BASEL III, PILLAR 3 DISCLOSURES

Bermuda Commercial Bank Limited | September 30, 2022

BCB
BERMUDA COMMERCIAL BANK LIMITED

Table of Contents

Introduction

Background

The information provided in this document relates to Bermuda Commercial Bank Limited ("BCB" or "the Bank") which is incorporated in Bermuda as a limited liability company. It is intended to be read in conjunction with the Annual Audited Financial Statements which includes important details about the Bank and its wholly-owned subsidiaries' (together the "Group") capital adequacy, risk management, and other information. The disclosures for the period ended September 30, 2022 are prepared on a consolidated group basis and are not based upon audited financial statements.

The Bank has a banking licence under the Bank and Deposit Companies Act, 1999 ("BDCA"). These disclosures are solely in the context of the local regulatory requirements and guidelines provided by the Bermuda Monetary Authority ("BMA" or "Authority") under Pillar 3 "Market Discipline of New Capital Adequacy Framework". The Pillar 3 disclosures have been designed to complement the minimum capital requirements in Pillar 1 as well as the Supervisory Review and Evaluation Process ("SREP") in Pillar 2. The accepted aim of Pillar 3 is to promote market discipline by allowing market participants access to information of risk exposures and risk management policies and processes adopted by the Bank.

Frequency

The disclosures in this report are required to be updated on a semi-annual basis and more frequently if significant changes to policies are made. This report has been updated as at September 30, 2022 and all policies disclosed within are effective at this time.

Report Conventions

The disclosures in this report are not based upon audited financial statements and have not been audited by an independent auditor and there is no requirement for this to be done. However, the disclosures have been prepared on a basis consistent with information submitted to the Authority and consistent with information provided for Annual Financial Statements.

Basel III Framework

BCB monitors its capital position against the Basel III framework as implemented by the BMA. Basel III adopts Common Equity Tier 1 ("CET1") capital as the predominant form of regulatory capital as measured by the CET1 ratio. The BMA requires Bermuda banks to maintain minimum capital ratios as follows:

1. CET1 ratio of at least 7.0% of its Risk Weighted Assets ("RWA"), which is inclusive of a minimum CET1 ratio of 4.5% and a Capital Conservation Buffer of 2.5%.
2. Tier 1 capital of at least 8.5% of RWA, inclusive of a minimum Total Capital ratio of 6% and a Capital Conservation Buffer of 2.5%.
3. Total Capital of at least 10.5% of RWA, inclusive of a minimum Tier 1 Capital ratio of 8% and a Capital Conservation Buffer of 2.5%.

The Pillar 2 SREP includes capital ratio add-ons, through which the Authority has prescribed a total minimum capital ratio in excess of the minimum Basel III requirements. The Bank is compliant with the minimum regulatory capital requirements.

The Basel III rules also address the areas of Leverage, Liquidity and Funding. The Authority has adopted a minimum 5% Leverage Ratio calculated as the ratio of Tier 1 Capital to Total Exposure. The Authority has adopted the Liquidity Coverage Ratio ("LCR") with a minimum requirement of 100%. The LCR is designed to ensure that banks have a sufficient stock of unencumbered High-Quality Liquid Assets ("HQLA") to survive a significant liquidity stress scenario lasting 30 days. The LCR is calculated as HQLA divided by total net cash outflows over the period of the next 30 days. Total net cash outflows are calculated in accordance with rules prescribed by the BMA. The Authority has adopted a Net Stable Funding Ratio ("NSFR") with a minimum requirement of 100%. NSFR is defined as the amount of available stable funding relative to the amount of required stable funding, using a 1 year time horizon. The Bank is compliant with the Leverage, LCR and NSFR ratio requirements.

Scope of Application

The capital adequacy framework implemented in Bermuda applies to the Group.

BCB is incorporated in Bermuda with limited liability and has the following wholly-owned subsidiaries which are subject to consolidation requirements under IFRS and under the capital adequacy framework.

Name	Location
BCB Asset Management Limited	Bermuda
Bercom Nominees Limited	Bermuda
VT Strategies Holdings Limited	Bermuda

As at September 30, 2022 all above subsidiaries are included in the Bank's consolidated financial position and results.

The Group financial statements are subject to annual audit, on a consolidated basis, by an independent external audit firm and are published in the Bank's Annual Report together with the independent Auditor's report. Further, in respect to various statutory licenses, the Bank and its subsidiaries are subject to supervisory oversight and onsite inspection by the BMA.

Evolution of the Bank

1969 The Bank is created by an Act of Parliament.

2010 Majority shareholding in the Bank purchased by an investor group through Permanent Investments Limited.

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.

2012 BCB became a wholly-owned subsidiary of Somers Limited and delisted from the Bermuda Stock Exchange.

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 customer service.

2016 The BCB Group of Companies moved into a new location at 34 Bermudiana Road, Hamilton.

2019 BCB celebrated its 50-year anniversary.

2021 The investment company, Provident Holdings Ltd. ("Provident"), purchased the BCB Group of Companies from Somers Limited.

2022 In March BCB sold its licensed trust business and a primary licensed corporate services provider business together with two minor operational subsidiaries. The sale was in line with a renewed strategy to focus on the core banking business in Bermuda.

Risk Management

Risk Management Framework

The Bank is exposed to a wide range of financial and non-financial risks and maintains a comprehensive approach to effectively manage these risks through a defined Enterprise Risk Management Framework ("ERMF"). This framework defines how these risks are categorized and managed to ensure it can achieve its strategic goals whilst protecting the Bank's customers' funds and providing responsible products and services that support the markets in which it operates.

The Bank's ERMF is designed on core principles of maintaining a sound risk culture, delivering effective governance ensuring all risks are clearly understood and appropriately prioritized with a forward-looking approach and the provision of robust monitoring and reporting.

Risk Culture

The fostering of a sound risk culture is a key responsibility of the Bank's Executive Management. This is achieved by establishing and exercising accountability, promoting risk awareness and encouraging a proactive approach to the identification and mitigation of risks. These responsibilities are laid out in the Group governance framework and policies and supported by an established Code of Conduct that prescribes the core values and behavioural expectations of the Group and how these are governed to ensure transparency and integrity standards are maintained by all employees.

A wide range of training is provided on key risk topics to ensure appropriate technical risk skills are developed and maintained at all levels of the organisation whilst also raising awareness of critical risk issues. The Bank also ensures a safe environment for any staff member to confidentially escalate any concerns through provision of a whistleblowing framework. The Bank's risk culture is reinforced through its employee performance management framework and approach to renumeration which incorporates behavioural values.

The Three Lines of Defence

In line with industry standards, BCB has adopted the three lines of defence model which addresses how specific duties relating to risk and control are segregated and coordinated. All employees are responsible for identifying and managing risk within the scope of their role as part of this framework.

First Line of Defence (risk owners): All employees that work within the business units of the Bank. This includes client-facing staff as well as non-client facing support functions (e.g. Operations, Technology and segments of Finance). Employees in the first line of defence are accountable for the risk-taking activities and the results, ramifications and opportunities of those activities; establishing appropriate operating procedures and internal control systems; performing regular assessments or testing of controls; monitoring risk exposures against established appetite; and reporting exceptions and incidents in a timely manner.

Second Line of Defence (risk oversight): Comprises the Risk and Compliance functions that provide guidance to, and oversight of, the first line through the setting of risk policies, limits and processes that ensure adherence to required standards and parameters. Critically this requires identification, measurement, monitoring and reporting of the Group's aggregated risk exposures through the risk governance framework.

