



STRUCTURED TO CREATE POSSIBILITIES

Bermuda Commercial Bank | Annual Report 2017







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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 internet banking, global custody and brokerage, trust administration and a comprehensive range of corporate administration services.





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 1993. A decision was made by Barclays to sell its minority shareholdings world-wide in the early 1990’s and this set the stage for the Bank to acquire a new shareholder who would bring a new focus and direction.

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

In 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.

In November 2015, BCB implemented a state-of-the-art core banking system, along with a suite of products, including internet banking. This allowed the Bank to grow its channel offerings and business lines, as well as providing better reporting and analysis, and improving the Bank’s exceptional customer service.

In September 2015, BCB announced the acquisition of PCF Group plc, formerly known as Private and Commercial Finance Group plc (“PCFG”), a UK-based finance house quoted on the AIM stock exchange with a focus on vehicle financing in the business and consumer sectors. PCFG has since become a licenced bank in the UK.

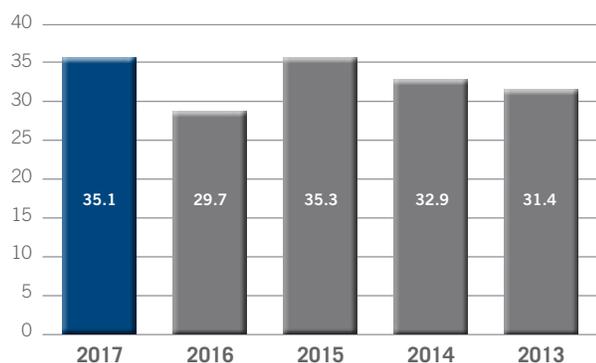
In June 2016, the BCB Group of Companies moved into a new location at 34 Bermudiana Road.



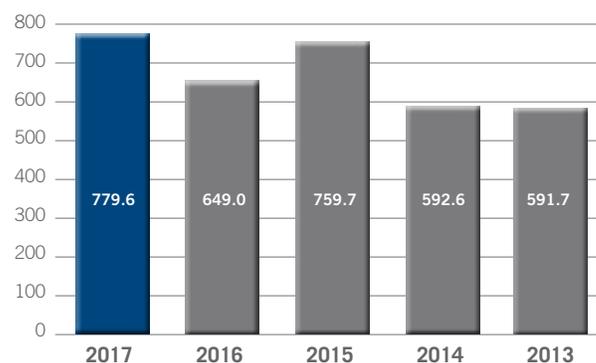
Key Financial Highlights

	2017	2016
Results of the year (\$ million)		
Total income	\$ 35.1	\$ 29.7
Total expenses	\$ 34.0	\$ 36.3
Net income / (loss)	\$ 1.1	\$ (6.6)
Results at the year end (\$ million)		
Total assets	\$ 779.6	\$ 649.0
Total deposits	\$ 585.7	\$ 453.8
Total equity	\$ 121.9	\$ 103.9
Regulatory ratios		
Tier 1 capital ratio	22.5%	21.8%
Total capital ratio	22.5%	21.8%

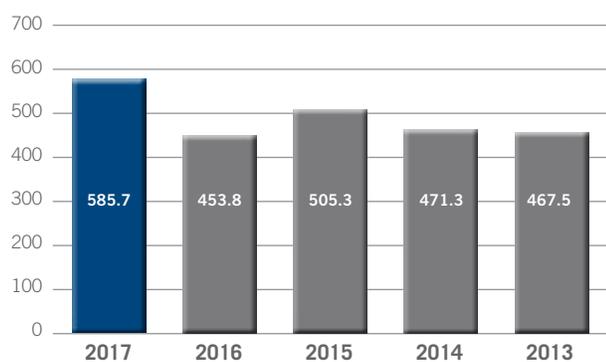
TOTAL INCOME (\$ million)



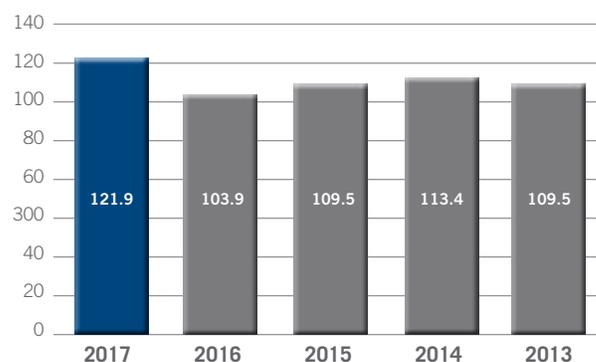
TOTAL ASSETS (\$ million)



TOTAL DEPOSITS (\$ million)



TOTAL EQUITY (\$ million)



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.

2017 - A YEAR OF IMPROVEMENT

I have been involved with several organizations which started small but grew by a large multiple. Although diverse, these ventures shared some traits. Notably, they employed excellent people obsessively focused on providing superior service by doing few things, but doing them well.

Step by step, supported by a progressive and patient shareholder, BCB is evolving similar features.

Last year, I explained the Bank's recent extensive investments to improve its infrastructure. These included steps such as the implementation of a cutting edge suite of information technology systems and the acquisition and renovation of new and ideal premises.

During the year to September 30, 2017, BCB continued to build strong foundations.

By September 30, 2016, we had appointed Mr. Hubert Esperon, a seasoned international executive, as the Bank's CEO. He has, already, materially improved the Bank's talent pool. Mr. Esperon recently added the final members to an experienced and talented senior management team. He has also taken important strides to develop and empower the Bank's middle management and front line staff.

Having good leadership is of little value without focus. The Bank's management team is working to leverage its strengthened foundations to build, at a sensible pace, a scaled but well-controlled bank of which we can all be proud. They know that BCB cannot and should not try to be all things to all people, and they will not forget its Bermuda roots. In essence, their vision is for BCB to be a specialized local bank with international reach, delivering quality solutions and superior experience to selective customers.

Success will depend on two key issues: strong risk management and superior customer service.

The Bank's Board and management are aligned around the imperative of managing risk and compliance effectively. BCB has progressively improved in this regard over several years, but made

decisive progress this year. Notably the Bank has implemented the invaluable "three lines of defence" system (described on page 12). This was made possible by fully staffing our risk, compliance and internal audit teams.

This investment in significant and talented resources to augment our risk management was the right thing to do, but also timely. Bermuda is facing an important inspection by the Caribbean Financial Action Task Force later in 2018. In the face of this the Bermuda Monetary Authority is under pressure to ensure that financial institutions such as Bermuda's banks are operating with high standards. The standards being applied are largely those defined by Basel III. These were designed with large, systemically important banks in mind. Applying them to small banks does provide greater peace of mind to a regulator and, in some respects, to a bank Board—but is hugely challenging to management and costly to shareholders.

A positive by-product of the extensive work to elevate our risk management is that BCB has improved its understanding of which clients the Bank can serve, and what they expect. Armed with these insights the Bank has restructured its commercial operations to better serve clients, including by setting up a dedicated customer experience team. This and the Bank's improving culture should, over time, help BCB to deliver noticeably superior service.

Overall, BCB is barely recognizable from the organization which I joined in 2014. While further work remains and there are no grounds for complacency, I am now excited by the Bank's potential. I repeatedly hear the message that Bermuda needs more competition in the banking sector. A well-run BCB can help in this regard. Given the diverse local as well as international opportunities being presented to the Bank and its transformed abilities, BCB seems to enjoy wide scope to develop a great business.

