Bermuda Commercial Bank Limited

Basel II Pillar III Disclosure, March 31, 2015

BCB™

Bermuda Commercial Bank Limited

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Background

Introduction

The disclosure and analysis provided in this document relates to Bermuda Commercial Bank Limited (“BCB” or “the Bank”) which is incorporated in Bermuda as a limited liability company. This document should be read in conjunction with the relevant Annual Audited Financial Report which includes expanded details on the Bank’s capital adequacy and risk management. Disclosures are prepared on a consolidated group basis.

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

These disclosures are solely in the context of the local regulatory requirements and guidelines outlined by the Bermuda Monetary Authority (“BMA”) under Pillar 3 of the “Revised Framework for Regulatory Capital Assessment” ((commonly referred to as Basel II, Pillar 3).

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 encourage market discipline by allowing market participants access to key information with respect to the scope of application, capital, risk exposures and the risk assessment process adopted by BCB.

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, 2015 and policies disclosed herein are effective at this time. All disclosures are published semi-annually in conjunction with BCB’s half year (March 31) and annual (September 30) reporting processes.

Report Conventions

The disclosures in this report are not required to be audited by an external auditor. However, the disclosures have been prepared on a basis consistent with information submitted to the BMA.

Basel II

This disclosure is an integral component of the framework for capital assessment adopted by Bermuda in December 2008. BCB has adopted the Basic Indicator Approach as being the 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.

Overview of the Bank

Bermuda Commercial Bank was founded more than 40 years ago, when a group of Bermudians formed a local savings and loan institution. The Bank has since evolved with a focus on servicing the local and international corporate and commercial business communities as well as high net worth clients. Bermuda Commercial Bank has been guided by a corporate philosophy centred on the provision of innovative, quality service tailored to the specific needs of its clients.

The management of risk is an important criterion to all users of financial services. The Bank has established a policy of minimizing its own corporate risk by following a measured policy in balance sheet management, maintaining a conservative leverage ratio and following principles and policies on risk management aligned to local BMA regulations.

Scope of Application

The capital adequacy framework implemented in Bermuda applies to BCB and its subsidiaries.

BCB has a number of wholly-owned and controlled subsidiaries. These subsidiaries are subject to consolidation requirements under IFRS and under the capital adequacy framework.

Subsidiary Undertakings

Name	Location
BCB Charter Corporate Services Limited	Bermuda
BCB Nominee Services Limited	Bermuda
BCB Paragon Trust Limited	Bermuda
BCB Luxembourg S.A.R.L.	Luxembourg
BCB Asset Management Limited	Bermuda
BCB Resource Fund Limited	Bermuda
BCB Management Limited	Bermuda
BCB Management Services Limited	Bermuda
Bercom Nominees Limited	Bermuda
VT Strategies Holdings Limited	Bermuda

As at March 31, 2015, all subsidiaries were wholly-owned by BCB and included in the Bank's consolidated financial statements.

The Bank and its subsidiaries 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, the Bank and its subsidiaries are subject to supervisory oversight and onsite inspection by the BMA.

Capital Structure

The capital structure of the Bank comprises of (a) Tier 1 capital which includes Share Capital, Retained Earnings, Share Premium, less goodwill and intangibles and other adjustments and (b) Tier 2 general provisions / general loan-loss reserves.

Composition of Capital as at March 31, 2015 **(in $US thousands)**

Total Regulatory Capital	
Ordinary shares/common stock (issued and paid up)	16,808
Share premium account	22,131
Reserves	62,093
Common Equity Tier 1 Capital (CET1)	**101,032**
Goodwill and other intangible assets	5,473
Other	17,751
Total Capital Deductions	**23,224**
Tier 1 Capital	**77,808**
Tier 2 Capital	-
Total Regulatory Capital	**77,808**

2012 Restructuring

Effective October 1, 2012, BCB became a wholly owned subsidiary of Somers Limited ("Somers"), formerly known as Bermuda National Limited. BCB delisted from the Bermuda Stock Exchange and Somers became the listed entity. Pillar 3 disclosures are reported at the BCB level.

Capital Adequacy

Sufficient capital must be in place to support business activities according to both the Bank's internal assessment and the requirements of the BMA. The key to capital adequacy management is to ensure compliance with the minimum regulatory capital requirements and targeted capital ratios.

