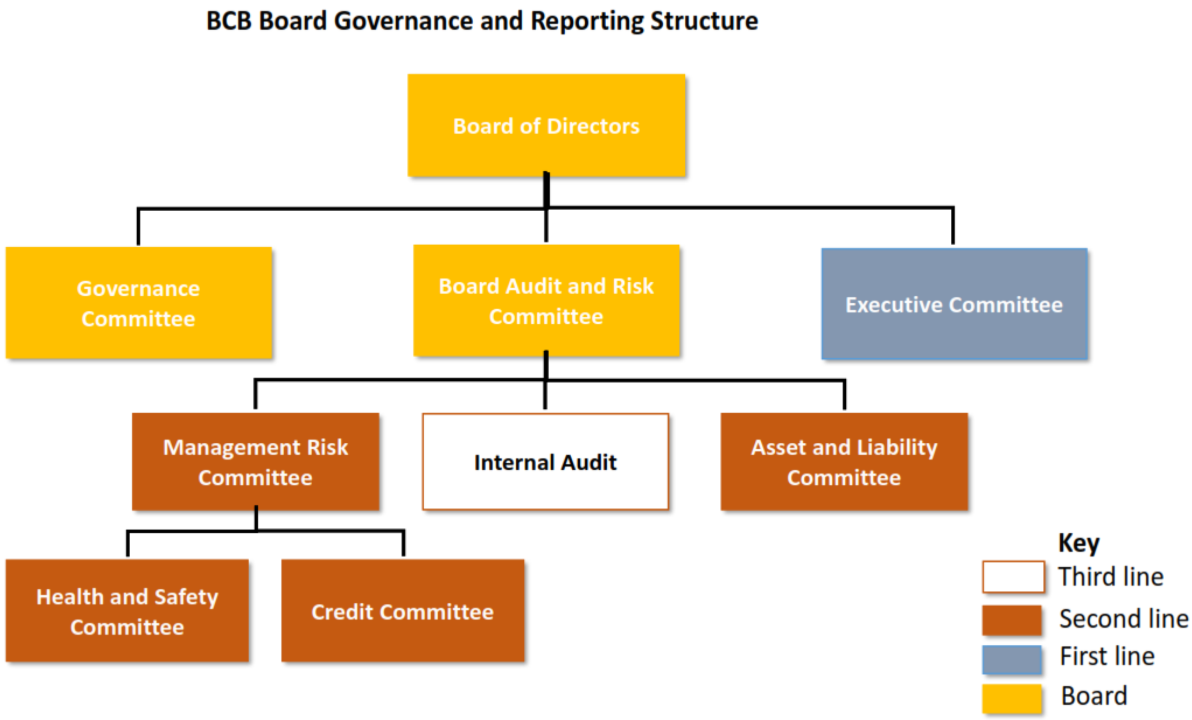
As at March 31, 2019, all subsidiaries were wholly-owned by BCB, and included in the Bank's consolidated financial statements.

The Bank and its subsidiaries ("Group") are subject to annual audit, on a consolidated basis, by an external audit firm and the Annual Consolidated Financial Report is published in hard copy and is also available on the BCB website. Further, in respect to various statutory licenses the Bank and its subsidiaries are subject to supervisory oversight and onsite inspection by the BMA.

Risk Management Objectives and Policies

Governance

The management of risk is core to the Bank's activities and its governance structure ensures oversight on an enterprise-wide basis consistent with sound risk management practices. The Board of Directors has overall responsibility for maintaining internal controls to ensure that effective risk management and oversight processes operate across the Bank. The Bank's Governance and Reporting structures are subject to ongoing assessment to ensure they are current and relevant for the risk profile of the Bank.



Board of Directors and Board Committees

The Bank Board is ultimately responsible for oversight of the Enterprise Risk Management Framework ("ERMF") for the Group, and its alignment with the organisation's objectives and strategies. The Bank Board's oversight responsibilities include understanding the Group's risk exposures, defining its risk appetite, and establishing risk measurement parameters that reflect its risk appetite. The Bank Board oversees Senior Management's implementation of an effective risk management function and internal control system and compliance with the Group's risk management policies by reviewing reports and holding discussions with Senior Management, auditors and other assurance providers on an ongoing basis. On a minimum quarterly basis, the measured performance against the approved Risk Appetite metrics are reported to the Management and Board Committees and ultimately to the Board, highlighting those risks that are in breach of agreed limits and status on action plans for any relevant remediation activity.

The Board of Directors is responsible for oversight of overall risk management and sets the level of risk tolerance through policy and approval of the Bank's Risk Appetite Statement. It delegates authority for implementing risk control activities to the following Board and Management Committees:

a. **The Board Audit and Risk Committee ("BARC")**

The BARC is a committee of the Board and is chaired by an independent director. The BARC has certain risk management oversight responsibilities including establishing the 'tone from the top', and setting the expectations and requirements for risk management. It is responsible for maintaining the reliability and integrity of financial reporting, maintaining adequate systems of internal controls, and the monitoring of compliance issues. In addition, it reviews the Bank's CARP document annually. The BARC also has responsibility over matters relating to the Group's risk exposure, including the definition, oversight, policy setting, measurement and risk mitigation strategies. The responsibility of the BARC covers all relevant matters pertaining to risk which are not covered and monitored by other Board Committees. The BARC quarterly meetings review a comprehensive pack containing detailed reporting received on capital, credit, risk, legal, internal audit and compliance activities throughout the Bank. The BARC is provided a status reporting on KPIs aligned with the Bank's Risk Appetite Statement.

b. **The Governance Committee ("GC")**

The Governance Committee is a committee of the Board of Directors and is chaired by an independent director. The GC is responsible for recruitment, retention decisions, remuneration and compensation decisions, *inter alia*. Its remit is to oversee all Human Resources matters, policies and procedures and any other matters concerning employees and management, including the appointment of members of the Board.

Both the BARC and GC are comprised of a combination of independent and non-independent members representing respective skill sets and experience, and with independent members representing the majority of each Committee. Each Committee reports to the Board of Directors on a minimum quarterly basis. The Group Board approves and reviews, at a minimum annually, Terms of Reference for such Committees.

Additionally, the Board of Directors of the Bank's licensed operating subsidiaries, which include BCB Paragon Trust Limited and BCB Charter Corporate Services Limited, report to the Bank's Board at least quarterly on the activities of those subsidiaries.

These Board Committees are supported by four management level risk committees: the Executive Committee, the Asset and Liability Committee, the Management Risk Committee and the Credit Committee, each of which has their own approved Charters.

The **Executive Committee ("EXCO")** is responsible for the oversight and management, including day-to-day operations and administration, of the Group, within the framework of the Group's policies, its terms of reference and such other directives as the Board may determine from time to time in line with role profiles.

The **Asset and Liability Management Committee ("ALCO")** is a management committee established to oversee the Asset and Liability Management ("ALM") of the Group which is defined in the Asset and Liability Management Policy. ALCO monitors asset deployment limits, including investment limits, in order to monitor and manage the exposure of the portfolio to liquidity, interest rate and currency risk, and to ensure that the assets in the Group's balance sheet are consistent with its risk appetite. The ALCO also provides oversight of the Bank's portfolio of financial assets. ALCO reports into the BARC.

The Management Risk Committee ("MRC") is a management committee established to discuss, identify, monitor, measure and manage risks across business units. The MRC is comprised of Executive and certain Senior Management of the Bank with Terms of Reference that outlines the membership, responsibilities of the Committee, and its operating characteristics. The MRC's activities are documented through the preparation of meeting minutes and actions. The MRC has also been delegated responsibilities including, but is not limited to: the reviewing of risk management reports articulating the Group's risk profile, including the monitoring of metrics in the Board-approved Risk Appetite Statement; receiving and reviewing updates on High and Medium-rated incidents and actions which have been identified to close control gaps; actively tracking new emerging risks to ensure that the Group is well placed to address these as they may arise; and approving risk policies and material changes to those policies. The MRC meets on a minimum quarterly basis and reviews a pack containing detailed reporting received on capital, credit, risk, legal and compliance activities throughout the Bank. MRC is provided a status reporting on Key Performance Indicators ("KPIs") aligned with the Bank's Risk Appetite Statement.

The **Credit Committee ("CC")** is a management committee established to provide authorisations as permitted and oversight of the Bank's credit portfolio. It also provides guidance in relation to the opening of new account relationships with the Bank and borrowing accounts. CC ensures credits are underwritten, reviewed and approved in accordance with the Group's Risk Appetite Statement and Credit policies at pricing commensurate with the level of risk. CC also recommends on provisioning levels for non-performing debts and for impaired investments.