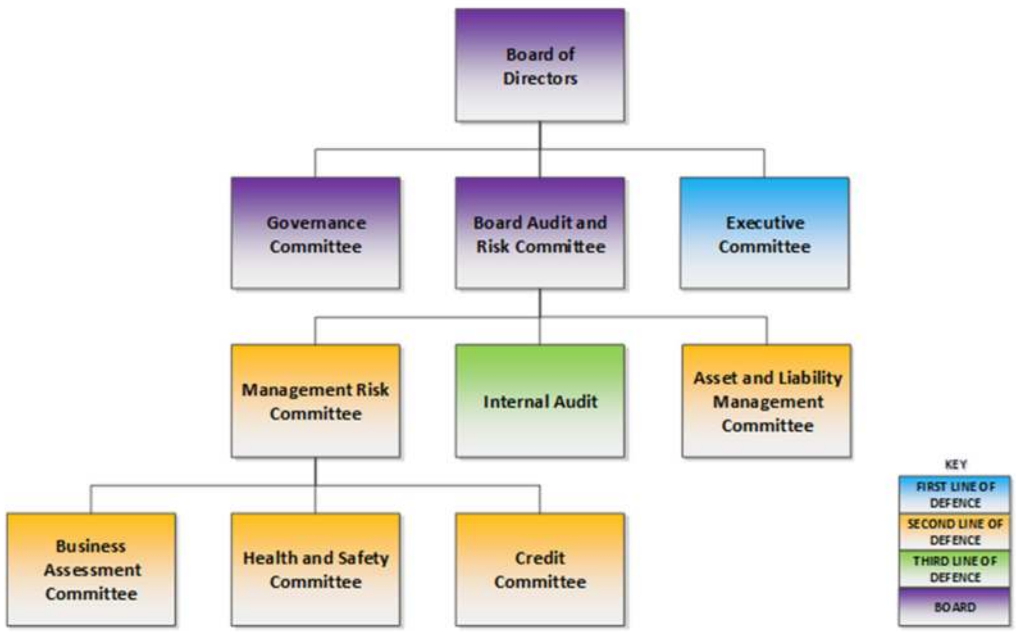
In addition to the above there are other key operational functions that may have a mixture of first and second line of defence duties. These are Legal, Human Resources, segments of Finance and Information Technology.

Third Line of Defence (risk assurance): The Internal Audit (IA) function which provides independent and objective assurance over the adequacy of design and operational effectiveness of the first- and second-line functions.

Governance

BCB's risk governance structure is defined by a clear and robust committee framework that facilitates both top down guidance and oversight as well as bottom-up escalation and aggregation of reporting. This structure defines key areas of authority and responsibility whilst establishing appropriate lines of reporting across the three lines of defence.

BCB's Board Governance and Reporting Structure



Board of Directors (the "Board")

The Board is ultimately responsible for oversight of enterprise-wide risks through establishment and approval of the ERMF and sets the 'tone from the top' with regards to risk management expectations and requirements. In doing so it sets BCB's risk appetite and defines the underlying governance structure that cascades authority and accountability to meet the requirements of this framework.

The Board reviews the ERMF and the risk appetite statement at least annually to confirm that it remains fit for purpose and aligned to the evolving strategic and macroeconomic environment in which BCB operates.

The Board has delegated certain risk management oversight responsibilities to the following Group Board Committees. The Group Board approves and reviews the Terms of Reference for such Committees.

The Board Audit and Risk Committee ("BARC")

BARC acts as the primary committee under the Board for oversight of BCB's adherence to the ERMF. It maintains broad responsibility over matters relating to the Group's risk exposure, including definition, measurement, assessment, policy setting, and risk mitigation strategies. It translates the Board's 'tone from the top' and sets the expectations and requirements for risk management by BCB's Executive Management team and the underlying management committees.

The Governance Committee ("GC")

GC's remit is to oversee all Human Resources matters, policies and procedures and any other matters concerning Employees and management, including the appointment of members of the Group Board. It is responsible for recruitment, retention decisions, remuneration and compensation decisions.

Below these Board level committees are a series of management level committees that further divide responsibility and oversight within the ERMF.

Executive Committee ("EXCO")

EXCO is comprised of the Chief Executive Office ("CEO"), Chief Financial Officer ("CFO"), Chief Risk Officer ("CRO"), Chief Strategy & Regulatory Officer ("CSRO"), General Counsel & Head of Regulatory Compliance ("GC") and the Credit & Lending Risk Consultant of the Group (together "Executive Management") and represents the most senior first line of defence forum. It is responsible for the oversight and management, including day-to-day operations and administration, of the Group, within the framework of the Group's policies, terms of reference and such other directives as the Group Board may determine. EXCO develops annual business and capital plans, budgets and other strategic initiatives for recommendation to and consideration by the Group Board and, to the extent approved by the Group Board, monitors and implements these plans, budgets and strategies;

Asset and Liability Management Committee ("ALCO")

ALCO is the primary management committee responsible for oversight and management of the Group's treasury and market risk arising from management of BCB's assets and liabilities.

ALCO also monitors asset deployment limits, including investment limits, in order to monitor and manage the exposure of the portfolio to liquidity, interest rate and currency risk, and to ensure that the assets in the Group's balance sheet are consistent with its risk appetite.

Management Risk Committee ("MRC")

MRC is the primary second line of defence risk committee. It maintains a broad remit with responsibility for direct oversight of all financial and non-financial risks. In doing so, it plays a critical role in the implementation of the ERMF through measurement and reporting on adherence to parameters defined in BCB's risk appetite statement. It facilitates a forward-looking assessment of Top and Emerging Risks and challenges first line of defence to ensure it has robust action plans to mitigate risks as they arise.

MRC maintains responsibility for oversight of the Bank's Operational Risk Management Framework ("ORMF"), including Risk Control Self Assessments ("RCSAs"), controls testing and incident management and approves risk policies and procedures.

Credit Committee ("CC")

CC is a sub-committee of MRC authorised to maintain primary oversight of BCB's client related credit risk. This includes approval of new money and renewal of existing limits in line with delegated authorities and to review and approve loan provisions (expected credit losses).

Business Assessment Committee ("BAC")

BAC is a sub-committee of MRC authorised to provide guidance and/or provide approvals in relation to the opening or continuation of certain higher risk client account relationships.

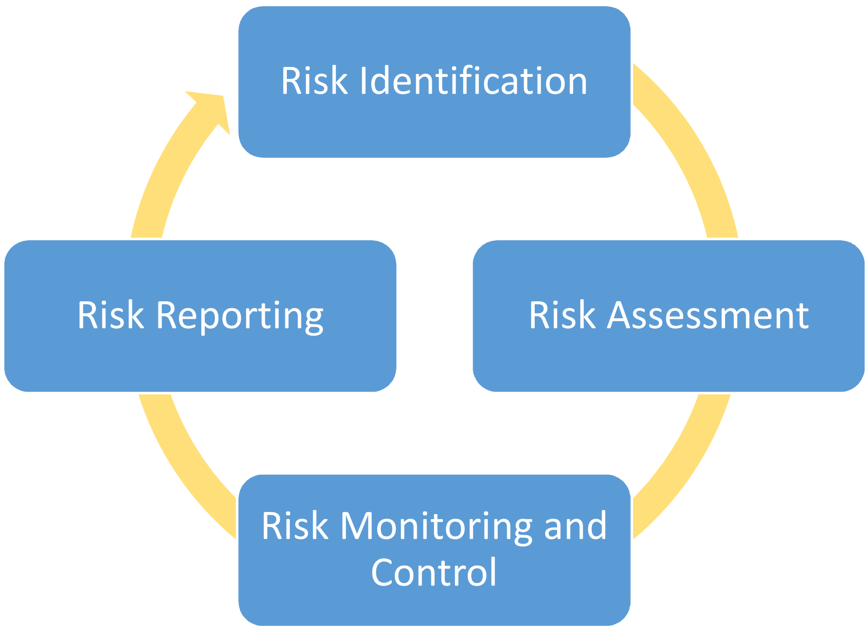
Health and Safety Committee ("HSC")

HSC is charged with ensuring BCB adheres to the requirements of statutory Health and Safety laws and ensuring best practices are maintained to support the welfare of the Group's employees.

