



# BASEL III, PILLAR 3 DISCLOSURES

Bermuda Commercial Bank | September 30, 2018

## Table of Contents

Introduction .....	3
Background.....	3
Overview of the Bank.....	4
Scope of Application .....	4
Risk Management Objectives and Policies .....	6
Governance .....	6
Enterprise Risk Management (“ERM”) .....	7
Key Prudential Metrics .....	10
Capital and Risk Weighted Assets .....	11
Capital Management.....	11
Regulatory Capital Framework .....	11
Capital Structure .....	12
Risk Weighted Assets (RWA) .....	16
Leverage Ratio.....	16
Credit Risk .....	18
Overview .....	18
Credit Risk Exposures .....	19
Credit Risk Mitigation .....	21
Standardised approach.....	22
Counterparty Credit Risk .....	23
Securitization .....	24
Market Risk.....	25
Overview .....	25
Foreign Exchange Risk.....	25
Interest Rate Risk .....	26
Funding & Liquidity Risk.....	27
Overview .....	27
Liquidity Coverage Ratio.....	27
Net Stable Funding Ratio.....	28
Operational Risk.....	29
Overview .....	29
Other Information.....	30

## **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 “the 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 September 30 2018 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 Bermuda Monetary 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 1<sup>st</sup> 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.

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 September 30, 2018 already exceeds the Basel Committee’s 2019 fully implemented Basel III requirements, i.e. minimum ratios plus capital conservation buffer.

## Overview of the Bank

BCB was founded in 1969 and is focused on servicing the local and international corporate and commercial business communities as well as high net worth clients. The Bank provides the highest standards of service to clients worldwide. BCB has been guided by a corporate philosophy centred on the provision of innovative, quality service with minimal risk tailored to the specific needs of its clients.

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”), resulting in BCB becoming a wholly-owned subsidiary of Somers. BCB delisted from the Bermuda Stock Exchange.

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 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 September 30, 2018, 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.

In June 2018 the Bank sold a substantial portion of its controlling interest in the former United Kingdom majority held subsidiary, PCF Bank Limited. The Bank's Capital Ratio and Liquidity Coverage Ratio increased as a result of this sale. The Bank retains a 9.9% interest in PCF Bank Limited within its investment portfolio.

## **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.

### **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.

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 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 was formed during the year by merging the Board Audit Committee and the Board Risk Committee. In relation to audit, it provides oversight and direction of 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. In relation to risk, the BARC oversees the work of the management risk committee and the asset and liability committee, provides policy level direction, defines the risk appetite for the Bank, and assesses performance of the risk management framework of the Bank. It is also responsible for the oversight of the related party relationships and exposures.

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

The Governance Committee is a committee of the Board of Directors and is chaired by an independent director. The committee has the oversight responsibilities with respect to corporate governance principles, the code of ethics applicable to the Bank, human resources policies, compensation and benefits programs, Board of Directors performance and performance objectives for the key executives of the Bank.

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.

Additionally, the Boards of the Bank's core operating subsidiaries, 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: Executive Committee, the Asset and Liability Committee, the Management Risk Committee and the Credit Committee, each of which has their own approved Charters.

**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.

**Asset and Liability 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 available-for-sale financial assets.

**Management Risk Committee (“MRC”)** is a management committee established to provide oversight of the Bank’s enterprise risk management framework, including the strategies, policies, procedures, and systems established by management to identify, assess, measure, and manage the significant risks facing the Bank. The MRC manages the key risk elements of the Bank’s Capital Adequacy & Risk Profile (“CARP”). The Bank’s transition to Basel III is also being managed by the MRC. The MRC also 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.

**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.

**Human Resources Management Committee (“HRMC”)** is a management committee established to provide oversight the Bank’s human resources management framework, including the strategies, policies, procedures, and systems established by management to identify, assess, measure, and manage the Bank’s Human Capital.

### **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:

1. Promotion of a culture in which risks are identified, assessed and reported in a transparent and objective manner;
2. Rigorous assessment and measurement of risk relative to the Bank’s approved risk appetite;
3. To protect the Bank’s long-term viability and produce sustainable income streams

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.

### **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 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. 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.