Enterprise Risk Management ("ERM")

The Group has adopted the Three Lines of Defence Model which addresses how specific duties related to risk and control are assigned and coordinated. This ensures that responsibilities for managing risk are clearly articulated to all levels of the organisation. It also allows Senior Management a clear view to assess whether there are gaps in coverage or a duplication of effort in the management of risk.

The Bank has defined its approach in its Enterprise Risk Management Framework ("ERMF") which has been reviewed and approved by the Board.

The ERMF defines the Group's overarching risk framework that ensures an appropriate risk governance structure, disciplines and tolerances are in place to achieve its strategic and business objectives.

The key principles underlying the ERMF are:

- Promotion of a strong risk culture in which risks are identified, assessed and reported in a transparent, consistent, and objective manner. This is accomplished through the establishment and functioning of Group Board and Senior Management committees that have been tasked with overseeing the management of risk and establishing accountability and governance for managing risk within the Group;

- Alignment of the risks undertaken in pursuit of the Group's strategic and business objectives, through the Risk Appetite Statement and established risk tolerances;

- Rigorous assessment and measurement of risk, ensuring activities remain within the Group's approved risk appetite through an enterprise risk evaluation process;

- Effective communication and reporting of risk information, such as changes to the risk profile, culture and performance of the Group to demonstrate adequate governance; and

- Monitoring the risk profile of the Group, to ensure the components of an effective ERMF are functioning well over time.

This is based on the concept of Three Lines of Defence.

First Line of Defence (Risk Management by Business Functions)
The First Line of Defence encompasses the controls that the Group has in place to deal with day-to-day business and manages risks in the business, to pre-agreed tolerances or limits. It identifies, manages and monitors risk within each area of the business, reporting and escalating issues as necessary and evidences control.

Business lines (First Line) have primary responsibility for risk decisions, and establishing ownership for the identification, measurement, monitoring and control of risks within areas of accountability. They are required to establish effective governance, and control frameworks for their business areas which are compliant with Group policy requirements, to maintain appropriate risk management skills and processes to act within the Group's risk appetite parameters set and approved by the Board.

Second Line of Defence (Independent Risk Control)
The Second Line of Defence encompasses the risk oversight function, which is independent of the business and other functions. The second line supports a structured approach to risk management by maintaining and implementing the ERMF and Group-wide risk policies and monitoring their proper execution by the First Line of Defence. It also provides independent advice and oversight on risks relevant to the Group's strategy and activities, maintains an aggregate view of risk, monitors performance in relation to the Group's risk appetite, monitors changes in and compliance with external regulation and promotes best practice.

The Second Line of Defence reports systematically and promptly to the Board and Senior Management about risk management, in particular about perceived new risks or failures of existing controls.

Third Line of Defence (Audit & Governance)
Internal Audit provides independent assurance to the Board through BARC that the First and Second Lines of Defence are both effective in discharging their respective responsibilities. The use of independent compliance monitoring and risk reviews will provide additional support to the integrated assurance programme and ensures that the Group is effectively identifying, managing and reporting its risks.

Risk Identification, Measurement and Control
The process of identifying risk exposures is key to the success of the risk management process as all other elements of the process flow from this initial step. It is crucial, therefore, that a thorough process of risk identification is accomplished on a regular basis.

The process for risk identification, measurement and control is integrated into the overall framework for risk governance. Risk identification processes are forward-looking to ensure emerging risks are identified. Risks are captured in a comprehensive risk register and measured using robust and consistent quantification methodologies. The measurement of risks includes the application of sound stress testing and scenario analysis and considers whether relevant controls are in place before risks are incurred.

When risks have been identified and assessed, the relevant business areas determine an appropriate method for addressing the risks which have been identified.

The methods of assurance are summarised as follows:

- **Self-review**: line management periodically review processes, systems and activities to ensure that all risk management processes continue to be effective and appropriate;
- **Risk review and compliance monitoring**: the purpose is to confirm the continued effectiveness of the management of risk within the business. This includes identification of potential control failures;
- **Internal audit**: as part of an agreed audit programme, internal audit will provide the Group with risk based and timely assurance on important aspects of the group's risk management control frameworks and practices. It is the responsibility of all business heads to provide responses to audit findings that focus on addressing root causes within the agreed timescales; and
- **External audit**: external audit reviews provide stakeholders, the Board, the Audit & Risk Committee, business heads, staff and the risk function with an independent assurance over financial reporting.

Enterprise-wide risks

Enterprise-wide risks are those presenting the risk of a financial loss as a result of business activities. These types of risks are calculated and are driven by the Bank's strategy and appetite which are clearly defined and monitored to ensure performance between parameters the business deems acceptable. The following represent a list of the Bank's Enterprise-wide risks:

Risk Name	Definition
Credit and Counterparty risk	Credit risk is the probable risk of loss resulting from a borrower's failure to repay a loan or facility provided. Counterparty risk is the risk that the counterparty will not live up to their contractual obligations.
Market and Interest Rate Risk	Market Risk is the risk of loss in both on and off balance sheet positions arising from movements in market prices. Interest Rate Risk is the risk to earnings or capital arising from movements of interest rates.
Operational Risk	Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events, including legal risks. Operational Risks is an enterprise-wide risk, but has a subset taxonomy of its own.
Liquidity Risk	Liquidity risk is the risk that the Group is unable to meet short term financial demands. This usually occurs due to the inability to convert a security or hard asset to cash without a loss of capital and/or income in the process.
Funding Risk	The risk associated with the impact on a project's cash flow from higher funding costs or lack of availability of funds.
Regulatory Compliance	The risk to current or anticipated earnings or capital arising from violations of laws, rules, or regulations, or from nonconformance with prescribed practices, internal policies and procedures, or ethical standards.
Conduct Risk	The risk that the Group or its Employees conduct themselves in such a way that leads to fines or sanctions or attracts negative media attention to the Group, which leads to a reputational risk.
Capital Risk	Capital risk is the risk that the Bank breaches regulatory capital limits resulting in fines, sanctions or a restriction of its license by the BMA resulting in reputational risk to the Bank.
Strategic and Business risk	The risk that strategic business decisions prove to be ill founded or poorly executed; or that there is a failure to anticipate and react to changes in the general economic environment.
Reputational Risk	Reputational risk is the risk of loss resulting from damages to a firm's reputation, which may manifest in the inability to attract new business, lost revenue, increased operating, capital or regulatory costs, or the destruction of shareholder value.

Risk Management Measurement, Monitoring and Reporting

The process of measuring, monitoring and reporting certain risks is managed independently from business unit managers conducting risk taking activities as per the Three Lines of Defence Model outlined above. Monitoring and reporting on risk taking activities include the following:

- CC reviews credit risk management reports and monitors compliance with applicable limits. In addition, CC assists with the development of credit risk mitigation action plans and monitors their implementation, *inter alia*;
- MRC monitors the Group's operational risk exposures based on reports provided by businesses and functions and consistent with sound risk management practices. The MRC is responsible for

operational risk monitoring activities including compliance. The MRC activities include administration and facilitation of the annual risk assessments and operational risk exception analytics and reporting;

- ALCO reviews market risk management reports and monitors compliance with applicable limits. In addition, ALCO assists with the development of market risk mitigation action plans and monitors their implementation;
- BARC reporting is completed by the MRC who independently summarises and reports market, credit, operational and compliance risk results on a quarterly basis;
- Senior Management reports to the relevant Management and/or Board Committees, the Board, and to the BMA on various risk results including any non-compliance issues as and when identified;
- The Treasury Department is primarily responsible for day-to-day liquidity management, including liquidity risk measuring, monitoring and reporting; and
- Internal Audit performs independent audits of the risk management functions to ensure that risk management objectives are achieved. Any enterprise risk management deficiencies noted are reported to Senior Management and BARC. The Group may also periodically use independent consultants to assess the risk management governance structure and management processes.

In addition to the above, individual risk functions will have specific reporting requirements that are submitted to their relevant oversight committees. These specific reporting requirements are represented in the respective policies.

Group Code of Conduct and Ethics for Employees and Directors ("Code of Conduct")

The Bank has an established Code of Conduct setting out the core culture and expectations of the Group and how these are governed. The Code of Conduct mandates adherence to the standards set by the Bank and provides guidance as to disclosure and escalation to ensure transparency and integrity. The Risk Appetite Statement has also established specific tolerance thresholds for Board and Management reporting and oversight for ensuring conformance with approved standards.

Potential adverse risk events are also identified through the Group's annual risk assessment process. Group personnel are responsible for identifying these risk events and potential concerns inherent in the various business activities and processes in which they are involved. These risk events are assessed in the risk assessment.

