BCB®

BERMUDA COMMERCIAL BANK LIMITED

ANNUAL REPORT 2019

BCB ANNUAL REPORT 2019

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Table of Contents

Corporate Profile

Bermuda Commercial Bank is the specialist Bermuda bank delivering innovative and effective solutions to provide superior customer experience. We offer tailored financial solutions and personal attention to Bermuda-based and international business customers, individual 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:

- Deliver superior value for our stakeholders and the community
- Differentiate products and solutions through customer experience and innovation
- Maintain a well-capitalised and liquid balance sheet
- Be accountable and always compliant in line with our Code of Conduct
- Promote respect and diversity

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 Bermuda.

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

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

In 2019, BCB celebrated its 50-year anniversary of providing banking services to Bermuda and internationally. On 5 February 2019, Somers Limited announced it had entered into an agreement with Permanent Capital Limited to sell its entire stake in BCB and its subsidiaries. The transaction is pending regulatory and governmental approvals.

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.

A TIME OF CHANGE

As I write, BCB is in what should be the final stages of a transition to new ownership.

Somers Limited has been a patient and collaborative shareholder while the Bank's Board and staff have worked to transform BCB's infrastructure in recent years, as explained in my prior reports. Thank you.

During this transformation, the Bank's focus has been mostly inward. Growing the business has, necessarily, received limited priority. That focus is changing this year.

BCB has built most or all of the strong foundations required to support a meaningfully larger bank. It can now work to achieve scale to make this investment sustainably rewarding. The financial results for last year, summarised below, are the price of the Bank's recent inward focus. They indicate that a re-focus on growth is timely. However, BCB's very strong balance sheet affords it the time to pursue this growth prudently and selectively in the years ahead.

The global economic environment appears uncertain, given tense international relations, an unusually protracted period without a recession, extended asset prices underpinned by abnormally low interest rates, and fears about the new coronavirus. Thankfully, BCB does not depend on a strong global economy. It has a tiny market share in the Bermuda market. Growing this could allow the Bank to attain a multiple of its present size. It helps that the island's credibility and therefore business prospects have been boosted by its promotion to the EU's list of cooperative whitelisted jurisdictions and by the very positive assessment of our AML/ATF regime by the Caribbean Financial Action Task Force. Well done to all involved including The Bermuda Monetary Authority and the Ministry of Finance for this success.

BCB is just beginning to implement growth strategies built on excellent customer service. If their acquisition of the Bank completes, our prospective shareholder, Permanent Capital Holdings Limited, will contribute additional opportunities. Everyone at the Bank will work to deserve and harness their support.

2019 IN REVIEW

BCB's financial performance for the year to 30 September, 2019 essentially reflects two themes: the Bank was unprofitable, but it has a very strong balance sheet.

During the year, BCB incurred a net loss of $8.3 million (2018: net income of $7.2 million). The year-on-year comparison is unflattering in part because in 2018 the Bank enjoyed a substantial once-off contribution from the sale of the majority of the Bank's investment in the PCF Group ("PCFG"). This divestment has, for now, left BCB with an increased reliance on net gains from its investment portfolio. Last year, these net gains declined, partly because the portfolio was positioned more conservatively, perhaps appropriately during a volatile year.

The total expenses for the year amounted to $24.1million (2018: $36.3 million, or $24.9 million excluding direct PCFG expenses). I commend BCB management for tightly containing expenses despite the need to invest significantly in risk management.

Despite this year's net loss, at September 30, 2019, the Bank had an exceptionally strong 34.7% capital ratio (September 30, 2018: 41.3%). BCB was also extremely liquid, holding cash and cash equivalents amounting to 32.1% of total assets (2018: 35.4%).

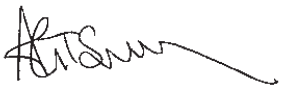
For more details see the Management's Discussion and Analysis on page 9.

IN CONCLUSION

Last year, BCB reached its 50th anniversary. I congratulate all those whose foresight and hard work helped the Bank to survive and, usually, thrive over this lengthy history. Our celebrations were understated given this year's financial results and the prospective change of ownership, but I am confident that BCB will be able to celebrate a bright future.

Thank you to everybody who contributed to rebuilding BCB's foundations, including Somers, the Bank's Board, and its management and staff. If this is Somers' final year as owner, they will leave a strong legacy and with our appreciation. The Bank now has the potential to achieve an attractive, sustainable business built on genuinely effective client service.

Finally, thank you to our clients. We all continue to value, and will work hard to deserve, your business.



ALAN GILBERTSON
CHAIRMAN

Board of Directors (As of December 31, 2019)

ALAN GILBERTSON I CHAIRMAN

Mr. Gilbertson has thirty nine 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 a Director and the past 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 I 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 currently serves as a Director of several Bermuda based and international organisations. Mr. Arton is a former senior executive of XL Group and previously was an executive of CIGNA Corporation and American International Group, Inc. He is a Fellow of the Institute of Directors.

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.

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, One Communications Limited, Somers Limited and West Hamilton Holdings Limited. Mr. Younie is a member of the Institute of Chartered Accountants in England and Wales.

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.

HUBERT ESPERON *

Mr. Esperon joined BCB in September 2016 as Chief Executive Officer. He has over twenty seven years of experience in financial services and has previously held multiple senior executive roles at GE Capital across Europe, including 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.

* Denotes non-Bermudian Director

Senior Management

Left To Right: *Sunny Agarwal, Michael Schulz, Louise Wakefield, Lisa Barnes, Hubert Esperon, Stephen Egan, Anthony Garzia, Lasantha Thennakoon, Arhnel Terroza.*

SUNNY AGARWAL
Head of Compliance Operations

MICHAEL SCHULZ
Chief Strategy & Regulatory Officer

LOUISE WAKEFIELD
Chief Innovation Officer

LISA BARNES
Head of Customer Experience

HUBERT ESPERON
Chief Executive Officer

STEPHEN EGAN
Interim Chief Risk Officer

ANTHONY GARZIA
Commercial Team Leader

LASANTHA THENNAKOON
Chief Financial Officer

ARHNEL TERROZA
Head of Internal Audit

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, 2019 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 16 to the consolidated financial statements.

FINANCIAL PERFORMANCE HIGHLIGHTS

- Strong capital position with a total capital ratio of 34.7% at the year-end.
- Strong liquidity position with cash and cash equivalents representing 32.1% of total assets.
- Total income for the year was $15.8 million and net loss for the year was $8.3 million.
- Total equity attributable to the Bank's equity holders at September 30, 2019 was $97.5 million.

All income and expense related balances of previous financial year include consolidated financial information of BCB's former subsidiary in the United Kingdom, PCF Group PLC ("PCFG") which was deconsolidated in June 2018. As such, the consolidated statement of income for the year ended September 30, 2018 includes operational results of PCFG for nine months and the transaction gain from the sale of the majority shareholding in PCFG.

RESULTS OF OPERATIONS FOR THE YEAR ENDED SEPTEMBER 30, 2019

During the year, the Bank incurred a net of loss of $8.3 million compared to a net income of $7.2 million in 2018. This was primarily due to a decline in net investment gains caused by the market volatility and the one-off disposal gain recorded in 2018 pertaining to the sale of PCFG shares. However, excluding investment gains and operational results generated by PCFG, total income together with reduced expenses contributed positively to the net operational results of the Bank compared to 2018.

INTEREST INCOME

Total interest income was $15.4 million for the year ended September 30, 2019 compared to $30.5 million in 2018. Interest income from loans and advances to customers was $2.4 million ($22.4 million in 2018) where the decline was primarily due to the nine months results of PCFG contributed to the total interest income of 2018. Interest income from financial investments increased to $8.5 million from $7.1 million in 2018. 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, liquidity and earnings. Interest income from cash and term deposits saw an increase to $1.7 million from $1.0 million a year ago due to effective management of liquid assets and increase in market interest rates.

Interest expense saw a decrease to $5.5 million from $7.1 million a year ago and the year-on-year movement mainly pertained to the deconsolidation of PCFG. Further, BCB's unencumbered balance sheet and strong capital levels, matched with a diversified portfolio of interest earning assets, allowed the Bank to offer competitive interest rates on its deposit book.

NON-INTEREST INCOME

Net non-interest income was $5.8 million compared to $20.1 million in 2018. The movement was mainly due to a decline in net gains from financial investments in the current financial year, and the one-off disposal gain of $15.5 million recorded in 2018 from the sale of PCFG shares. The decrease in non-interest income was partially offset by a decrease in impairment losses on financial investments. Fees and commissions for 2019 were $3.3 million compared to $3.8 million recorded in 2018.

EXPENSES

The Bank is focused on effective management of expenses while continuing to deliver the top level of service that our customers expect to receive. In 2019, the Bank recorded total expenses of $24.1 million

compared to $36.3 million in 2018. The decrease was mainly due to the deconsolidation of PCFG where it contributed to total expenses for nine months in 2018. The decrease was also supported by the continued prudent management of expenses within the Board approved annual budget despite increased resource allocation towards continued strengthening of the compliance function.

FINANCIAL CONDITION AS AT SEPTEMBER 30, 2019

Assets

The Bank is committed to maintain a prudent level of liquid assets in line with the Bank's liquidity management framework. At September 30, 2019, the Bank held cash and cash equivalents of $147.9 million that represented 32.1% of total assets ($170.9 million in 2018 that represented 35.4%).

The Bank's financial investment portfolio increased to $261.4 million at September 30, 2019 from $244.1 million a year ago. The portfolio consists primarily of government debt securities, corporate debt securities (non-banks), and debt securities issued by banks along with a lesser percentage of portfolio funds, asset-backed securities and equities. The Bank continued to maintain a healthy balance sheet and continued to strengthen its High Quality Liquid Assets ("HQLA") portfolio in response to recently introduced global regulatory requirements on liquidity and stable funding needs. The Bank's investment portfolio is monitored closely across a wide range of risk and performance characteristics, and in accordance with its risk management framework, the portfolio is actively diversified 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 $27.5 million at September 30, 2019 compared to $42.6 million a year ago. The year-on-year movement was primarily due to settlement of loan notes issued by PCFG and other regular movements in the loan portfolio. The key components of the loan book at the year-end were commercial loans (93.7% of the loan book) and consumer mortgage loans (4.4% of the loan book).

Liabilities

Total deposits at September 30, 2019 were $352.5 million compared to $367.7 million a year ago. With a relatively stable term deposit portfolio, management continues to strengthen the stable funding base including improvements to weighted average maturity of the Bank's deposit base.

