ANNUAL REPORT 2020

BCB®

BERMUDA COMMERCIAL BANK LIMITED

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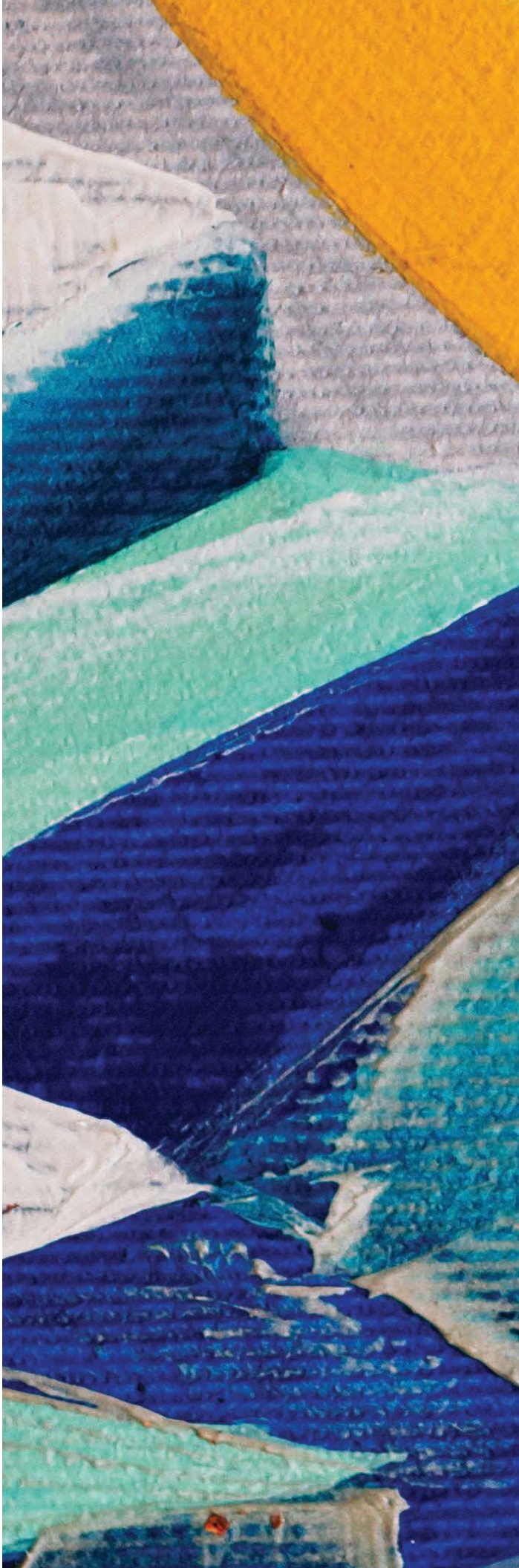
Corporate Profile

Bermuda Commercial Bank Limited ("BCB" or the "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

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 19 November 2020, Somers Limited announced it had entered into an agreement with Provident Holdings Ltd 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 is a regulated bank which with its subsidiaries (together "BCB" or the "Bank"), seek to achieve attractive and sustainable financial performance. Strong capital and liquidity positions provide a stable base to support the continuing development of the Bank.

2020: THE ULTIMATE STRESS TEST

Every year, we analyse the potential impact on the Bank should a variety of extreme hypothetical situations occur. This so-called "stress testing" is designed to help us to ensure that BCB can emerge from setbacks, such as those tested, without long-term prejudice to stakeholders such as our customers.

2020 provided an unprecedented real-world stress test. The COVID-19 pandemic forced BCB, in company with our peers, to close our physical offices and relocate our employees to work from home. This was to limit the spread of the disease and thereby to protect our staff and our customers. Equivalent steps taken globally to contain the pandemic stalled the world economy. This led to a sharp, and abnormally pervasive and fast, global bear market. The Bank was not immune and experienced material losses on its bond portfolio.

Tempered by these tests, the Bank has become more resilient. The BCB team continued to serve our customers through a combination of e-banking and carefully managed personal access to the Bank. To their great credit, our staff quickly adjusted to remote working. Many employees overcame challenges such as the need to juggle work with caring for their children at home, due to school closures. Our risk management also necessarily adapted to these new working arrangements. For instance, further controls were needed to successfully defend the Bank from an unwelcome global upsurge in cyber-attacks. Finally, the Bank's portfolio rebounded, although much of this took place after the September 30 year-end.

2020 IN REVIEW

During its financial year to September 30, 2020, BCB incurred a net loss of $12.0 million (2019: net loss of $8.3 million). Total income reduced to $8.9 million (2019: $15.8 million) primarily due to losses on the Bank's financial investments. The impact was mitigated by strict control of the Bank's total expenses, which were reduced to $21.0 million (2019: $24.1 million), despite materially increased investments in risk management.

The Bank's balance sheet remains strong and is very liquid. The cash and cash equivalents at September 30, 2020 were 47.6% of total assets (2019: 32.1%), and the capital ratio of 28.4% (2019: 34.7%) remains high and well above the regulatory requirements.

In essence, BCB has a strong and liquid balance sheet and tightly-controlled expenses. However, as 2020 illustrated, its revenue remains very dependent on the performance of its investment portfolio. BCB's main challenge, and opportunity, in the years ahead will be to diversify this exposure to allow sustainable profitability.

Progress in that regard has been stalled by the prolonged takeover of the Bank - now, remarkably, entering its third year. Completion of the takeover would allow BCB to execute a well-considered new growth strategy, including plans for new and diverse sources of revenue. In that regard, I am delighted that in November 2020 BCB and Somers Limited entered into an agreement with Provident Holdings Limited for the latter to acquire 100% ownership of the Bank. The remaining steps to complete the deal, such as securing regulatory consent, could conclude within a handful of months. I hope that they will, and I look forward to working with Provident.

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

IN CONCLUSION

2020 was the most challenging year in recent history, testing all of us in different ways. During this critical year, BCB benefited from capable leadership by the Bank's owners, Board and management; from the ability to adapt and persevere shown by its staff and its customers; and from the pragmatic approach taken by its regulator. I congratulate and thank all concerned.

As I write, these challenges are not over. However, I see increasing grounds for optimism. The current "second wave" of COVID-19 appears to be ebbing in Bermuda, while vaccinations have begun and offer the hope that life might begin to normalise within months. BCB has demonstrated strong resilience. An imminent change in ownership offers the potential that the Bank can embark on a promising growth strategy. The path to creating a sustainably profitable BCB may not be short, but the Bank is well equipped to take the next steps, and the direction is clear.

I deeply appreciate your support for and interest in BCB, and wish you a successful and healthy year.