Risk Management Lifecycle

BCB's risk management process is an ongoing cycle defined by the following key steps:

(i) **Risk Identification**



Risk identification is initially driven by the ERMF but subject to constant review through the risk governance structure which takes into account the evolving strategy of BCB, as well as the dynamic domestic and macroeconomic environment.

The CEO develops a written strategic plan with input from business units and risk management. The Group Board evaluates and approves the strategic plan and monitors Executive Management's efforts to implement it on an ongoing basis. This strategy both informs and adheres to the ERMF and any of its components, such as risk appetite, are subsequently updated to reflect the strategy.

The ERMF's governance committees utilise a forward-looking lens in consideration of the internal and external risk landscape. Identification of top and emerging risks to BCB, its strategy delivery and its operations guides enterprise risk management efforts and associated actions and resource allocation are a central component of the oversight of enterprise-wide risks provided by MRC.

Underneath the formal governance structure, BCB's risk culture requires, enables and encourages all employees to identify and communicate or escalate any potential adverse risk events, incidents, concerns and any control improvement recommendations they may have identified and considered necessary before the event adversely affects the achievement of any Group objectives.

For the period ending 30th September 2022 BCB recognized 10 primary risk categories:

Risk Name	Definition
Credit and Counterparty risk	The risk to current or anticipated earnings or capital arising from an obligor's failure to meet the terms of any contract with the Group or otherwise perform as agreed.
Market and Interest Rate Risk	Market Risk is the risk of loss in both on and off balance sheet positions arising from movements in market prices. Interest Rate Risk is the risk to earnings or capital arising from movements of interest rates.
Operational Risk	Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. Operational Risk is an enterprise-wide risk, but has a subset taxonomy of its own including but not limited to legal and information technology and security risks, which include cybersecurity.
Liquidity Risk	Liquidity risk is the risk that the Group is unable to meet short term financial demands.
Funding Risk	The risk associated with the impact on a project's cash flow from higher funding costs or lack of availability of funds.
Regulatory Compliance and AML/ATF Risk	The risk to current or anticipated earnings or capital arising from violations of laws, rules, or regulations, or from nonconformance with prescribed practices, internal policies and procedures, or ethical standards.
Conduct Risk	The risk that the Group or its employees conduct themselves in such a way that leads to fines or sanctions or attracts negative media attention to the Group.
Capital Risk	Capital risk is the risk that the Bank breaches regulatory capital limits resulting in fines, sanctions or a restriction of its license by the BMA resulting in reputational risk to the Bank.
Strategic and Business risk	The risk that strategic business decisions prove to be ill founded or poorly executed; or that there is a failure to anticipate and react to changes in the general economic environment.
Reputational Risk	Reputational risk is the risk of loss resulting from damages to a firm's reputation, which may manifest in the inability to attract new business, lost revenue, increased operating, capital or regulatory costs, or the destruction of shareholder value.

(ii) Risk Assessment

BCB's tolerance for risk is defined in a Risk Appetite Statement ("RAS"). The RAS is the Board's approved articulation of the level of risk that BCB is prepared to accept in the conduct of its business. It forms the basis for ongoing dialogue between management and the Board regarding BCB's current and evolving risk profile, facilitating strategic and financial decisions to be made on an informed basis.

RAS creation begins with an assessment of Risk Capacity. This is derived by assessing the maximum level of risk the Group can assume before breaching constraints determined by regulatory or statutory requirements, its obligations to depositors, other customers, the shareholder and other stakeholders. Using the framework outlined within the ERMF, BCB then derives its Risk Appetite by assessing the level and types of risk that it is willing to assume, within its risk capacity, in pursuit of its strategic objectives and business plan. This includes identifying and assessing quantifiable risk limits and parameters, along with qualitative risk statements.

The RAS forms an important output and risk management tool of the Group's ERMF. To derive the risk appetite statement, careful consideration is given to the buffer between the Group's risk appetite and its risk capacity, to ensure that risk appetite does not exceed risk capacity and that the buffer between the two is appropriate. Through the RAS, specific quantitative performance metrics allow for classification of adherence to defined tolerance levels using Red-Amber-Green (RAG) thresholds and the MRC utilizes a framework that monitors these metrics on a monthly basis

(iii) Risk Monitoring & Control

Risks are monitored constantly across the ERMF. The process of measuring, monitoring BCB's enterprise-wide risks is managed independently from business unit managers that undertake risk-generating activities as per the three lines of defence model outlined above. All management Committees within the governance structure meet at least monthly, with escalation and formal updates provided to BARC and the Board, where required, at least quarterly unless more specific intervening updates are required.

MRC uses a rolling 3-month trend within its assessment for both RAS and Risk Threat RAG rating to ensure trends are monitored. Where required, and at minimum for all risks that carry a High or Moderate residual risk rating, a clear set of remedial or mitigating management actions are mandatory, the robustness of which are subject to challenge by MRC committee members.

MRC utilizes a Risk Dashboard to ensure that Risk Management Actions are clearly articulated and progress towards agreed milestones or delivery dates is effectively monitored.

ALCO reviews market and interest rate risks, liquidity & funding risks, and capital risk management reports and monitors compliance with applicable limits. In addition, ALCO assists with the development of these risk mitigation action plans and monitors their implementation with additional oversight provided by MRC.

Policies and Procedures

BCB maintains a comprehensive policy and procedure framework that ensures adherence to the required risk standards. BCB's policies set out control objectives, principles and other core requirements for the activities of the Group and the underlying procedures articulate the process through which these requirements are met and the responsibilities therein.

Stress Testing

The purpose of stress and scenario testing is to quantify exposure to extreme and unusual risk occurrences and represent important elements of the Bank's ongoing risk management processes. The Bank's objective in stress and scenario testing is to review probable outcomes of plausible scenarios and drive management actions to prevent or reduce the impact of these scenarios arising. The results of the stress testing are embedded in the strategic planning process and risk appetite to ensure that sufficient capital, funding and liquidity are available at all times to support the Bank's growth plans, as well as to cover its regulatory requirements at all times and under varying circumstances. The Bank's programme also assesses credit and market risks to understand specific weaknesses in the solvency of the Bank. Further, relevant stress scenarios are also factored into the group wide stress scenarios. The feedback and output aid the modelling of a comprehensive control framework that is transparent and responsive to rapidly changing market conditions.

Stress testing is reviewed on at least an annual basis and more often in the event of a material change in capital, liquidity or funding. Ongoing stress testing and scenario analysis outputs are used to inform the formal assessments and determination of required buffers, the strategy and planning for capital and liquidity management and the setting of risk appetite limits.

The Board, BARC, MRC and EXCO have engaged in a number of exercises which have considered and developed standard and ad-hoc stress-test scenarios. The output analysis enables management to evaluate the Group's capital, funding and liquidity resilience in the face of severe but plausible risk shocks. The stress tests have included a range of Group-wide, multi-risk category stress tests, generic and idiosyncratic financial shocks, and operational risk scenario analyses assessing the impact of these stresses on the Bank's short term liquidity in terms of LCR and long term funding needs as measured by NSFR. Some of these scenarios include, but are not limited to, negative rate shock changes, movements in retail and non-operational deposit balances, and movements in HQLA and investment portfolio. Stress testing is an integral part of the adequacy assessment processes for liquidity funding and capital, and the setting of tolerances under the annual review of Group risk appetite.