CAPITAL POSITION AS AT SEPTEMBER 30, 2019

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 2019 with a strong regulatory capital ratio of 34.7% (41.3% in 2018) maintaining a significant cushion over and above the BMA requirements. Total equity attributable to equity holders at the year-end was $97.5 million compared to $105.4 million in 2018.

Quality and adequacy of financial capital determines BCB's ability to effectively drive towards its strategic ambitions and generate sustainable shareholder value.

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 2019, BCB continued to focus 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 consists of the Board of Directors, Board Audit and Risk Committee ("BARC"), Governance Committee, Executive Committee ("EXCO"), Asset & Liability Management Committee ("ALCO"), and Management Risk Committee ("MRC"). More details of these committees are provided in note 19 to the financial statements.

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

Prudent management of liquidity and stable funding form a part of BCB's fundamental approach to risk management. The Bank maintains HQLA and has sought to improve the stability, diversification and maturity of its deposit base. The Bank closely monitors developments in banking regulations in relation to liquidity management, and manages the maturity profile of its deposit funding to ensure that the Bank is 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 of Directors and the BARC. The Bank ensures that all transactions with related parties are examined by the BARC, approved on market terms and conditions, and are

subject to oversight by the Bank's Risk Management function. Details of the Bank's risk structure are further outlined in note 19 to the financial statements.

BASEL III

The Basel Committee's 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 ("LCR"), a minimum Net Stable Funding Ratio ("NSFR"), 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) and an 8.0% Total Capital ratio. In addition, banks need to build a capital conservation buffer of 2.5%. In terms of liquidity and stable funding, banks need to maintain minimum LCR and NSFR ratios of 100% for year 2019. The Bank's actual capital, liquidity and stable funding ratios at the year-end were significantly over and above the minimum regulatory requirements.

IMPLEMENTATION OF IFRS 9 – FINANCIAL INSTRUMENTS

On October 1, 2018, the Bank adopted IFRS 9 - *Financial Instruments* under the modified retrospective approach specified in the standard, which replaced IAS 39 - *Financial Instruments: Recognition and Measurement.* The transition impact from the adoption of IFRS 9 was recorded under the equity balance as at October 1, 2018, and it was primarily comprised of adjustments pertaining to the new requirements introduced by the standard in relation to classification of financial instruments and impairment provisioning that are materially different from IAS 39. More details on the application of IFRS 9 are provided in notes 2, 5, 6 and 9 to the financial statements.

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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, 2019, the consolidated statements of income and other 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, 2019, 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.

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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

Chartered Professional Accountants
Hamilton, Bermuda
January 20, 2020

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Consolidated Statement of Financial Position
(Expressed in United States Dollars)

September 30, 2019

		2019		2018
Assets				
Cash and cash equivalents (Note 3)	$	147,852,054	$	170,852,331
Receivable from related parties (Note 16)		165,981		151,412
Interest receivable		3,150,292		2,291,733
Other assets (Note 9)		2,156,357		1,820,885
Loans and advances to customers (Notes 6 and 16)		27,511,121		42,585,759
Financial investments (Notes 5, 16 and 21)		261,360,299		244,067,643
Derivative financial instruments (Notes 4 and 21)		152,423		157,916
Property and equipment (Note 7)		13,198,106		13,486,735
Goodwill and other intangible assets (Note 8)		4,917,855		7,400,751
Total assets	$	460,464,488	$	482,815,165
Liabilities				
Deposits (Notes 10 and 16)	$	352,472,179	$	367,689,377
Customer drafts payable		50,462		112,926
Derivative financial instruments (Notes 4 and 21)		–		417,558
Other liabilities (Note 11)		7,428,953		6,982,607
Interest payable		3,003,857		2,193,013
Total liabilities	$	362,955,451	$	377,395,481

See accompanying notes.

Consolidated Statement of Financial Position (continued)
(*Expressed in United States Dollars*)

September 30, 2019

	2019	2018
Equity		
Capital stock (Note 12)	$ 16,807,963	$ 16,807,963
Share premium (Note 12)	22,131,188	22,131,188
Reserve for available-for-sale financial investments	–	122,696
Accumulated other comprehensive income	218,111	–
Retained earnings	58,351,775	66,357,837
Total equity	97,509,037	105,419,684
Total liabilities and equity	$ 460,464,488	$ 482,815,165

See accompanying notes.

Signed on behalf of the Board:

Alan Gilbertson
Chariman

Hubert Esperon
Chief Executive Officer

Consolidated Statement of Income
(*Expressed in United States Dollars*)

Year Ended September 30, 2019

	2019	2018
Income		
Interest income calculated using the effective interest rate:		
Cash and term deposits	$ 1,678,941	$ 969,363
Loans and advances to customers	2,436,040	22,393,834
Financial investments (Note 5)	8,458,183	7,092,162
Other interest income:		
Financial investments (Note 5)	2,826,727	–
Total interest income	15,399,891	30,455,359
Interest expense	(5,477,795)	(7,091,224)
Net interest income	9,922,096	23,364,135
Fees and commissions (Note 13)	3,290,295	3,837,528
Net foreign exchange gains	1,192,690	817,178
Gains (losses) on derivative financial instruments	(88,953)	96,376
Dividend income	683,745	668,368
Gains from financial investments (Note 14 and 16)	246,238	17,572,755
Impairment gains (losses) on financial instruments (Note 5, 6 and 9)	66,345	–
Impairment gains (losses) on financial investments (Note 5)	–	(3,136,243)
Other operating income	451,040	231,772
Total income	15,763,496	43,451,869
Expenses		
Salaries and employee benefits (Note 17)	12,329,272	18,316,131
Depreciation (Note 7)	398,691	485,738
Amortisation (Note 8)	1,819,173	2,131,504
General and administrative expenses (Note 15)	9,528,990	14,342,410
Total expenses	24,076,126	35,275,783
Net income (loss) before taxation	$ (8,312,630)	$ 8,176,086
Income tax expense (Note 22)	–	(998,504)
Net income (loss)	$ (8,312,630)	$ 7,177,582

See accompanying notes.

Consolidated Statement of Other Comprehensive Income
(Expressed in United States Dollars)

Year Ended September 30, 2019

	2019	2018
Net income (loss) for the year	$ (8,312,630)	$ 7,177,582
Other comprehensive income:		
Items that may be reclassified subsequently to statement of income		
Available-for-sale investments		
Net unrealised gains on financial investments	–	3,224,771
Reclassification of realised gains (losses) recognised in net income	–	(2,118,264)
Debt instruments at fair value through other comprehensive income		
Net change in fair value	1,464,707	–
Reclassified to statement of income	937,462	–
Changes in allowance for expected credit losses	(78,933)	–
Items that will not be reclassified to statement of income		
Net change in fair value of equity securities designated at FVOCI	(2,677,142)	–
Other comprehensive income (loss)	(353,906)	1,106,507
Total comprehensive income (loss)	$ (8,666,536)	$ 8,284,089

See accompanying notes.

Consolidated Statement of Changes in Equity
(Expressed in United States Dollars)

Year Ended September 30, 2019

	Capital Stock	Share Premium	Reserve for Available-for-Sale Financial Instruments	Other Comprehensive Income (Loss)	Foreign Currency Translation Differences for Foreign Subsidiary	Retained Earnings	Equity Attributable to Equity Holders	Non-Controlling Interests	Total Equity
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
Total comprehensive income	–	–	1,106,507	–	–	5,402,826	6,509,333	1,774,756	8,284,089
Dividends declared by PCFG to NCI	–	–	–	–	–	–	–	(242,529)	(242,529)
Loss of control in PCFG	–	–	–	–	782,056	(223,308)	558,748	(25,123,335)	(24,564,587)
Balance at September 30, 2018	$16,807,963	$22,131,188	$ 122,696	$ –	$ –	$66,357,837	$105,419,684	$ –	$105,419,684
Adjustment on initial application of IFRS 9 and 15	–	–	(122,696)	572,017	–	184,568	633,889	–	633,889
Balance at October 1, 2018	$16,807,963	$22,131,188	$ –	$ 572,017	$ –	$66,542,405	$106,053,573	$ –	$106,053,573
Loss of control in subsidiaries	–	–	–	–	–	122,000	122,000	–	122,000
Net loss for the year	–	–	–	–	–	(8,312,630)	(8,312,630)	–	(8,312,630)
Other comprehensive income (loss)	–	–	–	(353,906)	–	–	(353,906)	–	(353,906)
Balance at September 30, 2019	$16,807,963	$22,131,188	$ –	$ 218,111	$ –	$58,351,775	$ 97,509,037	$ –	$ 97,509,037

See accompanying notes.

Consolidated Statement of Cash Flows
(Expressed in United States Dollars)

Year Ended September 30, 2019

	2019	2018
Operating activities		
Net income (loss)	$ (8,312,630)	$ 7,177,582
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:		
Depreciation	398,691	485,738
Amortisation	1,819,173	2,131,504
Loss on disposal of property and equipment	3,217	–
Loss on disposal of intangible assets	8,000	–
Goodwill impairment	655,723	–
Gains from sale of financial investments	(246,238)	(17,572,755)
Impairment (gains) losses on financial instruments	(66,345)	–
Impairment losses on financial investments	–	3,136,243
Foreign currency translation of foreign subsidiary	–	868,931
	(5,740,409)	(3,772,757)
Changes in:		
Receivable from related parties	(14,569)	67,682
Interest receivable	(858,559)	421,532
Other assets	(529,794)	889,847
Deferred tax assets	–	(150,770)
Derivative financial instruments, net	(412,065)	411,483
Customer drafts payable	(62,464)	(256,681)
Other liabilities	344,533	(9,643,525)
Taxes payable	–	174,423
Interest payable	810,844	1,987,535
Net cash used in operating activities	$ (6,462,483)	$ (9,871,231)

See accompanying notes.