BCB's goal is to maintain sound and optimal capital ratios at all times. The Bank constantly reviews the present situation 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:

- Monitoring of regulatory capital to ensure that the minimum regulatory requirements and established internal targets are met.
- Estimation of the capital requirements based on ongoing forecasting and strategic planning.
- Reporting of the regulatory capital situation to the Senior Management/Board and the BMA.

The responsibility for overseeing the above steps is vested with the Asset and Liability Committee (ALCO).

Ratios for Tier 1 and Total capital of BCB as at March 31, 2015 are set out below.

BCB Tier 1 Capital ratio	20.40%
BCB Total Capital ratio	20.40%

BCB's capital ratios are above both the regulatory minimum capital ratios required by the BMA, and the Board imposed internal minimum capital requirement.

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, 2015 are set out below.

BCB risk weighted assets	$381.44 million

The following table shows BCB's overall minimum Pillar I capital requirement for credit, operational, and market risk, based on 8% of risk weighted assets:

Minimum Capital Requirement based on 8%	March 31, 2015 ($'000)
Cash	9
Claims on Sovereigns	18
Claims on Corporates	8,121
Claims on Banks and Securities Firms	8,253
Securitizations	3,351
Retail Loans	54
Past Due Loans	47
Other Balance Sheet Exposures	6,254
Non-market Related Off Balance Sheet Credit Exposures	22
Total Credit Risk Capital Requirement	**26,129**
Operational and Market Risk Capital Requirements	4,386
Total Pillar 1 Capital Requirement	**30,515**
Eligible Capital	77,808
Excess over capital requirement	47,293
% Capital excess	155%

Basel III

On January 1, 2013, reforms to the Basel II capital adequacy framework came into effect (the Basel III framework). These reforms are designed to strengthen global capital rules with the goal of promoting a more resilient banking sector able to absorb shocks arising from financial stress, whatever the source, and thereby reducing the risk of negative spill over from the financial sector to the real economy.

In line with its implementation of Basel II, the BMA was not seeking to be amongst the first wave of countries implementing Basel III. The BMA did however want to ensure that implementation in Bermuda is not unduly delayed. Accordingly, BASEL III rule was implemented in Bermuda effective 1 January 2015, and the first BASEL III compliant regulatory reporting was to be submitted to the BMA for the quarter ended 31 March 2015.

BCB monitors its capital position against the Basel III framework and all businesses are operating cognisant of Basel III. New transactions at BCB are also now evaluated on a fully implemented Basel III basis. BCB's position at March 31, 2015 already exceeds the Basel Committee's 2019 fully implemented Basel III requirements, i.e. minimum ratios plus capital conservation buffer.

Risk Management and Control Principles

There are five key principles that govern Bermuda Commercial Bank's risk management and control framework.

1. Accountability at the business unit level for operational risk;
2. Independent review and reporting of risk through the Internal Audit function;
3. Risk disclosure;
4. Protection of earnings, capital, and deposits; and
5. Protection of the Bank's reputation.

Risk Management and Control Responsibilities

The Board Risk Committee, the Management Risk Committee and the ALCO are tasked with determining BCB's fundamental approach to market, credit, interest rate, and liquidity risk. These Committees also have a strategic and supervisory function within the organization when it comes to management and control of such risk at the Bank. Additionally, ALCO is responsible for balance sheet management.

The Internal Audit function provides an independent review, testing, and reporting function for all types of risk. This function reports to the Audit Committee of the Board of Directors.

The head of each business division is accountable for their financial results and the risk for their division as well as ensuring that the Bank's policies and procedures related to risk are maintained.

The Management Risk Committee serves as a resource to management, including the Bank's Chief Risk Officer ("CRO"), and to the Board Risk Committee ("BRC"), by overseeing risk across the entire Bank and across all risk types, and by enhancing management's understanding of the Bank's overall risk appetite and enterprise-wide risk management activities and effectiveness, relative to performance indicators set out in BCB's strategic plan. The Committee reviews the Bank's credit risk, operational risk, compliance risk, market risk, liquidity risk, strategic and business risk, and reputational risk, as well as management's capital management, planning and assessment processes. The members of the Management Risk Committee include the Chief Executive Officer, Chief Risk Officer, Chief Financial Officer, Chief Operating Officer and the Client Relationship Director. This committee reports to the Bank's Board Risk Committee through the Chief Executive Officer and Chief Risk Officer.