FINANCIAL RESULTS

Our first priority is always to ensure that BCB is stable and secure. At September 30, 2017, the Bank had capital of \$121.9 million (2016: \$103.9 million). The rest of the balance sheet had also grown, with total assets of \$779.6 million (2016: \$649.0 million) and total deposits of \$585.7 million (2016: \$453.8 million). The

capital ratio was very strong at 22.5% (2016: 21.8%). The Bank was also very liquid, with cash and cash equivalents totalling 33.5% of total assets (2016: 33.0%).

Encouragingly, this conservatism did not prevent BCB from posting materially improved results. For the year to September 30, 2017, the Bank achieved a profit of \$1.1 million (2016: loss of \$6.6 million). This turnaround was achieved thanks to a combination of improved income and reduced expenses.

The Bank's income was \$35.1 million (2016: \$29.7 million). This improvement largely stemmed from strong performance by the Bank's investment portfolio. The Bank's United Kingdom-based subsidiary PCF Group plc ("PCFG") also continued to make a valuable contribution.

For the year, BCB's expenses totalled \$34.0 million (2016: \$36.3 million). This reduction, achieved even while the Bank was adding to its senior management team, was thanks to a reduction in the general and administrative expenses to \$13.1 million from \$16.9 million in the prior year. I congratulate the Bank's management for achieving this reduction via their disciplined control of expenses.

For more details see the Management's Discussion and Analysis on page 11.

KEY DEVELOPMENTS

Our UK subsidiary PCFG was granted a deposit-taking licence during the financial year. Congratulations to all involved for this achievement, which bodes well for PCFG's future prospects.

This brightened future has boosted the share price of PCFG, which is listed on the AIM stock market. At September 30, 2017, BCB had an unrealized gain (not included in the financial results discussed above) of \$12.2 million on its PCFG shares. BCB, of course, continually reassesses the merits of investments such as this based on the prevailing share price, the inherent value of the business, and capital considerations.

Ongoing work is being undertaken to optimise the other BCB subsidiaries, including the trust and corporate services business, to ensure that the Bank's strategy is sound and that it can provide a seamless solution to our customers.

It is worth noting that the Bank avoided the distraction and potential cost of any significant new litigation.

Looking forward, BCB will continue to focus on strong risk management. It will balance devoting enough resources to meet Board and regulatory expectations with discipline in controlling expenses. The Bank will also seek to optimise its balance sheet, to enhance capital efficiency. Ideally, BCB will more broadly diversify its asset exposure. With asset markets stretched, BCB is adapting a more "all weather" investment portfolio. Finally, the Bank will continue to enhance the customer experience by very selectively ensuring that it offers the solutions which meet customer needs.

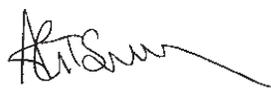
IN CONCLUSION

BCB is rapidly reinventing itself. Today, the Bank is well run by strong and experienced senior management, overseen by a capable Board of Directors. This team is supported by resources such as an ideal working environment and state of the art information technology systems.

BCB is now poised and able to offer the standard of service our clients should expect.

Thank you and well done to our Board, management and staff for achieving this year's progress. It took effort and dedication. Thank you to our shareholder and regulators, for helping us to set the standards we need to live up to and for your patience while we work to achieve them. We aim to make you proud.

Lastly, thank you to our clients. Like all clients of financial institutions in this day and age, you have needed to exercise patience while we have worked to meet increasing regulatory needs around matters such as "know your client" rules. Everyone at BCB will work to ensure that your collaboration in this regard is rewarded with good long-term service.



ALAN GILBERTSON
CHAIRMAN

Board of Directors



ALAN GILBERTSON | CHAIRMAN

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



DAVID MORGAN | DEPUTY CHAIRMAN *

Mr. Morgan has over thirty five years of experience in international banking, building his career at Standard Chartered Bank in Europe, the Far East and the USA. Since leaving Standard Chartered he has been involved in a wide range of business advisory and non-executive roles. In addition to Bermuda Commercial Bank he is also a Non-Executive Director of Somers Limited, PCF Group plc 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 and as a member of the Advisory Board of Hudson Structured Capital Management. 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. Stapley is a Chartered Accountant with thirty years' experience in the Financial Services Industry. Mr. Stapley currently serves as an independent director on the boards of several private or listed investment funds, insurance companies and private client structures. He is a former partner in Ernst & Young's Financial Services Office. Mr. Stapley who is Scottish and Bermudian, holds a Bachelor of Arts degree in Accounting from the Caledonian University in Glasgow and is a member of the Institute of Chartered Accountants of Scotland, the Chartered Professional Accountants in Bermuda and the Canadian Institute of Chartered Accountants.



JEANNE ATHERDEN

Mrs. 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. Mrs. Atherden is a Fellow of the Chartered Professional Accountants of Bermuda and a member of the Institute of Directors. She is a Member of Parliament and is currently the Opposition Leader and Shadow Finance Minister.



ANDREW BROOK *

Mr. Brook is an experienced non-executive director and was formerly the Asset Management and Banking Leader at PricewaterhouseCoopers Bermuda. Mr. Brook has over twenty five years financial services experience as a director of financial institutions and 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 is a Justice of the Peace and in 2017 was a recipient of the Queen's Honours. He currently serves as the Chairman of SCARS (Saving Children And Revealing Secrets). He is a Non-Executive Director of Colonial Group International Limited, Pentagon Global Diversified 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: Michael Schulz, Anthony Garzia, Joanne Edmunds, Peter Shaw, Louise Wakefield, Hubert Esperon, Lasantha Thennakoon, Arnel Terroza.

MICHAEL SCHULZ

Chief Strategy and Regulatory Officer

PETER SHAW

Chief Risk Officer

LASANTHA THENNAKON

Chief Financial Officer

ANTHONY GARZIA

Commercial Team Leader

LOUISE WAKEFIELD

Chief Operating Officer

ARNEL TERROZA

Head of Internal Audit

JOANNE EDMUNDS

Head of Human Resources

HUBERT ESPERON

Chief Executive Officer

LOUISE CHARLESON *(Not present)*

Head of Legal

FREDRICA BUTTERFIELD *(Not present)*

BCB Paragon Trust Ltd General Manager

Management's Discussion & Analysis

This Management's Discussion and Analysis ("MD&A") is provided to enable users to assess the Bank's results and performance for the year ended September 30, 2017 and should be read in conjunction with the Consolidated Financial Statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). 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. A list of subsidiaries of BCB is provided under note 18 to the consolidated financial statements.