The Bank has implemented a stress testing programme, which incorporates a reverse stress testing approach, with stress testing mandated at least annually. The following provides a summary outline of the Bank's stress scenarios and represents minimum standard criteria addressing:

- Parallel basis point interest rate decline
- Tiered credit rating downgrade
- Parallel basis point fixed income securities rate shock (Bonds)
- Pricing decline in equities and funds
- Increase in investment impairments
- Default of a Related Party exposures
- Deposit withdrawal by top depositors
- Major cyber attack
- Major regulatory fine/sanction
- IRRBB requirements

These minimum criteria are subject to review annually as a part of the Capital Assessment and Risk Profile ("CARP") exercise. Additionally, there are a number of Stress Testing scenarios conducted to assess its potential impact to the Bank's regulatory capital, LCR and NSFR, and the results of the stress tests are reviewed by ALCO at each regular meeting.

(iv) Risk Reporting

Accurate, timely and consistent management information is a cornerstone of an effective ERMF. In line with the governance structure laid out within the ERMF, BCB generates and aggregates risk reporting in a hierarchical manner through the first line of defence, into the committee structure and ultimately to the BARC and Board.

All identified and assessed risks are aggregated through the MRC which enables consolidation so that there is a consistent and holistic view of the enterprise-wide landscape. This also ensures a full awareness by Executive Management and assessment of contagion of risk across risk segments to be considered.

The Chief Risk Officer (as Chair of the MRC) and the Chief Strategy and Regulatory Officer (with responsibility for oversight of Compliance and Operational risk) present appropriate reports on enterprise risks to the BARC on at least a quarterly basis.

Key Prudential Metrics

The table below provides an overview of the Bank's key prudential regulatory metrics for the last 5 quarters.

Table 1: Key Metrics (KM1)

		a	b	c	d	e
		30-Sep-22	30-Jun-22	31-Mar-22	31-Dec-21	30-Sep-21
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	67,251	69,337	72,494	78,948	82,013
1a	Fully loaded ECL accounting model	67,251	69,337	72,494	78,948	82,013
2	Tier 1	67,251	69,337	72,494	78,948	82,013
2a	Fully loaded accounting model Tier 1	67,251	69,337	72,494	78,948	82,013
3	Total capital	67,251	69,337	72,494	78,948	82,013
3a	Fully loaded ECL accounting model total capital	67,251	69,337	72,494	78,948	82,013
	Risk-weighted assets (amounts)					
4	Total risk-w eighted assets (RWA)	249,012	237,388	247,334	270,246	303,628
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	27.0%	29.2%	29.3%	29.2%	27.0%
5a	Fully loaded ECL accounting model CET1 (%)	27.0%	29.2%	29.3%	29.2%	27.0%
6	Tier 1 ratio (%)	27.0%	29.2%	29.3%	29.2%	27.0%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	27.0%	29.2%	29.3%	29.2%	27.0%
7	Total capital ratio (%)	27.0%	29.2%	29.3%	29.2%	27.0%
7a	Fully loaded ECL accounting model total capital ratio (%)	27.0%	29.2%	29.3%	29.2%	27.0%
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.5%	2.5%	2.5%	2.5%	2.5%
9	Countercyclical buffer requirement (%)	0.0%	0.0%	0.0%	0.0%	0.0%
10	Bank D-SIB additional requirements (%)	0.0%	0.0%	0.0%	0.0%	0.0%
11	Total of bank CET1 specific buffer requirements (%)	2.5%	2.5%	2.5%	2.5%	2.5%
12	CET1 available after meeting the bank's minimum capital requirements (%)	20.0%	22.2%	22.3%	22.2%	20.0%
	Basel III Leverage Ratio					
13	Total Basel III leverage ratio measure	591,883	559,426	624,499	569,786	642,352
14	Basel III leverage ratio (%)	11.4%	12.4%	11.6%	13.9%	12.8%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%)	11.4%	12.4%	11.6%	13.9%	12.8%
	Liquidity Coverage Ratio					
15	Total HQLA	204,398	218,982	226,517	196,576	206,309
16	Total net cash outflow	102,093	126,103	107,983	70,883	95,225
17	LCR ratio (%)	200.2%	173.7%	209.8%	277.3%	216.7%
	Net Stable Funding Ratio					
18	Total available stable funding	340,378	313,938	333,289	350,987	376,669
19	Total required stable funding	250,520	240,186	255,714	256,377	305,632
20	NSFR ratio (%)	135.9%	130.7%	130.3%	136.9%	123.2%

All amounts in '000's

As at September 30, 2022 the Bank is compliant with all minimum regulatory requirements.

Capital and Risk Weighted Assets

Capital Management

Sufficient capital must be in place to support business activities, according to both the Bank's internal assessment and the requirements of the BMA.

BCB's aim is to maintain a sound and optimal capital base that supports the risks inherent in its business model and the markets in which it operates. The Bank's approach to the management of capital focuses on ensuring that its capital base meets the current and future requirements to achieve strategic objectives and that it meets and exceeds prevailing regulatory requirements.

The capital management process is based on the following steps:

- The monitoring of the regulatory capital and ensuring that minimum regulatory requirements and established internal targets are met.
- The estimation of capital requirements based on ongoing forecasting and strategic planning.
- Delivery of robust Capital Risk Management Policy document.
- The regular reporting to Executive Management, the Board and the BMA.

A critical element of the capital risk management framework is completion of a robust CARP document. The CARP's primary purpose is to inform the Board of the current and forward-looking assessment of the Bank's core risks and the required level of capital to support these risks. As such, the CARP is an integral part of the Bank's capital planning and budgeting process as well as its governance and strategic decision-making process. It is also a requirement of the BMA as part of its Supervisory Assessment Process within the Framework for Regulatory Capital Assessment.

A CARP has 4 core components: (1) the Pillar 1 capital requirements, which are prescribed; (2) the Pillar 2 requirements which requires assessment of specific risks and proposes appropriate capital adjustments to reflect these risks and considers the resulting capital adequacy over a 3 year projection; (3) Stress testing and scenario analysis for a range of challenging yet plausible situations that might impact projected capital adequacy, and; (4) Management actions arising from the results of the assessment.

BCB's CARP is presented to BARC before presentation to the Board for challenge and approval and then submitted to the BMA. The BMA assesses the Bank's CARP to determine adequacy against capital standards under the Basel framework and uses this document *inter alia* to determine any required capital add-ons that inform the required regulatory minimums set by the BMA for BCB.

Responsibility for overseeing the capital risk management framework is vested with ALCO and MRC.

Capital Structure

The capital structure of the Bank comprises of Tier 1 capital which includes share capital, retained earnings, share premium, less any goodwill and intangibles. The Bank does not carry any Tier 2 capital.

Capital ratios for Tier 1 and Total Capital of BCB as at September 30, 2022 are set out below.