## Key Prudential Metrics

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

Table 1: Key Metrics (KM1)

	30-Sep-18	30-Jun-18	31-Mar-18	31-Dec-17	30-Sep-17
<b>Available capital (amounts in '000's)</b>					
Common Equity Tier 1 (CET1)	102,984	106,375	99,692	98,994	98,986
Fully loaded ECL accounting model	102,984	106,375	99,692	98,994	98,986
Tier 1	102,861	106,252	100,991	100,078	100,104
Fully loaded accounting model Tier 1	102,861	106,252	100,991	100,078	100,104
Total capital	102,861	106,252	100,991	100,078	100,104
Fully loaded ECL accounting model total capital	102,861	106,252	100,991	100,078	100,104
<b>Risk-weighted assets (amounts)</b>					
Total risk-weighted assets (RWA)	249,362	263,427	433,759	396,322	445,228
<b>Risk-based capital ratios as a percentage of RWA</b>					
Common Equity Tier 1 ratio (%)	41.3%	40.4%	23.0%	25.0%	22.2%
Fully loaded ECL accounting model CET1 (%)	41.3%	40.4%	23.0%	25.0%	22.2%
Tier 1 ratio (%)	41.2%	40.3%	23.3%	25.3%	22.5%
Fully loaded ECL accounting model Tier 1 ratio (%)	41.2%	40.3%	23.3%	25.3%	22.5%
Total capital ratio (%)	41.2%	40.3%	23.3%	25.3%	22.5%
Fully loaded ECL accounting model total capital ratio (%)	41.2%	40.3%	23.3%	25.3%	22.5%
<b>Additional CET1 buffer requirements as a percentage of RWA</b>					
Capital conservation buffer requirement (2.5% from 2019) (%)	1.9%	1.9%	1.9%	1.3%	1.3%
Countercyclical buffer requirement (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Bank D-SIB additional requirements (%)	8.8%	8.8%	8.8%	8.8%	8.8%
Total of bank CET1 specific buffer requirements (%)	10.6%	10.6%	10.6%	10.0%	10.0%
CET1 available after meeting the bank's minimum capital requirements (%)	31.4%	30.5%	13.1%	15.7%	13.0%
<b>Basel III Leverage Ratio</b>					
Total Basel III leverage ratio measure	485,064	456,086	714,158	655,374	781,413
Basel III leverage ratio (%)	21.2%	23.3%	14.1%	15.3%	12.8%
Fully loaded ECL accounting model Basel III leverage ratio (%)	21.2%	23.3%	14.1%	15.3%	12.8%
<b>Liquidity Coverage Ratio</b>					
Total HQLA	232,180	143,153	192,892	219,423	224,194
Total net cash outflow	96,584	25,347	73,308	158,541	155,753
LCR ratio (%)	240.4%	564.8%	263.1%	138.4%	143.9%
<b>Net Stable Funding Ratio</b>					
Total available stable funding	305,173	308,315	525,524	n/a	n/a
Total required stable funding	204,197	236,402	417,160	n/a	n/a
NSFR ratio (%)	149.5%	130.4%	126.0%	n/a	n/a

N.B. – Total available stable funding and Total required stable funding data in the table above are not applicable on or prior to 31 December, 2017, as NSFR regulations only came into effect from 1 January, 2018.

## 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 September 30, 2018 are set out below.

Table 2: Composition of Capital (CC1)

	Amounts ('000's)	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
<b>Common Equity Tier 1 capital: instruments and reserves</b>		
Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	38,939	(c)
Retained earnings	66,358	(d)
<b>Common Equity Tier 1 capital before regulatory deductions</b>	<b>105,297</b>	
<b>Common Equity Tier 1 capital regulatory adjustments</b>		
Goodwill (net of related tax liability)	1,701	(a)
Other intangibles other than mortgage servicing rights (net of related tax liability)	612	(b)
<b>Total regulatory adjustments to Common Equity Tier 1</b>	<b>2313</b>	
<b>Common Equity Tier 1 capital (CET1)</b>	<b>102,984</b>	
<b>Additional Tier 1 capital: regulatory adjustments</b>		
Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	(123)	(e)
<b>Total regulatory adjustments to additional Tier 1 capital</b>	<b>(123)</b>	
<b>Tier 1 capital (T1= CET1 + AT1)</b>	<b>102,861</b>	
<b>Tier 2 capital (T2)</b>	<b>-</b>	
<b>Total regulatory capital (TC = T1 + T2)</b>	<b>102,861</b>	
<b>Total risk-weighted assets</b>	<b>249,362</b>	
<b>Capital ratios and buffers</b>		
<b>Common Equity Tier 1 (as a percentage of risk-weighted assets)</b>	<b>41.30%</b>	
<b>Tier 1 (as a percentage of risk-weighted assets)</b>	<b>41.25%</b>	
<b>Total capital (as a percentage of risk-weighted assets)</b>	<b>41.25%</b>	
<b>Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)</b>	<b>10.63%</b>	
<b>Of which: capital conservation buffer requirement</b>	<b>1.88%</b>	
<b>Of which: bank-specific countercyclical buffer requirement</b>	<b>0.00%</b>	
<b>Of which: higher loss absorbency requirement</b>	<b>8.75%</b>	
<b>Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.</b>	<b>31.42%</b>	