ALAN GILBERTSON
CHAIRMAN

Board of Directors (As of December 31, 2020)

ALAN GILBERTSON I CHAIRMAN

Mr. Gilbertson has forty 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 past Chairman and Director 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 thirty 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 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 close to thirty 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

SUNNY AGARWAL
Head of Compliance Operation

LISA BARNES
Head of Customer Experience

MATTHEW CORBIN
General Manager
Trust and Corporate Services

STEPHEN EGAN
Interim Chief Risk Officer

HUBERT ESPERON
Chief Executive Officer

ANTHONY GARZIA
Commercial Team Leader

MICHAEL SCHULZ
Chief Strategy
& Regulatory Officer

ARHNEL TERROZA
Head of Internal Audit

LASANTHA THENNAKOON
Chief Financial Officer

LOUISE WAKEFIELD
Chief Innovation Officer

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, 2020 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 Bermuda Stock Exchange ("BSX") listed financial services investment holding company, and BCB is regulated by the Bermuda Monetary Authority. A list of subsidiaries of BCB is provided under note 17 to the consolidated financial statements.

FINANCIAL PERFORMANCE HIGHLIGHTS

- Strong capital position with a total capital ratio of 28.4% at the year-end.
- Strong liquidity position with cash and cash equivalents representing 47.6% of total assets.
- Total income for the year was $8.9 million and net loss for the year was $12.0 million.
- Total equity attributable to the Bank's equity holders at September 30, 2020 was $84.2 million.

RESULTS OF OPERATIONS FOR THE YEAR ENDED SEPTEMBER 30, 2020

During the year, the Bank incurred a net of loss of $12.0 million compared to a net loss of $8.3 million in 2019. This was primarily due to the significant market volatility caused by the COVID-19 pandemic that resulted in an increase in unrealized investment losses, and a rise in impairment losses recognized on financial instruments.

INTEREST INCOME

Total interest income was $13.8 million for the year ended September 30, 2020 compared to $15.4 million in 2019. Interest income from loans and advances to customers was $1.6 million compared to $2.4 million in 2019 where the decline was primarily due to the settlement of certain securitization and loan note positions during the year. Interest income from financial investments was $11.8 million for the year which is materially consistent with the prior year interest income of $11.3 million. Interest income from cash and term deposits saw a decrease to $0.4 million from $1.7 million a year ago, and this was as a result of a significant decrease in market interest rates during the year.

Interest expense saw a decrease to $4.2 million from $5.5 million a year ago and the year-on-year movement was mainly on account of the decrease in the interest rates and the average value of term deposits maintained in 2020 compared to 2019.

NON-INTEREST INCOME

The Bank recorded negative net non-interest income of $0.7 million compared to $5.8 million income in 2019. The movement was mainly on account of the market uncertainties caused by the COVID-19 pandemic which resulted in an increase in net unrealized losses from financial investments measured at fair value through profit or loss ("FVTPL"), and impairment losses on financial instruments. The increase in impairment on financial instruments was mainly due to the expected credit losses ("ECL") recorded against the investments book, as the credit risk associated with debt securities subject to ECL saw an increase with the negative economic forecasts influenced by the COVID-19 pandemic.

Non-interest income excluding investment gains (losses) and impairment for 2020 was $4.9 million compared to $5.5 million in 2019 while the composition of the income sources remained materially consistent with that of the previous year.

EXPENSES

The Bank continues to focus on effective management of expenses while delivering the top level of service that our customers expect to receive. In 2020, the Bank recorded total expenses of $21.0 million compared to $24.1 million in 2019. The material decrease was primarily due to the continued prudent management of expenses during the year.

FINANCIAL CONDITION AS AT SEPTEMBER 30, 2020

Assets

The Bank is committed to maintaining a prudent level of liquid assets in line with the Bank's liquidity management framework. As at September 30, 2020, the Bank held cash and cash equivalents of $242.1 million that represented 47.6% of total assets compared to $147.9 million in 2019 that represented 32.1%. The increase in cash and cash equivalents at September 30, 2020 was primarily due to the year-on -year increase in High Quality Liquid Assets ("HQLA") maturing within three months from $76.0 million to $137.9 million.

The Bank's financial investment portfolio as at September 30, 2020 was $220.3 million compared to $261.4 million a year ago. The decrease was mainly on account of the increase in HQLA positions classified under cash and cash equivalents, and decline in market prices of certain positions due to the market volatility created by the COVID-19 pandemic. The portfolio consisted 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 HQLA portfolio in response to 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 $24.3 million at September 30, 2020 compared to $27.5 million a year ago. The loans portfolio was comprised of commercial loans (93.3% of the loan book) and consumer mortgage loans (5.0% of the loan book), and were materially consistent with the previous year.

Liabilities

Total deposits as at September 30, 2020 increased to $408.9 million from $352.5 million a year ago, primarily due to onboarding of certain new client relationships in 2020. With a relatively stable term deposit portfolio, management continues to strengthen the stable funding base of the Bank.

CAPITAL POSITION AS AT SEPTEMBER 30, 2020

BCB is subject to minimum capital requirements externally imposed by the Bermuda Monetary Authority ("BMA)" in accordance with guidelines developed by the Basel Committee on Banking Supervision. The Bank ended the financial year 2020 with a strong regulatory capital ratio of 28.4% (34.7% in 2019) maintaining a significant cushion over and above the BMA requirements.

RISK MANAGEMENT

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

During 2020, BCB continued to focus its efforts on ensuring that its risk management practices were 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 20 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 the 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 a high level of 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 credit exposure to related parties is examined by the BARC, approved on market terms and conditions, and is subject to oversight by the Bank's Risk Management function. Details of the Bank's risk structure are further outlined in note 20 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 needed to maintain minimum LCR and NSFR ratios of 100% for the year 2020. The Bank's actual capital, liquidity and stable funding ratios at the year-end were significantly over and above the minimum regulatory requirements.

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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 "Bank"), which comprise the consolidated statement of financial position as at September 30, 2020, 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 Bank as at September 30, 2020, 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 Bank in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together 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 and the IESBA Code. 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 Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank'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 Bank'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 Bank 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 Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Bank's 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
December 11, 2020

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

September 30, 2020

		2020		2019
Assets				
Cash and cash equivalents (Note 3)	$	242,058,849	$	147,852,054
Receivable from related parties (Note 17)		164,294		165,981
Interest receivable		2,552,489		3,150,292
Other assets (Note 9)		2,322,982		2,156,357
Loans and advances to customers (Notes 6 and 17)		24,263,553		27,511,121
Financial investments (Notes 5, 17 and 22)		220,281,374		261,360,299
Derivative financial instruments (Notes 4 and 22)		416,085		152,423
Property and equipment (Note 7)		12,824,493		13,198,106
Goodwill and other intangible assets (Note 8)		3,275,169		4,917,855
Total assets	$	508,159,288	$	460,464,488
Liabilities				
Deposits (Notes 10 and 17)	$	408,861,792	$	352,472,179
Customer drafts payable		59,547		50,462
Derivative financial instruments (Notes 4 and 22)		491,134		–
Other liabilities (Note 11)		11,374,131		7,428,953
Interest payable		3,148,993		3,003,857
Total liabilities	$	423,935,597	$	362,955,451

See accompanying notes.