Consolidated Statement of Cash Flows (continued)
(Expressed in United States Dollars)

September 30, 2019

	2019	2018
Investing activities		
Net change in loans and advances to customers	15,034,296	(23,667,807)
Proceeds from sale and maturity of financial investments	627,578,669	395,784,977
Purchases of financial investments	(643,820,282)	(430,359,229)
Net sales proceeds from PCFG sale	–	5,235,534
Purchases of property and equipment	(113,279)	(186,752)
Purchases of intangible assets	–	(745,135)
Net cash used in investing activities	$ (1,320,596)	$ (53,938,412)
Financing activities		
Net change in deposits	(15,217,198)	(32,810,358)
Net change in interest bearing loans and borrowings	–	6,263,546
Dividends paid	–	(242,529)
Net cash used in financing activities	(15,217,198)	(26,789,341)
Net decrease in cash and cash equivalents	(23,000,277)	(90,598,984)
Cash and cash equivalents, beginning of year	170,852,331	261,451,315
Cash and cash equivalents, end of year	$ 147,852,054	$ 170,852,331
Supplementary disclosure of cash flow information:		
Interest paid	$ 4,666,951	$ 5,103,689
Interest received	$ 14,541,332	$ 30,876,891
Dividends received	$ 683,745	$ 668,368

See accompanying notes.

Notes to Consolidated Financial Statements
(Expressed in United States Dollars)

September 30, 2019

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, and whose ultimate parent undertaking is Somers Isles Private Trust Company Limited, a company incorporated in Bermuda and owned by Mr. Duncan Saville.

The consolidated financial statements for the year ended September 30, 2019, were authorised for issue in accordance with a resolution of the Board of Directors on December 4, 2019.

2. Basis of Preparation and Significant Accounting Policies

2.1 Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments measured at fair value ("FV"). 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.

2.2 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 new standards applied during the year, 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 when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

2.3 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 19.

2.4 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.

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

2. Basis of Preparation and Significant Accounting Policies (continued)

2.4 Significant Accounting Judgments, Estimates, and Assumptions (continued)

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:

Classification of Financial Assets (Applicable to 2019 only)

Classification of financial assets is determined based on the business model within which the assets are held and the assessment of whether the contractual cash flows represent Solely Payment of Principal and Interest ("SPPI").

Impairment / Expected Credit Loss ("ECL") Allowance on Financial Assets (Applicable to 2019 only)

The impairment or ECL allowance for loans and advances and debt instruments in the investment portfolio that are carried at Amortised Cost ("AC") or Fair Value Through Other Comprehensive Income ("FVOCI") is measured according to the significant increase in credit risk of those assets from their initial recognition. The significance of the increase in credit risk is assessed based on internally developed parameters and may include estimates and judgements. Further, several internal and external forward-looking judgements, estimates and assumptions are used in assessing the ECL allowances. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

Impairment Assessment of Goodwill and Customer Relationships (Applicable to 2019 and 2018)

The impairment assessment of goodwill and customer relationships applicable to the corporate services business unit is carried out at least annually or when indicators of impairment exist. The recoverability of these assets is estimated using the value in use method where the future cash flows expected to generate from the cash-generating unit ("CGU") are discounted to their present value. The significant estimates and assumptions used in the assessment include revenue and expense growth, attrition of customers and the rate at which cash flows are discounted. The results of these assessments are described in more detail in Note 8.

Fair Value of Financial Instruments (Applicable to 2019 and 2018)

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 21.

Impairment Losses on Loans and Advances (Applicable to 2018 only)

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 losses. 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.

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

2. Basis of Preparation and Significant Accounting Policies (continued)

2.4 Significant Accounting Judgments, Estimates, and Assumptions (continued)

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 (Applicable to 2018 only)

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.

2.5 Basis of Preparation and Significant Accounting Policies

2.5.1 Standards adopted during the year ended September 30, 2019

In the financial statements for the year ended September 30, 2019, the Bank has applied IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers*, and the consequential amendments to IFRS 7 *Financial Instruments: Disclosures*, as these standards are effective for annual periods beginning on or after January 1, 2018. The nature and effect of the changes as a result of the adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in the current financial year, but do not have an impact on the Bank's consolidated financial statements. The Bank has not early adopted any other standard, interpretations or amendments that have been issued but are not yet effective.

Except for the changes resulting from the first-time adoption of the aforementioned standards, the Bank has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

2.5.1.1 IFRS 9 - Financial Instruments

IFRS 9 replaces IAS 39 for annual periods beginning on or after January 1, 2018. Therefore, the standard is applicable to the Bank from October 1, 2018. The Bank has not restated comparative information for 2018 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2018 is reported under IAS 39 and is not comparable with the information presented for 2019. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of October 1, 2018 and are disclosed under transition disclosures below.

Recognition and Initial Measurement

The Bank initially recognises loans and advances, deposits and other financial liabilities on the date on which they are originated. All other financial instruments (including regular purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

2. Basis of Preparation and Significant Accounting Policies (continued)

2.5.1 Standards adopted during the year ended September 30, 2019 (continued)

2.5.1.1 IFRS 9 - Financial Instruments (continued)

Classification

On initial recognition, a financial asset is classified as measured at AC, FVOCI or Fair Value Through Profit or Loss ("FVTPL").

A financial asset is measured at AC if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in the Consolidated Statement of Other Comprehensive Income ("OCI"). This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business Model Assessment

The Bank makes an assessment based of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. This includes the (a) business model where the objective is to hold assets in order to collect contractual cash flows, (b) business model where the objective is achieved by both collecting contractual cash flows and selling financial assets, and (c) other business models.

Other business models include financial assets that are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. These are measured at FVTPL as these are generally held for trading and the performance is evaluated on a fair value basis.

Assessment of whether Contractual Cash Flows are SPPI

Financial instruments that meet the business model assessment of (a) and (b) above are assessed to evaluate if the contractual cash flows represent SPPI which would typically be expected from basic lending arrangements. For this purpose, 'principal' is defined as the fair value of the financial asset on initial recognition, and may change over the life of the financial asset. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as profit margin.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

2. Basis of Preparation and Significant Accounting Policies (continued)

2.5.1 Standards adopted during the year ended September 30, 2019 (continued)

2.5.1.1 IFRS 9 - Financial Instruments (continued)

Financial Liabilities

The Bank classifies its financial liabilities as measured at amortised cost or FVTPL.

Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or it transfers 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 in which 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.

On derecognition, except for equity investments measured at FVOCI, the difference between the carrying amount of the financial asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI, is recognised in the Consolidated Statement of Income. Derecognition gains and losses from equity investments measured at FVOCI are not recognised in the Consolidated Statement of Income. However, transfers may be made from OCI to retained earnings at the discretion of management.

A financial liability is derecognised when its contractual obligations are discharged or cancelled, or expire.

Impairment

ECL allowances are recognised for financial assets and loan commitments, except for financial assets that are measured at FVTPL and equity investments measured at FVOCI. ECL allowances applicable to financial assets measured at AC are deducted from the gross carrying value of the respective financial asset while the ECL allowances applicable to financial assets measured at FVOCI are recognised in OCI. Movements in ECL allowances are recognised in the Consolidated Statement of Income.

ECL allowances are a probability-weighted estimate of credit losses that are expected to arise over the life of the asset (the lifetime expected credit loss), unless there has been no 'significant increase in credit risk' since origination. Accordingly, for loans and advances and financial investments, an assessment is performed at the end of each reporting period to evaluate whether a financial instrument's credit risk has increased significantly since its initial recognition.

Financial assets and loan commitments are categorised into the following groups based on the above assessment.

Stage 1 - includes debt instruments where there has not been any significant increase in credit risk since initial recognition. For instruments under stage 1, an allowance is required for ECLs resulting from default events that are possible within the next 12 months from the reporting date (i.e. 12 Months ECL).

Stage 2 - includes debt instruments where there has been a significant increase in credit risk since initial recognition on an individual or collective basis. For instruments under stage 2, an allowance is required for ECLs resulting from all possible default events over the expected life of the instrument (i.e. Lifetime ECL).

Stage 3 - includes debt instruments that are credit-impaired due to objective evidence of impairment. For instruments under Stage 3, an allowance is required to reduce the carrying value of the asset to its recoverable value.

Originated credit impaired: Originated credit impaired assets (if any) are financial assets that are credit impaired on initial recognition. They are recorded at fair value at initial recognition and interest income is subsequently recognised based on a credit-adjusted effective interest rate ("EIR"). ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

2. Basis of Preparation and Significant Accounting Policies (continued)

2.5.1 Standards adopted during the year ended September 30, 2019 (continued)

2.5.1.1 IFRS 9 - Financial Instruments (continued)

ECL allowances for accounts receivable are estimated based on the simplified approach allowed in IFRS 9.

Significant Increase in Credit Risk

In order to determine whether an instrument or a portfolio of instruments is subject to an impairment provision using 12 Month ECL or Lifetime ECL, the Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower. For this purpose, several internal risk criteria have been set by the Bank based on reasonable and supportable information that is relevant and available without undue cost or effort. These include:

- quantitative and qualitative information;
- analyses of historical and forward looking data; and
- data from internal and external sources such as external rating agencies.

Measurement of ECL

The Bank estimates the ECLs for loans and advances, loan commitments (if any), and financial investments based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of Default (“PD”);
- Loss Given Default (“LGD”); and
- Exposure At Default (“EAD”).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Stage 2 ECL is calculated by multiplying the lifetime PD by LGD and EAD. ECL for exposures in stage 3 instruments is calculated as the difference between the carrying value and the net present value of estimated future cash flows.

The PD is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the instrument has not been previously derecognised and is still in the portfolio. 12-month PD rates for instruments with similar credit risk characteristics are assessed based on the default rates published by approved external parties. Further, several judgements, estimates and forward looking assumptions are applied when adjusting the PD rates for financial instruments originated in Bermuda and for financial instruments with significant increases in credit risk.

The LGD is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral or credit enhancements that are integral to the underlying financial instrument. For financial instruments that do not have a collateral, the LGD is estimated based on the data published by the external rating agencies. This is usually expressed as a percentage of the EAD.

EAD represents the expected exposure in the event of a default. This is derived from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial instrument is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees (if any), the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable.

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

2. Basis of Preparation and Significant Accounting Policies (continued)

2.5.1 Standards adopted during the year ended September 30, 2019 (continued)

2.5.1.1 IFRS 9 - Financial Instruments (continued)

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the ECL is measured by considering the risk of default over the maximum contractual period over which it is exposed to credit risk. The maximum contractual period extends to the date at which the entity has the right to require repayment of the financial asset or terminate a loan commitment or guarantee.

The source and estimation of PD, LGD and EAD, and their application are dependent on the shared risk characteristics common to a selected group of assets. For portfolios in respect of which the entity has limited historical data, external benchmark information is used to supplement the internally available data.