Table 2: Composition of regulatory capital (CC1

		a	b
		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	38,939	(c)
2	Retained earnings	28,312	(d)
6	**Common Equity Tier 1 capital before regulatory deductions**	**67,251**	
	Common Equity Tier 1 capital regulatory adjustments		
29	**Common Equity Tier 1 capital (CET1)**	**67,251**	
	Additional Tier 1 capital: regulatory adjustments		
45	**Tier 1 capital (T1= CET1 + AT1)**	**67,251**	
58	**Tier 2 capital (T2)**	-	
59	**Total regulatory capital (TC = T1 + T2)**	**67,251**	
60	**Total risk-weighted assets**	**249,012**	
	Capital ratios and buffers		
61	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	27.0%	
62	**Tier 1 (as a percentage of risk-weighted assets)**	27.0%	
63	**Total capital (as a percentage of risk-weighted assets)**	27.0%	
64	**Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)**	2.5%	
65	**Of which: capital conservation buffer requirement**	2.5%	
68	**Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.**	20.0%	

All amounts in '000's. The references (c) and (d) identify balance sheet components that are used in the calculation of regulatory capital – refer to Table 3

As at September 30, 2022 the CET1, Tier 1 and Total Capital ratios of the Bank all stood at 27.0%. The CET1 available after meeting the Bank's combined 4.5% minimum capital and 2.5% Capital Conservation Buffer requirements stood at 20.0%.

BCB's capital ratios continue to comply with both the regulatory minimum capital ratios required by the BMA, and the internal minimum capital requirement.

Table 3: Reconciliation of regulatory capital to balance sheet (CC2)

	a	b	c
	Balance sheet as in unpublished financial statements	Under regulatory scope of consolidation	Reference
	30-Sep-22	30-Sep-22	
Assets			
Cash and cash equivalents	268,955	168,867	
Interest receivable	2,110	2,110	
Other assets	1,591	1,591	
Loans and advances to customers	47,826	47,826	
Financial investments	254,024	354,111	
Derivative financial instruments	271	271	
Property, equipment and computer Software	12,431	12,431	
Total assets	**587,207**	**587,207**	
Liabilities			
Deposits	525,443	525,443	
Customer drafts payable	1	1	
Derivative financial instruments	290	290	
Other liabilities	3,523	3,523	
Interest payable	3,046	3,046	
Total liabilities	**532,303**	**532,303**	
Shareholders' equity			
Capital Stock	16,808	16,808	
Of which: amount eligible for CET1	16,808	16,808	(c)
Share Premium	22,131	22,131	
Of which: amount eligible for CET1	22,131	22,131	(c)
Retained Earnings	28,312	28,312	(d)
Accumulated OCI	(12,347)	(12,347)	
Total shareholders' equity	**54,904**	**54,904**	

All amounts in '000's. The references (c) and (d) identify balance sheet components that are used in the calculation of regulatory capital – refer to Table 2

The Bank's Shareholder Equity decreased by $15,592k compared to March 31, 2022 due to unrealized losses incurred in the investment book, the sale of subsidiaries and operating losses for the period. The regulatory capital as at September 30, 2022 remained above regulatory and internal minimum requirements.

Table 4: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (LI1) at September 30, 2022 are as follows:

	a	b	c	d	e	g
			Carrying values of items:			
	Carrying values as reported in unpublished financial statements	Carrying values under scope of regulatory consolidation	Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Not subject to capital requirements or subject to deduction from capital
Assets						
Cash and cash equivalents	268,955	168,867	168,867	-	-	
Interest receivable	2,110	2,110	2,110	-	-	-
Other assets	1,591	1,591	1,591	-	-	-
Loans and advances to customers	47,826	47,826	47,826	-	-	-
Financial investments	254,024	354,111	354,111	-	127	-
Derivative financial instruments	271	271	-	271	-	-
Property, equipment and computer software	12,431	12,431	12,430	-	-	-
Total Assets	**587,207**	**587,207**	**586,935**	**271**	**127**	-
Liabilities						
Deposits	525,443	525,443	-	-	-	525,443
Customer drafts payable	1	1	-	-	-	1
Derivative financial instruments	290	290	-	-	-	290
Other liabilities	3,523	3,523	-	-	-	3,523
Interest payable	3,046	3,046	-	-	-	3,046
Total Liabilities	**532,303**	**532,303**	-	-	-	**532,303**

All amounts in '000's

The main differences between the carrying values under regulatory scope and as reported in the financial statement are due to:

- the reporting of HQLA maturing in the next 30 days is included within Cash & Cash Equivalents rather than under Financial Investments as presented in the financial statements;
- securitisations are included under credit risk and securitisation risk; and
- derivatives are included under market risk and counterparty credit risk.

Table 5: Main sources of differences between regulatory exposure amounts and carrying values in financial statements (LI2)

		a	b	c	d	e
			Items subject to:			
		Total	Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	587,207	586,935	127	271	-
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-	-
3	Total net amount under regulatory scope of consolidation	587,207	586,935	127	271	-
4	Off-balance sheet amounts	7,969	4,400			271
9	**Exposure amounts considered for regulatory purposes**	**595,176**	**591,335**	**127**	**271**	**271**

All amounts in '000's

The regulatory carrying amount excludes items subject to capital deductions and items not subject to capital requirements. Other differences are due to items being included in multiple risk framework categories and some items in the credit risk framework being excluded from the total as these are not included for regulatory purposes, e.g. goodwill.

Risk Weighted Assets ("RWAs")

RWAs are a risk-based measure of exposures used in assessing overall capital usage of the Bank. When applied against eligible regulatory capital, the Bank's overall capital adequacy is determined. RWAs are calculated in accordance with BMA Prudential Standards. The Bank's total RWAs as at September 30, 2022 is set out below.

Table 6: Overview of Risk Weighted Assets (OV1)

		a	b	c
		RWA		Minimum capital requirements
		30-Sep-22	30-Jun-22	30-Sep-22
1	**Credit risk (excluding counterparty credit risk)**	**222,548**	**209,978**	**17,804**
2	Of which: standardised approach (SA)	222,548	209,978	17,804
6	**Counterparty credit risk (CCR)**	**276**	**285**	**22**
7	Of which: standardised approach for counterparty credit risk	276	285	22
16	**Securitisation exposures in the banking book**	**127**	**130**	**10**
19	Of which: securitisation standardised approach (SEC-SA)	127	130	10
20	**Market risk**	**805**	**1,740**	**64**
21	Of which: standardised approach (SA)	805	1,740	64
24	**Operational risk**	**25,256**	**25,256**	**2,020**
27	**Total**	**249,012**	**237,388**	**19,921**

All amounts in '000's

The Bank has adopted the Basic Indicator Approach as set out in the Basel Capital Accord for the purposes of calculating its risk capital requirements. Under this approach gross income serves as a proxy for the scale of business operations and thus the likely scale of operational risk exposure within each of these business lines and the capital charge for operational risk is calculated based upon gross losses over the preceding three year period.

Leverage Ratio

The Basel III framework introduced the leverage ratio as a non-risk based measure to supplement the risk based capital requirements. As at September 30th, 2022 the leverage ratio of the Bank was 11.4% versus the prior quarter ratio of 12.4%, each of these are well in excess of the BMA leverage ratio framework requirement of minimum 5.0%.

The below table provides a reconciliation of the accounting assets and the leverage denominator.

Table 7: Summary comparison of accounting assets vs. leverage ratio exposure (LR1)

		30-Sep-22
1	Total consolidated assets as per financial statements	587,207
4	Adjustments for derivative financial instruments	276
6	Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	4,400
8	**Leverage ratio exposure measure**	**591,883**

All amounts in '000's

Table 8: Leverage ratio common disclosure template (LR2)

		a	b
		30-Sep-22	**30-Jun-22**
	On-balance sheet exposures		
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	587,207	554,938
3	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**587,207**	**554,938**
	Derivative exposures		
4	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	271	282
5	Add-on amounts for PFE associated with *all* derivatives transactions	5	3
11	**Total derivative exposures**	**276**	**285**
	Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	7,464	6,401
18	(Adjustments for conversion to credit equivalent amounts)	(3,064)	(2,198)
19	**Off-balance sheet items**	**4,400**	**4,203**
	Capital and total exposures		
20	**Tier 1 capital**	67,251	69,337
21	**Total exposures**	591,883	559,426
	Leverage ratio		
22	**Basel III leverage ratio**	11.4%	12.4%

All amounts in '000's

Note: The basis for Leverage ratio disclosures is as at quarter end.

