



Statement of Corporate Governance

Bermuda Commercial Bank Limited | Financial Year 2021





Statement of Corporate Governance

This Statement of Corporate Governance, approved by the Board¹, outlines the key aspects of Bermuda Commercial Bank Limited's ("BCB" or "Bank") and its subsidiaries' (collectively referred to as "BCB Group") corporate governance framework and practices. This statement articulates how decisions by the Board and Management of BCB Group is guided to meet stakeholder expectations of sound corporate governance.

BCB Group's corporate governance practices is consistent with the Bermuda Monetary Authority's ("BMA" or "Authority") Corporate Governance Policy (December 2012) that sets out the 13 principles and related guidance (see **Appendix A** for the list of principles) applicable to deposit taking institutions licensed under the Banks and Deposit Companies Act 1999 of Bermuda.

The Bank operates in Bermuda while providing a suite of financial services to both Bermuda-based and international clients. These services include trust and corporate services through its wholly-owned subsidiaries. The Bank, BCB Paragon Trust Limited ("BCB Paragon"), BCB Charter Corporate Service Limited ("BCB Charter"), and Bercom Nominees Limited ("Bercom") are licensed and regulated by the BMA.

For FY2021, the Board and Management have defined the strategic goals of BCB Group that all of our people are committed to achieve, while guided by sound corporate governance practices. The Board ensures that the achievement of these goals are not driven by compromises of BCB Group's principles and standards, such as dealing honestly and fairly with our clients, our counterparties, our people, the regulator, and the community to which we belong.

Board oversight (Principle 1)

The Board sets the 'tone at the top' and has the primary responsibility for an effective corporate governance and oversight over the BCB Group's affairs.

In addition to Board and Board Committees meetings, Board members ("Directors"), including an adviser, have extensive access with staff at all levels within the organisation. This is consistent with our culture of open reporting and transparency. Board members believe that open reporting is important in assessing the culture within the organisation, and continuously promotes transparency.

The Board and/or Board Committees receive information and host discussions during formal and informal meetings with Management, from all levels of the Three Lines of internal controls and risk management. The BCB Group embraces the Three Lines Model to identify and maintain structures and processes that best assist the organisation achieve our objectives and facilitate strong governance and risk management. The Board established and empowered key internal control and risk management functions for the BCB Group – Compliance, Risk and Internal Audit.

The Board oversees compliance with key policies that are intended to instil a risk-aware culture that is lawful, ethical and accountable. These key policies include, the *Group Code of Conduct and Ethics*, the *Group Whistleblower Policy*, the *Group Anti-Bribery and Corruption Policy*, the *Anti-Money Laundering ("AML") and Anti-Terrorist Financing ("ATF") & Sanctions Program*, the *Group Economic Substance Policy*, and the *Group Enterprise Risk Management Framework*. Incidents and breaches, if any, related to these policies are reported to the Board and/or relevant Board Committee.

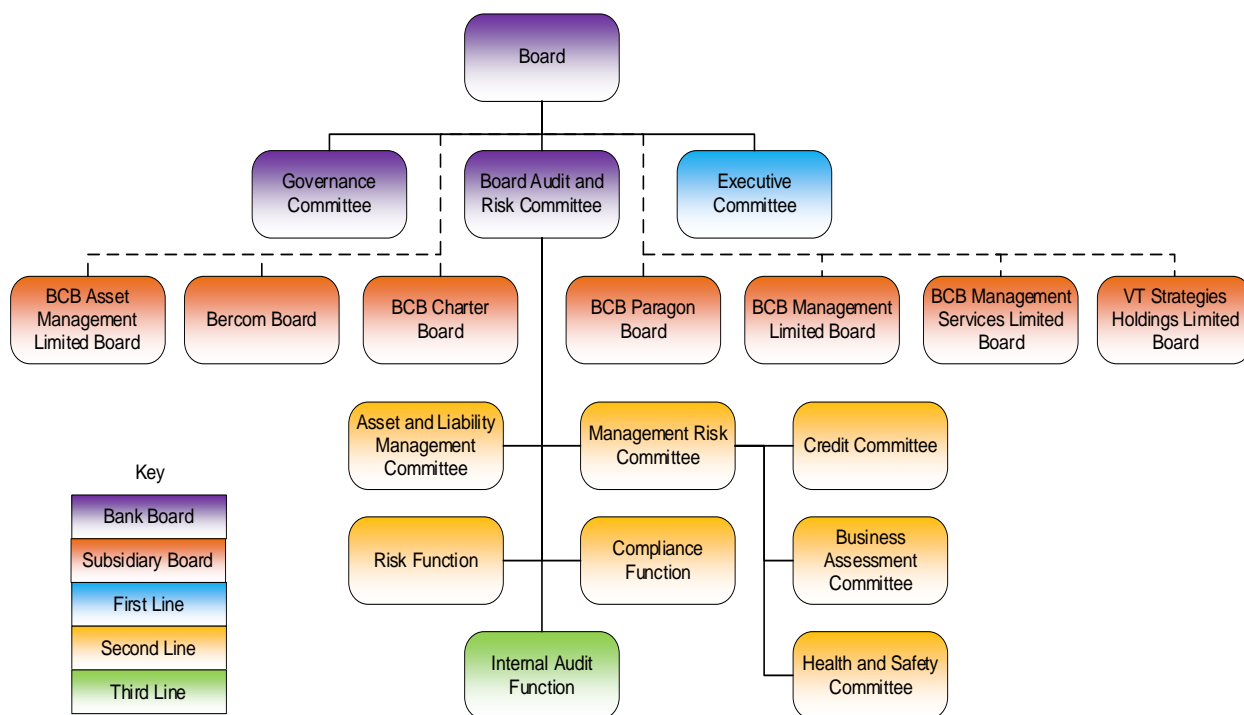
¹ The term "Board" refers to the Bank's Board, which serves as the BCB Group's Board. Reference to subsidiary boards will be qualified as such in this document.