FINANCIAL PERFORMANCE HIGHLIGHTS

- BCB maintained an improved and stable capital position of \$121.9 million at September 30, 2017 (\$103.9 million in 2016).
- Total income for the year was \$35.1 million (\$29.7 million in 2016)
- Net interest income for the year was \$24.1 million (\$25.8 million in 2016)
- Net income for the year was \$1.1 million (\$6.6 million loss in 2016).
- Total assets at September 30, 2017 were \$779.6 million (\$649.0 million in 2016).
- A strong total capital ratio of 22.5% at the year-end (21.8% in 2016).
- Customer deposits at September 30, 2017 were \$585.7 million compared to \$453.8 million at the prior year end.
- Strong liquidity position – Cash and cash equivalents represents 33.5% of total assets (33.0% in 2016)

RESULTS OF OPERATIONS FOR THE YEAR ENDED SEPTEMBER 30, 2017

During the year, the Bank generated net income of \$1.1 million compared to a net loss of \$6.6 million recorded in 2016. The favourable increase in net income compared to the net loss of prior year was primarily driven by improved and stable core earnings, improved earnings from the investment portfolio, and effective management of expenses.

INTEREST INCOME

Total interest income was \$36.0 million for the year ended September 30, 2017 (\$36.1 million in 2016). Interest income from loans and advances to customers was \$28.9 million (\$25.3 million a year ago) which improved the Bank's core earnings. Interest from financial investments was \$6.5 million (\$10.4 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, which is less than 2% of total interest income, was improved in 2017 compared to the prior year as short term interest rates increased during the year.

Interest expense saw an increase to \$11.9 million from \$10.3 million a year ago and the year-on-year movement mainly

pertained to the increase in the interest expense of PCFG. The Bank's unencumbered balance sheet and strong capital levels, matched with our diversified portfolio of interest earning assets, allowed BCB to offer competitive interest rates on its deposit book.

NON-INTEREST INCOME

Net non-interest income was \$11.0 million compared to \$3.9 million in 2016. This material increase is mainly due to the improved net earnings of the investment portfolio as a result of a decline in losses from derivative financial instruments and impairment losses on financial investments, and increases in net foreign exchange gains and dividend income. Fees and commissions for 2017 were \$3.3 million compared to \$4.4 million recorded in 2016, and the reduction is primarily due to the movement in PCFG's fee income.

EXPENSES

The Bank is focused on effectively controlling costs while at the same time continuing to deliver the top level of service that our customers expect to receive. Accordingly, in 2017, the Bank recorded total expenses of \$34.0 million compared to \$36.3 million recorded in 2016. The favourable variance in total expenses was primarily related to the reduction in general and administrative expenses from \$16.9 million to \$13.1 million.

FINANCIAL CONDITION AS AT SEPTEMBER 30, 2017

Assets

Cash and cash equivalents were \$261.5 million at the year-end compared to \$214.2 million a year earlier. At September 30, 2017, cash and cash equivalents represented 33.5% of total assets compared to 33.0% in 2016. 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 increased to \$233.7 million from \$183.3 million one year ago. The portfolio consists primarily of government debt securities, corporate debt securities, and debt securities issued by banks along with lesser percentages of portfolio funds, asset-backed securities and equities. It is anticipated that the Bank will continue to strengthen its High Quality Liquid Assets (HQLA) portfolio in 2018 in response to new global regulatory requirements on liquidity and stable funding needs. 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 \$245.7 million at September 30, 2017 compared to \$210.6 million recorded in 2016. The key components of the loan book at the year-end were consumer and business finance loans (79.5% of the loan book), commercial loans (17.8% of the loan book) and commercial overdrafts (1.7% of the loan book).

Liabilities

Total deposits at September 30, 2017 were \$585.7 million compared to \$453.8 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 continues 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. Additionally, following the granting of a new banking licence, PCFG started funding a part of its asset book through term deposits and these term deposits made a significant contribution to the Bank's long term deposits.

CAPITAL POSITION AS AT SEPTEMBER 30, 2017

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 was further strengthened to \$121.9 million from \$103.9 million in 2016.

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 the financial year 2017 with a strong regulatory capital ratio of 22.5% (September 30, 2016: 21.8%) 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 2017, BCB has focused its efforts on ensuring that its risk management practices are aligned with its business activities, the evolving regulatory environment and with the ever-changing challenges of the external operating environment. The Bank's risk management structure comprises the Board of Directors, the Board Risk Committee ("BRC"), the Audit Committee, the Asset & Liability Committee ("ALCO"), the Management Risk Committee ("MRC") and the Governance Committee. Refer to note 21 in the financial statements for more details on these committees.

BCB has adopted a risk framework based on "three lines of defence" 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 process level as the first line of defence. The Risk, Compliance and Legal & Regulatory functions form the second line of defence and are responsible for establishing and maintaining the Bank's risk management framework and for providing oversight and to challenge the effectiveness of the business's management of risk. Internal Audit, the third line of defence, provides independent assurance on the activities of the Bank 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 closely monitors developments in the banking regulations in relation to the 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, authorize and report related party transactions are appropriately designed and operating effectively.

Details of the Bank's risk structure are outlined in note 21 to 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, Banks need to build a capital conservation buffer of 2.5%. Banks also need to maintain a Liquidity Coverage ratio (LCR) of 80% for the year 2017 which will gradually be increased to 100% by 2019. Further, with effect from January 1, 2018, Basel III introduced a minimum requirement for stable funding called 'Net Stable Funding Ratio ("NSFR")' where Banks are required to maintain a minimum ratio of 100%.

Overall, based on our capital, liquidity and funding position at September 30, 2017, we are well positioned to fully meet the Basel III capital adequacy, liquidity and stable funding requirements.

**KPMG Audit Limited**

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Independent Auditor's Report

To the Shareholder and Board of Directors of Bermuda Commercial Bank Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Bermuda Commercial Bank Limited and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at September 30, 2017, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the consolidated financial position of the Group as at September 30, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.



Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG Audit Limited

KPMG Audit Limited
Chartered Professional Accountants
Hamilton, Bermuda
January 31, 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at September 30, 2017 (expressed in United States Dollars)

Assets	2017	2016
Cash and cash equivalents (Note 3)	\$ 261,451,315	\$ 214,229,448
Receivable from related parties (Note 18)	219,095	192,232
Interest receivable	2,490,428	2,931,278
Other assets (Note 9)	3,820,764	3,281,588
Loans and advances to customers (Notes 6 and 18)	245,676,577	210,595,561
Available-for-sale financial investments (Notes 5 and 23)	233,729,929	183,291,530
Derivative financial instruments (Notes 4 and 23)	151,841	4,611,473
Deferred tax assets (Note 25)	1,615,787	1,848,378
Property and equipment (Note 7)	14,072,203	12,685,389
Goodwill and other intangible assets (Note 8)	16,410,401	15,337,422
Total assets	\$ 779,638,340	\$ 649,004,299
Liabilities		
Deposits (Note 10)	\$ 585,731,005	\$ 453,790,898
Interest bearing loans and borrowings (Note 11)	49,684,880	80,260,901
Convertible loan notes (Note 12)	–	1,241,031
Customer drafts payable	369,607	382,677
Derivative financial instruments (Notes 4 and 23)	–	637,921
Other liabilities (Note 13)	19,505,918	5,310,684
Taxes payable (Note 24)	223,066	377,828
Interest payable	2,181,153	3,080,217
Total liabilities	\$ 657,695,629	\$ 545,082,157
Equity		
Capital stock (Note 14)	\$ 16,807,963	\$ 16,807,963
Share premium (Note 14)	22,131,188	22,131,188
Reserve for available-for-sale financial investments	(983,811)	(2,064,769)
Foreign currency translation differences for foreign subsidiary	(782,056)	(199,411)
Retained earnings	61,178,319	58,468,648
Total equity attributable to equity holders	98,351,603	95,143,619
Non-controlling interests	23,591,108	8,778,523
Total equity	121,942,711	103,922,142
Total liabilities and equity	\$ 779,638,340	\$ 649,004,299

