ANNUAL REPORT 2016

BCB ANNUAL REPORT 2016

BCB®

BERMUDA COMMERCIAL BANK LIMITED

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Corporate Profile

Bermuda Commercial Bank provides tailored financial solutions and personal attention to Bermuda-based and international business customers, private clients and service providers. Since 1969 we have provided outstanding personal service to our clients. We offer competitive banking products and services as well as global custody and brokerage, trust administration, and a comprehensive range of corporate services including company formation and management, corporate directorships, trademarks and special purpose vehicles for corporate transactions. The acquisition in 2015 of Private and Commercial Finance Group plc has allowed us to also offer hire purchase and finance lease facilities throughout the United Kingdom.

Core Values

The BCB Board has established a set of values that guide the work of the business. These values are:

INTEGRITY
We can be relied upon to do the right thing in a moral way.

COMPLIANT
We can be relied upon to follow all regulatory and legal requirements.

PRISTINE BALANCE SHEET
We will proactively manage and optimise our balance sheet quality on an ongoing basis.

EFFICIENT
We will perform in a competent, capable and cost effective manner.

REPUTABLE
We will be conscientious, dependable and trustworthy.

History of Bermuda Commercial Bank

Bermuda Commercial Bank Limited ("BCB" or the "Bank") began by an Act of Parliament in February 1969. The Bank operated under the management of Barclays from its inception until May 10, 1993. A decision was made by Barclays to sell its minority shareholdings world-wide in the early 1990's and this set the stage for the Bank to acquire a new substantial shareholder and manager who would bring a new focus and direction.

In April 2010, the majority shareholding in the Bank was purchased by an investor group through Permanent Investments Limited ("Permanent"). The BCB focus on private wealth management and corporate business was reaffirmed, management began the work of updating technical infrastructure and the Bank re-engaged in the marketplace with new, competitive products.

In October of 2011, Bermuda Commercial Bank expanded its trust and corporate administration services business through the acquisition of two well-established Bermuda companies: Paragon Trust Ltd and Charter Corporate Services Ltd. This acquisition was consistent with Bermuda Commercial Bank's strategic objectives and overall business goals of creating a full-service, premier wealth management financial institution. Under their new names, BCB Paragon Trust Limited offers a complete range of trust services, and BCB Charter Corporate Services Limited offers a full range of corporate administrative and secretarial services to both local and exempted companies, which operate in a wide range of sectors. These exciting acquisitions solidified Bermuda Commercial Bank's position in the market as a financial institution on the rise.

In October 2012, as part of a strategic restructuring, BCB merged with BNL I Limited, a wholly owned subsidiary of Somers Limited ("Somers", formally known as "Bermuda National Limited" or "BNL"), resulting in BCB becoming a wholly-owned subsidiary of Somers. BCB delisted from the Bermuda Stock Exchange and its shareholders received one share of Somers for each share of BCB held. Somers shares are now listed on the Bermuda Stock Exchange. This merger further allowed for an enlarged platform for corporate investments and acquisitions within the financial services sector, and offers a greater opportunity to outside investors who may wish to invest in a diversified financial services company. The formation of Somers as the holding company of the BCB Group has increased the Group's ability to access additional equity capital.

During 2014 and 2015, BCB worked tirelessly with its strategic IT partners to implement the Temenos T24 Core Banking System, along with a suite of products, including Business Intelligence, Insight Risk, Anti-Money Laundering ("AML") and Foreign Account Tax Compliance Act ("FATCA"). The suite of products will allow BCB to grow its channel offerings and business lines, as well as providing better reporting and analysis through the Insight modules, thus improving upon the Bank's exceptional customer service. The launch of the Core Banking and Internet Banking System took place on November 1, 2015.

In September 2015, BCB announced the acquisition of Private and Commercial Finance Group plc ("PCFG"), a UK-based finance house quoted on the AIM stock exchange with a focus on vehicle financing in the business and consumer sectors. The rationale behind the acquisition is the attractive income stream which will diversify the Bank's revenues along with the ability to more efficiently deploy BCB's assets in the wake of the adoption of the BASEL III regulatory framework.

In June 2016, the BCB Group of Companies moved into a new location at 34 Bermudiana Road.

Key Financial Highlights

	2016	2015
Results of the year ($ million)		
Net interest income	$ 25.8	$ 12.2
Total income	$ 29.7	$ 35.3
Net (loss) / income	$ (6.6)	$ 8.0
Results at the year end ($ million)		
Total assets	$ 649.0	$ 759.7
Total deposits	$ 453.8	$ 505.3
Total equity	$ 103.9	$ 109.5
Regulatory ratios		
Tier 1 capital ratio	21.8%	20.8%
Total capital ratio	21.8%	20.8%

Chairman's Letter

Bermuda Commercial Bank Limited ("BCB" or the "Bank") is a regulated bank which seeks to achieve attractive and sustainable financial performance. Strong capital and liquidity positions provide a stable base to support the continuing development of the Bank.

2016 - A PIVOTAL YEAR

We live in challenging times. Global economic growth is anaemic. Debt levels are high. Most capital markets have been and remain strong, but valuations now seem stretched. Persistently low interest rates are tempting investors to assume greater risk as they seek yield. Income inequality is at unprecedented levels, and many people face inflation adjusted earnings lower than a decade ago.

Economic stress factors such as these, combined with social and cultural differences, are leading to widespread unrest. One consequence is a populist backlash. This was epitomised globally by the Brexit vote in the UK and by the election of Mr. Donald Trump as President of the USA. Bermuda has not been insulated from this disquiet, as evidenced by the recent picketing of Parliament.

In such an uncertain environment, our first priority for BCB is to ensure that it remains stable and secure. The Bank was successful in that regard in 2016. As of September 30, 2016, it had capital of $103.9 million (2015: $109.5 million) and a very strong capital ratio of 21.8% (2015: 20.8%). The Bank also retained very strong liquidity, with cash and cash equivalents amounting to 33.0% of total assets (2015: 37.6%).

However, prioritising stability did not stifle strategic progress. During the latest financial year, the Bank maintained a primarily inward-looking focus as it continued to build solid foundations. It made key progress, as discussed below, and this extensive transformation has been largely completed.

With solid and sustainable foundations in place, BCB's focus in 2017 is pivoting to building an equally strong business, to take full advantage of this infrastructure.

FINANCIAL RESULTS

For the year to September 30, 2016, the Bank incurred a net loss of $6.6 million (2015: net profit of $8.0 million). This is self-evidently disappointing. The main cause was a reduction of $18.3 million in the realised investment gains stemming from BCB's investment portfolio. Factors contributing to this included a slump in the prices of oil and gas related bonds; currency losses arising following the collapse in Sterling following Brexit; and the cost of hedging.

Mitigating this, the Bank earned $4.0 million (2015: nil) from its new investment in PCFG, which is discussed below. Secondly, BCB's operating expenses were well controlled. Excluding the Bank's share of PCFG's expenses to allow a like-for-like comparison, operating expenses decreased by 7.9% year-on-year.

Also note that the accounting net loss is based on the historical cost of BCB's investments. Thus net unrealised gains—notably one of $11.3 million on the investment in PCFG, based on a rise in its listed share price—are excluded.

These financial results are examined in more detail on page 11.

KEY DEVELOPMENTS

During the financial year to September 30, 2016, the Bank:

- Fully benefited from the acquired controlling stake in Private & Commercial Finance Group Limited, a UK based finance house whose shares are listed on the AIM market of the London Stock Exchange. PCFG is managed by a capable team, several of whom have been with the company since its formation in 1993. As noted above, during this financial year, the Bank's investment in PCFG contributed $4.0 million to the Bank's profits, exceeding even our confident expectations.
- Successfully implemented a full suite of new core banking information technology systems. These cutting edge systems offer stability and a platform for the Bank to revolutionise its customer offering. We hope that customers will already see improvements in our user interfaces and in our e-banking, and easier local bill payment, with additional improvements to come.
- Completed the renovations of 34 Bermudiana Road. BCB relocated its entire business to the new building, on schedule, in early June 2016. Our new home has already attracted numerous compliments and provides an effective space for our team to work and meet our clients.

- As part of a broader effort to uplift its risk management, worked to review all client files to ensure compliance in the face of an increasingly challenging global regulatory environment. This extensive work was successfully completed shortly after the financial year end.

- Eliminated the former distraction of litigation by settling two disputes, on terms which the Bank considers highly satisfactory.

- Appointed Mr. Hubert Esperon as its CEO on September 6, 2016. He succeeded Mr. Peter Horton, who returned to the UK to be closer to his family. Mr. Esperon, a veteran executive, has diverse international business experience including 12 years at the level of CEO or Managing Director. Much of his experience was with the GE Capital Group, which he joined in 1998. Latterly, Mr. Esperon was the CEO of GE Artesia Bank in the Netherlands, while also serving as the Chairman of the Aegean Baltic Bank. Both banks are of similar scale to BCB.

WHAT TO EXPECT IN 2017

During the current financial year, the Bank will:

- Continue to implement the 2015 Strategic Plan, "Our 2020 Vision", which has already led to successes such as the acquisition of PCFG. The essence of this strategy remains to build a great business by harnessing a great team to deliver great service. Our new management are focusing on finalising an updated Execution Plan in early 2017. This will pivot BCB's focus away from building foundations and towards growth.

- Control expenses and seek to leverage to good effect the investments made in infrastructure in recent years, embracing opportunities for innovation.

- Continue to diversify its asset deployment. In recent years, the Bank has focused its assets on its investment, mainly bond, portfolio. This has worked well until last year. However, following an unprecedented bond bull market, the sizable past gains seem unlikely to persist and so the Bank is working to diversify its assets. The portfolio has already been reduced to $183.3 million at September 30, 2016 (2015: $213.6 million). Most of the assets released have been redeployed into profitable and stable loans, mainly to PCFG.

- Complete its work under the leadership of Mr. Esperon to build a deep and strong senior management team. The Bank's current presence in the local Bermuda market alone offers additional meaningful opportunities for profitable growth. BCB will ensure that it has the expertise to leverage these opportunities.

- Be expected to demonstrate it can improve financial performance in an acceptable timeframe and achieve sufficient sustainable income to offer an attractive and consistent return on equity.

IN CONCLUSION

During the past three years, BCB has totally transformed its infrastructure. The Bank has recruited an independent and effective Board; deepened its senior management team; adopted a new and comprehensive enterprise risk management framework; implemented entirely new core banking software; and moved into ideal premises.

This transformation required the support of our shareholder and of our regulator, and a tremendous effort by our Board, management and staff. Thank you to all involved. The result is a Bank which is better controlled and has the foundations to support a strong and enduring business. We look forward to building that business to ensure that BCB has an exciting future. Finally, I would like to thank our clients for their support. BCB is working hard to deserve it. I am confident that, over time, you will see and enjoy the benefits of the Bank's recent investments.

ALAN GILBERTSON
CHAIRMAN

Board of Directors

ALAN GILBERTSON I CHAIRMAN

Mr. Gilbertson has thirty seven years of experience in the financial services and non-profit sectors in South Africa, Asia and Bermuda. He was a founding member of the Orbis Investment Management Group and the President of Orbis Holdings Limited for eleven years. Mr. Gilbertson is a co-founder and Board member of FoodForward South Africa, a hunger relief project, and is the Chairman-elect of The Global FoodBanking Network. He also serves as a Non-Executive Director for other commercial and philanthropic boards in Bermuda.

DAVID MORGAN I DEPUTY CHAIRMAN *

Mr. Morgan has over thirty five years of experience in international banking, building his career at Standard Chartered Bank in Europe and the Far East and becoming Chief Executive for the UK and Europe in 1998. Since leaving Standard Chartered in 2003, he has been involved in a wide range of business advisory and non-executive roles. He is currently a Non-Executive Director of Somers Limited, Private & Commercial Finance Group plc, Ascot Lloyd Financial Services Ltd and Waverton Investment Management Limited.

GAVIN ARTON

Mr. Arton is currently Non-Executive Chairman of BF&M Limited and also serves as a Director of several Bermuda based and international organisations. With over forty years of corporate experience, Mr. Arton is a former senior executive of XL Group and previously was an executive of CIGNA Corporation and American International Group, Inc.

DAVID CASH

Mr. Cash joined the BCB Board of Directors in December 2014 and also currently serves as a member of the Board of Directors of the Bermuda Business Development Agency. Mr. Cash has over twenty five years of international insurance and reinsurance experience and is the former Chief Executive Officer of Endurance Specialty [NYSE: ENH]. Prior to his time as an executive with Endurance, Mr. Cash worked in New York with Towers Watson and more recently with various Zurich Financial Services entities. Mr. Cash is a Bermuda native.

HUBERT ESPERON *

Mr. Esperon joined BCB in September 2016 as Chief Executive Officer. He has over twenty five years of experience in financial services and has previously held multiple senior executive roles at GE Capital across Europe, including more recently as CEO of GE Artesia Bank in the Netherlands. Before GE Capital, Mr. Esperon spent five years with PricewaterhouseCoopers. Mr. Esperon holds a Masters of Applied Mathematics and an MBA from ESSEC business school in France, majoring in Finance.

DEREK STAPLEY

Mr. Stapely is a Chartered Accountant and former partner with the international accounting firm, Ernst & Young. He spent twenty years with Ernst & Young's Bermuda office holding a number of positions in the Financial Services Group. He now serves as an independent director on various boards. Mr. Stapley holds a Bachelor of Accounting degree from the Caledonian University in Glasgow and is a member of the Institutes of Chartered Accountants of Scotland, Bermuda and Canada.

JEANNE ATHERDEN

Ms. Atherden joined the BCB Board of Directors on December 18, 2013. She has over thirty years of accounting, finance and trust experience in management roles in several different business sectors in Bermuda. Ms. Atherden is a Chartered Accountant and a member of the Institute of Directors and was appointed Minister of Health, Seniors and Environment in May 2014. She currently also sits on the Board of KeyTech Limited.

ANDREW BROOK *

Mr. Brook was formerly a partner for twelve years at PriceWaterhouseCoopers Bermuda. Mr. Brook has nearly twenty five years financial services experience in audit and advisory work, incorporating off-shore and on-shore regulatory expertise.