Credit Risk

Overview

Credit or Counterparty Risk refers to the risk that a counterparty or associated party with whom the Bank has contracted to meet its obligations might fail to discharge their contractual obligations as they fall due causing a loss of the Bank's assets through the consequent reduction in earnings and/or shareholder equity. Credit risk across the Group arises mainly through lending, investment and treasury activities. This risk exists where there is any transfer of value from the Bank to other parties. The Bank manages and controls credit risk by setting policy limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank is primarily exposed to credit risk through:

(i) the placement of funds with other banks. The size of these deposits is limited and controlled by both the Bank's internal risk policies and by the Large Exposure limits stipulated by the BMA. All counterparty banks must be approved by the Bank's ALCO. The maximum amount that may be deposited with any single bank or money market fund is governed by a number of controlling variables within the Bank's ALM Policy including, *inter alia*, the external credit ratings for that bank. Counterparty banks with a rating lower than single-A are not generally used to place deposits. These limits will be reviewed periodically and are adjusted as the capital of the Bank changes or if the rating of a counterparty bank falls below the single-A level.

(ii) a portfolio of financial investments.

(iii) a portfolio of lending facilities extended to personal and commercial customers.

Independent oversight of credit risk is provided by the Risk department, headed by the Chief Risk Officer ("CRO"), who holds overall responsibility for the management of the credit policy and processes. The Bank's credit risk management framework is underpinned by a thorough set of policies prescribed in a comprehensive Credit Manual, under which various procedures and processes deliver sound lending practices. These are continuously updated and enhanced to ensure the management of credit risk is aligned to evolving strategic dynamics, local regulations and/or international banking and lending standards. The Bank consistently conforms to all statutory, regulatory, policy and prudential requirements in maintaining an adequately controlled credit risk environment which includes:

- clear definition on the Bank's appetite for assuming credit risk in line with its stated strategy. This is provided within the Board approved Risk Appetite Statement which defines all risk capacity, tolerance and appetite permissible under the Bank's ERMF;
- effective segregation between first line of defence owners of credit risk and under-writing units and the independent second line of defence function. The Bank's Treasury department manages the counterparty bank relationships within the provisions of the ALM Policy. Counterparty risk is reviewed by ALCO and MRC.
- well defined criteria for approving new exposures and renewing existing limits and establishing appropriate levels of authority for approving exposures, reflective of their size and complexity. Credit approval authority for loans are specified under the Bank's Delegation of Authority Policy. No credit approval authorities are maintained in the first line of defence and only the CRO and CEO maintain individual credit approval authorities with exposures in excess of these specified individual limits requiring the authorization of the Bank's CC.
- the Chief Strategy and Regulatory Reporting Officer has responsibility for the Group's Compliance function and is a member of CC ensuring credit and compliance risks are aligned in assessing the overall profile of any borrower;
- effective administration processes and reporting systems to ensure ongoing awareness and oversight of credit risk metrics, including management of exceptions, delinquencies and indicators of credit risk profile deterioration; and
- policies that ensure that the Bank's credit decisions are free of conflicts of interest, commercially prudent, and that the terms and conditions attached to any lending, and in particular Related Party situations, are conducted at a fully arm's length basis.

All credit exposures undertaken by the Bank are risk rated during the process of approval in accordance with an approved risk ratings schedule. In accordance with policy, all credit exposures shall be subject to periodic reviews, at minimum annually, and upon each review the risk ratings shall be considered for update.

Credit Risk Concentrations

Counterparty concentration risk is the risk posed to a financial institution by any single or group (where two or more individual counterparties are connected with each other in such a way that the financial soundness of any of them may affect the financial soundness of the other) of exposures which have the potential to produce losses.

The Bank's internal policies are designed to create a well-diversified and controlled balance sheet by limiting investments or placement by counterparty, currency, geography and industry. The Bank remains compliant with the Large Exposure limits required by the BMA and places no more than the equivalent of 25% of its capital with any single counterparty without the prior approval of the Authority.

The management of credit concentration risk is supplemented by the Bank's Related Party Transaction Policy and related credit guidelines, which require that credit facilities to entities that are linked or affiliated through common ownership or management to be aggregated for large exposure reporting purposes.

Sectoral Concentration

When approving and monitoring credit facilities the Bank is considerate of the location of both the borrower and any underlying asset in the context of both sectoral concentration and accessibility to borrower and collateral.

Country Risk

In addition to monitoring and controlling individual counterparty concentrations, and in accordance with requirements set by the Bank's Risk Appetite Statement, the Bank may conduct periodic monitoring of the aggregate composition of its credit portfolio to ensure no excessive concentrations to individual (or linked) economic sectors, geographical areas, jurisdictions, regions, or currencies exists.

Credit Risk Exposures

The table below details the BCB consolidated regulatory credit risk exposures as at September 30, 2022 based upon the BMA Revised Framework for Regulatory Capital Assessment guidance.

Table 9: Credit quality of assets (CR1)

		a	b	c	d	e	f	g
		Carrying values of		Allowances/ impairments	Of which ECL accounting provisions for credit losses on SA exposures		Of which ECL accounting provisions for credit losses on IRB exposures	Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category or Specific	Allocated in regulatory category or General		
1	Loans	0	47,851	(25)	(25)	-	-	47,826
2	Debt securities	6	328,741	-	-	-	-	328,747
3	Other investments	-	25,365	-	-	-	-	25,365
4	Off-balance sheet exposures	-	7,464	-	-	-	-	7,464
5	**Total**	**6**	**409,420**	**(25)**	**(25)**	**-**	**-**	**409,401**

All amounts in '000's

Impairment Allowances for Debt Securities are included within the Accumulated Other Comprehensive Income ("OCI") in accordance with IFRS 9.

A loan is categorized as defaulted if the:

- Asset/Loan is more than 90 days past due; or
- Asset/Loan presents a risk of not being paid back in full (regardless of the outstanding amount and past due days) due to significant credit impaired incidents noted by the bank.

For the purpose of debt instruments in the investment portfolio, the securities that failed to make principal payments are considered as defaulted.

Table 10: Breakdown by Geographical Area

Asset classes	North & South America	Europe	Asia & Middle East	Other	Total
Cash and cash equivalents	196,973	71,981	-	-	268,955
Interest receivable	1,348	669	88	5	2,110
Other assets	1,591	-	-	-	1,591
Loans and advances to customers	46,726	-	-	1,100	47,826
Financial investments	165,351	83,328	5,345	-	254,024
Derivative financial instruments	271	-	-	-	271
Property, equipment and computer Software	12,431	-	-	-	12,431
Total	**424,691**	**155,978**	**5,433**	**1,105**	**587,207**

All amounts in '000's

Table 11: Breakdown by Industry

Asset classes	Consumer Staples	Energy	Financials	Industrials	Information Technology	Materials	Other	Retail	Real Estate	Utilities	Total
Cash and cash equivalents	-	-	268,955	-	-	-	-	-	-	-	**268,955**
Interest receivable	307	428	950	2	119	55	36	22	99	91	**2,110**
Other assets	-	-	-	-	-	-	1,591	-	-	-	**1,591**
Loans and advances to customers	-	-	18,459	7,780	-	-	8,392	10,194	3,000	-	**47,826**
Financial investments	25,395	22,916	157,434	-	13,305	5,692	25,365	-	-	3,917	**254,024**
Derivative financial instruments	-	-	271	-	-	-	-	-	-	-	**271**
Property, equipment and computer Software	-	-	-	-	-	-	12,431	-	-	-	**12,431**
Total	**25,702**	**23,344**	**446,069**	**7,783**	**13,425**	**5,747**	**47,814**	**10,216**	**3,099**	**4,008**	**587,207**