The Compliance function manages the development, implementation, and maintenance of policy and procedure for the relevant regulatory and legislative controls, including Anti-Money Laundering and Know Your Client (KYC) requirements.

The Chief Executive Officer and the Executive Committee are responsible for the overall development and implementation of appropriate control frameworks with support from the business divisions.

The Chief Executive Officer and the Executive Committee are responsible for ensuring that all financial data concerning the performance of the various divisions and subsidiaries are disclosed in a clear and transparent manner and that the methodology for reporting adheres to the established regulatory requirements and corporate governance standards as required by the laws and practices of Bermuda. They are responsible for the implementation of the Bank's agreed risk management and control framework in the areas of capital management and liquidity funding if applicable.

The following table shows the respective responsibilities of each person at BCB.

Board and CEO	Governs and oversees the BCB Risk Management and Compliance Framework. This includes reviewing and evaluating the framework bi-annually and measuring its success against corporate objectives and strategies. The review is coordinated with BCB's annual strategic planning cycle. The Board of Directors is responsible for oversight of overall risk management and sets the level of risk tolerance through policy. It delegates authority for implementing risk control activities to board and management committees.
Audit Committee	The Audit Committee is a committee of the Board and is chaired by an independent director. It provides oversight and direction for the internal audit function and manages the relationship with the Bank's external auditors. It reviews the results of both audit programs and the progress of work undertaken to correct risk issues, and reviews the annual financial statements.
Board Risk Committee ("BRC")	The BRC is a committee of the Board and is chaired by an independent director. The BRC oversees the work of the management risk committee, provides policy level direction, defines the risk appetite for the Bank, and assesses performance of the risk management framework of the Bank. The BRC is also responsible for the oversight of related party relationships and exposures.
Management Risk Committee ("MRC")	The MRC is a management committee established to provide oversight of the Bank's enterprise-wide risk management framework, including the strategies, policies, procedures, and systems established by management to identify, assess, measure and manage the significant risk factors facing the Bank. The MRC manages the key risk elements of the Bank's Capital Adequacy and Risk Profile (CARP). The Bank's transition to Basel III is also being managed by the MRC. The MRC reviews the credit risk associated with the Bank's activities and, where relevant, provides approval with respect to new business initiatives and individual credit proposals.
Asset and Liability Management Committee ("ALCO")	The ALCO is a management committee established to oversee the Asset and Liability Management of the Bank which is defined in the Asset and Liability Management (ALM) policy. 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.
Chief Risk Officer	Drives the BCB Risk Management and Compliance Framework, including establishing the strategic, organisational and risk management contexts in which the framework will take place.
Risk Management Team and Compliance Team	Assists department Managers and their teams to continually complete and review the Risk Management Process to ensure it remains effective. Within the capacity of a consultancy role, it pro-actively administers and implements the BCB Risk Management and Compliance Framework. This includes reporting to the Board, establishing and maintaining the policies, processes and procedures, reviewing the adequacy of risk and compliance controls and ensuring that risk management and compliance is an iterative process of continual improvement.

Staff	Is knowledgeable of and competent in, the application of Risk Management and Compliance principles and practices, and applies them within their areas of responsibility. Staff also identify and report risks, risk incidents and policy breaches to Management.

Internal Audit	Monitors and measures the BCB Risk Management and Compliance Framework to ensure that it is working effectively within the business and reports the outcome to the Audit Committee. Internal Audit also identifies any staff training needs and where possible, ensures the Department Manager carries out staff coaching to correct or improve the manner in which the task is performed.
Management	Applies the BCB Risk Management and Compliance Framework in overall business management, including decision making, from a risk / return perspective. Conducts regular risk forecasting and effectiveness reviews of current Risk Management and Compliance strategies. Ensures that all staff understand and fully accept their risk and compliance identification and control responsibilities by including these in job descriptions and key performance indicators, through regular communication and training programs. Identifies and manages the risks and compliance obligations within their department. Ensures that controls are monitored and reviewed frequently. Ensures that staff are familiar with the risk management register and controls, and are notified of any changes.