The ECL for accounts receivable is different from the approach described above as it is estimated using the 'simplified approach' described in IFRS 9. A practical expedient known as the 'provision matrix' method, allowed by IFRS 9, is adopted to assess the allowances under the simplified approach. The provision matrix method specifies fixed provision rates (or 'loss rates') depending on the number of days that a receivable is past due.

Accordingly, the multiplication of accounts receivables in each age bucket by the respective expected loss rates provides the ECL allowance for accounts receivable.

Incorporation of Forward-Looking Information

Forward-looking information is incorporated into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

When estimating ECLs, the Bank formulates three economic scenarios: a base case, which is the 'the most likely outcome' scenario, and two less likely scenarios, one upside (i.e. stronger near-term growth) and one downside (i.e. moderate recession), and each is assigned with an estimated probability of occurring. Evaluation and application of multiple economic scenarios are key elements of the expected credit loss process as the ECL of a financial instrument shall be measured in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes.

Economic inputs applicable to the geographical jurisdiction of the underlying financial instrument group are used in developing the macroeconomic scenarios applicable to the estimation process. These economic inputs include gross domestic production growth rate, interest rate and unemployment rates of the relevant jurisdiction. Further, since the inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Where possible, the above data are obtained from credible third party sources and the reasonability of inputs, weights attributed to economic inputs and multiple scenarios, and other assumptions used in developing forward-looking information are reviewed at least annually.

Definition of Default and Cure

The definition of default of a group of financial instruments may differ according to their nature and exposure to credit risk, and may involve both quantitative and qualitative factors. Loans and advances are considered as defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. Financial investments carried at FVOCI are considered defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the interest, and/or interim or final principal payment becomes 30 business days past due on the instrument's contractual payments.

As a part of the assessment of whether an individually significant customer is in default, the Bank also considers a variety of factors that may indicate the inability to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate.

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

2. Basis of Preparation and Significant Accounting Policies (continued)

2.5.1 Standards adopted during the year ended September 30, 2019 (continued)

2.5.1.1 IFRS 9 - Financial Instruments (continued)

Such factors include, but are not limited to, downgrade in internal rating of the loan, deterioration in loan-to-value, and other qualitative indications that suggest that the borrower of the loan or the issuer of the financial investment is unlikely to honour its credit obligation in full or in part due to reasons such as significant financial difficulty of the issuer, breach of covenants, potential bankruptcy, other financial reorganisation, the disappearance of an active market, and the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses. It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when one or more of the above criteria have improved.

Modification of Financial Assets

A financial asset is derecognised when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new asset, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised financial asset is classified as Stage 1 or 2 for ECL measurement purposes, unless the new asset is deemed to be credit impaired at the date of inception. If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, a modification gain or loss is recorded, to the extent that an impairment loss has not already been recorded.

Write-offs

Financial instruments are written off either partially or in their entirety only when the Bank has no reasonable expectation of recovering the instrument in its entirety or a portion thereof. If the amount to be written off is greater than the accumulated ECL allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to 'Impairment losses on financial instruments' in the Consolidated Statement of Income.

Transition Disclosures

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively. However, as permitted by IFRS 9, information for the comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at October 1, 2018. Accordingly, the information presented for 2018 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2019 under IFRS 9.

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

2. Basis of Preparation and Significant Accounting Policies (continued)

2.5.1 Standards adopted during the year ended September 30, 2019 (continued)

2.5.1.1 IFRS 9 - Financial Instruments (continued)

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of October 1, 2018 is as follows:

	IAS 39 Measurement Category	IFRS 9 Measurement Category	IAS 39 Carrying Amount at Sep 30, 2018	Re-class Under IFRS 9	IFRS 9 ECL Allowance	IFRS 9 Carrying Amount at the Beginning of Oct 1, 2018
Financial Assets						
Cash and cash equivalents	AC	AC	170,852,331	–	–	170,852,331
Receivables from related parties	AC	AC	151,412	–	–	151,412
Interest receivable	AC	AC	2,291,733	–	–	2,291,733
Other assets	AC	AC	1,820,885	–	(100,531)	1,720,354
Loans and advances to customers	AC	AC	42,585,759	–	(118,798)	42,466,961
Available-for-sale financial investments	AFS		244,067,643	(244,067,643)	–	–
Re-class to financial investments at FVTPL	N/A	FVTPL	N/A	34,307,449	–	34,307,449
Re-class to debt instruments at FVOCI	N/A	FVOCI	N/A	164,361,551	(353,331)	164,008,220
Re-class to equity securities at FVOCI	N/A	FVOCI	N/A	34,475,335	–	34,475,335
Re-class to debt instruments at AC	N/A	AC	N/A	10,923,308	(95,990)	10,827,318
Derivative financial instruments	FVTPL	FVTPL	157,916	–	–	157,916

	IAS 39 Measurement Category	IFRS 9 Measurement Category	IAS 39 carrying Amount at Sep 30, 2018	Re-class Under IFRS 9	IFRS 9 Carrying Amount at the Beginning of Oct 1, 2018
Financial Liabilities					
Deposits	AC	AC	367,689,377	–	367,689,377
Customer drafts payable	AC	AC	112,926	–	112,926
Derivative financial instruments	FVTPL	FVTPL	417,558	–	417,558
Other liabilities	AC	AC	6,982,607	–	6,982,607
Interest payable	AC	AC	2,193,013	–	2,193,013

The net impact on the opening retained earnings at October 1, 2018 was an increase of $286,384. This consisted of $955,034 pertaining to the reclassification of certain financial investments, and ($668,650) of ECL allowances at October 1, 2018.

2.5.2 IFRS 15 - Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much, and when, revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Bank and its subsidiaries initially applied IFRS 15 on October 1, 2018 retrospectively by recording the cumulative effect of ($101,816) in the opening balance of retained earnings. However, the standard had an insignificant effect on the consolidated financial statements of the Bank.

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

2. Basis of Preparation and Significant Accounting Policies (continued)

2.5.2 IFRS 15 - Revenue from Contracts with Customers (continued)

Fees and Commissions

Revenue from contracts with customers primarily includes fees and commissions earned from banking and custodial services, trustee services, company management and corporate registrar services. Income is recognised when the performance obligations associated to those contracts are satisfied. Accordingly, income is recognised at the time of the transaction unless the performance obligations associated with the contract are satisfied over a period of time, in which case, the income is recognised over that period according to the complete satisfaction of the performance obligations. Consideration for fees and commissions is collected at the time of the transaction unless it is due upon the receipt of the invoice by the customer. Consideration receivable from customers is presented under other assets on the Statement of Financial Position while the consideration received in advance before the Bank provides the service (i.e. a contract liability) is deferred and presented under other liabilities on the Statement of Financial Position.

2.6 Other Accounting Policies Applied for the Financial Years Ended September 30, 2018 and 2019

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, 2019. A list of these subsidiaries is presented in Note 16.

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.

2. Basis of Preparation and Significant Accounting Policies (continued)

2.6 Other Accounting Policies Applied for the Financial Years Ended September 30, 2018 and 2019 (continued)

Derivatives

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 (losses) on derivative financial instruments and under net foreign exchange gains (losses) in the Consolidated Statement of Income.

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 and it is adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, the difference is recognised in the Consolidated Statement of Income 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.

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.

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

2. Basis of Preparation and Significant Accounting Policies (continued)

2.6 Other Accounting Policies Applied for the Financial Years Ended September 30, 2018 and 2019 (continued)

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 when necessary to reduce its exposure to credit or market risks.

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 the property and equipment is put into use.

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.

2. Basis of Preparation and Significant Accounting Policies (continued)

2.6 Other Accounting Policies Applied for the Financial Years Ended September 30, 2018 and 2019 (continued)

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 CGU 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 CGU 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 CGU 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 and is categorised under financial investments.

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

2. Basis of Preparation and Significant Accounting Policies (continued)

2.6 Other Accounting Policies Applied for the Financial Years Ended September 30, 2018 and 2019 (continued)

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.

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.

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:

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

2. Basis of Preparation and Significant Accounting Policies (continued)

2.6 Other Accounting Policies Applied for the Financial Years Ended September 30, 2018 and 2019 (continued)

Interest Income

Interest income is recognised in the Consolidated Statement of Income for all interest bearing instruments measured at AC and FVOCI, on the accrual basis, using the effective interest rate method. Effective October 1, 2018, the interest income from financial assets that are classified as Stage 3 for ECL purpose, is calculated by applying the effective interest rate to the net carrying value of the asset, which is the gross carrying amount less the applicable provision for ECL.

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.

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.

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 resources 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.

2.7 Accounting Policies Applied Before October 1, 2018

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.

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

2. Basis of Preparation and Significant Accounting Policies (continued)

2.7 Accounting Policies Applied Before October 1, 2018 (continued)

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 and financial liabilities 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 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.

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 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 expenses in the Consolidated Statement of Income.

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

2. Basis of Preparation and Significant Accounting Policies (continued)

2.7 Accounting Policies Applied Before October 1, 2018 (continued)

Initial Recognition of Financial Instruments (continued)

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 estimated fair value of the investment if the portfolio funds are not subject to any lock up period or other restrictions on their redemption.

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 and 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.

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

2. Basis of Preparation and Significant Accounting Policies (continued)

2.7 Accounting Policies Applied Before October 1, 2018 (continued)

Impairment of Financial Assets (continued)

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.

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

2. Basis of Preparation and Significant Accounting Policies (continued)

2.7 Accounting Policies Applied Before October 1, 2018 (continued)

Impairment of Financial Assets (continued)

Available-for-Sale Financial Investments (continued)

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

Reclassification of Financial Investments

The Bank may reclassify certain financial assets out of the available-for-sale classification into loans and advances to customers. 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 the Consolidated Statement of Income 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.

Fees and Commissions

Fees and commissions include fees and commissions earned from banking and custodial services, consumer and business finance (up to June 2018), 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.

2.8 New Standards, Interpretations, and Amendments to Published Standards Relevant to the Bank Issued But Not Yet Effective

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 16 *Leases*

IFRS 16 *Leases* is required to be adopted for annual periods beginning on or after January 1, 2019. The Bank has assessed the estimated impact that the initial application of IFRS 16 will have on its consolidated financial statements to be immaterial. However, the actual impact of adopting the standard on October 1, 2019 may change because:

- the Bank has not finalised the testing and assessment of controls; and
- the new accounting policies are subject to change until the Bank presents its first financial statements that include the date of initial application.