JON L. BRUNSON

Mr. Brunson has over twenty five years of experience in investments and international banking, developing his career at Orbis Investment Management Limited, The Bank of N.T.Butterfield and Heddington Insurance Limited. Mr. Brunson currently serves as a Non-Executive Director of Colonial Group International Limited, BCB Bond Fund, Take Five Limited and is on various philanthropic Boards and is a former Member of Parliament in Bermuda.

ALASDAIR YOUNIE

Mr. Younie is a Director of ICM Limited, a Bermuda based fund management company. He is a Chartered Accountant with experience in corporate finance and corporate investment. Mr. Younie is a Director of Ascendant Group Limited, Bermuda First Investment Company Limited, Somers Limited and West Hamilton Holdings Limited. Mr Younie is a member of the Institute of Chartered Accountants in England and Wales.

* Denotes non-Bermudian Director

Senior Executives

Left To Right: *Sara Schroter Ross, Hubert Esperon, Jay Smith, Debra Shields, Lasantha Thennakoon, Joanne Edmunds, Louise Wakefield*

HUBERT ESPERON
Chief Executive Officer

SARA SCHROTER ROSS
General Counsel

LOUISE WAKEFIELD
Chief Operating Officer *

LASANTHA THENNAKOON
Chief Financial Officer

DEBRA SHIELDS
Client Relationship Director

JEROLD WILLIAMSON
Interim Chief Risk Officer *

JAY SMITH
Head of Compliance

JOANNE EDMUNDS
Head of Human Resources

** Appointed respectively in December and October 2016*

Management's Discussion & Analysis

Management's Discussion and Analysis ("MD&A") should be read in conjunction with our Consolidated Financial Statements, and notes to those financial statements. This MD&A is provided to enable users to assess the Bank's results and performance for the year ended September 30, 2016. All references to BCB or the Bank refer to Bermuda Commercial Bank Limited and its subsidiaries on a consolidated basis.

Bermuda Commercial Bank Limited is a wholly owned subsidiary of Somers Limited, a BSX listed financial services investment holding company, and BCB remains regulated by the Bermuda Monetary Authority.

FINANCIAL PERFORMANCE HIGHLIGHTS

- BCB maintained a stable capital position at $103.9 million at September 30, 2016 ($109.5 million in 2015).
- Net interest income for the year was $25.8 million ($12.2 million in 2015).
- Net loss for the year was $6.6 million ($8.0 million profit in 2015).
- Total assets at September 30, 2016 were $649.0 million ($759.7 million in 2015).
- A strong total capital ratio of 21.8% at the year end (20.8% in 2015).
- Customer deposits at September 30, 2016 were $453.8 million compared to $505.3 million at the prior year end.
- Strong liquidity position – Cash and cash equivalents represents 33.0% of total assets (37.6% in 2015).

RESULTS OF OPERATIONS FOR THE YEAR ENDED SEPTEMBER 30, 2016

During the year the Bank incurred a net loss of $6.6 million compared to a net income of $8.0 million recorded in 2015. Despite the net loss, which was mainly due to the decline in investment gains that are volatile, the core income of the Bank substantially improved as will be discussed under the interest income section of this document.

INTEREST INCOME

Total interest income was $36.1 million for the year ended September 30, 2016 ($16.2 million in 2015). Interest income from loans and advances to customers was $25.3 million ($5.2 million a year ago). The substantial improvement in core earnings of the Bank was as a result of consolidation of PCFG financial results during the year. Since PCFG was acquired at the end of the prior financial year (September 2015), their financial results were not consolidated with BCB in the prior year. Interest from financial investments was $10.4 million ($10.8 million, a year ago). As detailed in the asset section, over the course of the year the Bank continued improving its risk management framework by appropriately diversifying its financial investment portfolio with improved asset quality and liquidity. Interest income from cash and term deposits made up less than 1% of total interest income as short term interest rates remain at low levels.

Interest expense saw an increase to $10.3 million from $4.0 million a year ago. The increase is as a result of consolidating PCFG's interest cost during the year. The Bank's unencumbered balance sheet and strong capital levels, matched with our diversified portfolio of interest earning securities, allowed BCB to offer competitive interest rates on its deposit book.

NON-INTEREST INCOME

Net non-interest income was $3.9 million compared with $23.1 million in 2015, and the reduction is mainly due to the decline in realised gains in the investment portfolio. Fees and commissions for 2016 however were $4.4 million, an improved result compared to $3.9 million recorded in 2015.

EXPENSES

The Bank is focused on controlling costs while at the same time continuing to deliver the top level of service that our customers expect to receive. In 2016, the Bank recorded total expenses of $35.2 million compared to $27.3 million recorded in 2015. Although 2016 costs are materially higher than 2015, the increase is as a result of consolidating PCFG's financial results during the year. The Bank's overall expenses without PCFG's results were $25.1 million, which is 7.9% lower than the prior year, and was achieved through effective cost management.

FINANCIAL CONDITION AS AT SEPTEMBER 30, 2016

Assets

Cash and cash equivalents were $214.2 million at year end compared to $285.6 million a year earlier. At September 30, 2016, cash and cash equivalents represented 33.0% of total assets. The Bank is committed to maintaining a prudent level of liquid assets which will be managed in line with the Bank's liquidity management framework.

The Bank's financial investment portfolio decreased to $183.3 million from $213.6 million one year ago. The portfolio consists primarily of corporate debt securities, debt securities issued by banks and government debt securities along with lesser percentages of asset-backed securities, equities and portfolio funds. It is anticipated that the Bank will continue to strengthen its High Quality Liquid Assets ("HQLA") portfolio in 2017 in response to new global regulatory liquidity requirements. Our investment portfolio is monitored closely across a wide range of risk and performance characteristics and, in accordance with our risk management framework, we have actively diversified our portfolio at the industry, jurisdiction and counterparty level. The Bank remains comfortable with the composition and mix of its investment portfolio.

The Bank's loans and advances portfolio was $210.6 million at September 30, 2016 compared to $215.4 million recorded in 2015. The key components of the loan book at the year end were consumer and business finance loans (75.5% of the loan book), commercial loans (16.8% of the loan book) and commercial overdrafts (6.9% of the loan book).

Liabilities

Total deposits at September 30, 2016, were $453.8 million compared to $505.3 million a year earlier. Management continues to prioritise improvements in the weighted average maturity of our deposit base, and although more customer deposits were due on demand than were held in term deposits at the end of the year, the longer term deposit composition of our term deposits continue to increase in line with management's expectations. The Bank attributes this growth to a strong personalised customer service, competitive deposit interest rates and a focus on acquiring and retaining customers.

CAPITAL POSITION AS AT SEPTEMBER 30, 2016

A key priority for the Bank is the deliverance of sustainable financial performance leading to increased capital security. BCB's capital position at the year end remained stable at $103.9 million ($109.5 million in 2015).

BCB is subject to minimum capital requirements externally imposed by the BMA in accordance with guidelines developed by the Basel Committee on Banking Supervision. The Bank ended 2016 with a strong regulatory capital ratio of 21.8% (September 30, 2015: 20.8%) increasing its cushion over and above the BMA requirements.

RISK MANAGEMENT

The acceptance of risk is an integral part of BCB's business and the Bank has, and continues to place emphasis on strong, independent and prudent risk management.

During 2016, BCB has focused its efforts on ensuring that its risk management practices are aligned with its business activities, an evolving regulatory environment and with the ever-changing challenges of the external operating environment.

BCB has decided to adopt a risk framework based on "three lines of defense" to ensure that where risk is taken it is carefully controlled and considered. Under this framework, the primary responsibility for risk management lies at the Business level as the first line of defense. The Risk and Compliance function forms the second line of defense and is responsible for establishing and maintaining the Bank's risk management framework and for providing oversight and challenge of the effectiveness of the business's management of risk. Internal Audit, the third line of defense, provides independent assurance on the activities of the firm including the risk management framework, and assesses the appropriateness and effectiveness of internal controls.

Prudent liquidity management and stable funding form part of BCB's fundamental approach to risk management. The Bank maintains high quality liquid assets and has sought to improve the stability, diversification and maturity of its deposit base. The Bank is closely monitoring developments in banking regulations in relation to liquidity management, and the maturity profile of our deposit funding is managed to ensure that we are not exposed to high levels of re-financing within concentrated time periods.

While related party transactions continue to feature in BCB's profile, these transactions are closely monitored and governed by the Bank's Board Risk Committee ("BRC") and the Board of Directors. The Bank ensures that all transactions with related parties are examined by the Board, approved on market terms and conditions, and are subject to oversight by the Bank's Risk Management function. In addition, the Bank's Internal Audit department carries out audit procedures to provide the Board of Directors with assurance that the Bank's policies and procedures to identify, authorise and report related party transactions are appropriately designed and operating effectively.

Details of the Bank's risk structure are outlined in note 22 of the financial statements.

BASEL III

The Basel Committee's new standards for capital and liquidity, commonly referred to as "Basel III", establish minimum requirements for common equity, a leverage ratio, a minimum liquidity coverage ratio, and measures to promote the build-up of capital. The Basel III minimum capital requirements include a 4.5% Common Equity Tier 1 Capital ratio ("CET1"), a 6.0% Tier 1 Capital ratio, and an 8.0% Total Capital ratio. In addition, the banks need to build a capital conservation buffer of 2.5%. The banks also need to maintain a Liquidity Coverage ratio of 70% for the year 2016 which will gradually be increased to 100% by 2019.

Based on our capital and liquidity position at September 30, 2016, we are well positioned to fully meet the Basel III capital adequacy and liquidity requirements.

KPMG Audit Limited
Crown House
4 Par-la-Ville Road
Hamilton HM 08 Bermuda

Mailing Address:
P.O. Box HM 906
Hamilton HM DX Bermuda

Telephone +1 441 295 5063
Fax +1 441 295 9132
Internet www.kpmg.bm

Report of Independent Auditor

The Shareholder and Board of Directors
Bermuda Commercial Bank Limited

We have audited the accompanying consolidated financial statements of Bermuda Commercial Bank Limited and its subsidiaries (the "Bank"), which comprise the consolidated statement of financial position as at September 30, 2016, and the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies, and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the consolidated financial statements, whether due to error or fraud. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at September 30, 2016, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
December 9, 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at September 30, 2016 (expressed in United States Dollars)

Assets	2016	2015
Cash and cash equivalents (Note 3)	$ 214,229,448	$ 285,586,512
Receivable from related parties (Note 19)	192,232	386,353
Interest receivable	2,931,278	3,415,318
Other assets (Note 10)	3,281,588	4,377,358
Loans and advances to customers (Note 6)	210,595,561	215,402,330
Available-for-sale financial investments (Notes 5 and 24)	183,291,530	213,555,162
Derivative financial instruments (Notes 4 and 24)	4,611,473	11,235,268
Deferred tax assets (Note 26)	1,848,378	2,597,375
Property and equipment (Note 8)	12,685,389	7,597,661
Goodwill and other intangible assets (Note 9)	15,337,422	15,525,274
Total assets	$ 649,004,299	$ 759,678,611
Liabilities		
Deposits (Note 11)	$ 453,790,898	$ 505,348,470
Interest bearing loans and borrowings (Note 12)	80,260,901	131,316,734
Convertible loan notes (Note 13)	1,241,031	2,218,482
Customer drafts payable	382,677	352,181
Derivative financial instruments (Notes 4 and 24)	637,921	2,190,247
Other liabilities (Note 14)	5,310,684	5,367,687
Taxes payable (Note 25)	377,828	461,252
Interest payable	3,080,217	2,875,107
Total liabilities	$ 545,082,157	$ 650,130,160
Equity		
Capital stock (Note 15)	$ 16,807,963	$ 16,807,963
Share premium (Note 15)	22,131,188	22,131,188
Reserve for available-for-sale financial investments	(2,064,769)	(6,632,480)
Foreign currency translation differences for foreign subsidiary	(199,411)	627,581
Retained earnings	58,468,648	68,641,723
Total equity attributable to equity holders	95,143,619	101,575,975
Non-controlling interests (Note 27)	8,778,523	7,972,476
Total equity	103,922,142	109,548,451
Total liabilities and equity	$ 649,004,299	$ 759,678,611

SIGNED ON BEHALF OF THE BOARD:

See accompanying notes

ALAN GILBERTSON
CHAIRMAN

HUBERT ESPERON
CHIEF EXECUTIVE OFFICER

CONSOLIDATED STATEMENT OF INCOME

For the year ended September 30, 2016 (expressed in United States Dollars)

Income	2016	2015
Interest income:		
Cash and term deposits	$ 357,330	$ 254,177
Loans and advances to customers	25,334,683	5,192,913
Available-for-sale financial investments	10,433,679	10,772,309
Total interest income	36,125,692	16,219,399
Interest expense	(10,335,148)	(4,018,892)
Net interest income	25,790,544	12,200,507
Fees and commissions (Note 17)	4,388,468	3,876,136
Net foreign exchange losses	(139,276)	(905,989)
(Losses)/Gains on derivative financial instruments	(6,142,913)	4,672,585
Dividend income	664,803	3,724,743
Gain from sale of available-for-sale financial investments	7,468,305	14,929,569
Impairment losses on financial investments (Note 5)	(2,472,469)	(3,503,664)
Share of profit of associate (Note 7)	–	233,906
Other operating income	152,938	113,378
Total income	29,710,400	35,341,171
Expenses		
Salaries and employee benefits (Note 20)	16,159,411	13,012,375
Depreciation (Note 8)	691,195	298,860
Amortisation (Note 9)	1,488,551	2,232,007
General and administrative expenses (Note 18)	16,868,614	11,764,982
Total expenses	35,207,771	27,308,224
Net (loss) income before taxation	$ (5,497,371)	$ 8,032,947
Income tax expense (Note 25)	(1,132,181)	(4,093)
Net (loss) income	$ (6,629,552)	$ 8,028,854

See accompanying notes

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended September 30, 2016 (expressed in United States Dollars)

	2016	2015
Net (loss) income for the year	$ (6,629,552)	$ 8,028,854
Other comprehensive income (loss):		
Net (loss) gain on available-for-sale financial investments	12,036,016	(4,401,181)
Reclassification of realised gains recognised in net income	(7,468,305)	(14,929,569)
Share of other comprehensive income of associate	–	416,246
Other comprehensive income (loss)	4,567,711	(18,914,504)
Total comprehensive loss	$ (2,061,841)	$ (10,885,650)