SIGNED ON BEHALF OF THE BOARD:



ALAN GILBERTSON
CHAIRMAN



HUBERT ESPERON
CHIEF EXECUTIVE OFFICER

See accompanying notes

CONSOLIDATED STATEMENT OF INCOME

For the year ended September 30, 2017 (expressed in United States Dollars)

Income	2017	2016
Interest income:		
Cash and term deposits	\$ 646,286	\$ 357,330
Loans and advances to customers	28,864,703	25,334,683
Available-for-sale financial investments	6,494,172	10,433,679
Total interest income	36,005,161	36,125,692
Interest expense	(11,921,952)	(10,335,148)
Net interest income	24,083,209	25,790,544
Fees and commissions (Note 16)	3,259,354	4,388,468
Net foreign exchange gains (losses)	1,275,484	(139,276)
Losses on derivative financial instruments	(57,767)	(6,142,913)
Dividend income	1,781,733	664,803
Gain from sale of available-for-sale financial investments	5,402,727	7,468,305
Impairment losses on financial investments (Note 5)	(757,260)	(2,472,469)
Other operating income	70,766	152,938
Total income	\$ 35,058,246	\$ 29,710,400
Expenses		
Salaries and employee benefits (Note 19)	\$ 17,223,219	\$ 16,159,411
Depreciation (Note 7)	940,420	691,195
Amortisation (Note 8)	1,580,825	1,488,551
General and administrative expenses (Note 17)	13,148,945	16,868,614
Total expenses	32,893,409	35,207,771
Net income (loss) before taxation	2,164,837	(5,497,371)
Income tax expense (Note 24)	(1,071,410)	(1,132,181)
Net income (loss)	\$ 1,093,427	\$ (6,629,552)

See accompanying notes

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended September 30, 2017 (expressed in United States Dollars)

	2017	2016
Net income (loss) for the year	\$ 1,093,427	\$ (6,629,552)
Other comprehensive income:		
Net unrealized gain on available-for-sale financial investments	6,483,685	12,036,016
Reclassification of realised gains recognised in net income	(5,402,727)	(7,468,305)
Other comprehensive income	1,080,958	4,567,711
Total comprehensive income (loss)	\$ 2,174,385	\$ (2,061,841)

See accompanying notes

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended September 30, 2017 (expressed in United States Dollars)

	CAPITAL STOCK	SHARE PREMIUM	RESERVE FOR AVAILABLE-FOR- SALE FINANCIAL INSTRUMENTS	FOREIGN CURRENCY TRANSLATION DIFFERENCES FOR FOREIGN SUBSIDIARY	RETAINED EARNINGS	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS	NON- CONTROLLING INTERESTS	TOTAL EQUITY
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 15)	–	–	–	–	(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
Total comprehensive income	–	–	1,080,958	–	(287,817)	793,141	1,381,244	2,174,385
Dividends declared by PCFG to NCI	–	–	–	–	–	–	(134,632)	(134,632)
FX translation of foreign operations	–	–	–	(55,739)	–	(55,739)	1,498,553	1,442,814
Change in values resulting from PCFG share issue	–	–	–	–	2,997,488	2,997,488	12,067,420	15,064,908
Net loss on hedge of investments	–	–	–	(526,906)	–	(526,906)	–	(526,906)
Balance at								
September 30, 2017	\$ 16,807,963	\$ 22,131,188	\$ (983,811)	\$ (782,056)	\$ 61,178,319	\$ 98,351,603	\$ 23,591,108	\$ 121,942,711

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended September 30, 2017 (expressed in United States Dollars)

Operating activities	2017	2016
Net income (loss)	\$ 1,093,427	\$ (6,629,552)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:		
Depreciation	940,420	691,195
Amortisation	1,580,825	1,488,551
Loss on disposal of property and equipment	5,690	103,500
Loss on disposal of intangible assets	127,000	–
Gain from sale of available-for-sale financial investments	(5,402,727)	(7,468,305)
Impairment losses on financial investments	757,260	2,472,469
Translation of foreign subsidiary	(582,645)	(826,992)
	(1,480,750)	(10,169,134)
Changes in:		
Receivable from related parties	(26,863)	194,121
Interest receivable	440,850	484,040
Other assets	(539,176)	1,095,770
Deferred tax assets	232,591	748,997
Derivative financial instruments, net	3,821,711	5,071,469
Customer drafts payable	(13,070)	30,496
Other liabilities	14,195,234	(57,003)
Taxes payable	(154,762)	(83,424)
Interest payable	(899,064)	205,110
Net cash provided by (used in) operating activities	\$ 15,576,701	\$ (2,479,558)
Investing activities		
Net change in loans and advances to customers	(35,081,016)	4,806,769
Proceeds from sale of available-for-sale financial investments	631,652,778	369,492,144
Purchases of available-for-sale financial investments	(676,364,509)	(329,902,441)
Purchases of property and equipment	(2,333,167)	(5,882,422)
Purchases of intangible assets	(2,780,804)	(1,300,699)
Net cash (used in) provided by investing activities	\$ (84,906,718)	\$ 37,213,351
Financing activities		
Net change in deposits	131,940,107	(51,557,572)
Interest bearing loans and borrowings	(30,576,021)	(51,055,833)
Convertible loan notes	(1,241,031)	(977,451)
Shares issued by subsidiary	16,563,461	–
Dividends paid	(134,632)	(2,500,000)
Net cash provided by (used in) financing activities	116,551,884	(106,090,856)
Net increase (decrease) in cash and cash equivalents	47,221,867	(71,357,064)
Cash and cash equivalents, beginning of year	214,229,448	285,586,512
Cash and cash equivalents, end of year	\$ 261,451,315	\$ 214,229,448
Supplementary disclosure of cash flow information		
Interest paid	\$ 12,821,016	\$ 10,130,038
Interest received	\$ 36,446,011	\$ 36,609,732
Dividends received	\$ 1,931,733	\$ 676,090

See accompanying notes



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2017 (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, 2017, were authorised for issue in accordance with a resolution of the Board of Directors on January 31, 2018.

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 21.

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 application of 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 below:

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 is 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 23.

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's 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 18.

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 papers.

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 general & administrative 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 in the consolidated statement of income using the EIR method, and dividends are recorded as dividend income in the consolidated statement of income 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, 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 23.

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 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 an 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 its costs 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 and the cost of the software 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, PCF 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 asset liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated 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 which 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 instruments which replaces the 'incurred loss' model in IAS 39, and supplements the new general hedge accounting requirements. The permissible measurement bases for financial assets are amortised cost, fair value through other comprehensive income and fair value through profit and loss.

IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, and will be applied retrospectively.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The new model for revenue recognition is based on the transfer of control and it replaces the 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.

IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises 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 lease 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 2, Classification and Measurement of Share-Based Payment Transactions

The amendment provides accounting guidance for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; classification of 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.

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.

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 existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or the expected manner of the recovery of the asset. The amendments are effective for annual periods beginning on or after January 1, 2017.