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

September 30, 2020

	2020	2019
Equity		
Capital stock (Note 12)	$ 16,807,963	$ 16,807,963
Share premium (Note 12)	22,131,188	22,131,188
Accumulated other comprehensive income (loss)	(1,025,604)	218,111
Retained earnings	46,310,144	58,351,775
Total equity	84,223,691	97,509,037
Total liabilities and equity	$ 508,159,288	$ 460,464,488

See accompanying notes.

Signed on behalf of the Board:

Alan Gilbertson
Chairman

Hubert Esperon
Chief Executive Officer

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

Year ended September 30, 2020

	2020	2019
Income		
Interest income calculated using the effective interest rate:		
Cash and term deposits	$ 442,848	$ 1,678,941
Loans and advances to customers (Note 6)	1,607,825	2,436,040
Financial investments (Note 5)	7,232,388	8,458,183
Other interest income:		
Financial investments (Note 5)	4,520,599	2,826,727
Total interest income	13,803,660	15,399,891
Interest expense (Note 10)	(4,156,271)	(5,477,795)
Net interest income	9,647,389	9,922,096
Fees and commissions (Note 13)	2,793,410	3,290,295
Net foreign exchange gains	1,032,566	1,192,690
(Losses) on derivative financial instruments	(33,284)	(88,953)
Dividend income (Notes 5 and 17)	704,491	683,745
Gains (losses) from financial investments (Notes 14 and 17)	(3,033,012)	246,238
Impairment gains (losses) on financial instruments (Notes 5, 6 and 9)	(2,622,926)	66,345
Other operating income (Note 15)	447,848	451,040
Total income	8,936,482	15,763,496
Expenses		
Salaries and employee benefits (Note 18)	10,359,388	12,329,272
Depreciation (Note 7)	465,008	398,691
Amortisation (Note 8)	1,342,686	1,819,173
General and administrative expenses (Note 16)	8,811,031	9,528,990
Total expenses	20,978,113	24,076,126
Net loss before taxation	$ (12,041,631)	$ (8,312,630)
Income tax expense	–	–
Net loss for the year	$ (12,041,631)	$ (8,312,630)

See accompanying notes.

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

Year ended September 30, 2020

	2020	2019
Net loss for the year	$ (12,041,631)	$ (8,312,630)
Other comprehensive income (loss):		
Items that may be reclassified subsequently to statement of income		
Debt instruments at fair value through other comprehensive income		
Net change in fair value	(1,526,688)	1,464,707
Reclassified to statement of income	(1,176,583)	937,462
Changes in allowance for expected credit losses	2,426,474	(78,933)
Items that will not be reclassified to statement of income		
Net change in fair value of equity securities designated at FVOCI	(966,918)	(2,677,142)
Other comprehensive loss	(1,243,715)	(353,906)
Total comprehensive loss	$ (13,285,346)	$ (8,666,536)

See accompanying notes.

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

Year ended September 30, 2020

	Capital stock	Share premium	Reserve for available- for-sale financial instruments	Accumulated other comprehensive income (loss)	Retained earnings	Total equity
Balance at September 30, 2018	$ 16,807,963	$ 22,131,188	$ 122,696	$ –	$ 66,357,837	$ 105,419,684
Adjustment on initial application of IFRS 9 and 15	–	–	(122,696)	572,017	184,568	633,889
Balance at October 1, 2018	$ 16,807,963	$ 22,131,188	$ –	$ 572,017	$ 66,542,405	$ 106,053,573
Loss of control in subsidiaries	–	–	–	–	122,000	122,000
Net loss for the year	–	–	–	–	(8,312,630)	(8,312,630)
Other comprehensive loss	–	–	–	(353,906)	–	(353,906)
Balance at September 30, 2019	$ 16,807,963	$ 22,131,188	$ –	$ 218,111	$ 58,351,775	$ 97,509,037
Net loss for the year	–	–	–	–	(12,041,631)	(12,041,631)
Other comprehensive loss	–	–	–	(1,243,715)	–	(1,243,715)
Balance at September 30, 2020	$ 16,807,963	$ 22,131,188	$ –	$ (1,025,604)	$ 46,310,144	$ 84,223,691

See accompanying notes.

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

Year ended September 30, 2020

	2020	2019
Operating activities		
Net income (loss)	$ (12,041,631)	$ (8,312,630)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:		
Depreciation	465,008	398,691
Amortisation	1,342,686	1,819,173
Loss on disposal of property and equipment	5,696	3,217
Loss on disposal of intangible assets	-	8,000
Goodwill impairment	300,000	655,723
Losses (gains) from sale of financial investments	3,033,012	(246,238)
Impairment losses (gains) on financial instruments	2,622,926	(66,345)
Interest expense on lease liability	3,009	-
	(4,269,294)	(5,740,409)
Changes in:		
Receivable from related parties	1,687	(14,569)
Interest receivable	597,803	(858,559)
Other assets	(370,648)	(529,794)
Derivative financial instruments, net	227,472	(412,065)
Customer drafts payable	9,085	(62,464)
Other liabilities	4,014,340	344,533
Interest payable	145,136	810,844
Net cash provided by (used in) operating activities	$ 355,581	$ (6,462,483)

See accompanying notes.

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

September 30, 2020

	2020	2019
Investing activities		
Net change in loans and advances to customers	3,255,139	15,034,296
Proceeds from sale and maturity of financial investments	407,125,894	627,578,669
Purchases of financial investments	(372,750,170)	(643,820,282)
Purchases of property and equipment	(97,091)	(113,279)
Net cash provided by (used in) investing activities	$ 37,533,772	$ (1,320,596)
Financing activities		
Net change in deposits	56,389,613	(15,217,198)
Principal lease payments	(72,171)	–
Net cash provided by (used in) financing activities	56,317,442	(15,217,198)
Net increase (decrease) in cash and cash equivalents	94,206,795	(23,000,277)
Cash and cash equivalents, beginning of year	147,852,054	170,852,331
Cash and cash equivalents, end of year	$ 242,058,849	$ 147,852,054
Supplementary disclosure of cash flow information:		
Interest paid	$ 4,011,135	$ 4,666,951
Interest received	$ 14,401,463	$ 14,541,332
Dividends received	$ 704,491	$ 683,745

See accompanying notes.

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

September 30, 2020

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, 2020, were authorised for issue in accordance with a resolution of the Board of Directors on December 9, 2020.