All amounts in '000's

Table 12: Breakdown by Residual Maturity

Asset classes	Within 1 Month	1-3 Months	3-12 Months	1 - 5 Years	Over 5 Years	ECL	Total
Cash and cash equivalents	227,011	41,943					**268,955**
Interest receivable	701	805	478	104	21		**2,110**
Other assets	989	297	305				**1,591**
Loans and advances to customers	1,269	-	9,013	26,931	10,639	(25)	**47,826**
Financial investments	-	6,983	102,704	94,675	49,662		**254,024**
Derivative financial instruments	2	269	-	-	-		**271**
Property, equipment and computer software		-		231	12,200		**12,431**
Total	**229,972**	**50,298**	**112,500**	**121,941**	**72,522**	**(25)**	**587,207**

All amounts in '000's

Table 13: Credit impaired exposures by Geographic areas (Stage 3 investment positions)

All amounts in '000's

Table 14: Credit impaired exposures by Industry (Stage 3 investment positions)

All amounts in '000's

Table 15: Age analysis of past due exposures

Past due age analysis:	0-30 days	30-60 days	60-90 days	>90 days	Total
Loans	-	-	-	-	-
Debt securities	-	-	-	6	6
Total	**-**	**-**	**-**	**6**	**6**

All amounts in '000's

The table below presents the mapping between the primary external credit assessment institutions ("ECAI") used by the Bank and the credit quality steps assigned to determine the risk-weightings to calculate the credit risk requirement for respective rated counterparties. Where no external rating is available the exposures are assigned risk weightings as prescribed in the BMA's regulatory guidance.

Table 16: ECAI Mapping (CRD)

Credit quality step	S&P assessment	Moody's assessment	Fitch's assessment
Step 1	AAA to AA-	Aaa to Aa3	AAA to AA-
Step 2	A+ to A-	A1 to A3	A+ to A-
Step 3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-
Step 4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-
Step 5	B+ to B-	B1 to B3	B+ to B-
Step 6	CCC+ and below	Caa1 and below	CCC+ and below
Step 7	NR	NR	NR

The following tables present the standardised portfolio exposure asset classes assigned to the respective credit quality steps:

Table 17: Sovereign Exposure Mapping (CRD)

Credit quality step	Risk weighting %	Exposure value
1	0%	155,737
2	20%	5,842
3	50%	-
4,5&7	100%	-
6	150%	-
Total		**161,579**

All amounts in '000's

Table18: Corporate Exposure Mapping (CRD)

Credit quality step	Risk weighting %	Exposure value
1	20%	32,563
2	50%	4,870
3,4&7	100%	73,827
5&6	150%	5,731
Total		**116,991**

All amounts in '000's

Table 19: Banks & Securities Firms Exposure Mapping (CRD)

Credit quality step	Risk weighting %	Exposure value
1	20%	42,063
2	20% - 50%	171,538
3&7	20% - 50%	30,816
4&5	50% - 100%	5,935
6	150%	-
Total		**250,352**

All amounts in '000's

Table 20: Securitisations Exposure Mapping (CRD)

Credit quality step	Risk weighting %	Exposure value
1	20%	-
2	50%	-
3&7	100%	127
4	350%	-
Total		**127**

All amounts in '000's

Impairment of Financial Assets

The impairment of debt instruments is estimated in accordance with IFRS 9 – *Financial Instruments*. IFRS 9 uses a more forward-looking approach to recognize expected credit losses ("ECL") for all debt-type financial assets that are not measured at fair value through profit or loss ("FVTPL"). ECL allowances applicable to financial assets measured at amortized cost ("AC") are deducted from the gross carrying value of the respective financial asset while the ECL allowances applicable to financial assets measured at fair value through other comprehensive income ("FVOCI") are recognized in Accumulated OCI. The movements in ECL allowances are recognized 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 financial 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. These are recorded at fair value at initial recognition and interest income is subsequently recognized based on a credit-adjusted effective interest rate ("EIR"). ECLs are only released following a recorded improvement in risk profile and/or subject to successful completion of a defined cure period if predicated on any distressed restructure and subject to formal approval.

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

- The ECL allowance is an estimate and may vary from actual losses. This is because, the provisioning under IFRS 9 is subject to various forward-looking assumptions such as the probability of default (PD), exposure at default (EAD) and loss given default (LGD). Due to the volatility, the inputs and the assumptions are continuously reviewed as new information is available, and the impact to the income statement and retained earnings are quantified as required by IFRS.

Recognition of Interest Income from debt instruments

Interest income is recognized for all interest bearing instruments measured at Amortized Cost and FVOCI, on the accrual basis, using the effective interest rate method. Interest income from financial assets that are classified as Stage 3 for ECL purpose, is calculated by applying the effective interest rate to the net carrying value of the asset, which is the gross carrying amount less the applicable provision for ECL.

Difference in accounting and regulatory treatment

For accounting purposes, a financial asset is treated as "past due" when a counterparty has failed to make a payment when contractually due. The past due period is one of the several parameters considered in assessing whether there is a significant increase in credit risk to warrant an ECL allowance under IFRS 9. Therefore, an accounting provision may be required even when the financial asset is not past due. In contrast, under regulatory rules, a financial asset is treated as past due when the payment is ninety days past the contractual due date.

Table 21: Changes in stock of defaulted loans and debt securities (CR2)

		30-Sep-22
1	**Defaulted loans and debt securities at the end of the previous reporting period**	**11**
2	Loans and debt securities that have defaulted since the last reporting period	-
3	Returned to non-default status	-
4	Amounts written off	-
5	Other changes	(5)
6	**Defaulted loans and debt securities at the end of the reporting period**	**6**

All amounts in '000's

There has been no significant change in the stock of defaulted loans and debt securities over the reporting period.

Troubled Debt Restructure

A Troubled Debt Restructure ("TDR") occurs when the Bank grants a concession due to economic or legal reasons related to the financial position of a credit facility under the following conditions:

- The debtor must be experiencing financial difficulties;
- The creditor must grant a concession in consequence of the debtor's financial difficulties.

A TDR may be either performing or non-performing at the time of restructure. TDR situations present the Bank with extraordinarily cumbersome obligations and costs, both expense and capital, and are instituted only as a final alternative and apply the basic tenets for Non-Performing Loans.

The Bank has not restructured any facilities during the period.

Credit Risk Mitigation

The following table reports the split between the Bank's secured and unsecured exposures as at September 30, 2022.

Table 22: Credit risk mitigation techniques - overview (CR3)

		a	b	c	d	e	f	g
		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1	Loans	2,044	45,781	45,781	-	-	-	-
2	Debt securities	319,738	9,009	9,009	-	-	-	-
3	**Total**	**321,783**	**54,790**	**54,790**	-	-	-	-
4	Of which defaulted	1	5	5	-	-	-	-

All amounts in '000's

The majority of the Bank's lending is secured as a secondary source of repayment of the debt if the borrower defaults. For residential property loans, the Bank takes a first legal mortgage collateral position on the respective property supported by appropriate valuations using a panel of independent, qualified valuers. Throughout the outstanding term of all exposures secured by real estate property, valuations on the properties are periodically updated to ensure appropriate coverage is maintained. The Bank requires that suitable insurance coverage is maintained through third party insurers to cover property risks.