Risk Management and Control Framework

Bermuda Commercial Bank's risk management and control objectives are implemented within the organization using policies and quantitative components. This framework is dynamic and is continuously enhanced and adapted as the Bank's business, the market and the general banking environment evolves.

There are five established key elements in the Bank's independent risk control framework.

1. Risk policies and procedures;
2. Risk identification;
3. Risk evaluation;
4. Risk control and mitigation; and
5. Risk and incident reporting.

Credit Risk

Credit or Counterparty Risk refers to the risk that a counterparty might fail to discharge their contractual obligations causing a loss of the Bank's assets. This risk exists where there is any transfer of value from the bank to other parties, be it in the form of a loan or a deposit. The Bank manages and controls credit risk by setting 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 minimal loan and other credit facilities to clients. The Bank offers a Letter of Credit product that is fully cash collateralised and is processed through the Bank's correspondent relationship.

The Bank is exposed to credit risk when it places funds with other banks or when it purchases investment instruments such as bonds or places funds with money market funds. 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.

The Bank's internal policies 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 for money market funds and places no more than the equivalent of 25% of its capital in any single fund or instrument. All counterparty banks and money market funds 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 S&P, Fitch and Moody's ratings for that bank or money market fund. Counterparty banks and money market funds with a rating lower than "A" are not used to place deposits. Limits are periodically reviewed periodically and adjusted as the capital of the Bank changes or the rating of a counterparty bank or money market fund falls below the "A" level.

The table below details BCB's consolidated regulatory credit risk exposures based on the BMA's Revised Framework for Regulatory Capital Assessment guidance:

Analysis of Exposures Class	Exposure Position as at Mar 31, 2015 ($'000)
Cash	1,067
Claims on Sovereigns	36,593
Claims on Corporates	103,811
Claims on Banks and Securities Firms	308,447
Securitisations	43,341
Retail Loans	677
Past Due Loans	394
Other Balance Sheet Exposures	103,425
Balance Sheet Exposures	**597,755**
Non-market Related Off Balance Sheet Credit Exposures	1,382
Total Credit Risk Exposures	**599,137**

Market Risk

Market risk is the risk of loss emanating from changes in the market price of securities investments that reduce the value of those investments. The traditional four areas of market risk are Equity Price Risk (adverse price movement in equity holdings), Interest Rate Risk (adverse movement in interest rates), Currency Risk (adverse movements in foreign exchange rates), and Commodity Price Risk (adverse changes in commodities holdings).

Currency Risk: The Bank holds a substantial portion of it Investments in currencies other than US dollars. These investments are principally hedged to US dollars and the Bank regularly reviews its currency hedging strategy and process to test the results and fit of hedges in place.

Commodities Risk: The Bank holds no commodities on its own behalf.

Interest Rate Risk: This risk occurs from a mismatch of interest rate exposures tied to the Bank's assets and liabilities. Adverse movements in interest rates can result in a reduction in the Bank's net interest margin. The Bank invests a portion of its balance sheet in a diversified fixed income securities portfolio. Duration is the price sensitivity of a fixed income security to changes in interest rate. The Bank manages the duration of its bond portfolio to mitigate interest rate risk.

Interest Rate Re-Pricing Risk: Like many banks, BCB is exposed to price in terms of the changes to the interest rates earned on its short term deposits placed with other banks and money market funds. These cash holdings generate interest income for the Bank and historically have been a significant source of the Bank's income. Currently, however, rates for short term (1 to 7 days) deposits placed with other banks in the USD, GBP, and EUR money markets are earning less than 0.15%, on average.

These historically low deposit rates are expected to remain the status quo for the short term future. Thus they will impact on the Bank's earnings (please refer to the 2014 Annual Financial Report for details).

Equity Risk: The Bank holds a limited number of equities within its financial investments portfolio. The total value of these securities as at March 31, 2015 is $53,486,738. The Bank uses fair market values to value these available-for-sale holdings.