Metrics are utilised by the Board to monitor risks (and challenge Management, as necessary) against the strategy and risk appetite of the organisation. These metrics are reported periodically.

BCB Group have standing Board and Board Committees, including the subsidiary boards. The *Figure 1*, below, established the governance and reporting structure of BCB Group, integrating the Three Lines Model:

Figure 1



The following table provides a summary of the allocation of responsibilities of the above reporting structure, which are detailed in their respective Terms of Reference or Charter, where applicable.

Table 1

	Role
Board	The Board is ultimately responsible for BCB Group's affairs.
Governance Committee ("GC")	The GC is responsible for recruitment, retention, remuneration and compensation decisions. It oversees all Human Resources matters, policies and procedures, and any other matters concerning employees and Management, including the appointment of Board members.
Board Audit and Risk Committee ("BARC")	The BARC is responsible for certain risk management oversight, maintaining the reliability and integrity of financial reporting, maintaining adequate systems of internal controls, and the monitoring of compliance issues.
Subsidiary boards	The respective board of each of the wholly-owned subsidiaries of the Bank is responsible for the oversight of the affairs of each legal entity, including its strategy, risk appetite, risk management, and operations.



Role

Executive Committee (“ExCo”)	The ExCo is responsible for the oversight and day-to-day management and operations of BCB Group.
Asset and Liability Management Committee (“ALCO”)	The ALCO was established to oversee the asset and liability management of the BCB Group, as defined in the Asset and Liability Management Policy. The ALCO monitors asset deployment limits and manage the exposure of asset portfolios to liquidity, interest rate, and market risks.
Management Risk Committee (“MRC”)	The MRC is tasked to discuss, identify, monitor, measure and manage risks across the BCB Group.
Credit Committee (“CC”)	The CC was established to provide authorisations and oversight of the Bank’s credit portfolio.
Business Assessment Committee (“BAC”)	The BAC is responsible for authorisations and oversight of BCB Group’s client portfolios – on-boarding, retention, and termination of client relationships.
Health and Safety Committee (“HSC”)	The HSC is tasked to establish and promote health and safety programs for BCB Group, including the identification and control of health and safety hazards.
Risk Function	The Risk Function is responsible for identifying, measuring, monitoring and reporting the BCB Group’s risk exposures, consistent with sound risk management practices.
Compliance Function	The Compliance Function is responsible for ensuring effective management of BCB Group’s compliance risk with Bermuda laws and regulations.
Internal Audit Function	Internal Audit is responsible for providing an independent and objective assurance and consulting services through a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, internal controls, and governance process of BCB Group.

Board members are welcome to attend Committee meetings, where appropriate; and Directors have demonstrated their commitment to the organisation with their attendance to Committee meetings despite not being a member.

Non-executive Board members also met regularly without Management, and held in-camera sessions with each of the external auditor, the Head of Internal Audit, and the Chief Risk Officer (“CRO”).

In line with policy and sound corporate governance, shareholder representatives on the Board or any Directors with potential conflicts of interests have recused themselves in meetings voluntarily, in part or for the entire duration.

With COVID-19 pandemic, the Board and Committees transitioned to virtual meetings since March 2020. Despite this, the Board and Committees were able to effectively discharge their oversight responsibilities.