Amendments to IFRIC 22, Foreign currency Transactions and Advance Consideration

The amendments clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The amendments are effective for annual periods beginning on or after January 1, 2018.

Amendments to IFRIC 23, Uncertainty over Income Tax Treatments

The amendments clarify the accounting for uncertainties in income taxes. It is to be applied to the determination of taxable profit (loss), tax bases, unused tax losses, credits and rates, when there is uncertainty over income tax treatments under IAS 12. It does not introduce new disclosures, but reinforces compliance with existing disclosure requirements about judgements made, assumptions and other estimates used and the potential impact of uncertainties that are not reflected. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019.

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

	2017	2016
Cash and demand deposits	\$ 129,039,032	\$ 53,431,131
Term deposits maturing within one month	42,554,760	60,806,617
HQLA maturing within three months	89,857,523	99,991,700
Total	\$ 261,451,315	\$ 214,229,448

The average effective yields earned were as follows:

	2017	2016
Cash and demand deposits	0.07%	0.03%
Term deposits maturing within one month	0.83%	0.32%
HQLA maturing within three months	1.11%	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 21).

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 (2016: 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.

	2017			2016		
	ASSETS	LIABILITIES	NOTIONAL AMOUNT	ASSETS	LIABILITIES	NOTIONAL AMOUNT
Foreign exchange						
forward contracts	\$ 105,349	\$ –	\$ 124,839,440	\$ 4,494,877	\$ –	\$ 122,226,379
Index option contracts						
- long	–	–	–	94,000	–	19,000,000
Index option contracts						
- short	–	–	–	–	–	–
Equity option contracts	–	–	–	22,596	–	815,697
Warrants	46,492	–	40,079	–	–	–
Interest rate swaps	–	–	–	–	637,921	38,931,000
Total	\$ 151,841	\$ –	\$ 124,879,519	\$ 4,611,473	\$ 637,921	\$ 180,973,076

At September 30, 2017, the net cost of the derivatives amounted to \$nil (2016: \$1,758,564).

5. Financial Investments

Available-for-Sale Financial Investments

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

	2017	2016
Government debt securities	\$ 121,618,395	\$ 57,293,995
Corporate debt securities	50,193,053	58,523,030
Debt securities issued by banks	34,332,790	33,432,596
Asset-backed securities	694,579	840,478
Portfolio funds	23,140,583	21,524,359
Equities	3,750,529	11,677,072
Total	\$ 233,729,929	\$ 183,291,530

At September 30, 2017, the cost of available-for-sale financial investments amounted to \$ 234,711,716 (2016: \$185,381,854).

Impairment Losses on Financial Investments

During the year, the Bank recognised impairment losses on its financial investments of \$757,260 (2016: \$2,472,469).

6. Loans and Advances to Customers

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

	2017			2016		
	GROSS	ALLOWANCE FOR LOSSES	NET	GROSS	ALLOWANCE FOR LOSSES	NET
Commercial loans	\$ 43,674,496	\$ 49,568	\$ 43,624,928	\$ 35,997,784	\$ 629,568	\$ 35,368,216
Commercial overdrafts	4,114,069	–	4,114,069	14,486,166	–	14,486,166
Consumer mortgage loans	1,515,033	–	1,515,033	1,236,341	–	1,236,341
Consumer and business finance	196,737,037	1,416,295	195,320,742	160,349,289	1,261,625	159,087,664
Credit cards	259,268	–	259,268	206,160	–	206,160
Other	842,537	–	842,537	211,014	–	211,014
Total	\$ 247,142,440	\$ 1,465,863	\$ 245,676,577	\$ 212,486,754	\$ 1,891,193	\$ 210,595,561

The allowance for loan losses consists of:

	2017	2016
Balance at beginning of year	\$ 1,891,193	\$ 49,568
Reversal of individually assessed allowance for losses	(580,000)	–
Reversal of collectively assessed allowance for losses	(796,429)	–
Collectively assessed during the year	30,829	–
Individually assessed allowance for losses during the year	920,270	1,841,625
Total	\$ 1,465,863	\$ 1,891,193

Credit Quality

2017				
	NEITHER PAST DUE NOR IMPAIRED	PAST DUE	IMPAIRED	GROSS
Commercial loans	\$ 43,624,573	\$ –	\$ 49,923	\$ 43,674,496
Commercial overdrafts	4,114,069	–	–	4,114,069
Consumer mortgage loans	1,178,927	336,106	–	1,515,033
Consumer and business finance	176,414,256	8,088,870	12,233,911	196,737,037
Credit cards	259,268	–	–	259,268
Other	839,761	–	2,776	842,537
Total	\$ 226,430,854	\$ 8,424,976	\$ 12,286,610	\$ 247,142,440

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
Consumer and 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
Total	\$ 196,282,291	\$ 7,199,615	\$ 9,004,848	\$ 212,486,754

At September 30, 2017, the carrying amount of gross loans and advances whose terms have been renegotiated which would otherwise be past due or impaired was \$489,879 (2016: \$596,955).

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

2017						
	WITHIN 1 YEAR	1-5 YEARS	5-10 YEARS	MORE THAN 10 YEARS	ALLOWANCE FOR LOSSES	TOTAL
Commercial loans	\$ 2,468,467	\$ 18,895,917	\$ –	\$ 22,310,112	\$ (49,568)	\$ 43,624,928
Commercial overdrafts	4,114,069	–	–	–	–	4,114,069
Consumer mortgage loans	–	387,721	–	1,127,312	–	1,515,033
Consumer and business finance	67,558,889	127,708,571	1,469,577	–	(1,416,295)	195,320,742
Credit cards	259,268	–	–	–	–	259,268
Others	11,500	830,993	–	44	–	842,537
Total	\$ 74,412,193	\$ 147,823,202	\$ 1,469,577	\$ 23,437,468	\$ (1,465,863)	\$ 245,676,577

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	

The average effective yields earned were as follows:

	2017	2016
Commercial loans	5.60%	7.17%
Commercial overdrafts	6.10%	5.66%
Consumer mortgage loans	5.77%	6.34%
Consumer and business finance loans	12.20%	13.20%
Credit Cards	14.50%	14.50%

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

7. Property and Equipment

2017							
	EQUIPMENT	LEASEHOLD IMPROVEMENTS	LAND	BUILDING	TOTAL		
Cost							
Beginning of year	\$ 1,500,219	\$ 28,853	\$ 1,306,800	\$ 10,746,272	\$ 13,582,144		
Additions	622,664	1,118	–	1,709,385	2,333,167		
Disposals	(85,755)	(5,692)	–	–	(91,447)		
End of year	2,037,128	24,279	1,306,800	12,455,657	15,823,864		
Accumulated depreciation							
Beginning of year	833,396	–	–	63,359	896,755		
Disposals	(85,514)	–	–	–	(85,514)		
Depreciation charge for the year	650,982	7,799	–	281,639	940,420		
End of year	1,398,864	7,799	–	344,998	1,751,661		
Net book value at end of year	\$ 638,264	\$ 16,480	\$ 1,306,800	\$ 12,110,659	\$ 14,072,203		

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		

8. Goodwill and Other Intangible Assets

	2017			
	COMPUTER SOFTWARE	CUSTOMER RELATIONSHIPS	GOODWILL	TOTAL
Cost				
Beginning of year	\$ 11,929,938	\$ 4,154,402	\$ 6,918,519	\$ 23,002,859
Additions	2,763,845	–	16,959	2,780,804
Disposals	(477,809)	–	–	(477,809)
End of year	14,215,974	4,154,402	6,935,478	25,305,854
Accumulated amortisation				
Beginning of year	3,699,241	2,943,810	1,022,386	7,665,437
Disposals	(350,809)	–	–	(350,809)
Amortisation charge for the year	1,382,538	198,287	–	1,580,825
End of year	4,730,970	3,142,097	1,022,386	8,895,453
Net book value at end of year	\$ 9,485,004	\$ 1,012,305	\$ 5,913,092	\$ 16,410,401

	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

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.