As part of the Operational Risk Management Policy, the Group has put in place an Operational Risk Incident Management Procedure to identify and document events or situations that have negatively affected the Group's operations or have the potential to adversely impact operations. Group personnel are responsible for promptly reporting incidents and taking corrective action to reduce the likelihood of similar events occurring in the future.

Stress and Scenario Testing

The purpose of stress and scenario testing is to quantify exposure to extreme and unusual market risk occurrences and represent important elements of the Bank's ongoing risk management processes. The Bank's objectives in stress and scenario testing are to review probable outcomes of plausible scenarios. The results of the stress testing are embedded in the strategic planning process and risk appetite to ensure that sufficient capital and liquidity are available at all times to support the Bank's growth plans, as well as to cover its regulatory requirements at all times and under varying circumstances. The Bank's programme also assesses credit and market risks to understand specific weaknesses in the solvency of the Bank. Further, relevant stress scenarios are also factored into the group wide stress scenarios. The feedback and output aid the modelling of a comprehensive control framework that is transparent and responsive to rapidly changing market conditions.

Stress testing is reviewed on at least an annual basis and more often in the event of a material change in capital or liquidity. Ongoing stress testing and scenario analysis outputs are used to inform the formal assessments and determination of required buffers, the strategy and planning for capital and liquidity management and the setting of risk appetite limits.

The Board and Senior Management have engaged in a number of exercises which have considered and developed standard and ad-hoc stress-test scenarios. The output analysis enables management to evaluate the Group's capital and funding resilience in the face of severe but plausible risk shocks. The stress tests have included a range of Group-wide, multi-risk category stress tests, generic and idiosyncratic financial shocks, and operational risk scenario analyses assessing the impact of these stresses on the Bank's short term liquidity in terms of LCR and long term funding needs as measured by NSFR. Some of these scenarios include, but are not limited to, negative rate shock changes, movements in retail and non-operational deposit balances, and movements in HQLA and investment portfolio. Stress testing is an integral part of the adequacy assessment processes for liquidity and capital, and the setting of tolerances under the annual review of Group risk appetite.

The Bank has implemented a stress testing program, with stress testing mandated at least annually. The following provides a summary outline of the Bank's program and represents minimum standard criteria addressing:

- Parallel basis point interest rate decline
- Tiered Credit rating downgrade
- Parallel basis point fixed income securities rate shock (Bonds)
- Pricing decline in equities and funds
- Investment Impairments increases
- Default of a Related Party Exposures
- Top Depositors withdraw
- Major Cyber attack
- Major Regulatory Fine/Sanction

These minimum criteria are subject to review annually as a part of the CARP exercise. Additionally there are a number of Stress Testing scenarios conducted to assess its potential impact to the Bank's regulatory capital, LCR and NSFR, and the results of the stress tests are reviewed by ALCO at each regular meeting.

Key Prudential Metrics

The table below provides an overview of the Bank's key prudential regulatory metrics for the last 5 quarters.

Table 1: Key Metrics (KM1)

		a	b	c	d	e
		31-Mar-19	31-Dec-18	30-Sep-18	30-Jun-18	31-Mar-18
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	96,258	99,341	102,984	106,375	99,692
1a	Fully loaded ECL accounting model	96,258	99,341	102,984	106,375	99,692
2	Tier 1	96,258	99,218	102,861	106,252	100,991
2a	Fully loaded accounting model Tier 1	96,258	99,218	102,861	106,252	100,991
3	Total capital	96,258	99,218	102,861	106,252	100,991
3a	Fully loaded ECL accounting model total capital	96,258	99,218	102,861	106,252	100,991
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	272,682	263,519	249,362	263,427	433,759
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	35.3%	37.7%	41.3%	40.4%	23.0%
5a	Fully loaded ECL accounting model CET1 (%)	35.3%	37.7%	41.3%	40.4%	23.0%
6	Tier 1 ratio (%)	35.3%	37.7%	41.2%	40.3%	23.3%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	35.3%	37.7%	41.2%	40.3%	23.3%
7	Total capital ratio (%)	35.3%	37.7%	41.2%	40.3%	23.3%
7a	Fully loaded ECL accounting model total capital ratio (%)	35.3%	37.7%	41.2%	40.3%	23.3%
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.5%	1.9%	1.9%	1.9%	1.9%
9	Countercyclical buffer requirement (%)	0.0%	0.0%	0.0%	0.0%	0.0%
10	Bank D-SIB additional requirements (%)	0.0%	0.0%	0.0%	0.0%	0.0%
11	Total of bank CET1 specific buffer requirements (%)	2.5%	1.9%	1.9%	1.9%	1.9%
12	CET1 available after meeting the bank's minimum capital requirements (%)	28.3%	31.3%	34.9%	34.0%	16.6%
	Basel III Leverage Ratio					
13	Total Basel III leverage ratio measure	483,262	492,533	485,064	456,086	714,158
14	Basel III leverage ratio (%)	19.9%	20.1%	21.2%	23.3%	14.1%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%)	19.9%	20.1%	21.2%	23.3%	14.1%
	Liquidity Coverage Ratio					
15	Total HQLA	172,373	190,155	232,180	143,153	192,892
16	Total net cash outflow	71,255	35,027	96,584	25,347	73,308
17	LCR ratio (%)	241.9%	542.9%	240.4%	564.8%	263.1%
	Net Stable Funding Ratio					
18	Total available stable funding	299,636	306,450	305,173	308,315	525,524
19	Total required stable funding	227,772	215,991	204,197	236,402	417,160
20	NSFR ratio (%)	131.6%	141.9%	149.5%	130.4%	126.0%

In accordance with the BMA Basel III for Bermuda Banks - Final Rule - November 2017, the Capital Conservation Buffer requirement increased to 2.50% on 1st January, 2019 which has been reflected in the metrics above. In June 2018 the Bank sold a substantial portion of its majority stake in PCF Bank Limited which generated material earnings supplementing Tier 1 capital. The Bank's Common Equity Tier 1 for the past two quarters reflected contraction as a direct consequence of the challenging global markets negatively impacting performance of the investment portfolio. The Bank's operational expenses have reported under budget throughout the current fiscal year partly offsetting the investment results.

Capital and Risk Weighted Assets

Capital Management

Sufficient capital must be in place to support business activities, according to both the Bank's internal assessment and the requirements of the Bermuda Monetary Authority.

BCB's goal is to maintain sound and optimal capital ratios at all times. The Bank constantly reviews the current position and projected developments in both its capital base and capital requirements. The main source of the Bank's supply of capital is shareholder investment and retained earnings.

The capital management process is based on the following steps:

- The monitoring of the regulatory capital and ensuring that the minimum regulatory requirements and the established internal targets are met.
- The estimation of the capital requirements based on ongoing forecasting and strategic planning.
- The reporting of the regulatory capital situation to the Board, Senior Management Team and the BMA.

Responsibility for overseeing these steps is vested with ALCO and MRC.

Regulatory Capital Framework

The regulatory capital framework for banks in Bermuda is based upon three 'pillars' which are summarised below:

- **Pillar 1 - Minimum capital requirements:** defines the minimum capital requirements that banks are required to hold for credit, market and operational risks.

- **Pillar 2 - Supervisory review process:** includes a requirement for firms to undertake an internal CARP process. The CARP represents the aggregated view of the material risks faced by the Group, and is used by the Board and management to understand the levels of capital required to be held over the planning horizon to cover these risks and to withstand a range of adverse stress scenarios. The CARP is presented to BARC before presentation to the Board for challenge and approval and then submitted to the BMA. The BMA assesses the Bank's CARP to determine adequacy against capital standards under the Basel framework providing a final capital requirement and imposing any supervisory discretion in increasing regulatory capital requirements based on the risk factor assessments.

- **Pillar 3 - Market discipline:** aims to improve market discipline by requiring banks to publish information on their principal risks, capital structure and risk management in order to provide more transparency to market participants.

Capital Structure

The capital structure of the Bank comprises of Tier 1 capital which includes share capital, retained earnings, share premium, less goodwill and intangibles and Tier 2 general provisions / general loan-loss reserves.

Capital ratios for Tier 1 and Total Capital of BCB as at March 31, 2019 are set out below.