See accompanying notes

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended September 30, 2016 (expressed in United States Dollars)

	CAPITAL STOCK	SHARE PREMIUM	RESERVE FOR AVAILABLE-FOR-SALE	SHARE OF OTHER COMPREHENSIVE INCOME OF ASSOCIATE	TRANSLATION OF FOREIGN SUBSIDIARY	RETAINED EARNINGS	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance at September 30, 2014	$ 16,807,963	$ 22,131,188	$ 12,698,270	$ (416,246)	$ –	$ 62,212,869	$113,434,044	$ –	$113,434,044
Total comprehensive loss	–	–	(19,330,750)	416,246	–	8,028,854	(10,885,650)	–	(10,885,650)
Cash dividends (Note 16)	–	–	–	–	–	(1,600,000)	(1,600,000)	–	(1,600,000)
Acquisition of subsidiaries (Note 27)	–	–	–	–	627,581	–	627,581	7,972,476	8,600,057
Balance at September 30, 2015	16,807,963	22,131,188	(6,632,480)	–	627,581	68,641,723	101,575,975	7,972,476	109,548,451
Total comprehensive loss	–	–	4,567,711	–	–	(7,673,075)	(3,105,364)	1,043,523	(2,061,841)
Cash dividends (Note 16)	–	–	–	–	–	(2,500,000)	(2,500,000)	–	(2,500,000)
FX translation of foreign operations	–	–	–	–	(4,708,025)	–	(4,708,025)	(237,476)	(4,945,501)
Net gain on hedge of investments	–	–	–	–	3,881,033	–	3,881,033	–	3,881,033
Balance at September 30, 2016	$ 16,807,963	$ 22,131,188	$ (2,064,769)	$ –	$ (199,411)	$ 58,468,648	$ 95,143,619	$ 8,778,523	$ 103,922,142

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended September 30, 2016 (expressed in United States Dollars)

Operating activities	**2016**	**2015**
Net (loss) income	$ (6,629,552)	$ 8,028,854
Adjustments to reconcile net (loss) income to cash (used in) provided by operating activities:		
Depreciation	691,195	298,860
Amortisation	1,488,551	2,232,007
Impairment loss of intangible assets	–	620,572
Loss on disposal of property and equipment	103,500	–
Share of profit of associate	–	(233,906)
Gain from sale of available-for-sale financial investments	(7,468,305)	(14,929,569)
Impairment losses on financial investments	2,472,469	3,503,664
Translation of foreign subsidiary	(826,992)	–
	(10,169,135)	(479,518)
Changes in:		
Receivable from related parties	194,121	771,578
Interest receivable	484,040	749,134
Other assets	1,095,770	13,096,373
Deferred tax assets	748,997	–
Derivative financial instruments	5,071,469	(4,828,871)
Customer drafts payable	30,496	(135,894)
Other liabilities	(57,003)	(277,218)
Taxes payable	(83,424)	–
Interest payable	205,110	(888,168)
Net cash (used in) provided by operating activities	(2,479,558)	8,007,416
Investing activities		
Net change in loans and advances to customers	4,806,769	12,466,970
Acquisition of subsidiary, net of cash acquired	–	(3,373,532)
Proceeds from sale of available-for-sale financial investments	369,492,144	145,636,399
Purchases of available-for-sale financial investments	(329,902,441)	(168,360,299)
Purchases of property and equipment	(5,882,422)	(678,296)
Purchases of intangible assets	(1,300,699)	(4,578,212)
Net cash (used in) provided by operating activities	$ 37,213,351	$ (18,886,970)
Financing activities		
Net change in deposits	(51,557,572)	34,069,607
Interest bearing loans and borrowings	(51,055,833)	–
Convertible loan notes	(977,451)	–
Dividends paid	(2,500,000)	(1,600,000)
Net cash (used in) provided by operating activities	(106,090,856)	32,469,607
Net (decrease) increase in cash and cash equivalents	(71,357,064)	21,590,053
Cash and cash equivalents, beginning of year	285,586,512	263,996,459
Cash and cash equivalents, end of year	$ 214,229,448	$ 285,586,512
Supplementary disclosure of cash flow information		
Interest paid	$ 10,130,038	$ 4,907,060
Interest received	$ 36,609,732	$ 16,945,738
Dividends received	$ 676,090	$ 4,291,131

See accompanying notes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2016 (expressed in United States Dollars)

1. Description of Business

Bermuda Commercial Bank Limited ("BCB") is a Bermuda incorporated company, licensed and regulated by the Bermuda Monetary Authority (the "BMA"). BCB, together with its subsidiaries (collectively, the "Bank"), provides banking, custody, consumer and business finance, corporate and trustee services. BCB's registered office is at 34 Bermudiana Road, Hamilton HM 11, Bermuda.

BCB is a wholly owned subsidiary of Somers Limited ("Somers"), a Bermuda exempted investment holding company with investments in the financial services sector.

The consolidated financial statements for the year ended September 30, 2016, were authorised for issue in accordance with a resolution of the Board of Directors on December 9, 2016.

2. Basis of Preparation and Significant Accounting Policies

Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale financial investments and derivative financial instruments which are measured at fair value. The consolidated financial statements are presented in United States Dollars, which is the Bank's functional and presentational currency. All values are rounded to the nearest dollar, except when otherwise indicated.

Statement of Compliance

The consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). Except for the determination of fair value and reclassification of financial instruments as discussed further below, the Bank has consistently applied the significant accounting policies to all periods presented in these consolidated financial statements.

All intercompany balances and transactions are eliminated in full on consolidation. The financial statements of the Bank's subsidiaries are presented for the same reporting year as the Bank, using consistent accounting policies.

Subsidiaries are fully consolidated from the date on which control is obtained by the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Presentation of Consolidated Financial Statements

The Bank presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement of assets and liabilities within 12 months after the consolidated statement of financial position date (current), and more than 12 months after the consolidated statement of financial position date (non-current), is presented in Note 22.

Certain reclassifications have been made to the 2015 comparative financial information in order to conform to the current year presentation.

Significant Accounting Judgments, Estimates, and Assumptions

The preparation of consolidated financial statements in conformity with IFRS requires management to make certain significant estimates, judgments, and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Estimates, judgments and assumptions are continually evaluated, and are based on historical experience, and other factors, including expectations of future events, that are believed to be reasonable under the circumstances. The estimates, judgments and assumptions that have a significant risk of causing material adjustments to the consolidated financial statements within the next financial year are discussed on the following page:

Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility and discount rates. The valuation of financial instruments is described in more detail in Note 24.

Impairment Losses on Loans and Advances

The Bank reviews its individually significant loans and advances to assess impairment at least on an annual basis. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining impairment loss. These estimates are based on assumptions about a number of factors (such as, among others, the significant financial difficulty of the borrower/s and default or delinquency in interest or principal payments), and actual results may differ from current estimates resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired, and all individually insignificant loans, are then assessed collectively in groups of assets with similar risk characteristics to determine whether a provision should be made for incurred loss events, for which there is objective evidence, but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as, among others, levels of arrears, credit utilisation, loan to collateral ratios, etc.), and judgments regarding concentrations of risks and economic data (including country risk, and the performance of different individual loan groups).

Impairment of Available-for-Sale Financial Investments

The Bank reviews its debt and other securities classified as available-for-sale financial investments at each reporting date and more frequently when conditions warrant an impairment assessment. This requires similar judgments as those applied to the individual assessment of loans and advances.

The Bank also records impairment charges on available-for-sale financial investments when there has been a significant or prolonged decline in fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Bank evaluates, among other factors, historical price movements, their duration, and the extent to which the fair value of an investment is less than its cost.

Basis of Consolidation

The consolidated financial statements include the assets, liabilities, and results of operations of the Bank and all its subsidiaries as at September 30. A list of these subsidiaries is presented in Note 19.

Investment in Associates

Investments in associates are accounted for using the equity method. An associate is an entity over which the Bank has significant influence.

Under the equity method, an investment in an associate is carried on the consolidated statement of financial position at cost plus post acquisition changes in the Bank's share of the net assets of the associate. Any excess of the Bank's share of the net fair value of the associate's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the Bank's share of the associate's profit or loss.

The consolidated statement of income reflects the Bank's share of the results of operations of associates. When there has been a change recognised directly in the equity of the associate, the Bank recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Bank and associates are eliminated to the extent of the interest in the associate.

The Bank's share of profit of associates is shown on the face of the consolidated statement of income. The financial statements of associates are prepared on a coterminous basis with that of the Bank. When necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

After application of the equity method, the Bank determines whether it is necessary to recognise an additional impairment loss on its investment in associates. The Bank determines at each reporting date whether there is any objective evidence that the investments in associates are impaired. If this is the case, the Bank calculates the amount of impairment as the difference between the recoverable amount of the investment in associates and its carrying value, and recognises the amount in the share of profit or loss of associates in the consolidated statement of income.

Upon loss of significant influence over associates, the Bank measures and recognises any remaining investment at its fair value. Any difference between the carrying amount of associates and the fair value of the retained investment, and proceeds from disposal is recognised in profit or loss.

Foreign Currency Translation

The consolidated financial statements are presented in United States dollars. The Bank and each of its subsidiaries determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Bermuda dollar balances and transactions are translated into United States dollars at par. Monetary assets and liabilities in other currencies are translated into United States dollars at the rates of exchange prevailing at the consolidated statement of financial position date and non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into United States dollars at historic rates or the rates of exchange prevailing at the dates of the transactions.

Income and expense items in other currencies are translated into United States dollars at the rates prevailing at the dates of the transactions. Realised and changes in unrealised gains and losses on foreign currency positions are reported under net exchange gains or losses in the consolidated statement of income of the current year.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and term deposits which are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and have original maturities of three months or less from the acquisition date. Cash and cash equivalents may also include high quality liquid assets ("HQLA") such as treasury bills and money market funds, which have daily liquidity and which invest in highly liquid instruments, such as term deposits and commercial paper.

Financial Instruments – Initial Recognition and Subsequent Measurement

Date of Recognition

All financial assets and financial liabilities are initially recognised on the trade date basis which is the date that the Bank becomes a party to the contractual provisions of the instrument. This includes purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place.

Initial Recognition of Financial Instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities designated as fair value through profit or loss.

The Bank classifies its financial assets into the following categories:

Financial Assets and Financial Liabilities at Fair Value through Profit or Loss

Financial Assets and Financial Liabilities Designated at Fair Value through Profit or Loss

Financial assets and financial liabilities designated at fair value through profit or loss are designated as such by management on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring assets or liabilities or recognising gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities, or both which are managed and their performance re-evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded. This category comprises financial assets held for trading. A financial asset is classified in this category if it is acquired principally for the purpose of selling in the short-term, or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.

Financial assets and financial liabilities designated at fair value through profit or loss are recorded in the consolidated statement of financial position at fair value. Items which may be included in this classification are debt securities, equities, and short positions, and customer loans which have been acquired for the purpose of selling or repurchasing in the near term. Changes in fair value are recorded in the consolidated statement of income.

Derivatives Recorded at Fair Value through Profit or Loss

Derivatives include foreign exchange forward contracts, index and equity option contracts, and warrants. Derivatives are recorded at fair value and carried as assets when the fair value is positive, and as liabilities when the fair value is negative.

Derivatives embedded in financial instruments, such as warrants, and the conversion option in an acquired convertible bond, are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held-for-trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value.

Changes in the fair value of derivatives are reported under gains or losses on derivative financial instruments for option contracts and under net foreign exchange gains or losses for forward contracts in the consolidated statement of income.

Loans and Advances to Customers

Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as held for trading, designated as available-for-sale, or designated at fair value through profit or loss. After initial measurement, loans and advances are measured at amortised cost using the effective interest rate ("EIR") method, less the allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The EIR amortisation is reported under interest income, and losses arising from impairment are reported under the credit loss expense in the consolidated statement of income.

Available-for-Sale Financial Investments

Available-for-sale financial investments include equity investments, debt securities, and portfolio funds. Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions. After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Changes in unrealised gains and losses, with the exception of foreign exchange gains and losses, which are recorded in the consolidated statement of income, are recognised directly in equity under other comprehensive income or loss. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is included in the realised gain or loss on sale of available-for-sale financial investments in the consolidated statement of income.

Interest on available-for-sale financial investments is reported under interest income or expense in the consolidated statement of income using the EIR method, and dividends are recorded as dividend income in the consolidated statement of income or expense when the right of the payment has been established. The losses arising from impairment of such investments are reported under impairment losses on available-for-sale financial investments in the consolidated statement of income and removed from equity.

Investments in portfolio funds are initially recorded at cost and then carried at their net asset value ("NAV") per unit at the reporting date. This represents the fair value of the investment if the portfolio funds are not subject to any lock up period or other restrictions on their redemption.

Derecognition of Financial Assets and Financial Liabilities

Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The contractual rights to the cash flows from the financial asset expire;
- The Bank has transferred the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred; or
- The Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial Liabilities

A financial liability is derecognised when the contractual obligation under the liability is discharged or cancelled or expires.

Determination of Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of fair value of a financial instrument at initial recognition is normally the transaction price which is the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is measured initially at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, the difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

An analysis of fair values of financial instruments and further details as to how they are measured is provided in Note 24.

Impairment of Financial Assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event), and the loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

In assessing evidence of impairment, the Bank evaluates, among other factors, counterparty/issuer/borrower financial information, historical share prices, counterparty ratings, history of defaults, subordination, transaction nature, and other market and security-specific factors.

If there is objective evidence that an impairment loss has been incurred, the financial asset is written down to its realisable value, with the impairment loss being recognised in the consolidated statement of income. Any subsequent increase in the fair value of such assets that can be objectively related to an event that occurred after the impairment was recognised will result in a reversal of the impairment loss in the period in which the event occurs.

Financial Assets at Amortised Cost

For financial assets carried at amortised cost (such as amounts due from banks, and loans and advances to customers), the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognised in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was initially recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the consolidated statement of income. Any impairment loss or recovery of impairment loss is reported net as a credit loss expense or credit loss recovery income in the consolidated statement of income.

Available-for-Sale Financial Investments

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is evidence that an investment is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised and it is removed from equity and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in the fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the same interest

rate as that used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the consolidated statement of income.