2. Basis of preparation and significant accounting policies

2.1 Basis of preparation

The consolidated financial statements for the year ended September 30, 2020 and 2019 have been prepared on a going concern basis. In this regard, together with several other factors, the Bank has assessed the impact of the COVID-19 pandemic (i.e. as declared by the World Health Organization ("WHO") as a pandemic in March 2020) on the Bank's business operations and the Bank's ability to continue as a going concern and to meet regulatory requirements applicable to capital, liquidity and funding with no exception at least, but not limited to, twelve months from the reporting date. The assessment was based on the information available at the end of the 2020 financial year and has considered the impact on certain key financial aspects based on multiple economic scenarios.

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 reporting date ("current"), and more than 12 months after the reporting date ("non-current"), is presented in Note 20.

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

September 30, 2020

2. Basis of preparation and significant accounting policies (continued)

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.

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

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

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 including economic effects pertaining to the COVID-19 pandemic 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

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 be generated 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, expected 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

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 22.

2.5 Basis of preparation and significant accounting policies

2.5.1 Standards adopted during the year ended September 30, 2020

In the consolidated financial statements for the year ended September 30, 2020, the Bank has applied IFRS 16 *Leases* as this standard is effective for annual periods beginning on or after January 1, 2019. The nature and effect of the changes as a result of the adoption of IFRS 16 is described below.

2. Basis of preparation and significant accounting policies (continued)

2.5.1 Standards adopted during the year ended September 30, 2020 (continued)

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 IFRS 16, the Bank has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

2.5.1.1 IFRS 16 - Leases

The Bank has applied IFRS 16 – *Leases* with a date of initial application of October 1, 2019. The Bank has applied IFRS 16 using the modified retrospective approach as explained in IFRS16.C5b, under which no cumulative effect on initial application is recognised in retained earnings as at October 1, 2019. Accordingly, the comparative information presented for September 30, 2019 is not restated (i.e. it is presented, as previously reported, under IAS 17 and related interpretations).

Policy applicable after October 1, 2019

This policy is applied to contracts entered into, or changed, on or after October 1, 2019. Accordingly, at inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At inception or on reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

Bank as a Lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. The asset is subject to the Bank's impairment policy on non-financial assets and amortised over the length of the lease while the lease liability is measured at amortised cost.

As a lessee, the Bank recognises lease payments associated with short-term leases (i.e. where the lease term is 12 months or less) and leases of low-value assets as an expense over the lease term.

The right-of-use assets are presented within the note applicable to Property and equipment (Note 7), and the lease liability within the note applicable to Other liabilities (Note 11).

Bank as a Lessor

When the Bank acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is classified as a finance lease; if not then it is an operating lease. However, as of October 1, 2019 and September 30, 2020, there were no finance leases in the Bank's consolidated financial statements.

Income from operating leases under IFRS 16 are recognised on a straight–line basis over the lease term as part of 'Other operating income' on the Consolidated Statement of Income.

When the Bank is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head-lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Bank applies the exemption described above, then the Bank classifies the sub-lease as an operating lease.

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

September 30, 2020

2. Basis of preparation and significant accounting policies (continued)

2.5.1 Standards adopted during the year ended September 30, 2020 (continued)

2.5.1.1 IFRS 16 – Leases (continued)

Policy applicable before October 1, 2019

Operating Leases - The Bank as a Lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term and are included in rent and premises within General and administrative expenses in the Consolidated Statement of Income.

Operating Leases - The Bank as a Lessor

Rental income arising from an operating lease is accounted for on a straight-line basis over the lease term and is presented as part of 'Other operating income' on the Consolidated Statement of Income.

2.5.1.2 Transition disclosures

The transition impact of IFRS 16 on retained earnings as at October 1, 2019 was $nil. The overall impact on other components of the consolidated financial statements was insignificant.

2.6 Other accounting policies

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, 2020. A list of these subsidiaries is presented in Note 17.

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 reporting 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 unrealized 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 reporting 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 (continued)

Financial instruments

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.

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 on 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.

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

September 30, 2020

2. Basis of preparation and significant accounting policies (continued)

2.6 Other accounting policies (continued)

Financial instruments (continued)

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.

Financial liabilities

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

Derivatives

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

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 (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.

2. Basis of preparation and significant accounting policies (continued)

2.6 Other accounting policies (continued)

Financial instruments (continued)

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 derecognized) 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 derecognized when its contractual obligations are discharged or cancelled or expire.

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 expenses 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.

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.

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

September 30, 2020

2. Basis of preparation and significant accounting policies (continued)

2.6 Other accounting policies (continued)

Financial instruments (continued)

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 categorized 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.

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.

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

September 30, 2020

2. Basis of preparation and significant accounting policies (continued)

2.6 Other accounting policies (continued)

Financial instruments (continued)

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”)
- 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 derecognized 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 originating 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.

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.

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

September 30, 2020

2. Basis of preparation and significant accounting policies (continued)

2.6 Other accounting policies (continued)

Financial instruments (continued)
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 receivable 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 rates and unemployment rates of the relevant jurisdiction. Further, since the inputs and models used for calculating ECLs may not capture all characteristics of the market at the date of the financial statements, quantitative and 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 AC and 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 their 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.

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 reorganization, 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.

2. Basis of preparation and significant accounting policies (continued)

2.6 Other accounting policies (continued)

Financial instruments (continued)

Modification of financial assets

A financial asset is derecognized 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 gains (losses) on financial instruments' in the Consolidated Statement of Income.

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.

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.

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

September 30, 2020

2. Basis of preparation and significant accounting policies (continued)

2.6 Other accounting policies (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 relevant CGU that is 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 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.

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

2.6 Other accounting policies (continued)

Business combinations and goodwill (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 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.

*This asset was fully amortised at September 30, 2020.

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.

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

September 30, 2020

2. Basis of preparation and significant accounting policies (continued)

2.6 Other accounting policies (continued)

Recognition of income

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

Interest income

Interest income is recognised in the Consolidated Statement of Income for all interest-bearing instruments 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 purposes, 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.

Interest income applicable to interest-bearing instruments measured at FVTPL is recognised on the accrual basis, using the coupon rate of the instrument.

Revenue from contracts with customers - 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 Consolidated Statement of Financial Position.

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.

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

September 30, 2020

2. Basis of preparation and significant accounting policies (continued)

2.6 Other accounting policies (continued)

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 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.

Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9 and IFRS 7)
The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9 and IFRS 7 relating to changes in the basis for determining contractual cash flows of financial assets and financial liabilities. The impact on the consolidated financial statements due to the aforementioned reforms are estimated to be immaterial.

Other standards
The following new and amended standards are not expected to have a significant impact on the Bank's consolidated financial statements.
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).
- Reference to Conceptual Framework (Amendments to IFRS 3).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).

Early adoption

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

3. Cash and cash equivalents

Cash and cash equivalents were made up as follows:

		2020		2019
Cash and demand deposits	$	64,789,268	$	18,660,527
Term deposits maturing within three months		39,353,481		53,231,618
HQLA maturing within three months		137,916,100		75,959,909
Total	$	242,058,849	$	147,852,054

Term deposits amounting to $16,613,481 were collateralized at September 30, 2020 (2019: $15,256,698).