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*.

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

2. Basis of Preparation and Significant Accounting Policies (continued)

2.8 New Standards, Interpretations, and Amendments to Published Standards Relevant to the Bank Issued But Not Yet Effective (continued)

Early Adoption

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

3. Cash and Cash Equivalents

	2019	2018
Cash and demand deposits	$ 18,660,527	$ 20,178,722
Term deposits maturing within one month	53,231,618	35,087,172
HQLA maturing within three months	75,959,909	115,586,437
Total	$ 147,852,054	$ 170,852,331

Term deposits amounting to $15,256,698 were collateralised at September 30, 3019 (2018: $20,223,199).

The average effective yields earned were as follows:

	2019	2018
Cash and demand deposits	0.24%	0.09%
Term deposits maturing within one month	2.43%	1.40%
HQLA maturing within three months	2.33%	1.34%

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 19).

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. Forward contracts are customised contracts transacted in the over-the-counter market. The Bank uses these contracts to manage its exposure to foreign currency risk.

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

4. Derivative Financial Instruments (continued)

Warrants

Warrants 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 warrants through regulated exchanges and in the over-the-counter markets. Warrants 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 contract. The Bank is exposed to credit risk on purchased warrants only to the extent of their carrying amount, which is their fair value. The only warrant contract that the Bank entered into during the current year was an equity warrant.

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.

	2019			2018		
	Assets	Liabilities	Notional Amount	Assets	Liabilities	Notional Amount
Foreign exchange forward contracts	$ 113,718	$ –	$ 51,038,514	$ –	$ 417,558	$ 35,834,888
Warrants	38,705	–	36,554	157,916	–	66,069
Total	$ 152,423	$ –	$ 51,075,068	$ 157,916	$ 417,558	$ 35,900,957

At September 30, 2019, the net cost of the derivatives amounted to $nil (2018: $nil).

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

5. Financial Investments

Financial investments by major classifications at September 30 were as follows:

	2019	2018
Financial investments measured at FVOCI (2018: Available-for-sale)		
Government debt securities	$ 94,323,100	$ 113,099,740
Corporate debt securities (non-banks)	53,475,077	71,366,283
Debt securities issued by banks	11,545,165	23,259,455
Asset-backed securities	292,705	678,297
Total debt securities at FVOCI	159,636,047	208,403,775
Equity securities designated at FVOCI	31,240,737	35,663,868
Total financial investments measured at FVOCI (2018: Available-for-sale)	190,876,784	244,067,643
Financial investments mandatorily measured at FVTPL		
Corporate debt securities (non-banks)	18,899,933	–
Debt securities issued by banks	39,602,477	–
Equity securities	1,057,797	–
Total financial investments measured at FVTPL	59,560,207	–
Total financial investments measured at FV	250,436,991	244,067,643
Financial investments at AC		
Corporate debt securities (non-banks)	10,923,308	–
Total financial investments	$ 261,360,299	$ 244,067,643

At September 30, 2019, the cost of financial investments amounted to $261,953,303 (2018: $243,931,735). The carrying value of investments subject to the ECL assessment at September 30, 2019 was $170,559,355 (2018: $175,284,859). These investments only include debt securities measured at FVOCI and financial investments measured at AC.

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

5. Financial Investments (continued)

Reconciliations from the opening to the closing balance of debt instruments at FVOCI and AC, and the corresponding ECL allowance are as follows.

	Financial Investments							
	Gross Carrying Amount				ECL Allowance			
	Non-Credit Impaired		Credit Impaired	Total	Non-Credit Impaired		Credit Impaired	Total
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
As at October 1, 2018	$173,900,376	$ –	$ 1,384,483	$175,284,859	$ 398,760	$ –	$ 50,561	$ 449,321
Transfers to:								
From Stage 1	–	–	–	–	–	–	–	–
From Stage 2	–	–	–	–	–	–	–	–
From Stage 3	–	–	–	–	–	–	–	–
Net movement in financial investments	(3,785,459)	–	(940,045)	(4,725,504)				
ECL charge (reversal)					(142,547)	–	63,614	(78,933)
As at September 30, 2019	$170,114,917	$ –	$ 444,438	$170,559,355	$ 256,213	$ –	$ 114,175	$ 370,388

The impairment loss recognised under IAS39 on financial investments for the financial year ended September 30, 2018 was $3,136,243.

Equity Securities Designated as at FVOCI

At October 1, 2018, certain equity securities were measured at fair value and designated at FVOCI. In 2018, these investments were classified as available-for-sale and measured at fair value. The FVOCI designation was made because the investments are expected to be held for strategic purposes. Dividend income in 2019 from these securities was $682,566. Further, the Bank did not dispose of or derecognise any equity securities in 2019 that were measured at FVOCI.

Interest Income from Financial Investments

Interest income, calculated using the effective interest method, on financial investments measured at AC and FVOCI were $655,398 and $7,802,785 respectively. Interest income on financial investments measured at FVTPL, presented under other interest income on the Consolidated Statement of Income, was $2,826,727.

6. Loans and Advances to Customers

Loans and advances to customers at September 30 were as follows:

	2019	2018
Commercial loans	$ 25,771,208	$ 40,084,570
Commercial overdrafts	41,624	57,725
Consumer mortgage loans	1,224,031	1,541,982
Credit cards	161,908	237,847
Other	312,350	663,635
Total	$ 27,511,121	$ 42,585,759

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

6. Loans and Advances to Customers (continued)

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

	2019					
	Within 1 Year	**1-5 Years**	**5-10 Years**	**More than 10 Years**	**ECL Allowance**	**Total**
Commercial loans	$ 1,884,192	$ 22,359,400	$ –	$ 1,620,240	$ (92,624)	$ 25,771,208
Commercial overdrafts	41,624	–	–	–	–	41,624
Consumer mortgage loans	–	127,107	–	1,096,924	–	1,224,031
Credit cards	164,169	–	–	–	(2,261)	161,908
Other	18,188	297,687	–	–	(3,525)	312,350
Total	$ 2,108,173	$ 22,784,194	$ –	$ 2,717,164	$ (98,410)	$ 27,511,121

	2018					
	Within 1 Year	**1-5 Years**	**5-10 Years**	**More than 10 Years**	**Allowance for Losses[1]**	**Total**
Commercial loans	$ 9,526,424	$ 28,878,994	$ –	$ 1,734,720	$ (55,568)	$ 40,084,570
Commercial overdrafts	57,725	–	–	–	–	57,725
Consumer mortgage loans	–	408,584	–	1,133,398	–	1,541,982
Credit cards	240,347	–	–	–	(2,500)	237,847
Other	549,593	114,042	–	–	–	663,635
Total	$ 10,374,089	$ 29,401,620	$ –	$ 2,868,118	$ (58,068)	$ 42,585,759

[1]The allowances for losses in 2018 are measured in accordance with IAS 39:*Financial Instruments*.

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

6. Loans and Advances to Customers (continued)

Credit Quality

Credit quality of Loans and advances, and the corresponding ECL allowances based on the ECL inputs and assumptions discussed in Accounting policies (Note 2), are as follows.

Loans and Advances at September 30, 2019

	Gross Carrying Amount				ECL Allowance				Net Carrying Amount[2]
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
Commercial loans	$ 23,399,440	$ 2,464,392	$ –	$ 25,863,832	$ 63,019	$ 29,605	$ –	$ 92,624	$ 25,771,208
Commercial overdrafts	41,624	–	–	41,624	–	–	–	–	41,624
Consumer mortgage loans	1,096,924	–	127,107	1,224,031	–	–	–	–	1,224,031
Credit cards	–	164,169	–	164,169	–	2,261	–	2,261	161,908
Other	305,773	3,515	6,587	315,875	237	25	3,263	3,525	312,350
Total at AC	$ 24,843,761	$ 2,632,076	$ 133,694	$ 27,609,531	$ 63,256	$ 31,891	$ 3,263	$ 98,410	$ 27,511,121

Loans and Advances at September 30, 2018

	Gross Carrying Amount				ECL Allowance				Net Carrying Amount[2]
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
Commercial loans	$ 37,506,914	$ 2,606,800	$ 26,424	$ 40,140,138	$ 111,053	$ 44,881	$ 13,431	$ 169,365	$ 39,970,773
Commercial overdrafts	57,725	–	–	57,725	–	–	–	–	57,725
Consumer mortgage loans	1,133,399	–	408,583	1,541,982	–	–	–	–	1,541,982
Credit cards	–	240,347	–	240,347	–	3,256	–	3,256	237,091
Other	646,930	10,542	6,163	663,635	854	213	3,177	4,244	659,391
Total at AC	$ 39,344,968	$ 2,857,689	$ 441,170	$ 42,643,827	$ 111,907	$ 48,350	$ 16,608	$ 176,865	$ 42,466,962

[2] The net carrying amounts are presented after incorporating ECL allowances estimated in accordance with IFRS 9. Hence, these balances cannot be compared to the carrying value of loans presented elsewhere in these financial statements that are accounted for under IAS 39.

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

6. Loans and Advances to Customers (continued)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances of loans and advances measured at amortised cost is, as follows:

	Loans and Advances							
	Gross Carrying Amount				ECL Allowance			
	Non-credit Impaired		Credit Impaired	Total	Non-credit Impaired		Credit Impaired	Total[3]
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
As at October 1, 2018	$ 39,344,968	$ 2,857,689	$ 441,170	$ 42,643,827	$ 111,907	$ 48,350	$ 16,608	$ 176,865
Transfers:								
From Stage 1	(12,411)	12,411	–	–	(87)	87	–	–
From Stage 2	–	–	–	–	–	–	–	–
From Stage 3	–	26,424	(26,424)	–	–	13,431	(13,431)	–
Net movement in loans and advances	(14,488,796)	(264,448)	(281,052)	(15,034,296)				
ECL charge (reversal)					(48,564)	(29,977)	86	(78,455)
As at September 30, 2019	$ 24,843,761	$ 2,632,076	$ 133,694	$ 27,609,531	$ 63,256	$ 31,891	$ 3,263	$ 98,410

An analysis of the allowance for impairment losses under IAS 39 for loans and advances, by class, for the year ended September 30, 2018 is, as follows:

	2018
Balance at beginning of year	$ 1,465,863
Reversal of individually assessed allowance for losses	(1,385,466)
Reversal of collectively assessed allowance for losses	(30,829)
Collectively assessed allowance for losses	–
Individually assessed allowance for losses	8,500
Balance end of year[3]	$ 58,068

[3] The difference between the closing impairment allowance of $58,068 at September 30, 2018 and the opening balance of $176,865 at October 01, 2018 was due to the transition adjustments made for the first time adoption of IFRS 9.