See Note 5 for details of impairment losses on available-for-sale financial investments.

Impairment of Non-Financial Assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its estimated recoverable amount.

Reclassification of Financial Investments

The Bank may reclassify certain financial assets out of the available-for-sale classification into loans and advances to customers classification. Reclassification to loans and advances to customers is permitted when the financial assets meet the definition of loans and advances and the Bank has the intent and ability to hold these assets for the foreseeable future or until maturity.

For a financial asset reclassified from available-for-sale, the fair value at the date of reclassification becomes its new amortised cost, and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the asset, using the EIR method. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR method. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense will not be offset in the consolidated statement of income unless required or permitted by any accounting standard or interpretation as specifically disclosed in the accounting policies of the Bank.

Derivative Financial Instruments

The Bank uses derivatives to manage its credit and market risk exposures and also to provide clients with the ability to manage their own risk exposures. The Bank does not use derivatives for trading or for speculative purposes.

The Bank uses foreign exchange forward contracts to manage the Bank's foreign exchange risk on certain investment securities denominated in foreign currencies. The Bank also uses option instruments to reduce its exposure to credit or market risks, and interest rate swaps to hedge its exposure to interest rate fluctuations.

Derivatives are carried at fair value and shown in the consolidated statement of financial position on a gross basis. These include exchange traded options, warrants, and other derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. An embedded derivative is a component of a hybrid instrument that includes a non-derivative host contract, with the effect that some of the cash flows of the hybrid instrument vary in a way similar to a stand-alone derivative. When an embedded derivative is separated, the host contract is accounted for based on accounting standards applicable to contracts of that type without the embedded derivative.

The accounting treatment for a fair value gain or loss on a derivative depends on whether the derivative is designated as a hedging instrument. Changes in the fair value of derivatives are included in the consolidated statement of income in gains or losses on derivative financial instruments for the option contracts, and in net foreign exchange gains or losses for the forward contracts, unless they qualify for hedge accounting. The Bank does not currently apply hedge accounting.

Property and Equipment

Property and equipment are carried at historical cost less accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the property and equipment. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets, which are up to forty years for buildings, seven years for equipment, four years for computer hardware, seven years for operating lease equipment, and the term of the lease for leasehold improvements. Depreciation commences once property and equipment is put into use. As at July 1, 2016, the Bank's property at 34 Bermudiana Road was put into use as its operational premises and began to be amortised over forty years from that date.

Subsequent costs, such as repairs and maintenance, are charged to the consolidated statement of income during the financial year in which they are incurred.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in other operating income in the consolidated statement of income in the year the asset is derecognised.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method at the acquisition date which is deemed to be when control is transferred to the Bank. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Bank elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and presented in the consolidated statement of income.

When the Bank acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. This involves recognising identifiable assets (including previously unrecognised intangible assets), and liabilities (including contingent liabilities but excluding future restructuring costs), of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the consolidated statement of income at the date of acquisition.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal.

Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Subsidiaries

Subsidiaries are investees controlled by the Bank. The Bank controls an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of the subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

Loss of Control

When the Bank loses control over a subsidiary it derecognises the assets and liabilities of the subsidiary and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in the consolidated statement of income. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Non-Controlling Interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Bank's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Other Intangible Assets

The Bank's other intangible assets include the value of computer software and customer relationships acquired in business combinations. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank. Intangible assets are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination equals their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any impairment losses. Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

Computer software	Up to 8 years
Customer relationships	Up to 15 years

Amortisation of computer software commences once it is put into use. On November 2, 2015, the Bank commenced usage of its new core banking software. It is being amortised over its expected useful life of 7 years.

Subsequent expenditure on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Convertible Debt

The component of the convertible debt which exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. The coupon on the debt is charged as interest expense in the consolidated statement of income. On issuance of the convertible debt, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholder's equity, net of transaction costs. The carrying amount of the conversion option is not re-measured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible debt based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Interest-Bearing Loans and Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of income when the liabilities are derecognised as well as through the amortisation process.

Customer Drafts Payable

Customer drafts payable consist of the balance of un-cashed customer drafts at the reporting date. This balance is customer-driven and fluctuates based on when customers purchase drafts and when they are presented for payment. Customer drafts payable are presented under liabilities on the consolidated statement of financial position upon issue.

Recognition of Income

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest Income

Interest income is recognised in the consolidated statement of income for all interest bearing instruments on the accrual basis, using the effective interest rate method.

Fees and Commissions

Fees and commissions include fees and commissions earned from banking and custodial services, consumer and business finance, trustee services, company management and corporate registrar services.

Income is recognised as revenue on the accrual basis over the period during which the services are provided.

Dividend Income

Dividend income is recognised when the Bank's right to receive the payment is established.

Expenses

Expenses are recognised in the consolidated statement of income on the accrual basis. Interest expense is calculated using the effective interest rate method.

Operating Leases - The Bank as a Lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term and are included in rent and premises within general and administrative expenses in the consolidated statement of income.

Operating Leases - The Bank as a Lessor

Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Rental income arising from an operating lease is accounted for on a straight-line basis over the lease term.

Dividends on Common Shares

Dividends on common shares are recognised as a liability and are deducted from equity in the period in which they are declared.

Defined Contribution Pension Plan

The Bank operates a defined contribution pension plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Bank by its employees, and is recorded as an expense under salaries and employee benefits in the consolidated statement of income.

Share-Based Payment Transactions

A subsidiary of the Bank, Private & Commercial Finance Group plc ("PCFG"), operates an approved and an unapproved equity-settled share option plan for its employees. For awards granted after November 7, 2002 (and not vested by January 1, 2006) and in accordance with IFRS 2 'Share-based payment', an expense is recognised in respect of the fair value of employee services received in exchange for the grant of share options. A corresponding amount is recorded as an increase in equity within retained earnings. The expense is spread over the relevant vesting period and is calculated by reference to the fair value of the share options granted.

In arriving at fair values, the Black-Scholes pricing model is used and estimates are made of dividend yields, share price volatility, risk-free rates and expected life of the share options.

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resource embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement.

Fiduciary Activities

The Bank acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions. These assets and income arising thereon are excluded from these consolidated financial statements, as they are not assets or income of the Bank.

Current Tax

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using rates of tax that have been enacted, or substantively enacted, by the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of income.

Deferred Tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements.

Deferred tax is recognised in the consolidated statement of income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Deferred tax is determined using tax rates and laws which have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer considered probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value Added Tax ("VAT")

Revenues, expenses and assets are recognised net of the amount of VAT except in the case of overdue loans and receivables, other receivables and other payables which are shown inclusive of VAT.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of other receivables or other payables in the balance sheet.

New Standards, Interpretations and Amendments to Published Standards Relevant to the Bank

Standards issued but not yet effective up to the date of issuance of the Bank's consolidated financial statements and that may be relevant to the Bank are listed below. This listing is of standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date. The Bank does not intend to adopt these standards early.

IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leas guidance including IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue From Contracts with Customers at or before the date of initial application of IFRS 16.

Amendments to IFRS 11, Accounting for Acquisitions of Interests in Joint Operations

The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business and specify the appropriate accounting treatment for such acquisitions. The amendments are effective for annual reporting periods beginning on or after January 1, 2016, with early adoption permitted.

Amendments to IFRS 2, Classification and Measurement of Share-Based Payment Transactions

The amendment provides requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

Amendments to IAS 7, Disclosure Initiative

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted.

Amendments to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted.

Amendments to IAS 16 and IAS 38, Clarification of Acceptable Methods of Depreciation and Amortisation

- The amendment to IAS 16, Property, Plant and Equipment explicitly states that revenue-based methods of depreciation cannot be used. This is because such methods reflect factors other than the consumption of economic benefits embodied in the assets.
- The amendment to IAS 38, Intangible Assets introduces a rebuttable presumption that the use of revenue-based amortisation methods is inappropriate for intangible assets.

The amendments are effective for accounting periods beginning on or after January 1, 2016, with early adoption permitted.

IAS 1, Presentation of Financial Statements

This has been amended to clarify or state the following:

- Specific single disclosures that are not material do not have to be presented even if they are the minimum requirement of a standard;
- The order of notes to the financial statements is not prescribed;
- Line items on the statement of financial position and the statement of profit or loss and other comprehensive income ("OCI") should be disaggregated if this provides helpful information to users. Line items can be aggregated if they are not material;
- Specific criteria is now provided for presenting sub-totals on the statement of financial position and in the statement of profit or loss and OCI, with additional reconciliation requirement for the statement of profit or loss and OCI; and
- The presentation in the statement of OCI of items of OCI arising from joint ventures and associates accounted for using the equity method follows the IAS 1 approach of splitting items that may, or that will never, be reclassified to profit or loss.

The amendment is effective for accounting periods beginning on or after January 1, 2016, with early adoption permitted.

Amendments to IAS 27, Equity Method in Separate Financial Statements

The amendment allows the use of the equity method in separate financial statements, and apply to the accounting for subsidiaries, associates and joint ventures. This is effective for accounting periods beginning on or after January 1, 2016, with early adoption permitted.

Amendments to IFRS 10, Consolidated Financial Statements, and IAS 28, Investments in Associates and Joint Ventures

The amendments introduce clarifications on sale or contribution of assets between an investor and its associate or joint venture, and require that when a parent loses control of a subsidiary in a transaction with an associate or joint venture, the full gain be recognised when the assets transferred meet the definition of a 'business' under IFRS 3, Business Combinations. The amendments are effective for annual reporting periods beginning on or after January 1, 2016, with early adoption permitted.

Amendments to IFRS 10, Consolidated Financial Statements, IFRS 12, Disclosure of Interests in Other Entities and IAS 28, Investments in Associates and Joint Ventures

The amendments introduce clarifications on which subsidiaries of an investment entity are consolidated instead of being measured at fair value through profit or loss. IFRS 10 was amended to confirm that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity. An investment entity shall measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. IAS 28 was amended to provide an exemption from applying the equity method for investment entities that are subsidiaries and that hold interests in associates and joint ventures. IFRS 12 was amended to clarify that the relevant disclosure requirements in the standard apply to an investment entity in which all of its subsidiaries are measured at fair value through profit or loss. The amendments are effective for accounting periods beginning on or after January 1, 2016, with early adoption permitted.

The Bank is currently evaluating the impact that these new standards will have on its financial statements when they become effective.

Early Adoption

The Bank did not early adopt any new standards during the year.

3. Cash, Term Deposits and HQLA

	2016	2015
Cash and demand deposits	$ 53,431,131	$ 164,170,594
Term deposits maturing within one month	60,806,617	36,414,890
HQLA maturing within three months	99,991,700	85,001,028
Total	$ 214,229,448	$ 285,586,512

The average effective yields earned were as follows:

	2016	2015
Cash and demand deposits	0.03%	0.03%
Term deposits maturing within one month	0.32%	0.16%
HQLA maturing within three months	(0.05%)	(0.05%)

4. Derivative Financial Instruments

At their inception, derivatives often involve only a mutual exchange of rights and obligations with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, index or price underlying a derivative contract may have a significant impact on the net income of the Bank.

Over-the-counter derivatives may expose the Bank to the risks associated with the absence of an exchange market on which to close out an open position.

The Bank's exposure under derivative contracts is closely monitored as part of the overall management of the Bank's market risk (see also Note 22).

Foreign Exchange Forward Contracts

Foreign exchange forward contracts are contractual agreements to buy or sell a specified amount of foreign currency at a future date at an exchange rate fixed at inception of the contract. Forwards are customised contracts transacted in the over-the-counter market. The Bank uses these contracts to manage its exposure to foreign currency risk. They are not designated as qualifying hedge relationships.

Option Contracts

Option contracts are contractual agreements under which the seller grants the purchaser the right, but not the obligation, either to buy or sell a security at or by a specific future date. The Bank purchases options through regulated exchanges and in the over-the-counter markets. Options purchased by the Bank provide it with the opportunity to purchase the underlying asset at an agreed-upon value either on or before the expiration of the option. The Bank is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value. The only option contracts that the Bank entered into during the year were index and equity options (2015: index and equity options).

Interest Rate Swaps

Interest rate swaps are the exchange of one set of cash flows, based on interest rate specifications, for another. The Bank uses interest rate swaps to hedge its exposure to interest rate fluctuations. The fair value of interest rate swap contracts is determined using a discounted cash flow analysis with reference to relevant market interest rates and yield curves.

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

	2016			2015		
	ASSETS	LIABILITIES	NOTIONAL AMOUNT	ASSETS	LIABILITIES	NOTIONAL AMOUNT
Foreign exchange forward contracts	$ 4,494,877	$ –	$ 122,226,379	$ 2,816,164	$ –	$ 129,139,088
Index option contracts - long	94,000	–	19,000,000	5,736,000	–	61,750,000
Index option contracts - short	–	–	–	–	1,734,000	58,000,000
Equity option contracts	22,596	–	815,697	2,663,255	–	9,873,107
Warrants	–	–	–	19,849	–	–
Interest rate swaps	–	637,921	38,931,000	–	456,247	47,637,450
Total	$ 4,611,473	$ 637,921	$ 180,973,076	$ 11,235,268	$ 2,190,247	$ 306,399,645

At September 30, 2016, the net cost of the derivatives amounted to $1,758,564 (2015: $3,717,293).

5. Financial Investments

Available-for-Sale Financial Investments

The fair values of available-for-sale financial investments by major classifications of financial investments at September 30 were as follows:

	2016	2015
Corporate debt securities	$ 58,523,030	$ 96,931,685
Government debt securities	57,293,995	52,104,903
Debt securities issued by banks	33,432,596	26,895,840
Asset-backed securities	840,478	892,304
Equities	11,677,072	15,947,738
Portfolio funds	21,524,359	20,782,692
	$ 183,291,530	$ 213,555,162

At September 30, 2016, the cost of available-for-sale financial investments amounted to $185,381,854 (2015: $223,646,291).

Impairment Losses on Financial Investments

During the year, the Bank recognised impairment losses on its financial investments of $2,472,469 (2015: $3,503,664).