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. 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, 2017.

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.

9. Other Assets

	2017	2016
Accounts receivable, net of allowance for bad debts of \$714,650 (2016: \$697,959)	\$ 2,107,989	\$ 1,975,418
Accrued income	199,134	51,360
Prepayments	1,513,641	1,254,810
Total	\$ 3,820,764	\$ 3,281,588

10. Deposits

	2017	2016
Demand deposits	\$ 334,343,933	\$ 263,833,256
Term deposits:		
Deposits maturing within 1 month	32,995,436	31,163,261
Deposits maturing – 1-3 months	37,201,213	37,389,920
Deposits maturing – 3-12 months	77,093,347	57,137,565
Deposits maturing – 1-5 years	100,408,175	64,266,896
Deposits maturing – Over 5 years	3,688,901	–
Total	\$ 585,731,005	\$ 453,790,898

The average effective rates paid were as follows:

	2017	2016
Term deposits based on book values and contractual interest rates	2.09%	2.18%
Demand deposits	0.00%	0.00%

11. Interest-Bearing Loans and Borrowings

Interest-bearing loans and borrowings relate to PCFG, which has entered into various interest bearing loans and borrowing arrangements as follows:

	2017	2016
Secured loans and borrowings	\$ 49,684,880	\$ 80,260,901

\$16.1 Million (£12.0 Million) Block Discounting Facility

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

\$10.7 Million (£8.0 Million) Block Discounting Facility

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

\$80.4 Million (£60.0 Million) Block Discounting Facility

These loans have been obtained from multiple parties and have fixed interest rates and maturity dates up to four years. The facilities are secured by charges over the loans and receivables of the company undertaking to which they apply.

As at September 30, 2017, the total undrawn amount on the above-mentioned facilities was \$26.94 million (2016: \$36.3 million).

12. Convertible Loan Notes

	2017	2016
Convertible loan notes	\$ –	\$ 1,241,031

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 were convertible 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 had a final maturity date of September 30, 2016 and carried an interest rate of 6%. The unamortised issue cost of the loan notes were offset against the proceeds received from the debt issuance. 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.

13. Other Liabilities

	2017	2016
Accounts payable	\$ 16,984,088	\$ 2,827,863
Accrued liabilities	2,521,830	2,482,821
Total	\$ 19,505,918	\$ 5,310,684

14. 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, 2017 and 2016	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, 2017, the Bank's Tier 1 and total regulatory capital ratios of 22.48% (2016: 21.84%) and 22.48% (2016: 21.81%) 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 its capital structure, the Bank may adjust the amount of dividend payments to shareholders, return capital to shareholders or issue new capital securities.

15. Dividends

	2017	2016
Dividends on common shares:		
December 2015 declared and paid	\$ –	\$ 500,000
January 2016 declared and paid	–	2,000,000
Total	\$ –	\$ 2,500,000

16. Fees and Commissions

Fees and commissions are made up as follows:

	2017	2016
Corporate services	\$ 1,595,037	\$ 1,999,347
Trust services	1,007,158	1,003,285
Banking services	957,127	646,809
Lease termination income	442,327	463,967
Other	(742,295)	275,060
Total	\$ 3,259,354	\$ 4,388,468

17. General and Administrative Expenses

General and administrative expenses are made up as follows:

	2017	2016
Rent and premises	\$ 868,413	\$ 1,302,533
Advertising and marketing	250,156	416,922
Professional fees	3,345,066	4,098,403
Information technology and systems	2,195,210	2,113,102
Banking services and licences	1,105,300	1,689,512
Investment advisory fees (Note 18)	1,579,243	1,103,061
Impairment of loans and advances	898,418	2,051,236
Administrative	2,907,139	4,093,845
Total	\$ 13,148,945	\$ 16,868,614

18. 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 an annual fee of 0.50% (payable quarterly in arrears) of the value of the portfolio effective April 1, 2012 (previously 0.25%) for its advisory services. For the year ended September 30, 2017, such fees amounted to \$529,243 (2016: \$763,061), of which \$128,157 remained payable at year end (2016: \$163,718). In addition, pursuant to a consultancy agreement, a fee of \$100,000 (2016: \$100,000) was paid to the Investment Adviser for consultancy services, of which \$25,000 remained payable at year end (2016: \$25,000). These fees are included in investment advisory fees within general and administrative expenses in the consolidated statement of income (Note 17).

Further, 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. During the year ended September 30, 2017, the Bank incurred a performance fee of \$950,000 (2016: \$240,000) of which \$950,000 remained payable at year end (2016: \$240,000). These fees are included in investment advisory fees within general and administrative expenses in the consolidated statement of income (Note 17).

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, 2017, 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 (2016: \$10,923,308). Interest income from these investments for the year was \$648,116 (2016: \$486,566) and the accrued interest at the year end was \$1,821 (2016: \$nil). The Bank also held equity investments in Pentagon High Conviction Bond Fund IC SICAV p.l.c and Pentagon Global Diversified Bond Fund Limited formally known as BCB Bond Fund Limited (all related parties to the Bank by way of common control) with a carrying value of \$23,140,583 at September 30, 2017 (2016: \$21,524,359). Dividend income from these investments totaled \$1,600,000 (2016: \$600,000). At September 30, 2017, \$150,000 of dividends (2016: \$150,000) were receivable from related parties.

During 2017, the Bank sold securities to related parties at amounts equal to their fair value of \$ 12,555,499 (2016: \$20,732,411). There were no receivables as a result of the sale of these securities at either year end.

During 2017, the Bank purchased securities from related parties at amounts equal to their fair value of \$4,243,339 (2016: \$11,392,864). 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, 2017, total loans and advances receivable from related parties amounted to \$17,156,100 (2016: \$18,557,359), of which \$10,665,095 (2016: \$9,412,972) was unsecured and \$6,491,005 (2016: \$9,144,387) was secured by the related parties' cash and portfolio assets managed/custodied by the Bank. For the years ended September 30, 2017 and 2016, the Bank did not make 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, 2017 totaled \$121,839 (2016: \$230,155).

For the year ended September 30, 2017, the Bank earned net interest income and fees of \$1,403,302 (2016: \$2,253,186) for banking services provided to such related parties.

At September 30, 2017, the Bank had investments in asset-backed notes in various securitisation entities set up by Resimac Home Loans entities, related parties to the Bank, by virtue of common control, with a carrying value of \$22,309,681 (2016: \$26,774,876). These asset-backed notes were recorded in the consolidated statement of financial position within loans and advances to customers.