The average effective yields earned were as follows:

	2020	2019
Cash and demand deposits	0.04%	0.24%
Term deposits maturing within three months	0.81%	2.43%
HQLA maturing within three months	1.77%	2.33%

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

September 30, 2020

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 can be 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 fair value of the instrument.

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 20).

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

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.

	2020			2019		
	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount
Foreign exchange forward contracts	$ 410,664	$ 491,134	$ 41,254,522	$ 113,718	$ –	$ 51,038,514
Warrants	5,421	–	38,397	38,705	–	36,554
Total	$ 416,085	$ 491,134	$ 41,292,919	$ 152,423	$ –	$ 51,075,068

At September 30, 2020, the net cost of the derivatives amounted to $nil (2019: $nil).

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

September 30, 2020

5. Financial investments

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

	2020	2019
Financial investments measured at FVOCI		
Government debt securities	$ 28,537,420	$ 94,323,100
Corporate debt securities (non-banks)	72,953,712	53,475,077
Debt securities issued by banks	4,258,715	11,545,165
Asset-backed securities	279,866	292,705
Total debt securities at FVOCI	106,029,713	159,636,047
Equity securities designated at FVOCI	30,742,778	31,240,737
Total financial investments measured at FVOCI	136,772,491	190,876,784
Financial investments mandatorily measured at FVTPL		
Corporate debt securities (non-banks)	38,274,026	18,899,933
Debt securities issued by banks	34,157,166	39,602,477
Equity securities	154,383	1,057,797
Total financial investments measured at FVTPL	72,585,575	59,560,207
Total financial investments measured at FV	209,358,066	250,436,991
Financial investments at AC		
Corporate debt securities (non-banks)	10,923,308	10,923,308
Total financial investments	$ 220,281,374	$ 261,360,299

At September 30, 2020, the cost of financial investments amounted to $228,345,395 (2019: $261,953,303). The carrying value of investments subject to the ECL assessment at September 30, 2020 was $116,953,021 (2019: $170,559,355). These investments represent debt securities measured at FVOCI and financial investments measured at AC.

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

September 30, 2020

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:

2020

	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, 2019	$ 170,114,917	$ –	$ 444,438	$ 170,559,355	$ 256,213	$ –	$ 114,175	$ 370,388
Transfers to:								
From Stage 1	(6,558,282)	6,437,375	120,907	–	45,729	(45,170)	(559)	–
Net movement in financial investments	(58,267,827)	2,738,016	1,923,477	(53,606,334)	–	–	–	–
ECL charge (reversal)					510,773	946,843	968,858	2,426,474
As at September 30, 2020	$ 105,288,808	$ 9,175,391	$ 2,488,822	$ 116,953,021	$ 812,715	$ 901,673	$ 1,082,474	$ 2,796,862

2019

	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 between staging	–	–	–	–	–	–	–	–
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

Equity securities designated as at FVOCI

The FVOCI designation was made for certain equity securities because those investments are being held for strategic purposes. Dividend income in 2020 from these securities was $703,322 (2019: $682,566). Further, the Bank did not dispose of or derecognize any equity securities in 2020 or 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 $710,015 and $6,522,373 respectively (2019: $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 $4,520,599 (2019: $2,826,727).

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

September 30, 2020

6. Loans and advances to customers

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

	2020	2019
Commercial loans	$ 22,648,248	$ 25,771,208
Commercial overdrafts	–	41,624
Consumer mortgage loans	1,207,049	1,224,031
Credit cards	159,693	161,908
Other	248,563	312,350
Total	$ 24,263,553	$ 27,511,121

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

	2020					
	Within 1 year	1-5 years	5-10 years	More than 10 years	ECL allowance	Total
Commercial loans	$ 6,333,400	$ 16,400,000	$ –	$ –	$ (85,152)	$ 22,648,248
Consumer mortgage loans	–	–	–	1,207,049	–	1,207,049
Credit cards	163,543	–	–	–	(3,850)	159,693
Other	–	250,400	–	–	(1,837)	248,563
Total	$ 6,496,943	$ 16,650,400	$ –	$ 1,207,049	$ (90,839)	$ 24,263,553

	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

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

September 30, 2020

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, 2020

	Gross carrying Amount				ECL allowance				Net carrying amount
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	
Commercial loans	$ 20,150,000	$ 2,583,400	$ –	$ 22,733,400	$ 49,985	$ 35,167	$ –	$ 85,152	$ 22,648,248
Consumer mortgage loans	1,056,957	–	150,092	1,207,049	–	–	–	–	1,207,049
Credit cards	–	163,543	–	163,543	–	3,850	–	3,850	159,693
Other	246,902	–	3,498	250,400	114	–	1,723	1,837	248,563
Total at AC	$ 21,453,859	$ 2,746,943	$ 153,590	$ 24,354,392	$ 50,099	$ 39,017	$ 1,723	$ 90,839	$ 24,263,553

Loans and advances at September 30, 2019

	Gross carrying Amount				ECL allowance				Net carrying amount
	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

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

September 30, 2020

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
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
As at October 1, 2019	$ 24,843,761	$ 2,632,076	$ 133,694	$ 27,609,531	$ 63,256	$ 31,891	$ 3,263	$ 98,410
Transfers:								
From Stage 1	–	–	–	–	–	–	–	–
From Stage 2	–	–	–	–	–	–	–	–
From Stage 3	–	–	–	–	–	–	–	–
Net movement in loans and advances	(3,389,902)	114,867	19,896	(3,255,139)	–	–	–	–
ECL charge (reversal)	–	–	–	–	(13,157)	7,126	(1,540)	(7,571)
As at September 30, 2020	$ 21,453,859	$ 2,746,943	$ 153,590	$ 24,354,392	$ 50,099	$ 39,017	$ 1,723	$ 90,839

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, 2020 was $324,074 (2019: $850,000).

Assets modified during the year

Details of loans and advances modified during the year are as follows:

	2020	2019
Amortised cost before modification	127,107	-
Net modification gain (loss)	27,893	-
Gross carrying amount at the end of year	150,092	-

Average effective yields

The average effective yields earned were as follows:

	2020	2019
Commercial loans	6.56%	6.82%
Commercial overdrafts	6.50%	6.50%
Consumer mortgage loans	5.54%	5.97%
Credit cards	16.00%	14.50%

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

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

September 30, 2020

7. Property and equipment

2020

	Equipment	Land	Building	Right-of-use Assets	Total
Cost					
Beginning of year	$ 1,291,751	$ 1,306,800	$ 12,706,849	$ –	$ 15,305,400
Additions	9,600	–	–	87,491	97,091
Disposals	(21,361)	–	–	–	(21,361)
End of year	$ 1,279,990	$ 1,306,800	$ 12,706,849	87,491	$ 15,381,130
Accumulated Depreciation					
Beginning of year	$ 1,133,052	$ –	$ 974,242	–	$ 2,107,294
Disposals	(15,665)	–	–	–	(15,665)
Depreciation charge for the year	74,929	–	317,671	72,408	465,008
End of year	1,192,316	–	1,291,913	72,408	2,556,637
Net book value at end of year	$ 87,674	$ 1,306,800	$ 11,414,936	$ 15,083	$ 12,824,493

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

Right-of-use assets at September 30, 2020 include leased equipment with a carrying value of $15,083 (2019: Not Applicable).