Table 2: Composition of Capital (CC1)

		a	b
		Amounts ('000's) 31 March, 2019	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	38,939	(c)
2	Retained earnings	59,557	(d)
6	**Common Equity Tier 1 capital before regulatory deductions**	**98,496**	
	Common Equity Tier 1 capital regulatory adjustments		
8	Goodwill (net of related tax liability)	1,701	(a)
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	537	(b)
28	**Total regulatory adjustments to Common Equity Tier 1**	**2238**	
29	**Common Equity Tier 1 capital (CET1)**	**96,258**	
	Additional Tier 1 capital: regulatory adjustments		
45	**Tier 1 capital (T1= CET1 + AT1)**	**96,258**	
58	**Tier 2 capital (T2)**	-	
59	**Total regulatory capital (TC = T1 + T2)**	**96,258**	
60	**Total risk-weighted assets**	**272,682**	
	Capital ratios and buffers		
61	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	35.30%	
62	**Tier 1 (as a percentage of risk-weighted assets)**	35.30%	
63	**Total capital (as a percentage of risk-weighted assets)**	35.30%	
64	**Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)**	2.50%	
65	**Of which: capital conservation buffer requirement**	2.50%	
68	**Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.**	28.30%	

The references (a), (b), (c), (d) and (e) identify balance sheet components that are used in the calculation of regulatory capital see Table 3 on page 17

As at March 31, 2019, the CET1, Tier 1 and total capital ratios of the Bank all stood at 35.30%.

BCB's capital ratios are above both the regulatory minimum capital ratios required by the BMA, and the Board imposed internal minimum capital requirement. There have been no material changes from the prior period.

Table 3: Reconciliation of regulatory capital to balance sheet (CC2)

	a	b	c
	Balance sheet as in unpublished financial statements	Under regulatory scope of consolidation	Reference
	31-Mar-19	31-Mar-19	
Assets			
Cash and cash equivalents	147,614	104,682	
Receivable from related parties	24	24	
Interest receivable	2,634	2,634	
Other assets	2,558	2,558	
Loans and advances to customers	30,360	26,613	
Available-for-sale financial investments	276,992	323,670	
Derivative financial instruments	412	-	
Property and equipment	17,720	17,720	
Goodwill and other intangible assets	2,238	2,238	
Of which: goodwill	1,701	1,701	(a)
Of which: intangibles (excluding MSRs)	537	537	(b)
Total assets	**480,551**	**480,138**	
Liabilities			
Deposits	371,789	371,789	
Customer drafts payable	56	56	
Other liabilities	7,241	7,241	
Interest payable	2,635	2,635	
Total liabilities	**381,721**	**381,721**	
Shareholders' equity			
Capital Stock	16,808	16,808	
Of which: amount eligible for CET1	16,808	16,808	(c)
Share Premium	22,131	22,131	
Of which: amount eligible for CET1	22,131	22,131	(c)
Retained Earnings	59,557	59,557	(d)
Accumulated OCI	334		
Total shareholders' equity	**98,830**	**98,496**	

All amounts in '000's

The references (a), (b), (c), (d) and (e) identify balance sheet components that are used in the calculation of regulatory capital Table 2 on page 16

There have been no material changes from the prior period.

Risk Weighted Assets ("RWA")

RWA are a risk based measure of exposures used in assessing overall capital usage of the Bank. When applied against eligible regulatory capital the Bank's overall capital adequacy is determined. RWA are calculated in accordance with BMA Prudential Standards. The Bank's total RWA as at March 31, 2019 is set out below.

Table 4: Overview of Risk Weighted Assets (OV1)

		a	b	c
		RWA		Minimum capital requirements
		31-Mar-19	31-Dec-18	31-Mar-19
1	**Credit risk (excluding counterparty credit risk)**	**210,658**	**200,593**	**14,746**
2	Of which: standardised approach (SA)	210,658	200,593	14,746
6	**Counterparty credit risk (CCR)**	**946**	**1,101**	**66**
7	Of which: standardised approach for counterparty credit risk	946	1,101	66
16	**Securitisation exposures in the banking book**	**2,024**	**1,889**	**142**
19	Of which: securitisation standardised approach (SEC-SA)	2,024	1,889	142
20	**Market risk**	**2,649**	**3,531**	**185**
21	Of which: standardised approach (SA)	2,649	3,531	185
24	**Operational risk**	**56,404**	**56,404**	**3,948**
27	**Total**	**272,682**	**263,519**	**19,088**

All amounts in '000's

There have been no material movements in risk weighted assets over the prior period.

Leverage Ratio

The Basel III framework introduced the leverage ratio as a non-risk based measure to supplement the risk based capital requirements. As at March 31, 2019, the leverage ratio of the Bank was 19.92% representing a nominal reduction from the prior quarter ratio of 20.14%, each of these well in excess of the BMA leverage ratio framework requirement of minimum 5%.

The below table provides a reconciliation of the accounting assets and the leverage denominator.

Table 5: Summary comparison of accounting assets vs. leverage ratio exposure (LR1)

		31-Mar-19
1	Total consolidated assets as per published financial statements	480,551
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	(2,238)
4	Adjustments for derivative financial instruments	946
6	Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	4,003
8	**Leverage ratio exposure measure**	**483,262**

All amounts in '000's

Table 6: Leverage ratio common disclosure template (LR2)

		a	b
		31-Mar-19	**31-Dec-18**
	On-balance sheet exposures		
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	480,551	489,699
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(2,238)	(2,276)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**478,313**	**487,423**
	Derivative exposures		
4	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	575	741
5	Add-on amounts for PFE associated with *all* derivatives transactions	371	360
11	**Total derivative exposures**	**946**	**1,101**
	Securities financing transactions		
12	Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions	4,003	4,008
16	**Total securities financing transaction exposures**	4,003	4,008
	Capital and total exposures		
20	**Tier 1 capital**	96,258	99,218
21	**Total exposures**	483,262	492,533
	Leverage ratio		
22	**Basel III leverage ratio**	19.92%	20.14%

All amounts in '000's

Note: The basis for Leverage ratio disclosures is as at quarter end.

There has been no material movements in the Leverage Ratio over the prior period.

Credit Risk

Overview

Credit or Counterparty Risk refers to the risk that a counterparty or associated party with whom the Bank has contracted to meet its obligations might fail to discharge their contractual obligations as they fall due causing a loss of the Bank's assets through the consequent reduction in earnings and/or value. Credit risk across the group arises mainly through the lending and treasury activities of the Group. This risk exists where there is any transfer of value from the Bank to other parties, be it in the shape of a loan or a deposit. The Bank manages and controls credit risk by setting policy limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank offers some loan and other credit facilities to clients, but is primarily exposed to credit risk through:

(i) the placement of funds with other banks. The size of these deposits is limited and controlled by both the Bank's internal risk policies and by the Large Exposure limits stipulated by the BMA. All counterparty banks must be approved by the Bank's ALCO. The maximum amount that may be deposited with any single bank or money market fund is governed by a number of controlling variables including the external credit ratings for that bank. Counterparty banks with a rating lower than single-A are not generally used to place deposits. These limits will be reviewed periodically and will be adjusted as the capital of the Bank changes or if the rating of a counterparty bank falls below the single-A level.

(ii) its portfolio of financial investments.

The Bank's internal policies are designed to create a well-diversified and controlled balance sheet by limiting investments or placement by counterparty, currency, geography and industry. The Bank remains compliant with the Large Exposure limits required by the BMA and places no more than the equivalent of 25% of its capital in any single fund or instrument.

Credit Risk - Loans

Credit risk is managed through the Risk Management department, headed by the Chief Risk Officer, who holds overall responsibility for the management of the credit policy and processes as delegated. The Credit activities of the Bank are detailed within the Bank's comprehensive Credit Manual which presents the specific Credit related policies and procedures.

The Bank's Credit framework comprising policies, procedures and processes are based on sound lending practices and will be continuously updated and enhanced as the Bank credit appetite and relevant functions, local regulations and/or international banking and lending standards are introduced and approved by the Bank's governance structure. The Bank consistently conforms to all statutory, regulatory, policy and prudential requirements in maintaining an adequately controlled credit risk environment which includes:

- ❖ a well-documented strategy for assuming credit risk, with sound and prudent relevant policies and processes;
- ❖ well defined criteria for approving new exposures (and for renewing and refinancing existing exposures) and establishing appropriate levels of authority for approving exposures, reflective of their size and complexity;
- ❖ effective segregation between the front line Credit Underwriting and independent Second Line Credit Risk Management functions in dealing with all credit matters;
- ❖ effective administration policies and processes, including continuing analysis and assessment of borrowers' ability to meet their obligations, monitoring of documentation (including legal covenants, contractual requirements and collateral), and a credit classification system that takes into account off-balance-sheet transactions and is suited to the nature, size and complexity of the institution's activities;

- comprehensive policies and processes for ongoing reporting of credit exposures;
- prudent lending controls and limits, including policies and processes for monitoring exposures in relation to limits and for dealing with approvals against limits and exceptions to limits;
- policies and procedures that include potential future exposure (having regard to the nature of individual products or transactions and the size or complexity of the institution itself) in identifying, measuring, monitoring and controlling counterparty credit exposure;
- policies and procedures for aggregating, monitoring and reporting total indebtedness of counterparties;
- early identification of deteriorations in asset quality, for determining institutions' provisioning decisions, for ongoing monitoring of problem assets, for assessing the value of risk mitigants, including guarantees and collateral (reflecting net realisable value), for collecting on past due obligations, and for determining write-offs, having regard to realistic repayment and recovery expectations; and
- Policies designed to ensure that the Bank's credit decisions are free of conflicts of interest, commercially prudent, and that the terms and conditions attached to any lending, and in particular Related Party situations, are conducted at a fully arm's length basis.