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 12

As at 30 September, 2018, the CET1, Tier 1 and total capital ratios of the Bank were 41.30%, 41.25% and 41.25% respectively.

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

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

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	30-Sep-18	30-Sep-18	
<b>Assets</b>			
Cash and cash equivalents	170,852	55,266	
Receivable from related parties	151	-	
Interest receivable	2,292	-	
Other assets	1,821	4,423	
Loans and advances to customers	42,586	25,828	
Available-for-sale financial investments	244,068	376,411	
Derivative financial instruments	158	-	
Property and equipment	18,574	18,574	
Goodwill and other intangible assets	2,313	2,313	
Of which: goodwill	1,701	1,701	(a)
Of which: intangibles (excluding MSRs)	612	612	(b)
<b>Total assets</b>	<b>482,815</b>	<b>482,815</b>	
<b>Liabilities</b>			
Deposits	367,689	367,689	
Customer drafts payable	113	-	
Derivative financial instruments	418	-	
Other liabilities	6,983	9,706	
Interest payable	2,193	-	
<b>Total liabilities</b>	<b>377,395</b>	<b>377,395</b>	
<b>Shareholders' equity</b>			
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	66,358	66,358	(d)
Accumulated OCI	123	123	(e)
<b>Total shareholders' equity</b>	<b>105,420</b>	<b>105,420</b>	

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 11

Table 4: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (L11)

	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:			
			Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Not subject to capital requirements or subject to deduction from capital
<b>Assets</b>						
Cash and cash equivalents	170,852	55,266	55,266	-	-	-
Receivable from related parties	151	-	-	-	-	-
Interest receivable	2,292	-	-	-	-	-
Other assets	1,821	4,423	4,423	-	-	-
Loans and advances to customers	42,586	25,828	25,828	-	-	-
Available-for-sale financial investments	244,068	376,411	376,411	-	2,301	123
Derivative financial instruments	158	-	-	-	-	-
Property, equipment and computer software	18,574	18,574	18,574	-	-	-
Goodwill and customer relationships (Intangible Assets)	2,313	2,313	-	-	-	2,313
<b>Total Assets</b>	<b>482,815</b>	<b>482,815</b>	<b>480,503</b>	<b>-</b>	<b>2,301</b>	<b>2,436</b>
<b>Liabilities</b>						
Deposits	367,689	367,689	-	-	-	367,689
Customer drafts payable	113	-	-	-	-	-
Derivative financial instruments	418	-	-	-	-	-
Other liabilities	6,983	9,706	-	195	-	9,511
Interest payable	2,193	-	-	-	-	-
<b>Total Liabilities</b>	<b>377,395</b>	<b>377,395</b>	<b>-</b>	<b>195</b>	<b>-</b>	<b>377,200</b>

All amounts in '000's

The reason for the differences in the carrying values under regulatory scope and per the financial statement is due to:

- Some items being included in more than one risk framework

Table 5: Main sources of differences between regulatory exposure amounts and carrying values in financial statements (L12)

	Total	Items subject to:			
		Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
Asset carrying value amount under scope of regulatory consolidation (as per template L11)	482,804	480,503	2,301	-	-
Liabilities carrying value amount under regulatory scope of consolidation (as per template L11)	195	-	-	195	-
Total net amount under regulatory scope of consolidation	482,609	480,503	2,301	(195)	-
Off-balance sheet amounts	41,469	4,008			195
<b>Exposure amounts considered for regulatory purposes</b>	<b>524,078</b>	<b>484,511</b>	<b>2,301</b>	<b>(195)</b>	<b>195</b>

*All amounts in '000's*

The regulatory carrying amount excludes items subject to capital deductions and items not subject to capital requirements.