6. Loans and Advances to Customers

Loans and advances to customers and the allowance for loan losses at September 30 were as follows:

	2016			2015		
	GROSS	ALLOWANCE FOR LOSSES	NET	GROSS	ALLOWANCE FOR LOSSES	NET
Commercial loans	$ 35,997,784	$ 629,568	$ 35,368,216	$ 42,850,772	$ 49,568	$ 42,801,204
Commercial overdrafts	14,486,166	–	14,486,166	8,854,075	–	8,854,075
Consumer mortgage loans	1,236,341	–	1,236,341	848,311	–	848,311
Consumer and business finance (Note 26)	160,349,289	1,261,625	159,087,664	162,581,179	–	162,581,179
Credit cards	206,160	–	206,160	229,802	–	229,802
Other	211,014	–	211,014	87,759	–	87,759
Total	$ 212,486,754	$ 1,891,193	$ 210,595,561	$ 215,451,898	$ 49,568	$ 215,402,330

Allowance for loan losses consists of:

	2016	2015
Balance at beginning of year	$ 49,568	$ 49,568
Individually assessed allowance for losses acquired for impairments during the year	1,841,625	–
	$ 1,891,193	$ 49,568

Credit Quality

	2016			
	NEITHER PAST DUE NOR IMPAIRED	PAST DUE	IMPAIRED	GROSS
Commercial loans	$ 35,031,788	$ 115,274	$ 850,722	$ 35,997,784
Commercial overdrafts	14,486,166	–	–	14,486,166
Consumer mortgage loans	787,324	449,017	–	1,236,341
Commercial business finance	145,574,038	6,621,125	8,154,126	160,349,289
Credit cards	192,766	13,394	–	206,160
Other	210,209	805	–	211,014
	$ 196,282,291	$ 7,199,615	$ 9,004,848	$ 212,486,754

	2015			
	NEITHER PAST DUE NOR IMPAIRED	PAST DUE	IMPAIRED	GROSS
Commercial loans	$ 42,797,591	$ 3,613	$ 49,568	$ 42,850,772
Commercial overdrafts	8,854,075	–	–	8,854,075
Consumer mortgage loans	507,182	341,129	–	848,311
Commercial business finance	148,274,554	5,523,553	8,783,072	162,581,179
Credit cards	196,005	33,797	–	229,802
Other	87,759	–	–	87,759
	$ 200,717,166	$ 5,902,092	$ 8,832,640	$ 215,451,898

At September 30, 2016, the carrying amount of gross loans and advances whose terms have been renegotiated which would otherwise be past due or impaired was $596,955 (2015: $412,109).

As part of the acquisition of PCFG (see Note 27), consumer and business finance loans were acquired with a fair value of $162,581,179. No allowance for credit losses was recorded in the Consolidated Statement of Financial Position at the date of acquisition. The gross amount of loans acquired was $168,922,196 with an estimate of expected credit losses of $6,341,017.

The loan portfolio at September 30 by contractual maturity is as follows:

2016						
	WITHIN 1 YEAR	1-5 YEARS	5-10 YEARS	MORE THAN 10 YEARS	ALLOWANCE FOR LOSSES	TOTAL
Commercial loans	$ 5,866,581	$ 6,146,652	$ 122,876	$ 23,861,676	$ (629,568)	$ 35,368,217
Commercial overdrafts	14,486,166	–	–	–	–	14,486,166
Consumer mortgage loans	–	446,044	–	790,297	–	1,236,341
Consumer and business finance	71,201,705	86,733,241	2,414,342	–	(1,261,625)	159,087,663
Credit cards	206,160	–	–	–	–	206,160
Others	110,266	100,748	–	–	–	211,014
Total	$ 91,870,878	$ 93,426,685	$ 2,537,218	$ 24,651,973	$ (1,891,193)	$ 210,595,561

2015						
	WITHIN 1 YEAR	1-5 YEARS	5-10 YEARS	MORE THAN 10 YEARS	ALLOWANCE FOR LOSSES	TOTAL
Commercial loans	$ 850,723	$ 13,626,796	$ 135,307	$ 28,237,946	$ (49,568)	$ 42,801,204
Commercial overdrafts	8,854,075	–	–	–	–	8,854,075
Consumer mortgage loans	686,171	162,140	–	–	–	848,311
Consumer and business finance	58,112,987	104,468,192	–	–	–	162,581,179
Credit cards	229,802	–	–	–	–	229,802
Others	45,623	42,136	–	–	–	87,759
Total	$ 68,779,381	$118,299,264	$ 135,307	$ 28,237,946	$ (49,568)	$ 215,402,330

The average effective yields earned were as follows:

	2016	2015
Commercial loans	7.17%	8.90%
Commercial overdrafts	5.66%	5.03%
Consumer and business finance loans	13.20%	13.33%
Credit Cards	14.50%	14.50%

The average effective yields represent both fixed and variable interest rates.

Yields are not provided for consumer mortgage loans as these products are in run-off.

7. Investment in Associate

West Hamilton Holdings Limited ("West Hamilton") is a Bermuda limited liability company and is the parent company of West Hamilton Limited ("WHL"). WHL is a Bermuda limited liability company that owns two commercial properties known as the Belvedere Building and Belvedere Place. The Belvedere Building is an office building where space is generally let under short to long-term commercial leases and Belvedere Place is a multi-story parking facility on Pitts Bay Road in Hamilton, which leases parking on a short term basis.

The movement in West Hamilton's shares owned by BCB was as follows:

	2016	2015
Balance at beginning of year	–	1,222,949
Sold during the year	–	(1,222,949)
Balance at end of year	–	–

8. Property and Equipment

	2016				
	EQUIPMENT	LEASEHOLD IMPROVEMENTS	LAND	BUILDING	TOTAL
Cost					
Beginning of year	$ 1,781,242	$ 513,307	$ 1,306,800	$ 5,575,861	$ 9,177,210
Additions	712,011	–	–	5,170,411	5,882,422
Disposals	(993,034)	(484,454)	–	–	(1,477,488)
End of year	1,500,219	28,853	1,306,800	10,746,272	13,582,144
Accumulated depreciation					
Beginning of year	1,134,972	444,577	–	–	1,579,549
Disposals	(919,810)	(454,179)	–	–	(1,373,989)
Depreciation charge for the year	618,234	9,602	–	63,359	691,195
End of year	833,396	–	–	63,359	896,755
Net book value at end of year	$ 666,823	$ 28,853	$ 1,306,800	$ 10,682,913	$ 12,685,389

	2015				
	EQUIPMENT	LEASEHOLD IMPROVEMENTS	LAND	BUILDING	TOTAL
Cost					
Beginning of year	$ 1,447,933	$ 497,152	$ 1,306,800	$ 5,102,035	$ 8,353,920
Additions	339,348	16,155	–	473,826	829,329
Disposals	(6,039)	–	–	–	(6,039)
End of year	1,781,242	513,307	1,306,800	5,575,861	9,177,210
Accumulated depreciation					
Beginning of year	851,011	435,717	–	–	1,286,728
Disposals	(6,039)	–	–	–	(6,039)
Depreciation charge for the year	290,000	8,860	–	–	298,860
End of year	1,134,972	444,577	–	–	1,579,549
Net book value at end of year	$ 646,270	$ 68,730	$ 1,306,800	$ 5,575,861	$ 7,597,661

9. Goodwill and Other Intangible Assets

	2016			
	COMPUTER SOFTWARE	CUSTOMER RELATIONSHIPS	GOODWILL	TOTAL
Cost				
Beginning of year	$ 10,955,029	$ 4,154,402	$ 7,003,748	$ 22,113,179
Additions	1,385,928	–	(85,229)	1,300,699
Disposals	(411,019)	–	–	(411,019)
End of year	11,929,938	4,154,402	6,918,519	23,002,859
Accumulated amortisation				
Beginning of year	2,783,424	2,782,095	1,022,386	6,587,905
Impairment loss	(411,019)	–	–	(411,019)
Amortisation charge for the year	1,326,836	161,715	–	1,488,551
End of year	3,699,241	2,943,810	1,022,386	7,665,437
Net book value at end of year	$ 8,230,697	$ 1,210,592	$ 5,896,133	$ 15,337,422

	2015			
	COMPUTER SOFTWARE	CUSTOMER RELATIONSHIPS	GOODWILL	TOTAL
Cost				
Beginning of year	$ 5,663,395	$ 4,154,402	$ 2,723,371	$ 12,541,168
Additions	5,291,634	–	4,280,377	9,572,011
End of year	10,955,029	4,154,402	7,003,748	22,113,179
Accumulated amortisation				
Beginning of year	2,503,100	830,412	401,814	3,735,326
Impairment loss	–	–	620,572	620,572
Amortisation charge for the year	280,324	1,951,683	–	2,232,007
End of year	2,783,424	2,782,095	1,022,386	6,587,905
Net book value at end of year	$ 8,171,605	$ 1,372,307	$ 5,981,362	$ 15,525,274

Customer Relationships

Customer relationships are initially recorded at the net present value of the estimated future net cash flows that are expected to be gained from the existing customer base at the date of acquisition. The Bank recognised intangible assets of $4,154,402, relating to customer relationships resulting from the acquisition of BCB Paragon Trust Limited ("Paragon") and BCB Charter Corporate Services Limited ("Charter") in October 2011. This amount is amortised on a straight-line basis over the expected lives of the customer relationships and the related net cash flows.

Goodwill

The Bank recognised $2,723,371 in goodwill from the acquisition of Paragon and Charter in October 2011. The Bank also recognised $4,280,377 in goodwill from the acquisition of PCFG in September 2015, which included goodwill of $600,609 relating to an acquisition made by PCFG in November 2000. See Note 27 for details of the acquisition.

Goodwill is subject to an impairment test on at least an annual basis, but more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The recoverable amount of goodwill is calculated based on the value in use of the cash generating units it relates to by determining the discounted future cash flows expected to be generated from the continuing use of the relevant cash generating units. Estimated cash flows are based on expectations of future outcomes taking into account past experience adjusted for anticipated revenue growth. Five years of cash flows along with a discounted rate in perpetuity are included in the discounted cash flow model. Based on this assessment performed during 2015, management determined that the carrying value exceeded the recoverable value and, as a result, an impairment charge of $620,572 was recorded. Key assumptions used in this process may change as economic and market conditions change. The Bank currently estimates that reasonably possible changes in these assumptions would not cause the recoverable amount of the cash generating units to decline below the carrying amount at September 30, 2016.

Computer Software

Amortisation of computer software is calculated using the straight-line method to write down the cost to its residual value over its estimated useful life. Amortisation commences once the software is put into use.

10. Other Assets

	2016	2015
Amounts receivable for sales of financial investments	$ –	$ 11,288
Accounts receivable, net of allowance for bad debts of $697,959 (2015: $662,275)	1,975,418	2,817,449
Accrued income	51,360	463,125
Prepayments	1,254,810	1,085,496
Total	$ 3,281,588	$ 4,377,358

11. Deposits

	2016	2015
Demand deposits	$ 263,833,256	$ 323,535,061
Term deposits:		
Deposits maturing within 1 month	31,163,261	47,525,584
Deposits maturing – 1-3 months	37,389,920	19,663,270
Deposits maturing – 3-12 months	57,137,565	40,276,007
Deposits maturing – 1-5 years	64,266,896	74,348,548
	189,957,642	181,813,409
Total	$ 453,790,898	$ 505,348,470

The average effective rates paid were as follows:

	2016	2015
Term deposits based on book values and contractual interest rates	2.18%	2.25%
Demand deposits	0.00%	0.00%

12. Interest-Bearing Loans and Borrowings

Interest-bearing loans and borrowings relates to PCFG (see Note 27), which has entered into various interest bearing loans and borrowing arrangements as follows:

	2016	2015
Secured loans and borrowings	$ 80,260,901	$ 131,316,734

Bank Overdraft

PCFG has a bank overdraft which was fully unutilised as at September 30, 2016 (2015: $693,663). It has an effective interest rate of the base rate plus a margin and is secured by a debenture over the individual group undertaking to which it applies. The facility is repayable on demand.

$32.4 million (£25.0 million) term loan facility

This loan has an effective interest rate of LIBOR plus a margin and a maturity date of September 30, 2016. The loan is secured by both a charge over the loans and receivables of PCFG and a debenture over the assets of PCFG undertaking to which it applies and the guarantee of PCFG.

$15.6 million (£12.0 million) term loan facility

This loan has an effective interest rate of LIBOR plus a margin and a maturity date of January 9, 2017. The loan is secured by both a charge over the loans and receivables and a debenture over the assets of PCFG undertaking to which it applies and the guarantee of PCFG.

$10.4 million (£8.0 million) term loan facility

This loan has fixed interest rates and maturity dates of up to four years. The loan is secured by both a charge over the loans and receivables and a debenture over the assets of PCFG undertaking to which it applies and the guarantee of PCFG.

$15.6 million (£12.0 million) block discounting facility

This loan has a fixed interest rate and maturity dates of up to four years. The facility is secured by both a charge over the loans and receivables and a debenture over the assets of PCFG undertaking to which it applies and the guarantee of PCFG.

$42.8 million (£33.0 million) block discounting facilities

These loans have fixed interest rates and maturity dates of up to four years. The facilities are secured by charges over the loans and receivables of PCFG.

As at September 30, 2016, the total undrawn amount on the above-mentioned facilities was $36.3 million (2015 - $48.9 million).

13. Convertible Loan Notes

	2016	2015
Convertible loan notes	$ 1,241,031	$ 2,218,482

In November 2012 PCFG issued 5,930,000 of £1 convertible unsecured loan notes at par, by way of a placing and open offer. On September 30, 2013 PCFG issued an additional 4,070,000 of £1 convertible unsecured loan notes at par. The loan notes can be converted into ordinary shares of PCFG at the price of 8.5p on any interest payment date before September 30, 2016 subject to the proviso that any loan note holder holding a nominal value of loan notes of $1.5 million (£1 million) or more may convert their loan notes into ordinary shares on any Business Day between December 1, 2012 and September 30, 2016. The loan notes have a final maturity date of September 30, 2016 and carry an interest rate of 6%. The unamortised issue costs of the loan notes have been offset against the proceeds received from the debt. At September 30, 2016 total loan notes of 9,043,669 had been converted at 8.5p into ordinary shares of PCFG. On October 5, 2016, the remaining $1,241,031 of convertible loan notes were converted into 10,996,859 ordinary shares.