Board composition and qualifications (Principle 2)

Currently, the Board maintains six Directors, plus one Board adviser. This is in keeping with the Bank’s Bye-laws. A majority of the Board members are independent and non-executive Directors.

Independent Directors have also been appointed as chairperson of the Board and Board Committees, which is consistent with the Authority’s Corporate Governance Policy (December 2012), the Basel Committee on



Banking Supervision's corporate governance principles for banks (July 2015), and the United Kingdom's Financial Reporting Council's Corporate Governance Code (July 2018).

The Board comprises of highly experienced senior business leaders from a variety of professional backgrounds who, collectively, possess the skills, experience, tenure and diversity considered necessary to appropriately govern the BCB Group.

Notwithstanding the current skills and experience of the Board members, Directors are proactively updating their knowledge and skills through their own continuing education initiatives or through Bank-sponsored training. Continuing education is reported periodically, which is then used to identify any additional knowledge or topic that may be needed that would be beneficial to the Board. Digitalisation, cybersecurity, and AML/ATF are among the training topics with more focus by the Board.

The Board continuously assess any need to engage external advisers to supplement the Board in discharging its responsibilities.

Board governance principles and practices (Principle 3)

The Board has instituted policies and procedures governing the practices of the Board and Board Committees, including Management Committees. These are set in the respective Terms of Reference of the bodies, as well as the *Group Board Governance Principles and Procedure*, *Group Management Committee Standing Rules*, and *Group Policy and Procedure Framework and Standards* documents. As with employees, all Directors are bound by the *Group Code of Conduct and Ethics*.

These set of governance documents require the practice of Director's annual disclosure and assessment by June of each year. For FY2021, all Directors have complied with these requirements with the completion and submission to the Board and/or the Governance Committee the following three documents:

- Annual Disclosure Statement for Board Positions
- Director Self-Appraisal Form
- Board Member Skills Assessment Form

While Director's assessments have been consistently completed, we have identified the need to improve on the Board and Board Committees performance evaluation (i.e. not individual Director's performance), which are mandated in the bodies' respective Terms of Reference. This planned improvement is expected to be completed by the end of FY2022.

Conflicts of interests are managed through Board and Board Committee Terms of Reference, as well as the *Group Board Governance Principles and Procedure* and the *Code of Conduct and Ethics* documents. As indicated above, Directors recuse themselves from meetings voluntarily, in part or for the entire duration of the meeting. In addition, the Bank has instituted a *Group Related Party Transaction Policy* governing any Director transactions with BCB Group, such as compliance with Paragraph 96 of the Bermuda Companies Act 1981 for a loan transaction.

All Directors, including shareholder representatives in the Board, exercised duty of care and responsibilities to the BCB Group.

Group governance (Principle 4)

The Board exercises oversight over subsidiaries' affairs, including the licensed subsidiaries – BCB Charter, BCB Paragon, and Bercom, through Board meeting discussions regarding strategy, risk and control environment, and resourcing of these subsidiaries. Furthermore, the boards of BCB Charter and BCB Paragon consists of more than 50% members of the Board; along with the subsidiaries' General Manager and the Bank CEO, the subsidiaries appointed two independent non-executive Directors to its boards that



are members of the BCB Group Board. Verbal updates from subsidiaries' Directors are formally tabled in quarterly Board and/or Board Committee meetings.

In addition to Board level discussion of subsidiaries' affairs, the *Group Risk Appetite Statement* includes metrics specifically for BCB Charter and BCB Paragon that allow the Board to formally exercise its oversight responsibilities of these licensed subsidiaries. The *Group Risk Appetite Statement* is reported to the Board on a quarterly basis.

Where appropriate, the subsidiaries adopt the corporate governance practices of BCB Group, including key policies, such as *Group Code of Conduct and Ethics*, the *Group Whistleblower Policy*, the *Group Anti-Bribery and Corruption Policy*, the *Anti-Money Laundering ("AML") and Anti-Terrorist Financing ("ATF") & Sanctions Program*, the *Group Economic Substance Policy*, and the *Group Enterprise Risk Management Framework*. The subsidiaries also subscribe to key risk management processes of the Group, such as the Group's complaints handling and risk incident processes.

Management activities (Principle 5)

The Board oversaw the establishment of a Management team, over the recent few years, consisting of individuals with the necessary experience, competencies, and integrity, as well as the drive to take the BCB Group to its next phase of its evolution. The Management team structure is appropriate for the size, complexity and risk profile of BCB Group.