Collateral held by the Bank

The gross carrying amount of loans represents the maximum exposure of credit risk at the end of the reporting period without taking account of any collateral held by the Bank. Collateral held by the Bank include mortgage properties, cash collateral and financial investments.

The aggregate discounted value of collateral held by the Bank for credit impaired assets reported at September 30, 2019 was $850,000 (2018: $925,000).

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

6. Loans and Advances to Customers (continued)

The average effective yields earned were as follows:

	2019	2018
Commercial loans	6.82%	5.75%
Commercial overdrafts	6.50%	6.11%
Consumer mortgage loans	5.97%	4.04%
Credit cards	14.50%	14.50%

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

7. Property and Equipment

	2019			
	Equipment	Land	Building	Total
Cost				
Beginning of year	$ 1,260,277	$ 1,306,800	$ 12,632,194	$ 15,199,271
Additions	38,624	–	74,655	113,279
Disposals	(7,150)	–	–	(7,150)
End of year	1,291,751	1,306,800	12,706,849	15,305,400
Accumulated Depreciation				
Beginning of year	1,054,509	–	658,027	1,712,536
Disposals	(3,933)	–	–	(3,933)
Depreciation charge for the year	82,476	–	316,215	398,691
End of year	1,133,052	–	974,242	2,107,294
Net book value at end of year	$ 158,699	$ 1,306,800	$ 11,732,607	$ 13,198,106

	2018				
	Equipment	Leasehold Improvements	Land	Building	Total
Cost					
Beginning of year	$ 2,037,128	$ 24,279	$ 1,306,800	$ 12,455,657	$ 15,823,864
Additions	4,080	6,135	–	176,537	186,752
Disposals	(780,931)	(30,414)	–	–	(811,345)
End of year	1,260,277	–	1,306,800	12,632,194	15,199,271
Accumulated Depreciation					
Beginning of year	1,398,864	7,799	–	344,998	1,751,661
Disposals	(510,688)	(14,175)	–	–	(524,863)
Depreciation charge for the year	166,333	6,376	–	313,029	485,738
End of year	1,054,509	–	–	658,027	1,712,536
Net book value at end of year	$ 205,768	$ –	$ 1,306,800	$ 11,974,167	$ 13,486,735

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

8. Goodwill and Other Intangible Assets

	2019			
	Computer Software	**Customer Relationships**	**Goodwill**	**Total**
Cost				
Beginning of year	$ 11,303,749	$ 4,154,402	$ 2,723,371	$ 18,181,522
Additions	–	–	–	–
Disposals	(8,000)	–	–	(8,000)
End of year	11,295,749	4,154,402	2,723,371	18,173,522
Accumulated Amortisation and Impairment				
Beginning of year	6,216,197	3,542,188	1,022,386	10,780,771
Impairment	–	–	655,723	655,723
Amortisation charge for the year	1,304,424	514,749	–	1,819,173
End of year	7,520,621	4,056,937	1,678,109	13,255,667
Net book value at end of year	$ 3,775,128	$ 97,465	$ 1,045,262	$ 4,917,855

	2018			
	Computer Software	**Customer Relationships**	**Goodwill**	**Total**
Cost				
Beginning of year	$ 14,215,974	$ 4,154,402	$ 6,935,478	$ 25,305,854
Additions	745,135	–	–	745,135
Disposals	(3,657,360)	–	(4,212,107)	(7,869,467)
End of year	11,303,749	4,154,402	2,723,371	18,181,522
Accumulated Amortisation and Impairment				
Beginning of year	4,730,970	3,142,097	1,022,386	8,895,453
Disposals	(246,186)	–	–	(246,186)
Amortisation charge for the year	1,731,413	400,091	–	2,131,504
End of year	6,216,197	3,542,188	1,022,386	10,780,771
Net book value at end of year	$ 5,087,552	$ 612,214	$ 1,700,985	$ 7,400,751

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

8. Goodwill and Other Intangible Assets (continued)

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 being 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. However, due to the loss of control of PCFG in June 2018 (Note 16), the carrying value of the goodwill was derecognised.

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 recoverable value is less than the carrying value. The recoverable amount of goodwill is calculated based on the value in use of the CGU (i.e. corporate services business unit described in Note 20) by determining the discounted future cash flows expected to be generated from the continuing use of the CGU. Estimated cash flows are based on expectations of future outcomes taking into account past experience adjusted for anticipated revenue and expense growth, and are discounted at 12% (2018: 12%). Key assumptions used in this process may change as economic and market conditions change.

Based on the assessment performed during the year, management determined that the carrying value exceeded the CGU's recoverable value of $1,856,198 primarily due to the estimated increase in customer attrition and, as a result, an impairment of $655,723 (2018: $nil) was considered to be prudent.

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

		2019		2018
Accounts receivable, net of ECL	$	861,360	$	632,132
Accrued income		220,480		220,170
Prepayments		1,074,517		968,583
Total	$	2,156,357	$	1,820,885

The ECL allowance at September 30, 2019 under IFRS 9 was $1,349,185 (2018: $1,258,142). The allowance for bad debts at September 30, 2018 under IAS 39 was $857,611.

There were no modified financial assets at September 30, 2019 (2018: $nil).

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

10. Deposits

	2019	2018
Demand deposits	$ 138,922,691	$ 151,294,671
Term deposits:		
Deposits maturing within 1 month	61,908,804	65,608,788
Deposits maturing – 1-3 months	33,435,179	31,629,943
Deposits maturing – 3-12 months	41,481,750	40,754,563
Deposits maturing – 1-5 years	76,723,755	78,401,412
	213,549,488	216,394,706
Total	$ 352,472,179	$ 367,689,377

The average effective rates paid were as follows:

	2019	2018
Term deposits based on book values and contractual interest rates	2.45%	2.13%
Demand deposits	0.00%	0.00%

11. Other Liabilities

	2019	2018
Accounts payable	$ 5,528,442	$ 4,939,389
Accrued liabilities	1,900,511	2,043,218
Total	$ 7,428,953	$ 6,982,607

12. 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, 2019 and 2018	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 on regulatory capital 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, 2019, the Bank's Tier 1 and total regulatory capital ratios of 34.71% (2018: 41.25%) and 34.71 % (2018: 41.25%) respectively, exceeded the prescribed limits.

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

12. Equity (continued)

Capital Management

The Bank maintains its capital base and capital ratios above the 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.

13. Fees and Commissions

Fees and commissions are made up as follows:

	2019	2018
Corporate services	$ 1,237,513	$ 1,462,266
Trust services	951,151	889,665
Banking services	1,101,631	960,293
Lease termination income	–	348,552
Other	–	176,752
Total	$ 3,290,295	$ 3,837,528

14. Gains from Financial Investments

Gains (losses) from financial investments are made up as follows:

	2019	2018
Net gains (losses) from financial investments measured at FVTPL	$ (691,224)	$ –
Net gains (losses) on derecognition of financial investments measured at FVOCI	937,462	–
Net gains from financial investments classified as AFS and disposal of a subsidiary	–	17,572,755
Total	$ 246,238	$ 17,572,755

15. General and Administrative Expenses

General and administrative expenses are made up as follows:

	2019	2018
Rent and premises related costs	$ 425,420	$ 1,044,099
Advertising and marketing	181,341	301,921
Professional fees	2,939,486	3,602,044
Information technology and systems	1,586,219	2,446,271
Banking services and licenses	912,623	1,156,397
Investment advisory fees (Note 16)	639,835	521,680
Impairment loss on intangible assets (Note 8)	655,723	–
Impairment of loans and advances	–	1,636,686
Administrative	2,188,343	3,633,312
Total	$ 9,528,990	$ 14,342,410

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

16. 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, 2019, such fees amounted to $539,835 (2018: $421,680), of which $155,768 remained payable at year-end (2018: $107,508). In addition, pursuant to a consultancy agreement, a fee of $100,000 (2018: $100,000) was paid to the Investment Adviser for consultancy services, of which $25,000 remained payable at year-end (2018: $25,000). These fees are included in investment advisory fees within general and administrative expenses in the Consolidated Statement of Income (Note 15) and other liabilities in the Consolidated Statement of Financial Position respectively.

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.

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:

Financial Investments

At September 30, 2019, the Bank held certain financial investments which are considered related. The Bank held debt instruments issued by Bermuda First Investment Company Limited (a party related to the Bank through common control) with a carrying value of $10,923,308 (2018: $10,923,308). Interest income from these investments for the year was $655,398 (2018: $655,398) and the accrued interest at the year-end was $329,520 (2018: $329,520). The Bank also held equity investments in PCF Group PLC (a party related to the Bank through common control), Merrion Pentagon High Conviction Bond Fund Class B and Pentagon Global Diversified Bond Fund Limited formerly known as BCB Bond Fund Limited (parties related to the Bank by way of common investment adviser, ICM Limited) with a carrying value of $31,240,737 at September 30, 2019 (2018: $24,068,892). Dividend income from these investments totaled $682,566 (2018: $600,000). At September 30, 2019, $150,000 of dividends (2018: $150,000) were receivable from related parties.

During 2019, the Bank purchased securities from related parties at amounts equal to their estimated fair value of $1,175,929 (2018: $840,760). There were no amounts payable as a result of the purchase of these securities at either year-end.

During 2019, the Bank did not sell any financial investments to related parties (2018: $567,840). There were no receivables as a result of the sale of these securities at either year-end.

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

16. Related Party Disclosures (continued)

Related Party Transactions with Shareholder Controllers and the Related Parties of Shareholder Controllers (continued)

Loans and Advances to Customers

At September 30, 2019, total loans and advances receivable from related parties amounted to $20,055,796 (2018: $20,529,986), of which $10,379,200 (2018: $8,500,000) was unsecured and $9,676,596 (2018: $12,029,986) was secured by the related parties' cash and portfolio assets custodied by the Bank. The undrawn portion of credit facilities granted to these related parties at September 30, 2019 was $nil (2018: $nil).

At September 30, 2019, the Bank had one investment in asset-backed notes in a securitisation entity set up by Resimac Group Limited (previously Homeloans Limited) , a party related to the Bank, by virtue of common control, with a carrying value of $1,620,240 (2018: $1,734,720). These asset-backed notes were recorded in the Consolidated Statement of Financial Position within loans and advances (under the category of Commercial loans) to customers.