14. Other Liabilities

	2016	2015
Accounts payable	$ 2,827,863	$ 2,677,155
Accrued liabilities	2,482,821	2,690,532
Total	$ 5,310,684	$ 5,367,687

15. Equity

All shares are common shares with a par value of $2.40 each:

	AUTHORISED SHARES	PAR VALUE	ISSUED & FULLY PAID SHARES	PAR VALUE	SHARE PREMIUM
Balance at September 30, 2016 and 2015	10,000,000	$ 24,000,000	7,003,318	$ 16,807,963	$ 22,131,188

Regulatory Capital

The BMA adopts the Basel III Accord which calls for additional and more detailed disclosures and risk management. The BMA assesses the risk of each banking institution and determines a separate Individual Capital Guidance for each bank. The Bank has complied with all minimum capital requirements prescribed by the BMA and at September 30, 2016, the Bank's Tier 1 and total regulatory capital ratios of 21.84% (2015: 20.84%) and 21.81% (2015: 20.82%) respectively, exceeded the prescribed limits.

Capital Management

The Bank maintains its capital base and capital ratios above externally imposed capital requirements. The Bank's capital levels are continuously reviewed by the Board of Directors in light of changes in economic conditions and the risk characteristics of the Bank's activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders, return capital to shareholders or issue new capital securities.

16. Dividends

	2016	2015
Dividends on common shares:		
October 2014 declared and paid	$ –	$ 600,000
December 2014 declared and paid	–	1,000,000
December 2015 declared and paid	500,000	–
January 2016 declared and paid	2,000,000	–
Total	$ 2,500,000	$ 1,600,000

17. Fees and Commissions

Fees and commissions are made up as follows:

	2016	2015
Corporate services	$ 1,999,347	$ 2,033,209
Trust services	1,003,285	1,063,003
Banking services	646,809	779,924
Lease termination income	463,967	–
Other	275,060	–
Total	$ 4,388,468	$ 3,876,136

18. General and Administrative Expenses

General and administrative expenses are made up as follows:

	2016	2015
Rent and premises	$ 1,302,533	$ 1,186,747
Advertising and marketing	416,922	361,759
Professional fees	4,098,403	2,818,961
Information technology and systems	2,113,102	1,081,863
Banking services and licences	1,689,512	852,989
Investment advisory fees (Note 19)	1,103,061	1,861,439
Directors fees (Note 19)	855,181	587,027
Impairment charge on intangible assets	–	620,572
Impairment of loans and advances	2,051,236	245,829
Loss on disposal of property and equipment	103,499	–
Administrative	3,135,165	2,147,796
Total	$ 16,868,614	$ 11,764,982

19. Related Party Disclosures

Investment Adviser Agreement

In 2010, the Bank entered into an investment adviser agreement with ICM Limited ("Investment Adviser"), a related party to the Bank through common control, which remains in force until terminated by the Bank or the Investment Adviser upon giving the other party not less than three month's written notice of termination or such lesser period of notice as the Bank or the Investment Adviser agree. Pursuant to the agreement, the Bank's investment objective is to achieve an appropriate income return and/or capital growth in the value of the portfolio by investing in suitable investments, which may be amended by a specific written instruction to the Investment Adviser by the Bank.

In February 2012, the Bank and the Investment Adviser entered into a variation agreement whereby the former agreed to pay the Investment Adviser for its advisory services an annual fee of 0.50% (payable quarterly in arrears) of the value of the portfolio effective April 1, 2012 (previously 0.25%). For the year ended September 30, 2016, such fees amounted to $763,061 (2015: $1,051,132), of which $163,718 remained payable at year end (2015: $nil). In addition, pursuant to a consultancy agreement, a fee of $100,000 (2015: $100,000) was paid to the Investment Adviser for consultancy services, of which $25,000 remained payable at year end (2015: $nil). These fees are included in investment advisory fees within general and administrative expenses in the consolidated statement of income (Note 18).

In addition, under the terms of a second variation agreement dated July 17, 2015, the Bank may determine that the Investment Adviser ought to receive a payment on account of the services provided based on the performance of the portfolio. The Investment Adviser is also entitled to recover all and any expenses incurred by it that relate exclusively to the services specified in the agreement, following disclosure of details of the expense to the Bank. During the year ended September 30, 2016, the Bank incurred a performance fee of $240,000 (2015: $710,307) of which $240,000 remained payable at year end (2015: $441,307). These fees are included in investment advisory fees within general and administrative expenses in the consolidated statement of income (Note 18).

Related Party Transactions with Shareholder Controllers and the Related Parties of Shareholder Controllers

The Bank provides banking services and enters into transactions with shareholder controllers and the related parties of shareholder controllers under the same terms as an unrelated party would receive. Outstanding balances and/or transactions with shareholder controllers and the related parties of shareholder controllers were as follows:

Available-for-Sale Financial Investments

At September 30, 2016, the Bank held certain investments in its available-for-sale portfolio which are considered related. The Bank held debt instruments issued by Bermuda First Investment Company Limited (a related party to the Bank through common control) with a carrying value of $10,923,308 (2015: $7,834,908). Interest income from these investments for the year was $486,566 (2015: $448,029). At September 30, 2016, interest of $nil (2015: $236,353) was included in the amount receivable from related parties on the consolidated statement of financial position. The Bank also held equity investments in BCB Bond Fund Limited and the Pentagon High Conviction Bond Fund Ltd (both related parties to the Bank by way of common control) with a carrying value of $21,524,359 (2015: $23,871,042). Dividend income from these positions totaled $600,000 (2015: $3,254,147). At September 30, 2016, $150,000 of dividends (2015: $150,000) were included in receivable from related parties on the consolidated statement of financial position.

During 2016, the Bank sold securities to related parties at amounts equal to their fair value of $20,732,411 (2015: $1,185,760). There were no receivables as a result of the sale of these securities at either year end.

During 2016, the Bank purchased securities from related parties at amounts equal to their fair value of $11,392,864 (2015: $7,364,300). There were no payables as a result of the purchase of these securities at either year end.

Loans and Advances to Customers

At September 30, 2016, total loans and advances receivable from related parties amounted to $18,557,359 (2015: $19,615,817), of which $9,412,972 (2015: $5,984,031) was unsecured and $9,144,387 (2015: $13,631,786) was secured by the related parties' cash and portfolio assets managed/custodied by the Bank. For the years ended September 30, 2016 and 2015, the Bank has not made any provision for impairment relating to amounts owed by such related parties. The undrawn portion of credit facilities granted to these related parties at September 30, 2016 totaled $230,155 (2015: $436,062).

For the year ended September 30, 2016, the Bank earned net interest income and fees of $2,253,186 (2015: $1,069,876) for banking services provided to such related parties.

At September 30, 2016, the Bank had investments in asset-backed notes in various securitisation entities set up by Resimac Limited, a related party to the Bank, with a carrying value of $26,774,876 (2015: $28,237,946). These asset-backed notes were recorded in the consolidated statement of financial position within loans and advances to customers.

Deposit Liabilities

At September 30, 2016, deposit balances held by such related parties with the Bank amounted to $7,157,648 (2015: $4,467,031).

Transactions with Directors

Total directors' fees for the year ended September 30, 2016, amounted to $855,181 (2015: $587,027). The Bank provides banking services to directors under the same terms as an unrelated party would receive. At September 30, 2016, directors and parties associated with directors had deposit balances with the Bank of $247,037 (2015: $52,383). At September 30, 2016, total loans and advances receivable from directors and parties associated with directors amounted to $nil (2015: $5,318). The undrawn portion of credit facilities committed to directors and parties associated with directors at the year-end totaled $nil (2015: $49,666). Net interest received from directors for the year was $nil (2015: paid to $83,439).

Compensation of Key Management Personnel of the Bank

The Bank classifies the directors of the Bank and senior management as the key management personnel. For the year ended September 30, 2016, total compensation of key management personnel amounted to $1,735,949 (2015: $1,681,727), excluding the directors' fees.

Share-Based Payments

Company equity-settled share option plans

PCFG offers an equity-settled share option plan to its employees. The grant price is determined by reference to the average mid-market price of PCFG's ordinary shares for the three days immediately preceding the date of the grant. The options are conditional upon continued employment and have a minimum vesting period of three years. If options remain unexercised after a period of ten years from the date of the grant, the options expire. Furthermore, options are forfeited if the employee leaves PCFG before the options vest. The weighted average remaining contractual life is fifteen years (2015: nine years).

2016		
	NO. OF SHARES	WEIGHTED AVERAGE EXCERCISE PRICE (PENCE)
Outstanding at the beginning of the period	1,700,000	9p
Granted during the period	1,410,000	20p
Expired during the period	(500,000)	9p
Outstanding at the end of the period	2,610,000	15p
Exercisable at the end of the period	–	–

PCFG's ordinary shares were trading at 22.5 pence as of the close of trading on September 30, 2016.

Principal Subsidiary Undertakings

NAME	% OWNERSHIP	LOCATION
BCB Charter Corporate Services Limited	100.00	Bermuda
BCB Paragon Trust Limited	100.00	Bermuda
BCB Luxembourg S.A.R.L.	100.00	Luxembourg
BCB Asset Management Limited	100.00	Bermuda
BCB Resource Fund Limited	100.00	Bermuda
BCB Management Limited	100.00	Bermuda
BCB Management Services Limited	100.00	Bermuda
Bercom Nominees Limited	100.00	Bermuda
Private & Commercial Finance Group plc	72.62	United Kingdom
VT Strategies Holdings Limited	100.00	Bermuda

All of the above subsidiaries are included in the Bank's consolidated financial statements.

During the prior year, BCB Asset Management Limited ceased offering investment advisory services and surrendered its investment business license to the Bermuda Monetary Authority. On June 30, 2015, the Authority accepted the surrender and BCB Asset Management Limited has been removed from the public register of licensed investment businesses.

As at September 30, 2016, BCB held $52,556,850 (£40,500,000) in extendible loan notes issued by PCFG (2015: $nil). The loan notes are listed on the Bermuda Stock Exchange. Upon consolidation of PCFG, these loan notes are eliminated and thus do not appear in these consolidated financial statements.

20. Employee Benefits

The Bank meets the minimum requirements of the Bermuda National Pension Scheme (Occupational Pensions) Act 1998, related amendments and regulations. Under this legislation, the Bank contributes to its employees' pension requirements using a defined contribution plan at the following rates, following completion of 720 hours of work for new staff:

- 5% of gross salary if service does not exceed 15 years and
- 10% of gross salary if service exceeds 15 years.

As permitted under the legislation, staff members are required to contribute 5% annually based on the employees' pensionable earnings. Staff members with greater than 15 years of service are not required to make contributions.

The scheme is administered by an independent party, and all such funds are segregated from the assets and liabilities of the Bank. Pension expense incurred during 2016 amounted to $490,103 (2015: $320,808) and is included within salaries and employee benefits in the consolidated statement of income.

21. Commitments and Contingent Liabilities

In September 2014, PCFG entered into a premises lease at Pinners Hall, 105-108 Old Broad Street, London, UK. The lease expires on September 5, 2019.

Future minimum rental payments under the aforementioned leases as at September 30 were as follows:

	2016	2015
Within one year	$ 315,663	$ 850,445
After one year but not more than five years	605,019	1,072,934
	$ 920,682	$ 1,923,379

At September 30, 2016, the Bank was committed to $6,540,734 (2015: $1,500,485) in undrawn credit facilities. This amount relates to the undrawn portion of approved commercial loans, unused portion of approved overdraft facilities and credit card limits.

Litigation

In the ordinary course of business, the Bank can from time to time be defendant in, or party to, pending and threatened legal actions and proceedings. Apart from the matters described below, the Bank considers that none of these matters are material, either individually or in the aggregate. The Bank recognises a provision for a liability in relation to these matters when it is probable that an outflow of economic benefits will be required to settle an obligation which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Any provision recognised does not constitute an admission of wrong doing or legal liability. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, no provision is necessary in respect of legal proceedings as at September 30, 2016.

In 2013, BCB and BCB Paragon (for the purposes of this paragraph, together "the BCB entities") were named as defendants in a legal action brought by a trust client alleging breach of fiduciary duty. Management believed that the claim was without merit and the BCB entities vigorously defended the claim. In 2015, the BCB entities were successful in a motion challenging the legal jurisdiction of the New York District Court which was upheld by the New York Court of Appeal in 2016. The costs of defending the claim were covered by an insurance policy so the BCB entities did not incur a material expense. The matter was settled out of Court by the parties on July 22, 2016, the terms of which are confidential to the parties. The amounts involved were not material to the Financial Statements at September 30, 2016.

22. Risk Management

Risk is inherent in banking and is part of every bank's activities. The management of risk is a key function of all banks and it is core to a bank's profitability; a failure to manage risk can result in losses. The Bank is exposed to a variety of risks as a result of holding financial instruments, the most significant of which are credit risk, liquidity risk, and market risk. The Bank manages risk through a set of formal processes that includes controls, policies, reporting, and review.

The management of risk is a core function of the Bank and it has policies, procedures, and reports designed to facilitate the management of risks arising from financial instruments. The Bank's risk management structure is as follows:

Board of Directors

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 board and management committees.

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 and asset and liability committees, 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.

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.

Asset & Liability 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 and Charter. 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.

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 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.

Governance Committee (formerly the Appointment, Nomination, Governance, and Human Resources Committee)

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.

Significant Risk Categories

Credit Risk

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. 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.

All counterparty banks and money market funds must be approved by the Bank's ALCO. The maximum amount that may be lent to any single bank via the deposit market or invested in a money market fund is governed by a number of controlling variables including the external credit ratings for that bank or money market fund. Banks with a rating lower than A- are not utilised for interbank lending. Counterparty lending limits and limits for money fund investments are reviewed semi-annually and will be adjusted if the capitalisation ratio of the Bank changes, or if the credit rating of a counterparty bank or money market fund goes below the rating levels identified above.

Liquidity Risk and Funding Management

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting its obligations associated with financial liabilities when they fall due. To limit this risk, management has adopted policies that prioritise liquidity among the parameters for asset selection. Additionally, management monitors the term structure of the Bank's current funding, its future cash flows, and the market liquidity of its balance sheet assets on a daily basis.