Other differences may be due to items being included in multiple risk framework categories.

Off balance sheet total is showing the original exposure, however the amount subject to credit risk and market risk framework is after the Credit Conversion Factor.

## 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 September 30, 2018 is set out below.

Table 6: Overview of Risk Weighted Assets (OV1)

	RWA		Minimum capital requirements
	30-Sep-18	30-Jun-18	30-Sep-18
<b>Credit risk (excluding counterparty credit risk)</b>	<b>194,188</b>	<b>207,510</b>	<b>19,186</b>
Of which: standardised approach (SA)	194,188	207,510	19,186
<b>Counterparty credit risk (CCR)</b>	<b>553</b>	<b>2,127</b>	<b>55</b>
Of which: standardised approach for counterparty credit risk	553	2,127	55
<b>Securitisation exposures in the banking book</b>	<b>1,939</b>	<b>1,982</b>	<b>192</b>
Of which: securitisation standardised approach (SEC-SA)	1,939	1,982	192
<b>Market risk</b>	<b>2,325</b>	<b>1,451</b>	<b>230</b>
Of which: standardised approach (SA)	2,325	1,451	230
<b>Operational risk</b>	<b>50,357</b>	<b>50,357</b>	<b>4,975</b>
<b>Total</b>	<b>249,362</b>	<b>263,427</b>	<b>24,637</b>

All amounts in '000's

## 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 September 30, 2018, the leverage ratio of the Bank was 21.21%, 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 7: Summary comparison of accounting assets vs. leverage ratio exposure (LR1)

	30-Sep-18
Total consolidated assets as per published financial statements	482,815
Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	(2,313)
Adjustments for derivative financial instruments	553
Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	4,008
<b>Leverage ratio exposure measure</b>	<b>485,064</b>

All amounts in '000's



Table 8: Leverage ratio common disclosure template (LR2)

	30-Sep-18	30-Jun-18
<b>On-balance sheet exposures</b>		
On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	482,815	452,524
(Asset amounts deducted in determining Basel III Tier 1 capital)	(2,313)	(2,565)
<b>Total on-balance sheet exposures (excluding derivatives and SFTs)</b>	<b>480,502</b>	<b>449,959</b>
<b>Derivative exposures</b>		
Replacement cost associated with <i>all</i> derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	195	1,193
Add-on amounts for PFE associated with <i>all</i> derivatives transactions	358	934
<b>Total derivative exposures</b>	<b>553</b>	<b>2,127</b>
<b>Securities financing transactions</b>		
Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	4,008	4,000
<b>Total securities financing transaction exposures</b>	<b>4,008</b>	<b>4,000</b>
<b>Capital and total exposures</b>		
<b>Tier 1 capital</b>	<b>102,861</b>	<b>106,252</b>
<b>Total exposures</b>	<b>485,064</b>	<b>452,086</b>
<b>Leverage ratio</b>		
<b>Basel III leverage ratio</b>	<b>21.21%</b>	<b>23.50%</b>

All amounts in '000's

## 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 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 available-for-sale 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 Exposures

The table below details BCB's consolidated regulatory credit risk exposures based on the BMA's Revised Framework for Regulatory Capital Assessment guidance as at September 30, 2018.

Table 9: Credit quality of assets (CR1)

	Carrying values of		Allowances/ impairments	Net values
	Defaulted exposures	Non-defaulted exposures		
Loans	441	25,445	(58)	25,828
Debt securities	-	340,748	-	340,748
Other investments	-	35,664	-	35,664
Cash and cash equivalents	-	55,266	-	55,266
Other assets	-	4,423	-	4,423
Property, equipment and computer software	-	18,574	-	18,574
Off-balance sheet exposures	-	5,634	-	5,634
<b>Total</b>	<b>441</b>	<b>485,754</b>	<b>(58)</b>	<b>486,137</b>

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

#### Treatment

If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables has been incurred, the Bank measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the recoverable value of the asset or group of assets at the measurement date.