To assist the Board set and enforce the "tone at the top", Management is subject to, as are the Directors, the *Group Code of Conduct and Ethics* and are appraised yearly by the CEO and the Governance Committee of the Board. Through these measures, the Board assesses how Management conducts the affairs of BCB Group, whether these are consistent with Board-approved strategy and risk management, as well as the principles and values of BCB.

The Board delegates to Management and staff the day-to-day operations of BCB Group. Specific delegation of authorities are outlined in the *Group Delegation of Authority Policy* approved by the Board.

Management from the Three Lines report to the Board and/or Board Committees regularly. This includes in-camera sessions without the CEO present, where necessary. Reporting from all levels of the Three Lines facilitate candid and healthy discussions regarding the areas' risk management and control environment conditions.

Internal controls system and risk management functions (Principle 6)

BCB Group adopted the Three Lines Model, which the Board continues to support and strengthen, when needed. The Three Lines Model, previously known as the Three Lines of Defence, helps BCB Group identify and maintain structures and processes in risk management and internal control environment that best assist BCB Group achieve its objectives.

BCB Group has integrated the Three Lines Model in its governance structure, as illustrated on *Figure 1*, above. To maintain the integrity of the Three Lines Model, the Board ensured necessary safeguards to the independence of risk management functions, specifically the BCB Group's Compliance, Risk, and Internal Audit functions. Reporting lines of these functions are clearly drawn. The responsibilities of these functions as it relates to risk management and internal controls are summarised on *Table 1*, above.

While independence of these functions are paramount, the Board recognizes the size of BCB Group, hence, where appropriate, these risk management functions are encouraged to collaborate to optimise efficiencies and minimise duplication of efforts.



Resourcing of these risk management functions are overseen by the Board or BARC. For example, BARC approval must be obtained before decisions related to the appointment, remuneration, replacement, reassignment, or dismissal of the Head of Internal Audit. As the need arises and where key risk management discussions mandate, as in the case of the BCB Group's maturing of its AML/ATF framework in recent years, the Board ensured adequate and qualified resources in the Compliance, Risk and Internal Audit functions.

Risk monitoring (Principle 7)

The Board has identified key enterprise risks of BCB Group, which are enumerated in the *Group Enterprise Risk Management Framework* approved by the Board. The Board reviewed Management's proposed quantitative and qualitative key risk indicators / metrics under each of the key enterprise risk and approved these to be appropriate for the size, nature and complexity of BCB Group; this is formalized in a *Group Risk Appetite Statement*, which is reviewed annually for appropriateness and relevance with the BCB Group strategy and objectives. To assist the Board and to demonstrate the Board's conviction of a risk-aware culture within BCB Group, the Board ensured that the Compliance and Risk functions are headed by C-suite roles – Chief Strategy and Regulatory Officer ("CSRO") and Chief Risk Officer ("CRO"), respectively.

Risk management methodologies and processes are outlined in relevant key documents approved by the Board, such as the *Group Enterprise Risk Management Framework*, as well as Management-approved procedures, such as the *Group Operational Risk Policy* and *Group Compliance Policy*.

The Board ensures that a stress test is completed annually as part of the annual capital assessment and risk profile ("CARP") process. The Board challenges Management on the adequacy of the stress testing scenarios utilised, including the related assumptions. The Bank uses the six minimum stress scenarios mandated by Basel in measuring the interest rate risk in the banking book ("IRRBB"). For the FY2021 (and for the past few years), the Bank has complied with and submitted on time its CARP document to the Authority. The BCB Group has consistently maintained its capital in excess of stress-test and regulatory capital requirements.

Internal communications (Principle 8)

Over the years BCB Group continues to invest in and improve its governance structures, including an open reporting culture. The Board has seen improvements in risk identification and control / process improvements through self-assessments. In addition, the Second and Third Lines have been strengthened in recent years to augment risk management and internal control environment.

The culture within BCB Group has improved over the years as evidenced by Management's and staff's willingness to report risk incidents in a timely manner. Risk incidents are escalated to the Board or Board Committee, where necessary. As mentioned earlier, the Directors have extensive contact with staff at all levels within the organisation, as needed.

Management consistently and openly communicates to all personnel within BCB Group the Bank's strategy and risk management measures through various channels, including regular town hall meetings (virtually held during the pandemic).

Internal control functions and auditors (Principle 9)

The Board and Management remain responsible for the preparation and fair presentation of financial statements in accordance with applicable standards. To support this, BCB Group maintains sound risk management processes and internal control functions.



The Board, by way of BARC, receives reports from both the Internal Audit function and external auditors, as well as other internal control functions within the BCB Group, such as the Compliance and Risk functions.

The Board evaluated the performance of the external auditors on an annual basis to make an informed decision as to the re-appointment of the current external auditors.