Individual credit authority for loans are specified under the Bank's Delegation of Authority Policy and granted to certain Executive Management. Exposures in excess of the specified individual limits require the authorisation of the Bank's CC which also has oversight of the ongoing review of loan credit activity, establishing credit policies and procedures and approving credit structures. The Bank's Credit mandate is defined within the Board approved Risk Appetite Statement which comprises a core documentation of tolerances under the Bank's Enterprise Risk Management Framework. The Credit Committee also reviews related party and large credit exposures reported or escalated to the BARC as appropriate and in accordance with Bank credit policy requirements. Bank's Treasury manages the counterparty bank relationships within the provisions of the ALM Policy. Counterparty risk is reviewed by ALCO and MRC in the regular meetings.

All Credit exposures undertaken by the Bank are Risk Rated during the process of Approval in accordance with an approved Risk Ratings schedule. In accordance with Policy, all credit Exposures shall be subject to periodic reviews, at minimum annually, and upon each review the Risk Ratings shall be considered for update. Periodic reviews require the consent of the Chief Risk Officer or Credit Committee depending upon prescriptive parameters.

Consistent with the Bank's Three Lines of Defence Model, the Bank's Credit functions are subject to periodic review by the Bank's Internal Auditor to test structural and control effectiveness. Issues identified in the course of Internal Audit reviews are presented initially for management to address and, where required, provide action plans to remediate. The final report is presented to the BARC which provides oversight to ensure implementation of improvements agreed.

Credit Risk Concentrations

Concentration Risk is the risk posed to a financial institution by any single or group of exposures which have the potential to produce losses large enough to threaten the ability of the institution to continue operating as a going concern.

The management of concentration risk is addressed by the Bank's Related Party Transaction policy and related credit guidelines, which require that credit facilities to entities that are linked or affiliated through common ownership or management to be aggregated for large exposure reporting purposes. The Risk Management Department monitors the large exposures and reporting on these to the Credit Committee, the MRC and the BARC.

The Bank also monitors concentrations with connected parties which arises where two or more individual counterparties are connected with each other in such a way that the financial soundness of any of them may affect the financial soundness of the other.

Sectoral Concentration
In the advancement and monitoring of credit facilities the Bank is considerate of the location of both the borrower and any underlying asset in the context of both sectoral concentration and accessibility to borrower and collateral.

Country Risk

In addition to monitoring and controlling individual counterparty concentrations, and in accordance with requirements set by the Bank's Risk Appetite Statement, the Bank may conduct periodic monitoring of the aggregate composition of its credit portfolio to ensure no excessive concentrations to individual (or linked) economic sectors, geographical areas or regions, or currencies. The Bank's credit portfolio is substantially directed to Bermuda based borrowers and element of which reflects underlying exposure to international publicly traded securities.

Credit Risk Exposures

The table below details the BCB consolidated regulatory credit risk exposures based on the BMA Revised Framework for Regulatory Capital Assessment guidance as at March 31, 2019.

Table 7: Credit quality of assets (CR1)

		a	b	c	d
		Carrying values of		Allowances/ impairments	Net values
		Defaulted exposures	Non-defaulted exposures		
1	Loans	149	26,625	(161)	26,613
2	Debt securities	1,006	289,015	(841)	289,015
3	Other investments	-	33,651	-	33,651
4	Off-balance sheet exposures	-	5,341	-	5,341
5	**Total**	**1,155**	**354,631**	**(1,002)**	**354,619**

All amounts in '000's

Impairment of Financial Assets

The Bank reviews at minimum quarterly whether there is any objective evidence that a financial asset or group of financial assets classified as available for sale or loans and receivables is impaired. A financial asset or group of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

Loans and advances to customers and Financial Instruments

Debt Instruments

Effective 1 Oct' 2018, the impairment of debt instruments is estimated in accordance with IFRS 9 – *Financial Instruments*. Under IFRS 9, the recognition of impairment no longer depends on a reporting entity first identifying a credit loss event but instead uses a more forward-looking approach to recognise expected credit losses (ECL) for all debt-type financial assets that are not measured at fair value through profit or loss (FVTPL).

ECL assessments of loans & advances and financial investments follow the IFRS 9's 'general approach' which is based on a three-stage process. The three-stage process is intended to reflect the deterioration in credit quality of a financial instrument as follows:

> **Stage 1** includes instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk
> **Stage 2** includes financial instruments that have deteriorated significantly in credit quality since initial recognition but that do not have objective evidence of a credit loss event
> **Stage 3** includes financial assets that have objective evidence of impairment at the reporting date.

The process of staging is important as IFRS 9 requires to forward-look the behavior of financial assets for a pre-specified period according to the respective stage assigned to those assets. Accordingly, the financial assets in the Stage 1 are reviewed for 12 months whilst the others are reviewed for the whole contractual period.

The ECL allowance is an estimate and may vary from the actual losses. This is because, the provisioning under IFRS 9 is subject to various forward-looking assumptions such as the probability of default (PD), exposure at default (EAD) and loss given default (LGD). Due to the volatility, the inputs and the assumptions are continuously reviewed as new information is available, and the impact to the income statement and the retained earnings are quantified as required by IFRS.

Equity Instruments

The Bank continues to assess whether there is evidence that the equity investments are impaired. When there is evidence of impairment the cumulative loss is measured as the difference between the amortised cost and the current fair value, less any previously recognised impairment loss.

Accounting for Impairment and Interest Income from Impaired Assets

The accounting policies of the Bank have been developed in accordance with the requirements of International Financial Reporting Standards (IFRS). Accordingly, all impairment losses/reversals are recognised in the consolidated statement of income except for any equity instruments (if any) classified at FVOCI.

Future interest income under IFRS 9 is accrued on the gross carrying value, except for financial assets categorized under Stage 3 where the interest income is accrued on the net carrying value of the asset.

Difference in accounting and regulatory treatment

For accounting purposes, a financial asset is treated as past due when a counterparty has failed to make a payment when contractually due. The pass due period is one of the several parameters considered in assessing whether there is a significant increase in credit risk to warrant an ECL allowance under IFRS 9. Therefore, an accounting provision may be required even when the financial asset is not pass due. In contrast, under regulatory rules, a financial asset is treated as past due when the payment is ninety days past the contractual due date.

The impairment provisions shown below are the accounting values as reported in the Bank's management accounts at 31 Mar' 2019. The term defaulted used in tables 7, 8 and 9 is based on the regulatory definition of default.

Table 8: Changes in stock of defaulted loans and debt securities (CR2)

		31-Mar-19
1	**Defaulted loans and debt securities at the end of the previous reporting period**	**441**
2	Loans and debt securities that have defaulted since the last reporting period	1,006
3	Returned to non-default status	291
4	Amounts written off	0
5	Other changes	(1)
6	**Defaulted loans and debt securities at the end of the reporting period**	**1,155**

All amounts in '000's

Troubled Debt Restructure

A Troubled Debt Restructure (TDR) occurs when the Bank grants a concession due to economic or legal reasons related to the financial position of a credit facility under the following conditions:

- The debtor must be experiencing financial difficulties;
- The creditor must grant a concession in consequence of the debtor's financial difficulties.

A TDR may be either performing or non-performing at the time of restructure. TDR situations present the Bank with extraordinarily cumbersome obligations and costs, both expense and capital, and are instituted only as a final alternative and apply the basic tenets for Non-Performing Loans.

The Bank has not restructured any facilities during the period.

Credit Risk Mitigation

The following table reports the split between the Bank's secured and unsecured exposures as at March 31, 2019.

Table 9: Credit risk mitigation techniques - overview (CR3)

		a	b	c	d	e	f	g
		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1	Loans	14,341	12,272	12,272				
2	Debt securities	281,708	8,312	8,312				
3	**Total**	**296,049**	**20,584**	**20,584**	**-**	**-**	**-**	**-**
4	Of which defaulted	15	1,134	1,134				

All amounts in '000's

The increase in loan exposures is principally as a result of net new financing advanced during the reporting period which is offset by scheduled term loan repayments and unscheduled prepayments. The increase in the debt securities is driven by the funding sourced through the Bank's customary business cycles and within exposure levels stipulated by the ALM policy.