Impairment losses are assessed individually for financial assets that are individually significant and individually or collectively for assets that are not individually significant. In making a collective assessment of impairment, financial assets are grouped into portfolios on the basis of similar risk characteristics.

For loans and receivables, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the effective interest rate. All impairment losses are reviewed at least at each reporting date. If subsequently the amount of the loss decreases as a result of a new event, the relevant element of the outstanding impairment loss is reversed.

#### 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 and an impairment provision is made where there is objective evidence of impairment. In contrast, under regulatory rules, a financial asset is treated as past due when the payment is ninety days past the contractual due date. Value adjustments and provisions required under regulatory rules are calculated on the same basis as impairment provisions, and so all provisions for impaired loans and advances are referred to as impairment provisions. The impairment

provisions shown below are the accounting values as reported in the Bank's Annual Report & Financial Statements, where further relevant information can be found. The term defaulted used in tables 9, 10 and 11 is based on the regulatory definition of default.

#### Analysis of impairment provisions

For accounting purposes, impaired loans and advances to customers are analysed according to whether the impairment provisions are individually or collectively assessed, as described in more detail in the Bank's Annual Report & Financial Statements.

Table 10: Changes in stock of defaulted loans and debt securities (CR2)

	30-Sep-18
<b>Defaulted loans and debt securities at the end of the previous reporting period</b>	<b>458</b>
Loans and debt securities that have defaulted since the last reporting period	3
Other changes	(19)
<b>Defaulted loans and debt securities at the end of the reporting period</b>	<b>441</b>

*All amounts in '000's*

Refer to the Annual Financial Statements note 19 Risk Management for details of the maturity of the balance sheet and note 20 Segment Information.

#### Financial instruments classified as available for sale

When a decline in the fair value of a financial asset classified as available for sale has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss is removed from equity and recognised in the consolidated income statement. The loss or impairment provision is calculated between the carrying value and the expected recovery price of the financial asset at the time of review.

## Credit Risk Mitigation

The following table reports the split between the Bank's secured and unsecured exposures as at September 30, 2018.

Table 11: Credit risk mitigation techniques - overview (CR3)

	Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount
Loans	8,847	16,981	16,981
Debt securities	319,275	21,473	21,473
<b>Total</b>	<b>328,122</b>	<b>38,454</b>	<b>38,454</b>
Of which defaulted	0	383	383

*All amounts in '000's*

The effective management of credit risk in the Bank's loan book is addressed by relevant credit underwriting policies and guidelines and the 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. The Bank uses a range of cash or alternative forms of acceptable collateral to collateralise credit exposures in a portfolio.

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.

## Standardised approach

Table 12: Standardised approach - credit risk exposure and Credit Risk Mitigation (CRM) effects (CR4)

Asset classes	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
Cash	1,158	-	1,158	-	121	10.5%
Claims on Sovereigns and MDBs	229,358	-	229,358	-	5,217	2.3%
Claims on Corporates	98,135	-	98,135	-	93,766	95.5%
Claims on Banks and Securities Firms	90,823	-	90,823	-	34,197	37.7%
Securitisations	2,301	-	2,301	-	1,939	84.3%
Retail Loans	716	-	716	-	537	75.0%
Residential Mortgages	1,136	-	1,136	-	398	35.0%
Past Due Loans	383	-	383	-	575	150.0%
Other Balance Sheet Exposures	58,805	-	58,805	-	56,369	95.9%
Non-market Related Off Balance Sheet Credit Exposures	-	5,634	-	4,008	3,008	53.4%
Market-Related Off-Balance Sheet Credit Exposures	-	553	-	553	553	100.0%
<b>Total</b>	<b>482,815</b>	<b>6,187</b>	<b>482,815</b>	<b>4,562</b>	<b>196,681</b>	<b>40.4%</b>

All amounts in '000's

Table 13: Standardised approach - exposures by asset classes and risk weights (CR5)