Deposit Liabilities

At September 30, 2017, deposit balances held by such related parties with the Bank amounted to \$8,285,439 (2016: \$7,157,648).

Transactions with Directors

Total directors' fees for the year ended September 30, 2017, amounted to \$780,156 (2016: \$855,181). The Bank provides banking services to directors under the same terms as an unrelated party would receive. At September 30, 2017, directors and parties associated with directors had deposit balances with the Bank of \$301,888 (2016: \$247,037). At September 30, 2017, total loans and advances receivable from directors and parties associated with directors amounted to \$ nil (2016: \$ nil). The undrawn portion of credit facilities committed to directors and parties associated with directors at the year-end totaled \$ nil (2016: \$ nil). Net interest received from directors for the year was \$ nil (2016: \$ nil).

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, 2017, the total compensation paid to key management personnel amounted to \$2,082,428 (2016: \$1,735,949), 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 (2016: nine years).

	2017		2016	
	NO. OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE (PENNY)	NO. OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE (PENNY)
Outstanding at the beginning of the period	2,610,000	15p	1,700,000	9p
Granted during the period	350,000	23p	1,410,000	20p
Expired during the period	–	–	(500,000)	9p
Outstanding at the end of the period	2,960,000	16p	2,610,000	15p
Exercisable at the end of the period	1,200,000	9p	–	–

PCFG's ordinary shares were trading at 28.5 pence per share as of the close of trading on September 30, 2017.

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
PCF Group plc	54.48	United Kingdom
VT Strategies Holdings Limited	100.00	Bermuda

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

As at September 30, 2017, BCB held \$53,616,000 (£40,000,000) in extendible loan notes issued by PCFG (2016: \$52,556,850 (£40,500,000)). The loan notes are listed on the Bermuda Stock Exchange. Upon consolidation of PCFG, these loan notes are eliminated and do not appear in these consolidated financial statements.

19. Employee Benefits

The Bank meets the minimum requirements of the Bermuda National Pension Scheme (Occupational Pensions) Act 1998, and related amendments and regulations. Under this legislation, the Bank contributes to its employees' pension requirements using a defined contribution plan at the rates below, following the 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 2017 amounted to \$1,048,677 (2016: \$490,103) and is included within salaries and employee benefits in the consolidated statement of income.

20. Commitments and Contingent Liabilities**Commitments**

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

Future minimum rental payments under the aforementioned lease as at September 30, are as follows:

	2017	2016
Within one year	\$ 326,050	\$ 315,663
After one year but not more than five years	298,878	605,019
Total	\$ 624,928	\$ 920,682

At September 30, 2017, the Bank was committed to \$1,420,830 (2016: \$6,540,734) 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.

Contingent Liabilities

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. The Bank is also subject to periodic regulatory reviews and actions by the Banking Regulator for Prudential and/or Anti-Money Laundering/Anti-Terrorist Financing (AML/ATF) activities. As a part of these periodic reviews, a regulatory review of the Bank's AML/ATF policies and procedures is in progress at the reporting date. In relation to these matters, the Bank is required to recognise a provision for a liability when it is probable that an outflow of economic benefits would 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. While the outcome of such matters is inherently uncertain and cannot be reliably measured, based on the information currently available to management, no provision is necessary in respect of legal proceedings or regulatory actions as at September 30, 2017.

21. 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 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 risk management and the asset and liability committee, provides policy level direction, defines the risk appetite for the Bank, and assesses performance of the risk management framework of the Bank. 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 ALCO Charter. The ALCO monitors liquidity, funding, asset deployment limits, including investment limits, in order to monitor and manage the exposure of the balance sheet to liquidity, funding, 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

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, 2017. 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.

	2017					
	WITHIN 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	TOTAL
Assets						
Cash and cash equivalents	\$ 261,451,315	\$ –	\$ –	\$ –	\$ –	\$ 261,451,315
Receivable from a related party	219,095	–	–	–	–	219,095
Interest receivable	857,978	548,999	1,020,342	63,109	–	2,490,428
Other assets	2,220,941	499,087	903,774	194,661	2,301	3,820,764
Loans and advances to customers	12,460,282	35,130,980	41,883,929	150,353,914	5,847,472	245,676,577
Available-for-sale financial investments	6,047,653	–	30,874,433	94,946,388	101,861,455	233,729,929
Derivative financial instruments	2,591,180	(2,485,830)	–	46,491	–	151,841
Deferred tax assets	–	–	–	1,615,787	–	1,615,787
Property and equipment	–	–	–	638,265	13,433,938	14,072,203
Goodwill and other intangible assets	–	–	–	9,485,004	6,925,397	16,410,401
	\$ 285,848,444	\$ 33,693,235	\$ 74,682,478	\$ 257,343,618	\$ 128,070,562	\$ 779,638,340
Liabilities						
Deposits	\$ 367,339,369	\$ 37,201,213	\$ 77,093,347	\$ 100,408,175	\$ 3,688,901	\$ 585,731,005
Interest-bearing loans and borrowings	2,222,513	4,571,535	23,008,651	19,882,181	–	49,684,880
Convertible loan notes	–	–	–	–	–	–
Customer drafts payable	369,607	–	–	–	–	369,607
Derivative financial instruments	–	–	–	–	–	–
Other liabilities	8,187,023	1,274,148	–	–	10,044,747	19,505,918
Taxes payable	–	–	223,066	–	–	223,066
Interest payable	399,412	445,374	651,550	684,817	–	2,181,153
	378,517,924	43,492,270	100,976,614	120,975,173	13,733,648	657,695,629
Net assets (liabilities)	\$ (93,165,478)	\$ (9,755,784)	\$ (26,128,928)	\$ 136,705,096	\$ 114,287,805	\$ 121,942,711

	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	183,002,651	–	545,082,157
Net assets (liabilities)	\$ (58,132,011)	\$ (29,790,310)	\$ (11,864,944)	\$ 50,952,461	\$ 145,128,858	\$ 103,922,142

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 income or loss for the year, based on the floating rate financial assets and financial liabilities held at September 30.

	2017	2016
25-basis-point increase in interest rates		
Impact on profit (for the next 12 months)	\$ 268,703	\$ 63,083
Impact on equity (for the next 12 months)	\$ (1,427,880)	\$ (1,528,978)
25-basis-point decrease in interest rates		
Impact on profit (for the next 12 months)	\$ 26,578	\$ 50,811
Impact on equity (for the next 12 months)	\$ 1,723,160	\$ 1,642,872

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, 2017, would have decreased net income and equity by \$46,700 (2016: decreased by \$83,445). 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, 2017, would have increased equity by \$375,053 (2016: \$1,167,707). An equivalent decrease would have resulted in an equivalent but opposite impact.

22. 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. In December 2016, PCFG was authorized as a bank.

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 2017 or 2016.