Stress and Scenario Testing

The purpose of stress and scenario testing is to quantify exposure to extreme and unusual market risk occurrences. The Bank's objectives in stress and scenario testing are to review probable outcomes of plausible scenarios. The Bank's program also assesses credit and market risks to understand specific weaknesses in the solvency of the Bank. The feedback and output aid the modelling of a comprehensive control framework that is transparent and responsive to rapidly changing market conditions.

Liquidity Risk

Liquidity Risk exists where demand from clients to withdraw funds from their accounts exceeds the cash available to fund those withdrawals. For example, a liquidity mismatch would exist if the Bank locked up too much of its capital and reserves in illiquid long-term assets that were not useful for funding of any increase in short-term deposit withdrawals.

The Bank manages its liquidity risk through cash and liquidity management techniques that maximize its liquidity, and through controls on the percentage of its balance sheet that can be converted to cash within specific short term bands. At March 31, 2015, cash and cash equivalents represented 41.92% of total assets and the Bank is committed to maintaining a prudent level of liquid assets which will be managed in parallel with the Bank's liability profile.

Concentration Risk

Concentration risk arises in various parts of the Bank's balance sheet and revenue stream. Examples of concentration risk include;

- Reliance on too few or closely related forms of revenue that expose the profitability of the Bank to risk from adverse movement in income;
- Reliance on a few, large obligors from common industry sectors, which expose the balance sheet to the risk of material and disproportionate loss should an event of default occur;

- A relatively small deposit and client base leaving the Bank vulnerable to losing deposit funding due to reputation risk

Given the small size of the Bank there is concentration risk in the client portfolio. Concentration risk for revenues is discussed in the section on Price Risk.

Industry concentration risk exists due in part to the fact that the Bank primarily serves the corporate and commercial sectors. While the client mix is generally diverse, large balances tend to be held by investment fund clients. During the recent global recession these clients all experienced reduced subscription and higher levels of redemptions that drove down the fund asset base (reducing fee income in some cases) and banking deposit levels.

The Bank calculates the Herfindahl-Hirschman Index (HHI) on client deposit concentration by client group. Client Group is used rather than individual accounts as the risk is more properly assigned to the controlling entity. As the Bank serves commercial, corporate, and high-net worth clients, it is common for a controlling entity to have control over multiple legal entities and accounts.

The Herfindahl-Hirschman Index (HHI) is a simple approach for quantifying undiversified idiosyncratic risk. The HHI is defined as the sum of the squares of the relative portfolio shares of all groups. Well-diversified portfolios with a large number of small entities have an HHI value close to zero whereas heavily concentrated portfolios can have a considerably higher HHI value. In the extreme case of a single entity, the HHI takes the value of one.

BCB uses both the raw Herfindahl Index (HI) and its reciprocal. The formula is;

HI: $$H = \sum_{i=1}^{N} s_i^2$$

Reciprocal: $$H_r = 1/H$$

The calculation is run against the aggregate balances of client groups (where a client controls multiple accounts) or individual clients that do not hold more than one account.

The following table explains how the HHI score is related to concentration and is derived from generally accepted definitions of concentration;

H is below 0.01 indicates a highly unconcentrated index.
H is below 0.1 indicates an unconcentrated index.
H is between 0.1 to 0.18 indicates moderate concentration.
H is above 0.18 indicates high concentration

As of March 31, 2015, the HHI for BCB's client portfolio is;

Herfindahl-Hirschman Index (HHI):	0.040
Equivalent Number of Groups:	25.10

A HHI score of 0.040 indicates that BCB's client concentration risk is 'unconcentrated', but not 'highly unconcentrated'. However in practice this level tends to result in a 'lumpy' dispersion of balances with resulting volatility in balance levels.

Compliance Risk

Like all banks, BCB is a regulated entity that is supervised by the Bermuda Monetary Authority (BMA). The activity of the Bank is subject to limits imposed through regulations and through legislation. The Bank must comply with these regulations and legislation or face sanction, fines, loss of license or restrictions on operations.

BCB is also indirectly impacted by the regulatory regimes of other countries with which it transacts business and to a degree is obligated to comply with those regulations. For example while BCB has no operations in the US, it does use US banks for its deposits and US Dollar clearing. In order to use US counterparty banks, BCB is obliged to comply with certain US requirements, such as completion of Patriot Act forms, compliance with periodic reviews, and compliance with US prohibition of transactions with entities sanctioned by the US (known terrorists and other Specially Designated Nationals or the "SDN"list).