The Bank maintains significant balances of short maturity interbank deposits, along with a diversified portfolio of mainly highly liquid and marketable assets that can be liquidated in the event of an unforeseen drain of cash flow. The Bank's liquidity position is assessed daily and is strategically managed over the long run to be capable of handling a variety of stress scenarios, including those related to systemic market conditions and those related specifically to the Bank.

The tables on the succeeding pages summarise the maturity profile of the Bank's assets and liabilities as at September 30, 2016. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay, and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

	2016					
	WITHIN 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	TOTAL
Assets						
Cash and cash equivalents	$ 214,229,448	$ –	$ –	$ –	$ –	$ 214,229,448
Receivable from a related party	192,232	–	–	–	–	192,232
Interest receivable	904,830	1,129,542	842,899	54,007	–	2,931,278
Other assets	1,981,139	391,162	829,526	63,511	16,250	3,281,588
Loans and advances to customers	28,026,706	10,522,284	34,686,296	112,585,426	24,774,849	210,595,561
Available-for-sale financial investments	–	–	21,650,478	60,399,731	101,241,321	183,291,530
Derivative financial instruments	434,307	237,647	84,835	3,854,684	–	4,611,473
Deferred tax assets	–	–	–	1,848,378	–	1,848,378
Property and equipment	–	–	–	695,676	11,989,713	12,685,389
Goodwill and other intangible assets	–	–	–	8,230,697	7,106,725	15,337,422
	$ 245,768,662	$ 12,280,635	$ 58,094,034	$ 187,732,110	$ 145,128,858	$ 649,004,299
Liabilities						
Deposits	$ 294,996,517	$ 37,389,920	$ 57,137,565	$ 64,266,896	$ –	$ 453,790,898
Interest-bearing loans and borrowings	1,984,436	3,208,029	11,648,277	63,420,159	–	80,260,901
Convertible loan notes	1,241,031	–	–	–	–	1,241,031
Customer drafts payable	382,677	–	–	–	–	382,677
Derivative financial instruments	–	67,957	–	569,964	–	637,921
Other liabilities	4,426,082	884,602	–	–	–	5,310,684
Taxes payable	–	–	377,828	–	–	377,828
Interest payable	869,930	520,437	795,308	894,542	–	3,080,217
	303,900,673	42,070,945	69,958,978	129,151,561	–	545,082,157
Net assets (liabilities)	$ (58,132,011)	$ (29,790,310)	$ (11,864,944)	$ 58,580,549	$ 145,128,858	$ 103,922,142

	2015					
	WITHIN 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	TOTAL
Assets						
Cash and cash equivalents	$ 285,586,512	$ –	$ –	$ –	$ –	$ 285,586,512
Receivable from a related party	385,047	1,306	–	–	–	386,353
Interest receivable	1,254,758	1,006,368	1,154,192	–	–	3,415,318
Other assets	2,737,900	351,396	1,213,062	75,000	–	4,377,358
Loans and advances to customers	22,677,030	9,206,947	36,895,405	118,249,695	28,373,253	215,402,330
Available-for-sale financial investments	28,123,542	2,507,394	14,202,745	101,483,804	67,237,677	213,555,162
Derivative financial instruments	1,984,899	4,271,849	2,315,887	2,662,633	–	11,235,268
Property and equipment	–	–	–	2,597,375	–	2,597,375
Goodwill and other intangible assets	–	–	–	715,000	6,882,661	7,597,661
Investment in associate	–	–	–	8,171,605	7,353,669	15,525,274
	$ 342,749,688	$ 17,345,260	$ 55,781,291	$ 233,955,112	$ 109,847,260	$ 759,678,611
Liabilities						
Deposits	$ 371,060,646	$ 19,663,270	$ 40,276,006	$ 74,348,548	$ –	$ 505,348,470
Interest-bearing loans and borrowings	2,339,396	3,246,721	18,647,369	107,083,248	–	131,316,734
Convertible loan notes	–	–	2,218,482	–	–	2,218,482
Customer drafts payable	352,181	–	–	–	–	352,181
Derivative financial instruments	–	692,000	1,103,103	395,144	–	2,190,247
Other liabilities	3,787,123	749,534	831,030	–	–	5,367,687
Taxes payable	–	–	461,252	–	–	461,252
Interest payable	751,546	310,945	636,905	1,175,711	–	2,875,107
	378,290,892	24,662,470	64,174,147	183,002,651	–	650,130,160
Net assets (liabilities)	$ (35,541,204)	$ (7,317,210)	$ (8,392,856)	$ 50,952,461	$ 109,847,260	$ 109,548,451

Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The market risk for the Bank's financial instruments is managed and monitored using sensitivity analyses.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

Interest rate movements cause changes in interest income, and interest expense, and although these changes move in the same direction, their relative magnitude will favorably or unfavorably impact annual profit or loss and the value of equity. The extent of that impact depends on several factors, including matching of asset and liability maturities and the interest rate curve. Assets and liabilities are managed to optimise the impact of interest rate movements in view of anticipated rate changes.

As a result of the current low interest rate environment and the uncertainty prevailing in the credit markets, it is difficult to accurately forecast the potential impact of an immediate and sustained variation in interest rates on net income and on the amount of equity. On the assumption that interest rates remain positive, the Bank assesses the impact on net income due to negative variation in interest rates to be limited.

The following table demonstrates the Bank's sensitivity to a reasonably possible change in interest rates, with all other variables held constant. The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on net loss for the year, based on the floating rate financial assets and financial liabilities held at September 30.

	2016	2015
25-basis-point increase in interest rates		
Impact on profit (for the next 12 months)	$ 63,083	$ 136,554
Impact on equity (for the next 12 months)	$ (1,528,978)	$ (1,072,894)
25-basis-point decrease in interest rates		
Impact on profit (for the next 12 months)	$ 50,811	$ 253,805
Impact on equity (for the next 12 months)	$ 1,642,872	$ 1,463,252

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. In accordance with the Bank's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits. A 10 per cent increase in the currency rates to which the Bank had significant exposure at September 30, 2016, would have decreased net income and equity by $83,445 (2015: decreased by $380,615). An equivalent decrease in these same currency rates would have resulted in an equivalent but opposite impact.

Equity Price Risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. A 10 per cent increase in the value of the Bank's available-for-sale equities at September 30, 2016, would have increased equity by $1,167,707 (2015: $1,594,774). An equivalent decrease would have resulted in an equivalent but opposite impact.

23. Segment Information

For management purposes, the Bank is organised into six reportable segments. These segments offer different products and services and are managed separately based on the Bank's management and internal reporting structure.

Banking Services

The Banking Services segment is responsible for corporate, institutional, and individual customers' deposits, credit facilities, and funds transfer facilities.

Investment Management

The Investment Management segment is responsible for investing in a diversified portfolio of financial investments.

Consumer and Business Finance

PCFG is a UK-based finance company engaged in the provision of finance for vehicles, plant and equipment for consumers and businesses. These loan facilities are secured on the underlying assets.

Corporate Services

The Corporate Services segment provides company management, asset management, corporate secretarial, financial, and custody services to customers.

Trust

The Trust segment provides trust administration and accounting services to trust customers.

General and Administrative

Operating expenses include centralised and other back-office functions that are not directly attributable to other reportable segments and are recorded in the General and Administrative segment.

Management monitors the operating results of these business segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating net income.

The Bank operates in a single jurisdiction, Bermuda; and PCFG operates in the United Kingdom. The Bank also has a subsidiary in Luxembourg, but does not offer banking or other services in that jurisdiction. The assets, liabilities and results of these entities are incorporated into the segment information. No one single customer accounted for 10% or more of the Bank's revenues in 2016 or 2015.

The following table presents income and expense and certain asset and liability information regarding the Bank's reportable segments:

	2016							
	BANKING SERVICES	INVESTMENT MANAGEMENT	CONSUMER & BUSINESS FINANCE	CORPORATE SERVICES	TRUST	GENERAL & ADMINISTRATIVE	ELIMINATION OF INTER-SEGMENT AMOUNTS	TOTAL
Net interest income from external customers	$ 4,013,861	$ 7,209,894	$ 14,567,282	$ (493)	$ –	$ –	$ –	$ 25,790,544
Fees and other income from external customers	1,265,564	(85,999)	613,874	2,144,856	1,003,285	125,353	–	5,066,933
(Loss)/ Gains on derivative financial instruments	–	(6,147,216)	4,303	–	–	–	–	(6,142,913)
Gain on sale of available-for-sale financial investments	–	7,468,305	–	–	–	–	–	7,468,305
Impairment losses of available-for-sale financial investments	–	(2,472,469)	–	–	–	–	–	(2,472,469)
Total income	5,279,425	5,972,515	15,185,459	2,144,363	1,003,285	125,353	–	29,710,400
Depreciation	(55,511)	–	(330,064)	–	–	(305,620)	–	(691,195)
Amortisation	(497,443)	(35,588)	–	(57,024)	–	(736,781)	(161,715)	(1,488,551)
Operating expenses	(6,370,824)	(1,604,956)	(10,859,601)	(2,139,348)	(1,832,413)	(11,159,169)	(193,895)	(34,160,206)
Net income (loss)	$ (1,644,353)	$ 4,331,971	$ 3,995,794	$ (52,009)	$ (829,128)	$ (12,076,217)	$ (355,610)	$ (6,629,552)
Segment assets	$ 287,199,719	$ 243,184,105	$ 117,055,151	$ 2,020,186	$ 689,015	$ 12,068,652	$ (13,212,529)	$ 649,004,299
Segment liabilities	$ 459,623,119	$ –	$ 84,992,724	$ 209,706	$ 256,608	$ –	$ –	$ 545,082,157

	2015						
	BANKING SERVICES	INVESTMENT MANAGEMENT	CONSUMER & BUSINESS FINANCE	CORPORATE SERVICES	TRUST	GENERAL & ADMINISTRATIVE	TOTAL
Net interest income from external customers	$ 4,261,071	$ 7,939,436	$ –	$ –	$ –	$ –	$ 12,200,507
Fees and other income from external customers	1,456,570	2,255,081	–	2,033,614	1,063,003	–	6,808,268
Losses on derivative financial instruments	–	4,672,585	–	–	–	–	4,672,585
(Loss)/ Gain on sale of available-for-sale financial investments	(613)	14,930,182	–	–	–	–	14,929,569
Gain on investment in associate	–	233,906	–	–	–	–	233,906
Impairment losses	–	(3,503,664)	–	–	–	–	(3,503,664)
Total income	5,717,028	26,527,526	–	2,033,614	1,063,003	–	35,341,171
Depreciation	(187,538)	–	–	(13,000)	–	(98,322)	(298,860)
Amortisation	–	–	–	(952,269)	(999,415)	(280,323)	(2,232,007)
Operating expenses	(6,085,715)	(2,125,292)	–	(2,017,826)	(3,697,624)	(10,854,993)	(24,781,450)
Net income (Loss)	$ (556,225)	$ 24,402,234	$ –	$ (949,481)	$ (3,634,036)	$ (11,233,638)	$ 8,028,854
Segment assets	$ 252,877,042	$ 312,830,050	$ 168,992,188	$ 5,357,149	$ 4,932,869	$ 14,689,313	$ 759,678,611
Segment liabilities	$ 503,220,157	$ 1,734,000	$ 136,491,711	$ 205,406	$ 1,404,212	$ 7,074,674	$ 650,130,160

24. Financial Instruments

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments;

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data;

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

Valuation techniques include net present value and discounted cash flow models, trinomial option pricing models and other valuation models.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, such as currency swaps that use only observable market data and require little management judgment and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives. The availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Financial Instruments Recorded at Fair Value

Derivative Financial Instruments

The fair value of the Bank's derivative financial instruments which are estimated using a valuation technique with market observable inputs include forward foreign exchange contracts. The most frequently applied valuation technique includes the forward pricing model which incorporates various inputs including the forward rates.

The fair value of the Bank's derivative financial instruments which are estimated using a valuation technique with significant non-market observable inputs include equity option contracts. These derivatives are valued using models that calculate the present value such as the trinomial model for options. The model incorporates various unobservable assumptions that include the market rate volatilities.

Available-for-Sale Financial Investments

Available-for-sale financial investments valued using valuation techniques include unquoted equity and debt securities. These assets are valued using models that use both observable and unobservable data. The unobservable inputs to the models include the review of the historical financial and operating results of the investee and its underlying investments, assumptions regarding the expected future financial performance and the risk profile of the investee and its underlying investments, and economic assumptions regarding the industry and geographical jurisdiction in which the investee and its underlying investments operate.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	2016			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets				
Derivative financial instruments				
Forward foreign exchange contracts	$ –	$ 4,494,877	$ –	$ 4,494,877
Exchange-traded index option contracts	94,000	–	–	94,000
Equity option contracts	–	–	22,596	22,596
	94,000	4,494,877	22,596	4,611,473
Available-for-sale financial investments				
Corporate debt securities	15,265,317	32,129,405	11,128,308	58,523,030
Debt securities issued by banks	12,162,897	21,269,699	–	33,432,596
Asset-backed securities	–	453,159	387,319	840,478
Government debt securities	57,293,995	–	–	57,293,995
Equities	8,737,072	–	2,940,000	11,677,072
Portfolio funds	–	21,524,359	–	21,524,359
	93,459,281	75,376,622	14,455,627	183,291,530
HQLA				
HQLA maturing within 3 months	99,991,700	–	–	99,991,700
	$ 193,544,981	$ 79,871,499	$ 14,478,223	$ 287,894,703
Financial liabilities				
Derivative financial instruments				
Interest rate swaps	637,921	–	–	637,921
	$ 637,921	$ –	$ –	$ 637,921