The effective management of credit risk in the Bank's loan book is addressed by relevant credit underwriting policies and guidelines and the key assessment of the ability of a borrower to service the obligation. The majority of the Bank's lending is secured as a secondary source of repayment of the debt if the borrower defaults. For residential property loans, the Bank takes a first mortgage collateral position on the respective property supported by appropriate valuations using independent firms of qualified valuers. The Bank requires that suitable insurance coverage is maintained through third party insurers to cover property risks. The Bank uses a range of cash or alternative forms of acceptable collateral to collateralise credit exposures in a portfolio and imposes conservative coverage covenants to mitigate these exposures. The security taken does not result in any reduction in RWAs under the standardised approach to credit risk.

Collateral held as security for investment securities is determined by the nature of the instrument. Debt securities and treasuries are generally unsecured whereas asset-backed securities and similar instruments are secured by pools of financial assets.

The Bank does not make use of on-balance sheet netting.

Standardised approach

Table 10: Standardised approach - credit risk exposure and Credit Risk Mitigation (CRM) effects (CR4)

	a	b	c	d	e	f
	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
Asset classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
Cash	1,355	-	1,355	-	39	2.9%
Claims on Sovereigns and MDBs	169,535	-	169,535	-	7,596	4.5%
Claims on Corporates	92,371	-	92,371	-	86,798	94.0%
Claims on Banks and Securities Firms	156,442	-	156,442	-	57,798	36.9%
Securitisations	2,381	-	2,381	-	2,024	85.0%
Retail Loans	601	-	601	-	451	75.0%
Residential Mortgages	1,118	-	1,118	-	391	35.0%
Past Due Loans	144	-	144	-	216	150.0%
Other Balance Sheet Exposures	56,604	-	56,604	-	54,366	96.0%
Non-market Related Off Balance Sheet Credit Exposures	-	5,341	-	4,003	3,003	56.2%
Market-Related Off-Balance Sheet Credit Exposures	-	946	-	946	946	100.0%
Total	**480,551**	**6,287**	**480,551**	**4,949**	**213,628**	**44.0%**

All amounts in '000's

Table 11: Standardised approach - exposures by asset classes and risk weights (CR5)

		a	c	d	e	f	g	h	j
	Risk Weight Asset classes	0%	20%	35%	50%	75%	100%	150%	Total credit exposures amount (post CCF and post-CRM)
1	Cash	1,160	195	-	-	-	-	-	**1,355**
2	Claims on Sovereigns and MDBs	131,554	37,981	-	-	-	-	-	**169,535**
3	Claims on Corporates	-	5,114	-	2,964	-	84,293	-	**92,371**
4	Claims on Banks and Securities Firms	-	105,391	-	28,662	-	22,389	-	**156,442**
5	Securitisations	-	357	-	142	-	1,882	-	**2,381**
6	Retail Loans	-	-	-	-	601	-	-	**601**
7	Residential Mortgages	-	-	1,118	-	-	-	-	**1,118**
8	Past Due Loans	-	-	-	-	-	-	144	**144**
9	Other Balance Sheet Exposures	2,238	-	-	-	-	54,366	-	**56,604**
10	Non-market Related Off Balance Sheet Credit Exposures	-	-	-	-	4,000	3	-	**4,003**
11	Market-Related Off-Balance Sheet Credit Exposures	-	-	-	-	-	946	-	**946**
14	**Total**	**134,952**	**149,038**	**1,118**	**31,768**	**4,601**	**163,879**	**144**	**485,500**

All amounts in '000's

Claims on Sovereigns and MDBs are lower than prior quarter reflecting a lower balance of HQLA. This has been offset by increases in DWOBs and Nostro balances which reflects higher claims on Banks.

Counterparty Credit Risk

The Bank may use derivative instruments to hedge its exposure to market risk, for example foreign exchange and interest rate risk. Counterparty Credit Risk (“CCR”) is the risk that the counterparty to a transaction could default before the final settlement of the transaction’s cash flows. An economic loss would occur if the transactions or portfolio of transactions with the counterparty has a positive economic value at the time of default. Unlike exposure to credit risk through a loan, where the exposure to credit risk is unilateral and only the lending bank faces the risk of loss, CCR creates a bilateral risk of loss whereby the market value for many different types of transactions can be positive or negative to either counterparty. The market value is uncertain and can vary over time with the movement of underlying market factors.

The Bank uses the mark to market or current exposure method approach to calculate exposure values for CCR. Under this approach the Exposure at Default (“EAD”) is calculated as current exposure plus regulatory add-ons to determine RWAs.

BCB policy requires that all approved bank counterparties must:

- Have a tier one capital ratio greater than 10.0%*
- Have at least one long-term credit rating of A3/A-/A-, and be rated by the other two agencies at no less than BBB-

The above criteria apply to all correspondent banks and MM/FX counterparty banks, except the domestic Bermuda banks where nostro/vostro account balance limits can be approved by ALCO outside of the above criteria to allow for a smooth flow of payments to and from BCB across the local payments clearing system. BCB policy also defines restrictions on Treasury Counterparty Limits.

BCB policy on broker dealers requires that only credit settlement exposure will be incurred against broker dealers with all transactions conducted on a settlement against delivery basis.

The Bank has limited exposure to derivative transactions through its currency hedging programme but reflects insignificant counter party credit risk. The Bank has an exposure as a Trading Member of the BSX as a Central Counter Party (“CCP”). BSX is a direct member of a CCP for local equity securities. The exposure to the BSX is typically short dated and relatively minor. In the case where these transactions take place liquidity is held for both additional collateral that would have to be posted in the event of a credit rating downgrade and adverse movements in market rates. Collateral requirements following downgrade are assessed on a contractual basis, whereas liquidity for changes in market rates is assessed using historic market rate volatility.

The Bank uses the Royal Bank of Canada (“RBC”) as its primary international securities custodian for the Bank’s own investment holdings as well as securities held by the Bank in a fiduciary capacity for clients. The Bank undertakes prudential reviews of the RBC relationship on a periodic basis in line with relevant Policies.

“Wrong-way risk” may occur when exposure to a counterparty is negatively correlated with the credit quality of that counterparty. Hence, there is a tendency for the exposure to increase as the creditworthiness decreases. This risk is managed through the Asset and Liability Management Policy which governs the requirements for eligible collateral and Counterparty limits and which are monitored by the Bank’s ALCO.

Table 12: Analysis of counterparty credit risk (CCR) exposure by approach (CCR1)

		a	b	c	d	e	f
		Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1	SA-CCR (for derivatives)	575	371		1	946	946
6	**Total**						**946**

Monetary amounts in ‘000’s

Table 13: Composition of collateral for CCR exposure (CCR5)

	a	b	c	d	e	f
	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash - domestic currency	-	-	-	-	-	-
Cash - other currencies	-	-	20,357	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	**-**	**-**	**20,357**	**-**	**-**	**-**

All amounts in '000's

There has been no significant change in the composition of collateral for CCR exposure over the reporting period.

Table 14: Credit derivative exposures (CCR6)

	a	b
	Protection bought	**Protection sold**
Notionals		
Foreign Exchange Forward Contracts	53,610,490	(16,192,926)
Warrants	65,603	0
Total notionals	53,676,093	(16,192,926)
Fair values		
Positive fair value (asset)	664,423	1,500
Negative fair value (liability)	(40,202)	(213,317)

The table above shows the fair values of derivative financial instruments recorded as assets and liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying reference asset, index, or price and is the basis upon which changes in the value of derivatives are measured. The notional amounts of the derivatives are not recorded on the consolidated statement of financial position. The notional amounts indicate the volume of transactions outstanding at the year-end and are not indicative of the market risk or the credit risk.

Derivatives contracts are valued on a mark-to-market basis which substantially affects the movement in fair values over each quarterly period.

Securitisation

Table 15: Securitisation exposures in the banking book (SEC1)

		i	j	k
		Bank acts as investor		
		Traditional	Synthetic	Sub-total
1	**Retail (total) - of which**	**2,381**	**-**	**2,381**
2	residential mortgage	2,381	-	2,381

All amounts in '000's

Residential property in Bermuda comprises the main source of residential mortgage collateral and is a credit risk mitigant for the Bank's residential mortgages. All mortgage lending is supported by appropriate valuations using independent firms of qualified valuers. BCB has no securitisation exposure to the Bermuda residential property market. All residential property held by the Bank as mortgagee is to be insured through a third party insurer to cover property risks. There have been no significant changes over the reporting period.

The Bank does not run a trading book nor does the Bank act as originator or as sponsor of any securitisation.