The Board, by way of BARC, established an Internal Audit function within the organisation, rather than outsourcing the function. The Internal Audit function is empowered by BARC through an Internal Audit Charter that outlines its mission and responsibilities. The Board ensures that the Internal Audit function remains independent from Management and its objectivity intact in carrying out its duties.

Remuneration policies and practices (Principle 10)

Compensation adjustments of Management and staff, including those in the internal control functions, are based on annual performance reviews and achievement of objectives. These policies are stated in the *Group Employee Handbook*.

Performance evaluations and remuneration adjustments, if any, of key Management personnel are deliberated in the Governance Committee of the Board.

Know-Your-Structure (Principle 11)

BCB Group does not have a complex structure. The subsidiaries of BCB Group and their operations are well known to the Board. The relationships and links of these subsidiaries are straight-forward.

While the Bank has three licensed subsidiaries – BCB Paragon, BCB Charter, and Bercom, the other subsidiaries financial positions are immaterial to the consolidated BCB Group financial position.

Currently, Management is evaluating the BCB Group structure for potential further simplification.

Special purpose structures or operations in un-regulated jurisdictions (Principle 12)

Where special purpose structures are utilised by the BCB Group, the nature and purpose of each entity was transparently evaluated and communicated with regulatory authorities, where applicable. The Bank only operates in Bermuda, servicing local and international clients, and regulated by the Authority.

Disclosure and transparency (Principle 13)

The Board is committed to transparency. Necessary disclosures are made through publishing *Annual Reports* and *Pillar 3 Disclosures* on the company website.

To demonstrate this commitment further, the Board has decided to publish this Corporate Governance Statement to attest to and report on BCB Group's compliance with sound corporate governance principles.

* * * * *



Appendix A

The corporate governance principles listed below are from the Authority's Corporate Governance Policy (December 2012). These are referred to in this Statement of Corporate Governance according to the principle number below.

- Principle 1 The board has overall responsibility for the bank, including approving and overseeing the implementation of the bank's risk appetite, operational strategy, corporate governance and corporate values. The board is also responsible for providing oversight of senior management and establishing and overseeing key functions, including internal audit, compliance and risk management.
- Principle 2 Board members should be and remain qualified, including through training, for their positions. They should have a clear understanding of their role in corporate governance and be able to exercise sound and objective judgment about the affairs of the bank.
- Principle 3 The board should define appropriate governance practices for its own work and have in place the means to ensure that such practices are followed and periodically reviewed for on-going improvement.
- Principle 4 In a group structure, subject to the authority's consolidated supervision, the board of the parent company has the overall responsibility for adequate corporate governance across the group and ensuring that there are governance policies and mechanisms appropriate to the structure, business and risks of the group and its entities.
- Principle 5 Under the direction of the board, senior management should ensure that the bank's activities are consistent with the business strategy, risk appetite and policies approved by the board.
- Principle 6 Banks should have an effective internal controls system and a risk management function with sufficient authority, stature, independence, resources and access to the board.
- Principle 7 Risks should be identified and monitored on an on-going firm-wide and individual entity basis, and the sophistication of the bank's risk management and internal control infrastructures should keep pace with any changes to the bank's risk profile (including its growth), and to the external risk landscape.
- Principle 8 Effective risk management requires robust internal communication within the bank about risk, both across the organisation and through reporting to the board and senior management.
- Principle 9 The board and senior management should effectively utilise the work conducted by internal audit functions, external auditors and internal control functions.
- Principle 10 Remuneration policies and practices should be consistent with the bank's corporate culture, long-term objectives, strategy and control environment.
- Principle 11 The board and senior management should know and understand the bank's operational structure and the risks that it poses (i.e. "know-your-structure").
- Principle 12 Where a bank operates through special-purpose or related structures or in jurisdictions that impede transparency or do not meet international banking standards, its board and senior management should understand the purpose, structure and unique risks of these operations. They should also seek to mitigate the risks identified (i.e. "understand-your-structure").
- Principle 13 The governance of the bank should be adequately transparent to its shareholders, depositors, other relevant stakeholders and market participants.



REGISTERED ADDRESS:

Bermuda Commercial Bank Limited
34 Bermudiana Road
Hamilton HM 11, Bermuda

MAILING ADDRESS:

Bermuda Commercial Bank Limited
PO Box HM 1748
Hamilton HM GX, Bermuda

GENERAL TELEPHONE & FAX:

TELEPHONE: +1 (441) 295-5678
FACSIMILE: +1 (441) 296-0601

EMAIL & WEBSITE:

ENQUIRIES@BCB.BM
WWW.BCB.BM



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.