These balances were not credit impaired at either year-end.

For the year ended September 30, 2019, the Bank earned net interest income and fees of $1,374,902 (2018: $1,683,064) for banking services provided to such related parties.

Deposit Liabilities

At September 30, 2019, deposit balances held by such related parties with the Bank amounted to $8,237,615 (2018: $7,987,277).

Transactions with Directors

Total directors' fees for the year ended September 30, 2019, amounted to $662,138 (2018: $749,426). The Bank provides banking services to directors under the same terms as an unrelated party would receive. At September 30, 2019, directors and parties associated with directors had deposit balances with the Bank of $90,713 (2018: $1,266,076). At September 30, 2019, total loans and advances receivable from directors and parties associated with directors amounted to $nil (2018: $nil). The undrawn portion of credit facilities committed to directors and parties associated with directors at the year-end totaled $nil (2018: $nil). Net interest received from directors for the year was $nil (2018: $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, 2019, the total compensation paid to key management personnel amounted to $2,938,383 (2018: $2,464,261), excluding the directors' fees.

Principal Subsidiary Undertakings at September 30, 2019

Name	% ownership	Location
BCB Charter Corporate Services Limited	100.00	Bermuda
BCB Paragon Trust Limited	100.00	Bermuda
BCB Asset Management Limited	100.00	Bermuda
BCB Management Limited	100.00	Bermuda
BCB Management Services Limited	100.00	Bermuda
Bercom Nominees Limited	100.00	Bermuda
VT Strategies Holdings Limited	100.00	Bermuda

All of the above subsidiaries, subject to the liquidated or sold entities below, are included in the Bank's consolidated financial statements.

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

16. Related Party Disclosures (continued)

BCB Luxembourg S.A.R.L, BCB Nominees Limited and BCB Resource Fund Limited were liquidated or sold during the financial year ended September 30, 2019. The operating results for the period and the residual value of the remaining assets and liabilities at the date of deconsolidation were not material to the consolidated financial statements at September 30, 2019.

Other Transactions Applicable to the Financial Year Ended September 30, 2018

On June 28, 2018, the Bank sold 44.55% of the shareholding in PCFG to Somers Limited at a cash consideration of $38.7mn. The resulting gain from the transaction was $15.5mn which included $4.6mn from the revaluation of the retained investment and has been included in gains from financial investments on the Consolidated Statement of Income. The retained investment at September 30, 2018 was $9.9mn which represented 9.90% of PCFG's issued share capital. This is carried at fair value and is included in available-for-sale financial investments in the Statement of Financial Position. Dividend income received post the sale of the controlling interest of PCFG was $nil.

The following is a breakdown of the fair value of assets and liabilities of PCFG at the date of disposal.

Assets		
Cash and cash equivalents	$	33,447,778
Interest receivable		197,733
Other assets		1,110,032
Loans and advances to customers		259,771,125
Available-for-sale financial investments		33,727,845
Deferred tax assets		1,766,557
Property and equipment		274,567
Goodwill and other intangible assets		3,959,147
Total Assets	$	334,254,784
Liabilities		
Deposits	$	185,231,270
Interest-bearing loans and borrowings		88,960,926
Other liabilities		2,879,786
Taxes payable		397,489
Interest payable		2,396,245
Total Liabilities	$	279,865,716

17. 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 2019 amounted to $413,002 (2018: $926,664) and is included within salaries and employee benefits in the Consolidated Statement of Income.

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

18. Commitments and Contingent Liabilities

Commitments

At September 30, 2019, the Bank was committed to $2.5mn (2018: $1.5mn) 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 and its subsidiaries can, from time to time, be defendant in, or party to, pending and threatened legal actions and proceedings. While the outcome of such matters is inherently uncertain, based on the information currently available to management, no provision was necessary as at September 30, 2019 (2018 : None).

The Bank and its subsidiaries are also subject to periodic regulatory inspections by the Bermuda Monetary Authority ("BMA") for Prudential and Anti-Money Laundering/Anti-Terrorist Financing activities and the BMA has the power to bring enforcement actions against the Bank in the event of non-compliance. Remediation plans are ongoing to address findings arising from onsite inspections.

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 events is inherently uncertain and difficult to measure, based on the information currently available to management, no provision was necessary as at September 30, 2019 (2018 : None).

19. 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 Audit and Risk Committee ("BARC")

The BARC is a committee of the Board and is chaired by an independent director. The BARC was formed during the prior year by merging the Board Audit Committee and the Board Risk Committee. In relation to audit, it provides oversight and direction of the internal audit function and manages the relationship with the Bank's external auditors. It reviews the results of both audit programs and the progress of work undertaken to correct risk issues, and reviews the annual financial statements. In relation to risk, the BARC oversees the work of the management risk committee and the asset and liability management committee, provides policy level direction, defines the risk appetite for the Bank, and assesses performance of the risk management framework of the Bank. It is also responsible for the oversight of the related party relationships and exposures.

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

19. Risk Management (continued)

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.

Executive Committee ("EXCO")

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

Asset & Liability Management Committee ("ALCO")

The ALCO is a management committee established to oversee the Asset and Liability Management of the Bank which is defined in the Asset and Liability Management ("ALM") Policy and ALCO terms of reference. The ALCO monitors liquidity, funding, asset deployment limits, including investment limits, in order to monitor and manage the exposure of the Bank's 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 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.

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. The maximum credit risk exposure at the date of reporting is limited to the carrying value of financial assets reported on the balance sheet.

Credit Risk for financial assets measured at AC and debt instruments measured at FVOCI are also reviewed in accordance with the ECL measurement principles discussed under significant accounting policies in Note 2. These reviews include, but are not limited to, staging of financial assets and the application of provision matrices for less complex financial assets. Staging of financial assets is based on the significance of the increase in credit risk compared to the credit risk at the time of initial recognition. Provision matrices for less complex assets are based on the actual performance of the underlying group of assets in the past.

Additionally, 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. Counterparty lending limits and limits for money market 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.

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

19. Risk Management (continued)

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 below tables summarise the maturity profile of the Bank's assets and liabilities as at September 30, 2019 and 2018. 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.

	2019						
	Within 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	ECL Allowance	Total
Assets							
Cash and cash equivalents	$ 98,970,854	$ 48,881,200	$ –	$ –	$ –	$ –	$ 147,852,054
Receivable from related parties	165,981	–	–	–	–	–	165,981
Interest receivable	1,518,416	789,590	738,301	100,905	3,080	–	3,150,292
Other assets	2,191,353	277,434	705,505	31,250	–	(1,049,185)	2,156,357
Loans and advances to customers	2,089,985	–	18,188	22,784,194	2,717,164	(98,410)	27,511,121
Financial investments	7,013,300	–	60,403,158	67,523,606	126,420,235	–	261,360,299
Derivative financial instruments	87,525	26,193	–	38,705	–	–	152,423
Property and equipment	–	–	–	158,699	13,039,407	–	13,198,106
Goodwill and other intangible assets	–	–	–	3,775,128	1,142,727	–	4,917,855
	$ 112,037,414	$ 49,974,417	$ 61,865,152	$ 94,412,487	$ 143,322,613	$ (1,147,595)	$ 460,464,488
Liabilities							
Deposits	200,831,495	33,435,179	41,481,750	76,723,755	–	–	352,472,179
Customer drafts payable	50,462	–	–	–	–	–	50,462
Other liabilities	4,643,200	1,703,249	285,597	–	796,907	–	7,428,953
Interest payable	870,830	470,310	583,496	1,079,221	–	–	3,003,857
	$ 206,395,987	$ 35,608,738	$ 42,350,843	$ 77,802,976	$ 796,907	$ –	$ 362,955,451
Net assets (liabilities)	$ (94,358,573)	$ 14,365,679	$ 19,514,309	$ 16,609,511	$ 142,525,706	$ (1,147,595)	$ 97,509,037

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

19. Risk Management (continued)

	2018					
	Within 1 Month	1-3 Months	3-12 Months	1-5 Years	Over 5 Years	Total
Assets						
Cash and cash equivalents	$ 143,015,429	$ 27,836,902	$ –	$ –	$ –	$ 170,852,331
Receivable from related parties	151,412	–	–	–	–	151,412
Interest receivable	1,122,379	611,539	557,666	149	–	2,291,733
Other assets	644,469	329,103	801,063	46,250	–	1,820,885
Loans and advances to customers	213,966	5,500,875	4,601,180	29,401,620	2,868,118	42,585,759
Financial investments	–	–	31,552,991	111,763,715	100,750,937	244,067,643
Derivative financial instruments	–	–	–	157,916	–	157,916
Property and equipment	–	–	–	205,770	13,280,965	13,486,735
Goodwill and other intangible assets	–	–	–	5,087,552	2,313,199	7,400,751
	$ 145,147,655	$ 34,278,419	$ 37,512,900	$ 146,662,972	$ 119,213,219	$ 482,815,165
Liabilities						
Deposits	$ 216,903,459	$ 31,629,943	$ 40,754,563	$ 78,401,412	$ –	$ 367,689,377
Customer drafts payable	112,926	–	–	–	–	112,926
Derivative financial instruments	(25,298)	513,110	(70,254)	–	–	417,558
Other liabilities	4,144,000	2,047,974	–	–	790,633	6,982,607
Interest payable	664,900	320,548	413,020	794,545	–	2,193,013
	221,799,987	34,511,575	41,097,329	79,195,957	790,633	377,395,481
Net assets (liabilities)	$ (76,652,332)	$ (233,156)	$ (3,584,429)	$ 67,467,015	$ 118,422,586	$ 105,419,684

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 net interest income and the economic 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.

The following table demonstrates the Bank's sensitivity to a change in interest rates, with all other variables held constant. The sensitivity of the economic value of equity is the effect of the assumed changes in interest rates on net interest income and market value of the financial assets.

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

19. Risk Management (continued)

	2019	2018
200-basis-point increase in interest rates		
Impact on Economic Value of Equity	$ (11,556,824)	$ (13,739,313)
200-basis-point decrease in interest rates		
Impact on Economic Value of Equity	$ 11,556,824	$ 13,739,313

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, 2019 would have decreased net income and equity by $104,530 (2018: decreased by $83,725). 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 equity securities in the investment portfolio at September 30, 2019 would have increased equity by $777,539 (2018: $1,159,498). An equivalent decrease would have resulted in an equivalent but opposite impact.