Asset classes	Risk Weight							Total credit exposures amount (post CCF and post-CRM)
	0%	20%	35%	50%	75%	100%	150%	
Cash	552	606	-	-	-	-	-	1,158
Claims on Sovereigns and MDBs	203,271	26,087	-	-	-	-	-	229,358
Claims on Corporates	-	5,143	-	4,084	-	85,334	3,574	98,135
Claims on Banks and Securities Firms	-	48,159	-	36,197	-	6,467	-	90,823
Securitisations	-	361	-	146	-	1,794	-	2,301
Retail Loans	-	-	-	-	716	-	-	716
Residential Mortgages	-	-	1,136	-	-	-	-	1,136
Past Due Loans	-	-	-	-	-	-	383	383
Other Balance Sheet Exposures	2,436	-	-	-	-	56,369	-	58,805
Non-market Related Off Balance Sheet Credit Exposures	-	-	-	-	4,008	-	-	4,008
Market-Related Off-Balance Sheet Credit Exposures	-	-	-	-	-	553	-	553
<b>Total</b>	<b>206,259</b>	<b>80,356</b>	<b>1,136</b>	<b>40,427</b>	<b>4,724</b>	<b>150,517</b>	<b>3,957</b>	<b>487,377</b>

All amounts in '000's

## Counterparty Credit Risk

Table 14: Analysis of counterparty credit risk (CCR) exposure by approach (CCR1)

	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
SA-CCR (for derivatives)	195	358		1	553	553
<b>Total</b>						<b>553</b>

Monetary amounts in '000's

Table 15: Composition of collateral for CCR exposure (CCR5)

	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	-	-	-	-	117	-
Cash - other currencies	-	-	20,223	-	51	-
Corporate bonds	-	-	-	-	100	-
Equity securities	-	-	-	-	26,493	-
Other collateral	-	-	-	-	15,762	-
<b>Total</b>	-	-	<b>20,223</b>	-	<b>42,522</b>	-

All amounts in '000's

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. 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.

## Securitization

Table 16: Securitisation exposures in the banking book (SEC1)

	Bank acts as investor		
	Traditional	Synthetic	Sub-total
<b>Retail (total) - of which</b>	<b>2,301</b>	<b>-</b>	<b>2,301</b>
residential mortgage	2,301	-	2,301

All amounts in '000's

Residential property in Bermuda comprises the main source of 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. All residential property held by the Bank as mortgagee is to be insured through a third party insurer to cover property risks.

Table 17: Securitisation exposures in the banking book and associated capital requirements - bank acting as investor (SEC4)

	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
<b>Total exposures</b>	<b>361</b>	<b>146</b>	<b>1,794</b>	<b>2,301</b>	<b>1,939</b>	<b>192</b>
Traditional securitisation	361	146	1,794	2,301	1,939	192
Of which securitisation	361	146	1,794	2,301	1,939	192
Of which retail underlying	361	146	1,794	2,301	1,939	192

All amounts in '000's



## 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. All market risks are monitored closely by the Bank's Treasury Department and regularly reported to ALCO.

### Foreign Exchange Risk

Table 18: Market risk under the Standardised Approach (SA) (MR1)

	Capital charge in SA
Foreign exchange risk	2,325
<b>Total</b>	<b>2,325</b>

*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. These investments are principally hedged back into US dollars. Our currency hedging strategy and process is reviewed regularly to test the results and appropriateness of hedges in place.

## Interest Rate Risk

Table 19: Quantitative information on IRRBB (IRRBB1)

In reporting currency	ΔEVE		ΔNII	
	30-Sep-18	30-Jun-18	30-Sep-18	30-Jun-18
Parallel up	(13,739)	(15,074)	(1,268)	(538)
Steepener	(2,553)	(2,504)		
Flattener	6,677	6,832		
Short rate up	(3,631)	(2,837)		
Short rate down	3,631	2,837		
<b>Maximum</b>	<b>(13,739)</b>	<b>(15,074)</b>	<b>(1,268)</b>	<b>(538)</b>
<b>Period</b>	<b>30-Sep-18</b>		<b>30-Jun-18</b>	
<b>Tier 1 capital</b>	<b>102,861</b>		<b>106,252</b>	

All amounts in '000's

Interest Rate Risk in the Banking Book (“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. 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.

Like many banks, BCB is exposed to IRRBB through its exposure to fixed income securities including high quality liquid assets (“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.

## 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.

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 development and implementation of a 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.