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

	2017							
	BANKING SERVICES	INVESTMENT MANAGEMENT	CONSUMER & BUSINESS FINANCE	CORPORATE SERVICES	TRUST	GENERAL & ADMINISTRATIVE	ELIMINATION OF INTER-SEGMENT AMOUNTS	TOTAL
Net interest income from external customers	\$ 6,036,098	\$ 3,950,874	\$ 14,096,237	\$ –	\$ –	\$ –	\$ –	\$ 24,083,209
Fees and other income from external customers	1,371,022	2,764,730	(273,147)	1,611,027	1,007,158	1,588,279	(1,681,732)	6,387,337
(Loss)/ Gains on derivative financial instruments	–	(52,891)	(4,876)	–	–	–	–	(57,767)
Gain on sale of available-for-sale financial investments	–	5,402,727	–	–	–	–	–	5,402,727
Impairment losses on available-for-sale financial investments	–	(757,260)	–	–	–	–	–	(757,260)
Total income	\$ 7,407,120	\$ 11,308,180	\$ 13,818,214	\$ 1,611,027	\$ 1,007,158	\$ 1,588,279	\$ (1,681,732)	\$ 35,058,246
Depreciation	(44,700)	–	(443,475)	–	–	(452,245)	–	(940,420)
Amortisation	(480,543)	(44,149)	–	(24,111)	–	(833,734)	(198,288)	(1,580,825)
Operating expenses	(5,688,555)	(2,049,690)	(9,829,676)	(1,773,350)	(1,149,648)	(11,484,693)	532,038	(31,443,574)
Net income (loss)	\$ 1,193,322	\$ 9,214,341	\$ 3,545,063	\$ (186,434)	\$ (142,490)	\$ (11,182,393)	\$ (1,347,982)	\$ 1,093,427
Segment assets	\$ 277,627,924	\$ 323,157,501	\$ 177,787,128	\$ 1,093,191	\$ 1,516,149	\$ 13,356,231	\$ (14,674,616)	\$ 779,638,340
Segment liabilities	\$ 530,580,848	\$ –	\$ 126,021,498	\$ 191,032	\$ 1,174,484	\$ 10,000	\$ –	\$ 657,695,629

	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 on 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

23. 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 foreign exchange forward 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 are valued using valuation techniques that 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:

	2017			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets				
<i>Derivative financial instruments</i>				
Forward foreign exchange contracts	\$ –	\$ 105,349	\$ –	\$ 105,349
Equity option contracts	–	–	46,492	46,492
	–	105,349	46,492	151,841
<i>Available-for-sale financial investments</i>				
Government debt securities	106,470,945	15,147,450	–	121,618,395
Corporate debt securities	19,793,907	19,270,838	11,128,308	50,193,053
Debt securities issued by banks	21,289,066	13,043,724	–	34,332,790
Asset-backed securities	–	508,263	186,316	694,579
Portfolio funds	–	23,140,583	–	23,140,583
Equities	1,439,714	–	2,310,815	3,750,529
	148,993,632	71,110,858	13,625,439	233,729,929
Government debt securities maturing within 3 months	81,855,680	8,001,843	–	89,857,523
Total	\$ 230,849,312	\$ 79,218,050	\$ 13,671,931	\$ 323,739,293
Financial liabilities				
<i>Derivative financial instruments</i>				
Interest rate swaps	–	–	–	–
Total	\$ –	\$ –	\$ –	\$ –

	2016			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets				
<i>Derivative financial instruments</i>				
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
<i>Available-for-sale financial investments</i>				
Government debt securities	57,293,995	–	–	57,293,995
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
Portfolio funds	–	21,524,359	–	21,524,359
Equities	8,737,072	–	2,940,000	11,677,072
	93,459,281	75,376,622	14,455,627	183,291,530
Government debt securities maturing within 3 months	99,991,700	–	–	99,991,700
Total	\$ 193,544,981	\$ 79,871,499	\$ 14,478,223	\$ 287,894,703
Financial liabilities				
<i>Derivative financial instruments</i>				
Interest rate swaps	637,921	–	–	637,921
Total	\$ 637,921	\$ –	\$ –	\$ 637,921

Movement in Level 3 financial instruments measured at fair value:

	CORPORATE DEBT SECURITIES	ASSET-BACKED SECURITIES	EQUITIES	EQUITY OPTION CONTRACTS	WARRANTS	TOTAL
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 Statement of income	–	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
Total gains recorded in Statement of income	–	15,934	–	–	46,492	62,426
Total gains (losses) recorded in equity	–	7,725	(629,185)	–	–	(621,460)
Sales	–	(224,662)	–	(22,596)	–	(247,258)
At September 30, 2017	\$ 11,128,308	\$ 186,316	\$ 2,310,815	\$ –	\$ 46,492	\$ 13,671,931

24. 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 \$1,071,410 (2016: \$1,132,181) is recorded in the consolidated statement of income. PCFG's income taxes payable at September 30, 2017 are \$223,066 (2016: \$377,828).

Analysis of tax charge in the period

	2017	2016
Current Tax		
UK Corporation Tax on profit for the period	\$ 713,824	\$ 792,970
Adjustments in respect of prior periods	182,420	(1,022)
Total current tax	\$ 896,244	\$ 791,948
Deferred Tax		
Origination and reversal of temporary differences	69,269	266,708
Adjustments in respect of prior periods	(79,888)	–
Change in tax rate	198,454	71,530
Total deferred tax	\$ 187,835	\$ 338,238
Total UK tax charge for the period	\$ 1,084,079	\$ 1,130,186
Total Luxembourg tax charge for the period	(12,669)	1,995
Total tax charge for the period	\$ 1,071,410	\$ 1,132,181

Deferred tax on items recognised directly in equity

	2017	2016
Relating to cash flow hedges	\$ 116,018	\$ 74,401
Share based payments	(19,323)	–
Change in tax rate	–	(4,326)
Total deferred tax on items recognized directly in equity	\$ 96,695	\$ 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. Further reductions to 19% (effective from April 1, 2017) and to 18% (effective April 1, 2020) were substantively enacted on October 26, 2015, and an additional reduction to 17% (effective April 1, 2020) was substantively enacted on September 6, 2016. These have been reflected in the amount of the recognised deferred tax asset (Note 25).

The deferred tax asset has been calculated based on a rate of 17% to the extent that it is expected to reverse in these future years.

	2017	2016
Profit on ordinary activities before tax	\$ 4,629,145	\$ 5,125,980
Profit on ordinary activities multiplied by standard rate of Corporation Tax in the UK of 20% (2016: 21%)	925,829	1,025,196
Effects of:		
Expenses not deductible for taxation purposes	6,753	16,850
Adjustments in respect of prior periods	91,627	(1,296)
Change in tax rate	145,573	90,732
Utilisation of previously unrecognized losses	(67,915)	(1,296)
Other	(17,788)	–
Total UK tax charge for the period	\$ 1,084,079	\$ 1,130,186

25. Deferred Tax Assets

	2017	2016
Accelerated capital allowances	\$ (125,817)	\$ –
Decelerated capital allowances	1,661,105	1,608,883
Derivative financial instruments	–	112,322
Other temporary differences	–	127,173
Provisions	8,667	–
Share based payments	71,832	–
Total	\$ 1,615,787	\$ 1,848,378

There is an unrecognised deferred tax asset of \$3,258,513 which relates to tax losses arising in prior years which are unutilised at the reporting date.

26. Subsequent Events

There have been no significant events or transactions from September 30, 2017 to the date that these financial statements were available for issuance that require adjustments to or disclosures in the consolidated financial statements.



Subsidiaries

As at September 30, 2017

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 Avenue 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.

PCF GROUP plc

Pinnars 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. In December 2016, PCFG was authorized as a bank.

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.

Notes



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



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