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

September 30, 2020

8. Goodwill and other intangible assets

	2020			
	Computer software	Customer relationships	Goodwill	Total
Cost				
Beginning of year	$ 11,295,749	$ 4,154,402	$ 2,723,371	$ 18,173,522
Additions	–	–	–	–
Disposals	–	–	–	–
End of year	11,295,749	4,154,402	2,723,371	18,173,522
Accumulated amortisation and impairment				
Beginning of year	7,520,621	4,056,937	1,678,109	13,255,667
Impairment	–	–	300,000	300,000
Amortisation charge for the year	1,245,221	97,465	–	1,342,686
End of year	8,765,842	4,154,402	1,978,109	14,898,353
Net book value at end of year	$ 2,529,907	$ –	$ 745,262	$ 3,275,169

	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

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

September 30, 2020

8. Goodwill and other intangible assets (continued)

Customer relationships

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. Customer relationships were 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. This amount was amortised on a straight-line basis over the expected lives of the customer relationships and the related net cash flows.

The asset was fully amortised as of September 30, 2020.

Goodwill

The Bank recognised $2,723,371 in goodwill from the acquisition of Paragon and Charter in October 2011.

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 21) 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% (2019: 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 $1,523,161 (2019: $1,856,198) primarily due to a change in estimated revenue (non-COVID-19 pandemic related) and, as a result, an impairment of $300,000 (2019: $655,723) was recognised in the consolidated financial statements.

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

Other assets were made up of:

		2020		2019
Accounts receivable, net of ECL*	$	867,041	$	861,360
Accrued income		281,125		220,480
Prepayments		1,174,816		1,074,517
Total	$	2,322,982	$	2,156,357

*The ECL allowance recorded at September 30, 2020 under IFRS 9 was $1,553,208 (2019: $1,349,185).

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

September 30, 2020

10. Deposits

Deposits were made up of:

	2020	2019
Demand deposits	$ 246,222,312	$ 138,922,691
Term deposits:		
Deposits maturing within 1 month	15,431,010	61,908,804
Deposits maturing – 1-3 months	33,377,114	33,435,179
Deposits maturing – 3-12 months	47,620,962	41,481,750
Deposits maturing – 1-5 years	66,210,394	76,723,755
	162,639,480	213,549,488
Total	$ 408,861,792	$ 352,472,179

The average effective rates paid were as follows:

	2020	2019
Term deposits based on book values and contractual interest rates	2.42%	2.45%
Demand deposits	0.00%	0.00%

11. Other liabilities

Other liabilities were made up of:

	2020	2019
Accounts payable	$ 5,339,858	$ 5,528,442
Accrued liabilities	6,018,948	1,900,511
Lease Liability	15,325	–
Total	$ 11,374,131	$ 7,428,953

Interest expense recognised on lease liabilities for the year ended September 30, 2020 was $3,009 (2019: not applicable).

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, 2020 and 2019	10,000,000	$ 24,000,000	7,003,318	$ 16,807,963	$ 22,131,188

Regulatory capital

The Bermuda Monetary Authority ("BMA") adopts the Basel III Accord which requires 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, 2020, the Bank's Tier 1 and total regulatory capital ratios of 28.42% (2019: 34.71%) and 28.42% (2019: 34.71%) respectively, exceeded the prescribed limits.

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

September 30, 2020

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:

	2020	2019
Corporate services	$ 1,223,412	$ 1,237,513
Trust services	565,122	951,151
Banking services	1,004,876	1,101,631
Total	$ 2,793,410	$ 3,290,295

14. Gains (losses) from financial investments

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

	2020	2019
From financial investments measured at FVTPL	$ (4,209,595)	$ (691,224)
On derecognition of financial investments measured at FVOCI	1,176,583	937,462
Total	$ (3,033,012)	$ 246,238

15. Other operating income

	2020	2019
Lease income from operating leases	$ 447,848	$ 451,040

Lease income from operating leases include the rent earned on building premises rented out by the Bank.

16. General and administrative expenses

General and administrative expenses are made up as follows:

	2020	2019
Premises related costs	$ 417,262	$ 425,420
Advertising and marketing	116,238	181,341
Professional fees	2,710,781	2,939,486
Information technology and systems	1,691,332	1,586,219
Banking services and licenses	904,407	912,623
Investment advisory fees (Note 17)	828,098	639,835
Impairment loss on intangible assets (Note 8)	300,000	655,723
Administrative	1,842,913	2,188,343
Total	$ 8,811,031	$ 9,528,990

17. Related party disclosures

Investment adviser agreement

In 2011, the Bank entered into an investment adviser agreement with ICM Limited ("Investment Adviser"), a related party to the Bank through common control. 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 for its advisory services. For the year ended September 30, 2020, such fees amounted to $728,098 (2019: $539,835), of which $190,266 remained payable at year-end (2019: $155,768). In addition, pursuant to a consultancy agreement, a fee of $100,000 (2019: $100,000) was paid to the Investment Adviser for consultancy services, of which $25,000 remained payable at year-end (2019: $25,000). These fees are included in investment advisory fees within general and administrative expenses in the Consolidated Statement of Income (Note 16) 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 Investment Adviser may be entitled to earn a further fee based on the performance of the portfolio. The performance fee paid to the Investment Adviser for the year ended September 30, 2020 was $Nil (2019: $Nil). 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, 2020, 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 (2019: $10,923,308). Interest income from these investments for the year was $710,015 (2019: $655,398) and the accrued interest at the year-end was $329,520 (2019: $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 (parties related to the Bank by way of common investment adviser, ICM Limited) with a carrying value of $30,742,788 at September 30, 2020 (2019: $31,240,737). Dividend income from these investments totaled $703,322 (2019: $682,566). At September 30, 2020, $150,000 of dividends (2019: $150,000) were receivable from related parties.

During 2020, the Bank purchased securities from related parties at amounts equal to their estimated fair value of $1,529,632 (2019: $1,175,929). There were no amounts payable as a result of the purchase of these securities at either year-end.

During 2020, the Bank sold financial investments to related parties at amounts equal to their estimated fair value of $446,000 (2019: $Nil). There were no receivables as a result of the sale of these securities at year-end (2019: $Nil).