### Liquidity Coverage Ratio

Table 20: Liquidity Coverage Ratio (LCR) (LIQ1)

	Total unweighted value (average)	Total weighted value (average)
<b>High-quality liquid assets</b>		
Total HQLA		170,494
<b>Cash outflows</b>		
<b>Retail deposits and deposits from small business customers, of which:</b>	<b>24,252</b>	<b>9,013</b>
Less stable deposits	24,252	9,013
<b>Unsecured wholesale funding, of which:</b>	<b>170,452</b>	<b>95,171</b>
Operational deposits (all counterparties) and deposits in networks of cooperative banks	78,553	19,638
Non-operational deposits (all counterparties)	91,899	75,533
<b>Secured wholesale funding</b>		<b>624</b>
<b>Additional requirements, of which:</b>	<b>12,100</b>	<b>11,193</b>
Outflows related to derivative exposures and other collateral requirements	10,303	10,303
Credit and liquidity facilities	1,508	601
<b>Other contingent funding obligations</b>	<b>289</b>	<b>289</b>
<b>TOTAL CASH OUTFLOWS</b>		<b>116,000</b>
<b>Cash inflows</b>		
<b>Inflows from fully performing exposures</b>	<b>61,571</b>	<b>61,571</b>
<b>Other cash inflows</b>	<b>3,395</b>	<b>3,395</b>
<b>TOTAL CASH INFLOWS</b>	<b>64,966</b>	<b>64,966</b>
		<b>Total adjusted value</b>
<b>Total HQLA</b>		<b>170,494</b>
<b>Total net cash outflows</b>		<b>51,034</b>
<b>Liquidity coverage ratio (%)</b>		<b>334%</b>

All amounts in '000's

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 1<sup>st</sup> January, 2019. BCB currently exceeds current and future minimum requirements.

## Net Stable Funding Ratio

Table 21: Net Stable Funding Ratio ("NSFR") (LIQ2)

	Unweighted value by residual maturity				Weighted value
	No maturity*	<6 months	6 months to <1 year	≥1 year	
<b>Available stable funding (ASF) item</b>					
Capital:	102,861	-	-	-	102,861
<i>Regulatory capital</i>	102,861	-	-	-	102,861
Retail deposits and deposits from small business customers:	-	60,391	17,996	77,397	147,945
<i>Less stable deposits</i>	-	60,391	17,996	77,397	147,945
Wholesale funding:	-	204,413	6,328	1,165	52,898
<i>Operational deposits</i>	-	76,219	-	-	38,110
<i>Other wholesale funding</i>	-	128,194	6,328	1,165	14,788
<i>All other liabilities and equity not included in the above categories</i>	-	7,806	270	1,334	1,469
<b>Total ASF</b>					<b>305,173</b>
<b>Required stable funding (RSF) item</b>					
Total NSFR high-quality liquid assets (HQLA)					16,802
Deposits held at other financial institutions for operational purposes	-	19,154	-	-	19,154
Performing loans and securities:	-	38,100	8,571	152,451	142,545
<i>Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions</i>	-	32,635	7,952	8,500	17,371
<i>Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:</i>	-	4,255	586	5,470	7,070
<i>Performing residential mortgages, of which:</i>	-	-	-	1,133	736
<i>With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk</i>	-	-	-	1,133	736
<i>Securities that are not in default and do not qualify as HQLA, including exchange-traded equities</i>	-	1,210	33	137,348	117,367
Assets with matching interdependent liabilities	-	-	-	-	-
Other assets:	-	4,332	2	21,360	25,694
<i>NSFR derivative assets</i>				158	158
<i>All other assets not included in the above categories</i>	-	4,174	2	21,360	25,536
Off-balance sheet items		-	-	5,634	2
<b>Total RSF</b>					<b>204,197</b>
<b>Net Stable Funding Ratio (%)</b>					<b>149%</b>

All amounts in '000's

\* Items to be 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 surpasses this requirement.

## **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 program 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.

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.

## Other Information

### Abbreviations:

The following abbreviated terms have been 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
CARP	Capital Adequacy and Risk Profile
CC	Credit Committee
CCF	Credit Conversion Factor
CCR	Counterparty Credit Risk
CET1	Common Equity Tier 1
CRM	Credit Risk Mitigation
EAD	Exposure at Default
ECL	Expected Credit Loss
ERMF	Enterprise Risk Management Framework
EVE	Economic Value of Equity
EXCO	Executive Committee
GC	Governance Committee
HQLA	High Quality Liquid Assets
IFRS	International Financial Reporting Standards
IRRBB	Interest Rate Risk in the Banking Book
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