Table 16: Securitisation exposures in the banking book and associated capital requirements - bank acting as investor (SEC4)

		a	b	c	h	l	p
		Exposure values (by RW bands)			Exposure values (by regulatory approach)	RWA (by regulatory approach)	Capital charge after cap
		≤20% RW	>20% to 50% RW	>50% to 100% RW	SA/SSFA	SA/SSFA	SA/SSFA
1	**Total exposures**	**357**	**142**	**1,882**	**2,381**	**2,024**	**142**
2	Traditional securitisation	357	142	1,882	2,381	2,024	142
3	Of which securitisation	357	142	1,882	2,381	2,024	142
4	Of which retail underlying	357	142	1,882	2,381	2,024	142

All amounts in '000's

The above table represents the aggregate amount of the Bank's securitisation holdings as at 31 March, 2019 categorised by risk weighting.

Market Risk

Overview

Market risk is the risk that a change in the value of an underlying market variable (such as interest rates or foreign exchange rates) will give rise to a reduction in the Bank's income or an adverse movement in the value of the Bank's financial assets. BCB's main source of income is through the performance of its investment portfolio and interest income. The investment portfolio is managed conservatively to maximise return to the business, without excessive risk. Market risks are monitored closely by the Bank's Treasury Department and regularly reported to ALCO. The ALCO is responsible for balance sheet planning from a risk return perspective, including the monitoring primary financial risks, and the ongoing process of formulating, implementing, monitoring and revising strategies on assets and liabilities management to achieve the Bank's objectives, within approved policy risk tolerances.

Foreign Exchange Risk

Table 17: Market risk under the Standardised Approach (SA) (MR1)

		a
		Capital charge in SA
4	Foreign exchange risk	2,649
12	**Total**	**2,649**

All amounts in '000's

The Bank holds a substantial portion of its investments in currencies other than US dollars and hence is exposed to adverse changes in foreign exchange rates. The Bank manages its exposure to foreign exchange rate risk through the management of its net non-USD/BMD exposures to minimal levels via the utilisation of appropriate hedging instruments, master netting agreements, and other techniques as appropriate for maintaining a retained net risk position within the prescribed risk parameters.

It is the Bank's policy to hedge all major foreign exchange exposure with respect to BCB's functional currency. However, the ALCO may agree to allow certain positions to remain unhedged, where the cost of hedging outweighs the benefit. The Bank's monitoring tools for primary risks include, but are not limited to, maturity analysis, funding concentration, duration, Net Interest Income and Economic Value of Equity.

Interest Rate Risk

In April 2016, the Basel Committee on Banking Supervision issued standards for Interest Rate Risk in the Banking Book ("IRRBB"). Those principles set out supervisory expectations for banks' identification, measurement, monitoring, and control of IRRBB, as well as supervision of this risk. The IRRBB was adopted by the Bank on January 2018 to manage its interest rate risk exposure.

IRRBB is the exposure to movements in interest rates. Such risk occurs from a mismatch of interest rate exposures tied to the Bank's assets and liabilities and is a normal part of banking and an important contributor to earnings. The Bank developed an internal model to monitor the IRRBB and report the impact to the ALCO on a monthly basis. Adverse movements in interest rates can result in a reduction in the Bank's Economic Value of Equity ("EVE") and Net Interest Income ("NII"). Changes in interest rates affect earnings through NII variations and also changes to interest-sensitive income and expenses. Such changes also affect the underlying values of assets, liabilities and off-balance sheet instruments, and thereby the Bank's EVE, given that the present value of future cash flows changes as interest rates shift. The Bank discloses the impact of interest rate shocks on its Changes in Economic Value of Equity ("ΔEVE") and Net Interest Income ("ΔNII"), computed based on a set of **multiple** prescribed interest rate shock scenarios. Key assumptions and stress scenarios used to compute the IRRBB are approved by the ALCO.

The ALCO monitors asset deployment limits, including investment limits, in order to monitor and manage the exposure of the portfolio to liquidity, interest rate and currency risk and to ensure that the assets in the Bank's balance sheet are consistent with its risk appetite. ALCO ensures an appropriate ALM Policy is maintained for the Bank. The ALM Policy sets forth the Bank's asset and liability management general policy relating to liquidity risk management including contingency liquidity plan, interest rate risk management, capital management, foreign currency risk management including hedging and the use of derivatives, investment and other asset deployment limits.

Like many banks, BCB is exposed to IRRBB through its exposure to fixed income securities including HQLA, loans, other assets sensitive to interest rate movements, and customer deposits. A material impact of IRRBB comes through the Bank's exposure to a diversified portfolio of fixed income securities including HQLA. Duration is a measure of the price sensitivity of a fixed income security to changes in interest rate. The Bank manages the duration of its fixed income securities to mitigate the adverse impact of IRRBB.

With respect to investments, this risk only arises in the banking book, as the Bank does not run a trading book.

Funding & Liquidity Risk

Overview

Funding and Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet its financial obligations as they fall due, or can only do so at excessive cost. Funding and Liquidity risk exists where demand from clients to withdraw funds from their accounts exceeds the cash available to fund those withdrawals because either there are no alternative sources of funds available to the Bank or it has failed to maintain sufficient liquid assets to be able to manage the outflow.

BCB deploys its assets in multiple currencies, funding this activity through the use of deposits (where available) and currency swaps. Currency swap facilities are established with BCB's banking counterparties by way of ISDA ("International Swaps and Derivatives Association") agreements, and supported by Credit Support Annex ("CSA") documents, which detail the collateral that BCB is required to post in support of its derivatives exposure to a counterparty. The ISDA agreements provide for the settlement netting of payment obligations arising under all of the derivative contracts covered by the agreement. Liquidity Risk is created mainly through maturity mismatches between the Bank's assets and its liabilities. To mitigate this risk, the Bank maintains a core liquidity position, which also provides the Bank with interest income.

The objectives of liquidity risk management are to ensure that the Bank can meet its cash flow requirements and capitalise on business opportunities on a timely and cost effective basis. The Bank manages its liquidity risk through cash and liquidity management techniques that maximise its liquidity, and through controls on the percentage of its balance sheet that can be converted to cash within specific short-term bands. The Bank maintains prudent levels of liquid assets in the form of cash and HQLA which are managed in parallel with the Bank's liability profile.

The Bank maintains significant liquidity thresholds in its balance sheet in the form of cash or near cash, other HQLA and assets within its investment portfolio. This high level of readily liquid assets factors into the Bank's contingency liquidity plan which is designed to provide alternative sources of liquidity to allow the Bank to meet its cash obligations without relying on external funding support during periods of stress. A variety of specific and systemic event scenarios that may present challenge to the Bank's liquidity are reviewed and updated at least annually through the Bank's customary stress testing analysis. In addition, the Bank's high level of capital relative to total deposits provides a meaningful contingency funding buffer.

The Bank has a Liquidity Risk Management Policy approved by BARC on the recommendation of MRC which defines the objectives for managing liquidity risk, sets conditions for the calculation of the minimum size of the liquidity buffer and the funding needed to support an adequate liquidity buffer. Ongoing monitoring and implementation of the liquidity policy is the responsibility of ALCO, under the approval of BARC, and with responsibility for the daily monitoring and management assigned to the Treasury Department.. The Treasury Department prepares liquidity reports and the results of stress testing performed and presented to ALCO on a monthly basis.

As part of its asset and liability management activities, the Bank produces a maturity analysis matrix to map all funding relevant assets and liabilities into time buckets corresponding to their economic maturities. The matrix is compiled on an aggregated currency basis. Assets and liabilities from the deposit and mortgage book that show a history of being renewed or prolonged are assigned to time buckets reflecting their expected extension.

The maturity analysis matrix identifies the excess, or the shortfall, of assets over liabilities in each time bucket, facilitating the management of open liquidity exposures. The matrix analysis together with the liquidity planning process, which forecasts the funding supply and demand across business units, provides the key input parameters for the Bank's liquidity planning.

Liquidity Coverage Ratio

Table 18: Liquidity Coverage Ratio (LCR) (LIQ1)

		a	b
		Total unweighted value (average)	Total weighted value (average)
	High-quality liquid assets		
1	Total HQLA		**197,147**
	Cash outflows		
2	**Retail deposits and deposits from small business customers, of which:**	**23,544**	**10,035**
4	Less stable deposits	23,544	10,035
5	**Unsecured wholesale funding, of which:**	**197,186**	**130,306**
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	68,117	17,029
7	Non-operational deposits (all counterparties)	129,070	113,277
9	**Secured wholesale funding**		**0**
10	**Additional requirements, of which:**	**16,820**	**16,057**
11	Outflows related to derivative exposures and other collateral requirements	14,928	14,928
13	Credit and liquidity facilities	1,493	731
15	**Other contingent funding obligations**	398	398
16	**TOTAL CASH OUTFLOWS**		**156,399**
	Cash inflows		
18	**Inflows from fully performing exposures**	52,371	52,371
19	**Other cash inflows**	50,121	44,779
20	**TOTAL CASH INFLOWS**	**102,493**	**97,150**
			Total adjusted value
21	**Total HQLA**		**197,147**
22	**Total net cash outflows**		**59,248**
23	**Liquidity coverage ratio (%)**		**333%**

All amounts in '000's

Note that average values were calculated using the simple average of the six month-end balances over the first half of fiscal year 2019.