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

September 30, 2020

17. 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, 2020, total loans and advances receivable from related parties amounted to $18,362,373 (2019: $20,055,796), of which $3,000,000 (2019: $10,379,200) was unsecured and $15,362,373 (2019: $9,676,596) 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, 2020 was $nil (2019: $nil).

At September 30, 2019, the Bank had one investment in asset-backed notes in a securitization entity set up by Resimac Group Limited (previously Home Loans Limited), a party related to the Bank by virtue of common control, with a carrying value of $1,620,240. This was disposed of during the 2020 financial year. 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 assessed as being credit impaired at either year-end.

For the year ended September 30, 2020, the Bank earned net interest income and fees of $1,490,421 (2019: $1,374,902) for banking services provided to such related parties.

Deposit liabilities

At September 30, 2020, deposit balances held by such related parties with the Bank amounted to $7,264,260 (2019: $8,237,615).

Transactions with Board of Directors

Total Directors' fees for the year ended September 30, 2020, amounted to $612,318 (2019: $662,138). The Bank provides banking services to Board of Directors under the same terms as an unrelated party would receive. At September 30, 2020, Board of Directors and parties associated with Board of Directors had deposit balances with the Bank of $538,911 (2019: $90,713). At September 30, 2020, total loans and advances receivable from Board Directors and parties associated with Board of Directors amounted to $nil (2019: $nil). The undrawn portion of credit facilities committed to Board of Directors and parties associated with Board of Directors at the year-end totaled $nil (2019: $nil). Net interest received from Board of Directors for the year was $nil (2019: $nil).

Compensation of key management personnel of the Bank

The Bank classifies the Board of Directors of the Bank and senior management as the key management personnel. For the year ended September 30, 2020, the total compensation paid to key management personnel amounted to $2,535,783 (2019: $2,938,383), excluding the Directors' fees.

Principal subsidiary undertakings at September 30, 2020

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

BCB as the sole shareholder of these companies provides financial and administrative support to its subsidiaries for at least, but not limited to, 12 months from the date these consolidated financial statements are issued.

18. Salaries and 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 a minimum of 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 2020 amounted to $379,712 (2019: $413,002) and is included within salaries and employee benefits in the Consolidated Statement of Income.

19. Commitments and contingent liabilities

Commitments

At September 30, 2020, the Bank was committed to $ 2,569,901 (2019: $2,485,799) 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. 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. 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 cannot be reliably measured, based on the information currently available to management, no provision was necessary as at September 30, 2020 (2019: None).

20. 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.

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

September 30, 2020

20. Risk management (continued)

Board Audit and Risk Committee ("BARC")

The BARC is a committee of the Board of Directors and is chaired by an independent director. The BARC was formed during 2018 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.

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 of Directors 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.

20. Risk management (continued)

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.

While the methodologies and assumptions applied in ECL calculations remained unchanged from those applied in the previous year, special attention was given to the implications of the COVID-19 pandemic in assessing the ECL allowances recorded by the Bank. This included, but was not limited to, revisiting the Bank's internal models applicable to ECL and multiple economic scenarios analyses ("ESA"), change in staging of financial assets due to any significant increases in credit risk, and various other assumptions/inputs used in the ECL process. ECL allowances are based on the economic information available at September 30, 2020. However, the economic impact of the COVID-19 pandemic could be deeper or more prolonged than anticipated in the ECL process, and therefore future ECL allowances may change when updated and/or actual data is available. Please refer to Note 5, 6 and 9 for more details on the ECL allowances recorded during the year on financial assets measured at AC and FVOCI.

The Bank also performed several sensitivity analyses at September 30, 2020 by evaluating the estimated impact on ECL allowances had certain key data used in the model been different than that used in the base analysis. These included modification to the weighting applied in multiple economic scenarios developed by the Bank (i.e. upside and downside scenarios), and economic metrics used in the ESA model under lower volatility and higher volatility scenarios. Accordingly, per the aforesaid sensitivity analyses, the outcomes were not significantly different from those of the base analysis.

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 are adjusted if the capital ratio of a counterparty 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)
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September 30, 2020

20. 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 prioritize 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.

As part of liquidity risk and funding management, the Bank also assessed the impact of the COVID-19 pandemic. However, given the nature of business operations of the Bank, the impact on liquidity is considered to be insignificant. Further, no assets were modified during the year due to implications arising from the COVID-19 pandemic.

Maturity profile
The below tables summarize the maturity profile of the Bank's assets and liabilities as at September 30, 2020 and 2019. 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.

	2020						
	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	ECL allowance	Total
Assets							
Cash and cash equivalents	$ 159,255,249	$ 82,803,600	$ –	$ –	$ –	$ –	$ 242,058,849
Receivable from related parties	164,294	–	–	–	–	–	164,294
Interest receivable	1,215,143	699,395	571,295	62,994	3,662	–	2,552,489
Other assets	2,573,133	294,219	993,435	15,403	–	(1,553,208)	2,322,982
Loans and advances to customers	163,543	–	6,333,400	16,650,400	1,207,049	(90,839)	24,263,553
Financial investments	–	–	46,147,458	38,811,182	135,322,734	–	220,281,374
Derivative financial instruments	267,635	143,029	–	5,421	–	–	416,085
Property and equipment	–	15,083	–	87,674	12,721,736	–	12,824,493
Goodwill and other intangible assets	–	–	–	2,529,907	745,262	–	3,275,169
	$ 163,638,997	$ 83,955,326	$ 54,045,588	$ 58,162,981	$ 150,000,443	$ (1,644,047)	$ 508,159,288
Liabilities							
Deposits	261,653,322	33,377,114	47,620,962	66,210,394	–	–	408,861,792
Customer drafts payable	59,547	–	–	–	–	–	59,547
Derivative financial instruments	376,879	114,255	–	–	–	–	491,134
Other liabilities	9,773,374	543,406	281,654	–	775,697	–	11,374,131
Interest payable	31,178	504,228	1,114,214	1,499,373	–	–	3,148,993
	$ 271,894,300	$ 34,539,003	$ 49,016,830	$ 67,709,767	$ 775,697	$ –	$ 423,935,597
Net assets (liabilities)	$ (108,255,303)	$ 49,416,323	$ 5,028,758	$ (9,546,786)	$ 149,224,746	$ (1,644,047)	$ 84,223,691

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

September 30, 2020

20. Risk management (continued)

	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

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 optimize 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 the Bank's shareholders 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, 2020

20. Risk management (continued)

	2020	2019
200-basis-point increase in interest rates		
Impact on Economic Value of Equity	$ (10,554,648)	$ (11,556,824)
200-basis-point decrease in interest rates		
Impact on Economic Value of Equity	$ 10,558,283	$ 11,556,824

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, 2020 would have decreased net income and equity by $140,698 (2019: $104,530). 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, 2020 would have increased equity by $503,950 (2019: $777,539). An equivalent decrease would have resulted in an equivalent but opposite impact.