	2015			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets				
Derivative financial instruments				
Forward foreign exchange contracts	$ –	$ 2,816,164	$ –	$ 2,816,164
Exchange-traded index option contracts	5,736,000	–	–	5,736,000
Equity option contracts	–	–	2,663,255	2,663,255
Warrants	–	–	19,849	19,849
	5,736,000	2,816,164	2,683,104	11,235,268
Available-for-sale financial investments				
Corporate debt securities	43,746,836	41,966,574	11,218,275	96,931,685
Debt securities issued by banks	23,367,584	3,528,256	–	26,895,840
Asset-backed securities	–	540,325	351,979	892,304
Government debt securities	51,750,895	354,008	–	52,104,903
Equities	9,359,388	3,088,350	3,500,000	15,947,738
Portfolio funds	–	20,782,692	–	20,782,692
	128,224,703	70,260,205	15,070,254	213,555,162
HQLA				
HQLA maturing within 3 months	85,001,028	–	–	85,001,028
	$ 218,961,731	$ 73,076,369	$ 17,753,358	$ 309,791,458
Financial liabilities				
Derivative financial instruments				
Equity option contracts	$ 1,734,000	$ –	$ –	$ 1,734,000
Interest rate swaps	–	–	456,247	456,247
	$ 1,734,000	$ –	$ 456,247	$ 2,190,247

Movement in Level 3 financial instruments measured at fair value:

	CORPORATE DEBT SECURITIES	ASSET-BACKED SECURITIES	DEBT SECURITIES ISSUED BY BANKS	EQUITIES	EQUITY OPTION CONTRACTS	WARRANTS	TOTAL
At September 30, 2014	$ 11,769,345	$ 7,566,553	$ 1,540,313	$ 5,740,000	$ 436,510	$ 76,800	$ 27,129,521
Total gains recorded in profit or loss	200,206	5,903,464	62,617	–	–	–	6,166,287
Total gains (losses) recorded in equity	(194,536)	(3,060,912)	44,295	(2,240,000)	2,226,745	(56,951)	(3,281,359)
Purchases	5,607,242	–	823,613	–	–	–	6,430,855
Sales	(6,163,982)	(10,057,126)	(2,470,838)	–	–	–	(18,691,946)
At September 30, 2015	$ 11,218,275	$ 351,979	$ –	$ 3,500,000	$2,663,255	$ 19,849	$ 17,753,358
Transfer from Level 2	–	40,725	–	–	–	–	40,725
Transfer to Level 1	(3,178,367)	–	–	–	–	–	(3,178,367)
Total gains recorded in profit or loss	–	8,884	–	–	(2,663,255)	(19,849)	(2,674,220)
Total gains (losses) recorded in equity	–	23,124	–	(560,000)	22,596	–	(514,280)
Purchases	3,088,400	–	–	–	–	–	3,088,400
Sales	–	(37,393)	–	–	–	–	(37,393)
At September 30, 2016	$ 11,128,308	$ 387,319	$ –	$ 2,940,000	$ 22,596	$ –	$ 14,478,223

25. Taxation

BCB and its subsidiaries domiciled in Bermuda are not subject to taxation in Bermuda as Bermuda does not impose any form of taxation on receipts, dividends, capital gains or net income. BCB's subsidiaries domiciled in Luxembourg and the United Kingdom are subject to the tax laws of those jurisdictions. The Bank records income taxes based on the tax rates applicable in the relevant jurisdiction and income tax expense of $1,132,181 (2015: $4,093) is recorded in the consolidated statement of income. PCFG's income taxes payable at September 30, 2016 are $739,424 (2015: $461,252).

Analysis of tax charge in the period

		2016
Current Tax		
UK Corporation Tax on profit for the period	$	792,970
Adjustments in respect of prior periods		(1,022)
Total current tax	$	791,948
Deferred Tax		
Origination and reversal of temporary differences		266,708
Change in tax rate		71,530
Total deferred tax	$	338,238
Total UK tax charge for the period	$	1,130,186
Total Luxembourg tax charge for the period	$	1,995
Total tax charge for the period	$	1,132,181

Deferred tax on items recognised directly in equity

		2016
Relating to cash flow hedges	$	74,401
Change in tax rate		(4,326)
Total deferred tax on items recognized directly in equity	$	70,075

Factors affecting current tax charge for the period

The tax assessed for the period for PCFG differs from the standard rate of Corporation Tax in the UK of 20%. The differences are explained below. As part of the Finance Act 2014, the UK Government legislated to reduce the Corporation Tax main rate from 21% to 20% with effect from April 1, 2015. In the Summer Budget 2015, the government announced legislation setting the Corporation Tax main rate at 19% for the years starting the April 1, 2017, 2018 and 2019 which has been reflected in the amount of the recognised deferred tax asset.

		2016
Profit on ordinary activities before tax	$	5,125,980
Profit on ordinary activities multiplied by standard rate of Corporation Tax in the UK of 20% (2015: 21%)		1,025,196
Effects of:		
Expenses not deductible for taxation purposes		16,850
Adjustments in respect of prior periods		(1,296)
Change in tax rate		90,732
Utilisation of previously unrecognized losses		(1,296)
Total UK tax charge for the period	$	1,130,186

26. Deferred Tax Assets

		2016		2015
Decelerated capital allowances	$	1,608,883	$	2,514,697
Derivative financial instruments		112,322		82,678
Other temporary differences		127,173		–
Total	$	1,848,378	$	2,597,375

Deferred tax assets are applicable to PCFG (see Note 27). As part of the Finance Act 2014, the UK Government legislated to reduce the Corporation Tax main rate from 21% to 20% with effect from April 1, 2015. In the Summer Budget 2015, the government announced legislation setting the Corporation Tax main rate at 19% for the years starting April 1, 2017, 2018 and 2019 and at 18% for the year starting April 1, 2020. In the Budget 2016, the government announced a further reduction to the Corporation Tax main rate for the year starting April 1, 2020, setting the rate at 17%. The deferred tax asset has been calculated based on a rate of 19% to the extent that it is expected to reverse in these future years.

There is an unrecognised deferred tax asset of $3,154,709 which relates to tax losses arising in prior years which are unutilised at the reporting date.

27. Business Combination

Established in 1994, PCFG is a UK-based finance company engaged in the provision of finance for vehicles, plant and equipment for consumers and businesses. The company is listed in the Alternative Investment Market of the London Stock Exchange.

Effective September 18, 2015, BCB acquired 15,553,800 ordinary shares and 5,830,446 convertible loan notes from Somers Limited. These loan notes together with convertible loan notes of 2,670,000 already held by BCB were converted into ordinary shares at September 24, 2015 and September 28, 2015, which resulted in BCB acquiring a 75.47% interest in PCFG.

PCFG's financial year end is September 30 and its financial statements are prepared in GBP. In consolidation the Bank used the audited financials of PCFG as at September 30, 2016.

		FAIR VALUE AT ACQUISITION
Assets		
Cash and cash equivalents	$	770,882
Other assets		1,577,688
Loans and advances to customers		162,581,179
Property and equipment		151,034
Goodwill and other intangible assets		1,314,031
Deferred tax asset		2,597,376
Total assets		168,992,190
Liabilities		
Interest bearing loans and borrowings		131,316,734
Convertible loan notes		2,218,482
Derivative financial instruments		456,247
Taxes payable		461,252
Other liabilities		2,038,997
Total liabilities		136,491,712
Total identifiable net assets at fair value	$	32,500,478
BCB's share of total identifiable net assets at fair value	$	24,528,002
Goodwill arising on acquisition		3,679,768
Purchase consideration transferred	$	28,207,770

The goodwill of $3,679,768 represents the value of expected synergies arising from the acquisition.

At September 30, 2016 BCB owned a 72.62% (2015: 75.47%) controlling interest in PCFG. The value of the non-controlling interest applicable to PCFG was $8,778,523 (2015: $7,972,476), which represented 27.38% (2015: 24.53%) of the total identifiable net assets of PCFG at fair value.

Subsidiaries
As at September 30, 2016

BCB ASSET MANAGEMENT LIMITED
Telephone: (441) 295-5678 | Fax: (441) 295-6699
BCB Asset Management Limited (incorporated February 11, 2011) merged on January 11, 2012, with BCB Fund Services Limited (incorporated December 21, 1992). Provides listing sponsorship services and is a BSX trading member.

BCB CHARTER CORPORATE SERVICES LIMITED
Telephone: (441) 295-5678 | Fax: (441) 295-6699
Amalgamated in Bermuda on October 4, 2011.
Provides company secretarial and corporate services.

BCB LUXEMBOURG S.À.R.L.
13-15 Avenure de la Liberté
L-1931 Luxembourg
Incorporated in Luxembourg on May 4, 2011.
Investment holding company.

BCB MANAGEMENT LIMITED
Telephone: (441) 295-5678 | Fax: (441) 295-6699
Incorporated in Bermuda on March 2, 2012.
Provides corporate directorships to companies.

BCB MANAGEMENT SERVICES LIMITED
Telephone: (441) 295-5678 | Fax: (441) 295-6699
Incorporated in Bermuda on September 5, 2012.
Provides accounting services to companies and trusts.

BCB PARAGON TRUST LIMITED
Telephone: (441) 295-5678 | Fax: (441) 295-7024
Amalgamated on October 4, 2011, and subsequently amalgamated on December 15, 2011, with BCB Trust Company Limited (incorporated February 9, 1970). Provides trust services.

BCB RESOURCE FUND
Telephone: (441) 295-5678 | Fax: (441) 295-4759
Incorporated in Bermuda on May 10, 2012.
Segregated cell company for natural resource investments.

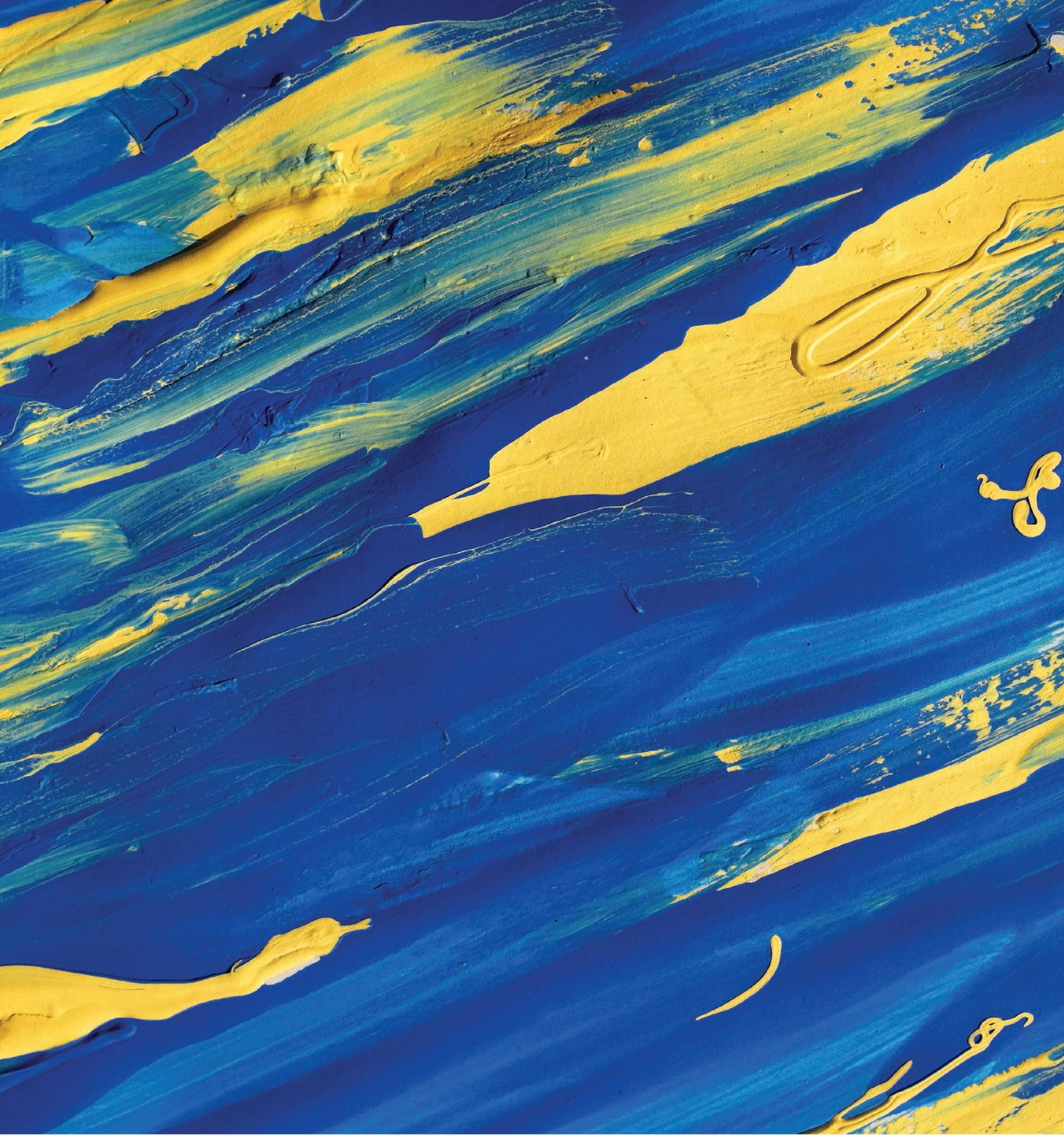
BERCOM NOMINEES LIMITED
Telephone: (441) 295-5678 | Fax: (441) 295-3980
Incorporated in Bermuda on July 8, 1987 as a nominee company.
Provides nominee services.

PRIVATE & COMMERCIAL FINANCE GROUP plc
Pinners Hall, 105-108 Old Broad Street, London EC2N 1ER, England
Established in 1993 whose shares are quoted on the AIM market of the London Stock Exchange. Provides finance for vehicles, plant and equipment.

VT STRATEGIES HOLDINGS LIMITED
Incorporated in Bermuda on August 21, 2013.
Property holding company.

The registered address for the above companies (unless otherwise indicated) is:
34 Bermudiana Road, Hamilton HM 11, Bermuda.

Bermuda is the principal country of operations for the above companies,with the exception of BCB Luxembourg S.A.R.L. and Private & Commercial Finance Group plc.



It has been said that every tool carries with it the spirit by which it has been created. That there is creativity in process and beauty in structure. At Bermuda Commercial Bank, we see the client experience in banking as an art form. Through exacting detail and a meticulous passion for our craft, we create inspired results for our clients locally and around the globe.

welcome to the art of banking

REGISTERED ADDRESS
34 BERMUDIANA ROAD
HAMILTON HM 11
BERMUDA

MAILING ADDRESS
P.O. BOX HM 1748
HAMILTON HM GX
BERMUDA

T: +1 (441) 295-5678
F: +1 (441) 296-0601
W: WWW.BCB.BM
E: ENQUIRIES@BCB.BM