The LCR metric is designed to promote the short-term resilience of a bank's liquidity profile ensuring the bank has sufficient unencumbered HQLA that can be easily converted into cash to meet its liquidity needs in a 30-calendar day liquidity stress scenario. The BMA requires Bermuda Banks to maintain a minimum LCR of 90% in 2018, increasing to 100% by 1st January, 2019. The average month end BCB LCR has reflected 333% for the 6 month period ended March 31, 2019 which substantially exceeds current and future minimum requirements.

Net Stable Funding Ratio

Table 19: Net Stable Funding Ratio (“NSFR”) (LIQ2)

		a	b	c	d	e
		Unweighted value by residual maturity				Weighted value
		No maturity*	<6 months	6 months to <1 year	≥1 year	
	Available stable funding (ASF) item					
1	Capital:	96,258	-	-	-	96,258
2	*Regulatory capital*	96,258	-	-	-	96,258
4	Retail deposits and deposits from small business customers:	-	58,860	21,186	83,291	155,332
6	*Less stable deposits*	-	58,860	21,186	83,291	155,332
7	Wholesale funding:	-	206,291	936	1,226	46,378
8	*Operational deposits*	-	65,584	-	-	32,792
9	*Other wholesale funding*	-	140,707	936	1,226	13,586
13	*All other liabilities and equity not included in the above categories*	-	8,371	453	1,441	1,668
14	**Total ASF**					**299,636**
	Required stable funding (RSF) item					
15	Total NSFR high-quality liquid assets (HQLA)					14,976
16	Deposits held at other financial institutions for operational purposes	-	32,054	-	-	32,054
17	Performing loans and securities:	-	70,686	12,969	158,322	155,014
19	*Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions*	-	69,850	0	21,887	32,365
20	*Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:*	-	816	3	2,650	2,662
22	*Performing residential mortgages, of which:*	-	-	-	1,115	725
23	*With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk*	-	-	-	1,115	725
24	*Securities that are not in default and do not qualify as HQLA, including exchange-traded equities*	-	20	12,966	132,670	119,263
25	Assets with matching interdependent liabilities	-	-	-	-	-
26	Other assets:	-	5,432	77	20,219	25,728
29	*NSFR derivative assets*				412	412
31	*All other assets not included in the above categories*	-	5,020	77	20,219	25,316
32	Off-balance sheet items		-	-	5,341	1
33	***Total RSF***					**227,772**
34	***Net Stable Funding Ratio (%)***					**132%**

All amounts in ‘000’s

* Items reported in the “no maturity” time bucket do not have a stated maturity. These may include, but are not limited to, items such as capital with perpetual maturity, short positions, open maturity positions, non-HQLA equities and physical traded commodities.

The NSFR requires banks to maintain a stable funding profile in relation to the composition of their assets and off balance sheet activities looking over a one year horizon. The BMA requires Bermuda banks to maintain a minimum NSFR of 100% from 1 January, 2018 onwards. The Bank NSFR stood at 132% as at March 31, 2019 which surpasses this requirement.

As at March 31, 2019:

- Customer deposits represent the main source of funding for the Bank;
- The Bank’s NSFR ratio of 132% is consistent with prior periods and there are no indications of significant movement; and
- The Bank’s balance sheet is comprised substantially of only deposits, loans and investments and without any notable amount of interdependent assets / liabilities.

Operational Risk

Overview

BCB have adopted the Basel Committee definition of operational risk, which is defined as 'the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events'.

Operational risk is relevant to every aspect of the business processes, and cannot be entirely eliminated. However, it can be managed and mitigated to levels that are deemed acceptable by management through the application of controls which have been designed appropriately and are operating effectively. Operational risk covers a range of risks such as fraud risk, system failure, people risk, and physical security risk. Risks relating to financial crime compliance are similarly included within the respective risk categories.

The Bank's management of operational risk is the responsibility of the MRC, who report to the BARC. The MRC meets on a minimum quarterly basis to review and discuss the material risks, and operation of controls. MRC also has oversight over the incident management process, ensuring that incidents which do occur are reported as appropriate, and managed to conclusion.

The Bank employs the 'Three Lines of Defence' Model to manage risk. The First Line of Defence refers to our risk and control owners, those that are accountable for managing risk in their day-to-day activities through the application of sound processes and controls. The Second Line of Defence refers to the Risk and Compliance function, who set policy, provide advice and challenge to the First Line. Our control environment includes a programme of Second Line reviews to provide assurance to management that controls are operating as expected. The Third Line is Internal Audit, who provide independent review that our risk management, governance and internal controls are effective and fit for purpose.

Data on operational losses and any significant control failures are captured through the Bank's Risk Incident Reporting process. All events are reported to MRC with High Risk incidents reported to BARC, each of which assess the adequacy of corrective actions taken by management and mitigants deployed to prevent recurrence. Both the MRC and BARC, and the Board also, receive regular reporting on the actual performance against approved risk appetite metrics.

On an annual basis, key risks are assessed on an inherent and residual basis. Controls are identified and rated as to their effectiveness, and form the basis for the assessment of the risk they address on a residual basis. Where controls are rated as less than effective, actions are identified to remediate the control or address any concern in the operational risk.

Risk which remain residually high-rated are identified and are the subject of further and additional mitigation, or risk acceptance, if required.

The Bank utilises automated systems to mitigate risk associated with criminal activity through the Bank's products and services. These systems include application risk scoring systems for new business uptake and real-time wire activity screening against official watch-lists.

The Bank has implemented a suite of IT security tools to protect both systems and data. These include, but are not limited to, email security scanning/auto-blocking solutions, anti-virus products, intrusion detection real-time monitoring, vulnerability scanning and penetration testing tools and network traffic monitoring and alerting. We continually keep up to date with the cyber security landscape and consider improvements to our defences as that landscape changes. Logical access control is in place at the individual application level as well as at the network level. Password complexity and mandatory changes are enforced programmatically. User profiles limit what a user can access, see or change. Application database systems are also locked down and strictly controlled.

The Bank has adopted the Standardised Approach ("SA") as set out in the Basel Capital Accord for the purposes of calculating its risk capital requirements. Under this approach gross income serves as a proxy for the scale of business operations and thus the likely scale of operational risk exposure within each of these business lines and the capital charge for operational risk is calculated based upon gross losses over the preceding three year period.

Other Information

Abbreviations:

The following abbreviated terms are used throughout the document:

ALCO	Asset and Liability Committee
ALM	Asset and Liability Management
ASF	Available Stable Funding
AT1	Additional Tier 1 Capital
BARC	Board Audit and Risk Committee
BCB or the Bank	Bermuda Commercial Bank Limited
BMA or Authority	Bermuda Monetary Authority
BSX	Bermuda Stock Exchange
CARP	Capital Adequacy and Risk Profile
CC	Credit Committee
CCF	Credit Conversion Factor
CCP	Central Counter Party
CCR	Counterparty Credit Risk
CET1	Common Equity Tier 1
Code of Conduct	Group Code of Conduct and Ethics for Employees and Directors
CRM	Credit Risk Mitigation
EAD	Exposure at Default
ECL	Expected Credit Loss
ERM	Enterprise Risk Management
ERMF	Enterprise Risk Management Framework
EVE	Economic Value of Equity
EXCO	Executive Committee
GC	Governance Committee
Group	Bank and its subsidiaries
HQLA	High Quality Liquid Assets
IFRS	International Financial Reporting Standards
IRRBB	Interest Rate Risk in the Banking Book
ISDA	International Swaps and Derivatives Association
KPIs	Key Performance Indicators
LCR	Liquidity Coverage Ratio
MDB	Multilateral Development Bank
MRC	Management Risk Committee
MSR	Mortgage Servicing Rights
NII	Net Interest Income
NSFR	Net Stable Funding Ratio
RSF	Required Stable Funding
RWA	Risk Weighted Assets
SA	Standardised Approach
SFT	Securities Financing Transaction
SSFA	Simplified Supervisory Formula Approach
T1	Tier 1 Capital
T2	Tier 2 Capital
Somers	Somers Limited
TC	Total Capital