21. Segment information

The Bank operates in a single jurisdiction, Bermuda. For management purposes, the Bank is organized into five (2019: five) 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 2020 or 2019.

Investment management

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

Corporate Services

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

Notes to Consolidated Financial Statements (continued)
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September 30, 2020

21. Segment information (continued)

Trust

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

General and administrative

Operating expenses include centralized 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 following table presents income and expense and certain asset and liability information regarding the Bank's reportable segments:

	2020						
	Banking services	**Investment management**	**Corporate services**	**Trust**	**General & administrative**	**Elimination of inter-segment amounts**	**Total**
Net interest income	$ 6,021,626	$ 3,524,233	$ (8,342)	$ –	$ (82,582)	$ 192,454	$ 9,647,389
Fees and other income	1,419,541	1,311,621	1,223,709	565,122	1,257,252	(798,930)	4,978,315
(Loss) on derivative financial instruments	–	(33,284)	–	–	–	–	(33,284)
(Loss) on financial investments	–	(3,033,012)	–	–	–	–	(3,033,012)
Impairment losses on financial Instruments	7,571	(2,426,474)	(26,539)	(177,484)	–	–	(2,622,926)
Total income (loss)	$ 7,448,738	$ (656,916)	$ 1,188,828	$ 387,638	$ 1,174,670	$ (606,476)	$ 8,936,482
Salaries & employee benefits	(3,551,490)	(184,613)	(1,009,338)	(813,115)	(4,800,832)	–	(10,359,388)
Depreciation	(194,370)	(6,132)	(23,461)	–	(606,608)	365,563	(465,008)
Amortisation	(551,164)	(20,414)	(158,705)	–	(612,403)	–	(1,342,686)
Operating expenses	(2,293,854)	(1,023,312)	(909,503)	(846,521)	(3,761,856)	24,015	(8,811,031)
Net income (loss)	$ 857,860	$ (1,891,387)	$ (912,179)	$ (1,271,998)	$ (8,607,029)	$ (216,898)	$ (12,041,631)
Segment assets	$ 149,812,988	$ 358,613,560	$ 1,131,279	$ 2,453,484	$ 13,094,194	$ (16,946,217)	$ 508,159,288
Segment liabilities	$ 426,241,302	$ 491,134	$ 162,884	$ 1,926,021	$ 20,028	$ (4,905,772)	$ 423,935,597

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

September 30, 2020

21. Segment information (continued)

	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)/ on derivative financial instruments	–	(88,953)	–	–	–	–	(88,953)
Gain on financial investments	–	246,238	–	–	–	–	246,238
Impairment losses on financial Instruments	78,455	78,933	(39,020)	(52,023)	–	–	66,345
Total income (loss)	$ 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

22. 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, 2020

22. 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:

	2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial instruments at FVTPL				
Forward foreign exchange contracts	$ –	$ 410,664	$ –	$ 410,664
Warrants	–	–	5,421	5,421
	–	410,664	5,421	416,085
Financial investments at FVTPL				
Corporate debt securities (non-banks)	13,652,089	24,621,937	–	38,274,026
Debt securities issued by banks	18,214,454	15,942,712	–	34,157,166
Equity securities	83,281	–	71,102	154,383
	31,949,824	40,564,649	71,102	72,585,575
Financial investments at FVOCI				
Government debt securities maturing over 3 months	21,724,240	6,813,180	–	28,537,420
Corporate debt securities (non-banks)	62,594,037	10,359,675	–	72,953,712
Debt securities issued by banks	2,854,250	1,404,465	–	4,258,715
Asset-backed securities	–	123,717	156,149	279,866
Equity securities designated at FVOCI	4,885,119	25,857,659	–	30,742,778
	92,057,646	44,558,696	156,149	136,772,491
Government debt securities maturing within 3 months	137,916,100	–	–	137,916,100
	$ 261,923,570	$ 85,534,009	$ 232,672	$ 347,690,251
Financial liabilities				
Derivative financial instruments at FVTPL	–	491,134	–	491,134
	$ –	$ 491,134	$ –	$ 491,134

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

September 30, 2020

22. Financial Instruments (continued)

	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	–	–	–	–
	$ –	$ –	$ –	$ –

Movement in Level 3 financial instruments measured at fair value:

	Corporate debt securities	**Asset backed securities**	**Equities**	**Warrants**	**Total**
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
Gains (losses) recorded in Statement of Income	–	5,788	(853,224)	(33,284)	(880,720)
Sales	–	(10,447)	–	–	(10,447)
At September 30, 2020	$ –	$ 156,149	$ 71,102	$ 5,421	$ 232,672

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

September 30, 2020

23. Subsequent events

Sale of BCB
On November 19, 2020, Somers announced that it had entered into an agreement and plan of merger which will result in the sale of the entire issued share capital of BCB to the investment company Provident Holdings Ltd. Completion of the transaction is subject to a number of conditions including regulatory and governmental approvals.

COVID-19 Pandemic
While the Bank anticipates no significant negative impact to its operations or financial condition, the duration and extent of the COVID-19 pandemic and its related economic, social and public health implications remain uncertain at the issuance of these consolidated financial statements.

There have been no significant events or transactions from September 30, 2020 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, 2020

BCB ASSET MANAGEMENT LIMITED
Telephone: +1 (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).

BCB CHARTER CORPORATE SERVICES LIMITED
Telephone: +1 (441) 295-5678
Amalgamated in Bermuda on October 4, 2011.
Provides company secretarial and corporate services.

BCB MANAGEMENT LIMITED
Telephone: (441) 295-5678
Telephone: +1 (441) 295-5678
Incorporated in Bermuda on March 2, 2012.

BCB MANAGEMENT SERVICES LIMITED
Telephone: +1 (441) 295-5678
Incorporated in Bermuda on September 5, 2012.

BCB PARAGON TRUST LIMITED
Telephone: +1 (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: +1 (441) 295-5678
Incorporated in Bermuda on July 8, 1987.

VT STRATEGIES HOLDINGS LIMITED
Telephone: +1 (441) 295-5678
Incorporated in Bermuda on August 21, 2013.

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

Bermuda Commercial Bank Limited and certain subsidiaries offer a variety of regulated services in Bermuda. Bermuda Commercial Bank Limited is licensed to carry out banking business under the Banks and Deposit Companies Act 1999 and to carry out investment business under the Investment Business Act 2003. BCB Paragon Trust Limited is authorised and regulated by the Bermuda Monetary Authority and licensed to carry out trust business under the Trusts (Regulation of Trust Business) Act 2001. BCB Charter Corporate Services Limited and Bercom Nominees Limited are authorised and regulated by the Bermuda Monetary Authority and are licensed to carry out business as Limited Corporate Services Providers pursuant to the Corporate Services Provider Business Act 2012.

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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