20. Segment Information

For management purposes, the Bank is organised into five (2018: 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. No one single customer accounted for 10% or more of the Bank's revenues in 2019 or 2018.

Investment Management

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

Consumer and Business Finance (Applicable to 2018 only)

PCFG is a UK-based Bank engaged in the provision of finance for vehicles, plant and equipment, and was a subsidiary of the bank until June 28, 2018.

Corporate Services

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

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

20. Segment Information (continued)

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 (Note 16). The Bank also had a subsidiary in Luxembourg (Note 16), but did not offer banking or other services in that jurisdiction. The assets, liabilities and results of these entities are incorporated into the segment information.

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

2019	Banking Services	Investment Management	Corporate Services	Trust	General & Administrative	Elimination of Inter-Segment Amounts	Total
Net interest income	$ 7,087,666	$ 2,834,430	$ –	$ –	$ –	$ –	$ 9,922,096
Fees and other income	1,305,397	1,550,308	1,340,668	951,151	1,356,493	(886,247)	5,617,770
(Loss)/Gains on derivative financial instruments	–	(88,953)	–	–	–	–	(88,953)
Gain on sale of financial investments	–	246,238	–	–	–	–	246,238
Impairment losses on financial Instruments	78,455	78,933	(39,020)	(52,023)	–	–	66,345
Total income	$ 8,471,518	$ 4,620,956	$ 1,301,648	$ 899,128	$ 1,356,493	$ (886,247)	$ 15,763,496
Salaries & employee benefits	(3,458,766)	(192,358)	(906,476)	(793,561)	(6,978,111)	–	(12,329,272)
Depreciation	(1,049)	–	–	–	(397,642)	–	(398,691)
Amortisation	(438,059)	(38,923)	(537,157)	–	(805,034)	–	(1,819,173)
Operating expenses	(2,378,075)	(862,287)	(889,135)	(557,579)	(5,072,440)	230,526	(9,528,990)
Net Income (Loss)	$ 2,195,569	$ 3,527,388	$ (1,031,120)	$ (452,012)	$ (11,896,734)	$ (655,721)	$ (8,312,630)
Segment assets	$ 120,774,753	$ 337,472,632	$ 825,123	$ 2,362,870	$ 13,275,491	$ (14,246,381)	$ 460,464,488
Segment liabilities	$ 360,825,804	$ –	$ 144,452	$ 1,961,195	$ 24,000	$ –	$ 362,955,451

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

20. Segment Information (continued)

2018

	Banking Services	Investment Management	Consumer & Business Finance	Corporate Services	Trust	General & Administrative	Elimination of Inter-Segment Amounts	Total
Net interest income	$ 6,923,219	$ 1,659,696	$ 14,781,220	$ –	$ –	$ –	$ –	$ 23,364,135
Fees and other income	1,268,264	1,466,747	525,304	1,462,641	889,663	1,053,716	(1,111,489)	5,554,846
(Loss)/Gains on derivative financial instruments	–	96,376	–	–	–	–	–	96,376
Gain on sale of financial investments (Note 16)	–	17,572,755	–	–	–	–	–	17,572,755
Impairment losses on financial investments	–	(3,136,243)	–	–	–	–	–	(3,136,243)
Total income	$ 8,191,483	$ 17,659,331	$ 15,306,524	$ 1,462,641	$ 889,663	$ 1,053,716	$ (1,111,489)	$ 43,451,869
Salaries & employee benefits	(3,811,996)	(199,523)	(5,158,506)	(888,702)	(823,976)	(7,433,428)	–	(18,316,131)
Depreciation	(3,106)	–	(82,142)	–	–	(400,490)	–	(485,738)
Amortisation	(455,347)	(41,000)	(397,011)	(23,316)	–	(814,739)	(400,091)	(2,131,504)
Operating expenses	(2,560,462)	(851,203)	(5,770,264)	(720,046)	(656,176)	(5,584,802)	802,039	(15,340,914)
Net Income (Loss)	$ 1,360,572	$ 16,567,605	$ 3,898,601	$ (169,423)	$ (590,489)	$ (13,179,743)	$ (709,541)	$ 7,177,582
Segment assets	$ 120,904,849	$ 359,799,996	$ –	$ 1,115,297	$ 2,351,021	$ 13,350,481	$ (14,706,479)	$ 482,815,165
Segment liabilities	$ 74,834,596	$ 457,558	$ –	$ 213,920	$ 1,870,887	$ 18,520	$ –	$ 377,395,481

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

21. 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.

Financial Investments

Financial investments are valued using valuation techniques and 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.

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

21. Financial Instruments (continued)

Financial Instruments Recorded at Fair Value (continued)

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

	2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial instruments at FVTPL				
Forward foreign exchange contracts	$ –	$ 113,718	$ –	$ 113,718
Warrants	–	–	38,705	38,705
	–	113,718	38,705	152,423
Financial investments at FVTPL				
Corporate debt securities (non-banks)	10,492,228	8,407,705	–	18,899,933
Debt securities issued by banks	23,777,457	15,825,020	–	39,602,477
Equity securities	133,471	–	924,326	1,057,797
	34,403,156	24,232,725	924,326	59,560,207
Financial investments at FVOCI				
Government debt securities maturing over 3 months	76,287,800	18,035,300	–	94,323,100
Corporate debt securities (non-banks)	41,740,229	11,734,848	–	53,475,077
Debt securities issued by banks	10,230,739	1,314,426	–	11,545,165
Asset-backed securities	–	131,897	160,808	292,705
Equity securities designated at FVOCI	6,717,590	24,523,147	–	31,240,737
	134,976,358	55,739,618	160,808	190,876,784
Government debt securities maturing within 3 months	75,959,909	–	–	75,959,909
	$ 245,339,423	$ 80,086,061	$ 1,123,839	$ 326,549,323
Financial liabilities				
Derivative financial instruments at FVTPL	–	–	–	–
	$ –	$ –	$ –	$ –

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

21. Financial Instruments (continued)

	2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial instruments				
Warrants	$ –	$ –	$ 157,916	$ 157,916
	–	–	157,916	157,916
Available-for-sale financial investments				
Government debt securities maturing over 3 months	96,902,140	16,197,600	–	113,099,740
Corporate debt securities (non-banks)	28,139,878	32,303,097	10,923,308	71,366,283
Debt securities issued by banks	19,199,602	4,059,853	–	23,259,455
Asset-backed securities	–	506,865	171,432	678,297
Portfolio funds	–	24,068,892	–	24,068,892
Equities	10,563,997	–	1,030,979	11,594,976
	154,805,617	77,136,307	12,125,719	244,067,643
Government debt securities maturing within 3 months	115,586,437	–	–	115,586,437
	$ 270,392,054	$ 77,136,307	$ 12,283,635	$ 359,811,996
Financial liabilities				
Derivative financial instruments				
Foreign exchange forward contracts	–	417,558	–	417,558
	$ –	$ 417,558	$ –	$ 417,558

Movement in Level 3 financial instruments measured at fair value:

	Corporate Debt Securities	**Asset Backed Securities**	**Equities**	**Warrants**	**Total**
At September 30, 2017	$ 11,128,308	$ 186,316	$ 2,310,815	$ 46,492	$ 13,671,931
Gains (losses) recorded in Statement of Income	(205,000)	5,751	(1,279,836)	111,424	(1,367,661)
Purchases	–	(20,635)	–	–	(20,635)
At September 30, 2018	$ 10,923,308	$ 171,432	$ 1,030,979	$ 157,916	$ 12,283,635
IFRS 9 transition adjustments	(10,923,308)	–	–	–	(10,923,308)
Gains (losses) recorded in Statement of Income	–	3,769	(106,653)	(95,271)	(198,155)
Sales	–	(14,393)	–	(23,940)	(38,333)
At September 30, 2019	$ –	$ 160,808	$ 924,326	$ 38,705	$ 1,123,839

Notes to Consolidated Financial Statements (continued)
(Expressed in United States Dollars)

September 30, 2019

22. Taxation (Applicable to 2018 only)

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 were subject to the tax laws of those jurisdictions. The Bank recorded income taxes based on the tax rates applicable in the relevant jurisdiction and income tax expense of $998,504 was recorded in 2018 in the Consolidated Statement of Income. PCFG's income taxes payable at September 30, 2018 was $nil.

Analysis of Tax Charge in the Period

Current Tax		**2018**
UK Corporation Tax on profit for the period	$	823,387
Adjustments in respect of prior periods		119,679
Total current tax	$	943,066
Deferred Tax		
Origination and reversal of temporary differences		176,187
Adjustments in respect of prior periods		(126,014)
Change in tax rate		(18,530)
Total deferred tax	$	31,643
Total UK tax charge for the period	$	974,709
Total Luxembourg tax charge for the period		23,795
Total tax charge for the period	$	998,504

Deferred Tax on Items Recognised Directly in Equity

		2018
Relating to cash flow hedges	$	–
Share based payments		(67,745)
Total deferred tax on items recognised directly in equity	$	(67,745)

Factors Affecting Current Tax Charge for the Period

The UK tax for the nine months ended June 30, 2018 was assessed at the annual effective tax rate of 19%.

		2018
Profit on ordinary activities before tax	$	4,873,310
Profit on ordinary activities multiplied by effective/standard rate of Corporation Tax in the UK of 19%		925,929
Effects of:		
Expenses not deductible for taxation purposes		–
Expenses deductible for taxation purposes		5,219
Adjustments in respect of prior periods		(6,151)
Change in tax rate		(17,994)
Utilisation of previously unrecognised losses		–
Other		67,706
Total UK tax charge for the period	$	974,709

23. Subsequent Events

There have been no significant events or transactions from September 30, 2019 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, 2019

BCB ASSET MANAGEMENT LIMITED
Telephone: (441) 295-5678
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
Amalgamated in Bermuda on October 4, 2011.
Provides company secretarial and corporate services.

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

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

The registered address for the above companies is: 34 Bermudiana Road, Hamilton HM 11, Bermuda.

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

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

VT STRATEGIES HOLDINGS LIMITED
Telephone: (441) 295-5678
Incorporated in Bermuda on August 21, 2013.
Property holding company.

Bermuda Commercial Bank Limited and through its wholly owned subsidiary companies is licensed to conduct banking, investments, corporate services and trust business by the Bermuda Monetary Authority.

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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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