BCB actively manages compliance risk through a dedicated Compliance Department that ensures that all business transacted by the bank meets domestic requirements, internal policy, and international requirements. The Compliance Department monitors changes in legislation and updates Bank policy and operations as needed. The Bank maintains compliance though a number of programs that includes;

- Real-time automated scrubbing of all wire transactions against official watch lists to detect potential activity with known sanctioned entities;
- Review of all new business for risk and approval as well as continuous periodic review of all existing business on a risk-basis for compliance with regulations;
- Activity monitoring using automated systems to detect patterns of suspicious activity
- Periodic training and update for all staff for anti-money laundering, anti-fraud, and internal policy and procedures.

The Compliance function reports to the Chief Risk Officer.

Additionally the Bank is subject to supervisory review and on-site inspection from the BMA, and elements of the compliance function are subject to audit by both the Bank's internal auditor and its external auditor.

Operational Risk

Operational risk is deemed as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external causes, whether deliberate, accidental or natural." Operational risk by its nature cannot be entirely eliminated but it can be managed and mitigated to levels that are deemed acceptable by management.

Operational risk is the responsibility of the Management Risk Committee and includes business process controls, data systems, and compliance (anti-money laundering). The Committee meets at least quarterly or more frequently as needed to review controls, incidents, and work underway to manage risk. Incident management team meetings are held as and when needed. The Committee:

- Reviews and challenges risk information received from the Group's risk function to ensure that the Group is not exceeding the risk appetite set by the Board;
- Ensures rigorous stress and scenario testing of the Group's business. It receives reports that explain the impact of crystallisation of identified risks and threats to the Group to ensure that a sufficient level of risk mitigation is in place;
- Reviews and take appropriate steps to satisfy itself that the due diligence process followed for proposed strategic acquisitions or disposals is thorough; and
- Considers the adequacy and effectiveness of the technology infrastructure supporting the risk management framework.

The Bank's control environment includes non-automated risk management such as a program of continuous audit review and risk-based in depth client review. The Bank also utilises automated systems to mitigate the risk of criminal activity being perpetrated through the Bank's products and services. These systems include application risk scoring systems for new business uptake and real-time wire activity scrubbing against official watch-lists.

The key operational risk for banks tends to be fraud (internal or external), errors, and problems related to data systems. Compliance risk is a rapidly rising area of concerns for banks.

A core element of an operational risk mitigation program for the Bank includes data security.
Banks by their nature are heavily data-dependant and the requirements for protecting the confidentiality, integrity, and availability of data are critical. BCB does not outsource its technical operations and data remains in Bermuda. The Bank maintains business recovery architecture with a fail-over time of a few minutes. The backup site readiness is monitored

continuously and tested at least annually. The recovery site is in Bermuda and is considered by the Bank as a practical commercially reasonable approach.

BCB has implemented PC Desktop End Point Security that centrally disables access to any portable device, guarding against data theft and the introduction of data or software that could be harmful to the network.

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.

Anti-virus software protects all desktop machines and servers, and where applicable application and systems updates and patches are applied automatically.

Operational Risk Assessment

The fundamental process of assessing operational risk relies on the identification and measurement of risks, the mitigation of risks, and an evaluation of the efficacy of the mitigation. These risks can be inherent in a process, represent vulnerabilities, or manifest themselves through actual incidents.

Risk events are evaluated in terms of probability and severity, addressed and reported to the MRC and the BRC. A detailed assessment of each risk event is recorded and analysed to address root causes and a log of all issues is maintained.

Under the Basic Indicator Approach, the Bank's capital charge for operational risk is calculated using gross income data derived from the last three completed financial years for which audited financial statements have been prepared.

Basic Indicator Approach ($'000)			
as at March 31, 2015			
Item	**Last year**	**1 year prior**	**2 years prior**
Gross Income			
Net interest income	18,174	15,977	15,220
Net non-interest income	5,742	6,730	5,169
Total	23,916	22,707	20,389
Average of positive total annual incomes	22,337		
Alpha	15%		
BIA Requirement			
- Capital Charge	3,351		
- Risk Weighted Asset Equivalent	41,883		