The Bank uses a range of cash or alternative forms of acceptable collateral to collateralize credit exposures. The type and extent of security to be taken is determined through the credit underwriting analysis in line with credit policies and prudent credit risk management guidance which imposes conservative coverage covenants to mitigate credit risks on exposures. In addition to residential and commercial real estate mortgages and cash, the types of collateral the Bank may also take as security include pledges investment securities portfolios, legal charges over operating and fixed assets, assignments, debentures and guarantees. The Bank does not take credit derivatives as security for exposures.

All credit documentation is subject to prior in-house legal review and agreement to ensure suitability for the Bank's legal enforcement if necessary. Approved independent legal counsel may be engaged to prepare documentation for more complex or substantial arrangements.

The Bank does not make use of on-balance sheet netting.

Standardised Approach

Table 23: Standardised approach - credit risk exposure and Credit Risk Mitigation (“CRM”) effects (CR4)

All amounts in ‘000’s

Table 24: Standardised approach - exposures by asset classes and risk weights (CR5)

		a	c	d	e	f	g	h	j
	Risk Weight / Asset classes	0%	20%	35%	50%	75%	100%	150%	Total credit exposures amount (post CCF and post-CRM)
1	Cash	893	390	-	-	-	-	-	**1,283**
2	Claims on Sovereigns and MDBs	155,737	5,842	-	-	-	-	-	**161,579**
3	Claims on Corporates	-	32,563	-	4,870	-	73,827	5,731	**116,991**
4	Claims on Banks and Securities Firms	-	173,648	-	70,769	-	5,935	-	**250,352**
5	Securitisations	-	-	-	-	-	127	-	**127**
6	Retail Loans	-	-	-	-	616	-	-	**616**
7	Residential Mortgages	-	-	9,600	-	-	-	-	**9,600**
8	Commerial Mortgages	-	-	-	-	-	7,000	-	**7,000**
9	Other Balance Sheet Exposures	-	-	-	-	-	39,659	-	**39,659**
10	Non-market Related Off Balance Sheet Credit Exposures	-	-	-	-	4,000	400	-	**4,400**
11	Market-Related Off-Balance Sheet Credit Exposures	-	-	-	-	-	276	-	**276**
12	**Total**	**156,630**	**212,443**	**9,600**	**75,639**	**4,616**	**127,224**	**5,731**	**591,883**

All amounts in ‘000’s

Counterparty Credit Risk

The Bank may use derivative instruments to hedge its exposure to market risk, for example foreign exchange and interest rate risk. Counterparty Credit Risk (“CCR”) is the risk that the counterparty to a transaction could default before the final settlement of the transaction’s cash flows. An economic loss would occur if the transactions or portfolio of transactions with the counterparty has a positive economic value at the time of default. Unlike exposure to credit risk through a loan, where the exposure to credit risk is unilateral and only the lending bank faces the risk of loss, CCR creates a bilateral risk of loss whereby the market value for many different types of transactions can be positive or negative to either counterparty. The market value is uncertain and can vary over time with the movement of underlying market factors.

The Bank uses the mark to market or current exposure method approach to calculate exposure values for CCR. Under this approach the Exposure at Default (“EAD”) is calculated as current exposure plus regulatory add-ons to determine RWAs.

BCB policy requires that all approved bank counterparties must:

- Have a tier one capital ratio greater than 10.0%
- Have at least one long-term credit rating of A3/A-/A-, and be rated by the other two agencies at no less than BBB-

The above criteria apply to all correspondent banks and money market and FX counterparty banks, except the domestic Bermuda banks where nostro/vostro account balance limits can be approved by ALCO outside of the above criteria to allow for a smooth flow of payments to and from BCB across the local payments clearing system.

The BCB policy on broker dealers requires that only credit settlement exposure will be incurred against broker dealers with all transactions conducted on a settlement against delivery basis.

The Bank may incur limited exposure periodically to vanilla derivative transactions through its currency hedging programme. Although BCB maintains insignificant counter party credit risk where this arises, such derivative transactions are established with BCB’s banking counterparties and governed by way of ISDA (“International Swaps and Derivatives Association”) agreements, and supported by Credit Support Annex (“CSA”) documents, which detail the collateral that BCB is required to post in support of its derivatives exposure to a counterparty. The ISDA agreements provide for the settlement netting of payment obligations arising under all of the derivative contracts covered by the agreement.

The Bank has an exposure as a Trading Member of the Bermuda Stock Exchange (“BSX”) as a Central Counter Party (“CCP”). BSX is a direct member of a CCP for local equity securities. The exposure to the BSX is typically short dated and relatively minor. In the case where these transactions take place, liquidity is held for both additional collateral that would have to be posted in the event of a credit rating downgrade and adverse movements in market rates. Collateral requirements following downgrade are assessed on a contractual basis, whereas liquidity for changes in market rates is assessed using historic market rate volatility.

The Bank uses an international securities custodian for the Bank’s own investment holdings as well as securities held by the Bank in a fiduciary capacity for clients. The Bank undertakes prudential reviews of the securities custodian relationship on a periodic basis in line with relevant Policies.

A “wrong-way risk” may occur when exposure to a counterparty is negatively correlated with the credit quality of that counterparty. Hence, there is a tendency for the exposure to increase as the creditworthiness decreases. This risk is managed through ALCO, which governs the requirements for eligible collateral and Counterparty limits and monitors ongoing exposure.

Table 25: Analysis of CCR exposure by approach (CCR1)

		a	b	c	d	e	f
		Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1	SA-CCR (for derivatives)	271	5		1	276	276
6	**Total**						**276**

Monetary amounts in '000's

The Bank has no exposures that are subject to Credit Valuation Adjustment ("CVA") capital charges.

Table 26: Standardised approach – CCR exposures by regulatory portfolio and risk weights (CCR3)

	a	b	c	d	e	f	g	h	i
Asset classes / Risk Weight	0%	10%	20%	50%	75%	100%	150%	Others	Total credit exposure
Sovereigns									0
Non-central government public sector entities (PSEs)									0
Multilateral development banks (MDBs)									0
Banks and Securities firms			276						276
Corporates									0
Regulatory retail portfolios									0
Other assets									0
Total			**276**						276

All amounts in '000's

Table 27: Composition of collateral for CCR exposure (CCR5)

	a	b	c	d	e	f
	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash - domestic currency	-	-	-	-	-	-
Cash - other currencies	-	-	15,980	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	**-**	**-**	**15,980**	**-**	**-**	**-**

All amounts in '000's

There has been no significant change in the composition of collateral for CCR exposure over the reporting period.

Table 28: Credit derivative exposures (CCR6)

	a	b
	Protection bought	Protection sold
Notionals		
Warrants	0	-
Total notionals	0	-
Fair values		
Positive fair value (asset)	-	-
Negative fair value (liability)	-	-

All amounts in '000's

Securitisation

Table 29: Securitisation exposures in the banking book (SEC1)

		i	j	k
		Bank acts as investor		
		Traditional	Synthetic	Sub-total
1	**Retail (total) - of which**	**127**	**-**	**127**
2	residential mortgage	127	-	127

All amounts in '000's

BCB has no securitisation exposure to the Bermuda residential property market. All residential property held by the Bank as mortgagee is to be insured through a third party insurer to cover property risks. There have been no significant changes reflected in the period.

The Bank does not have a trading book nor does the Bank act as originator or as sponsor of any securitisation.

Table 30: Securitisation exposures in the banking book and associated capital requirements - bank acting as investor (SEC4)

		a	b	c	h	l	p
		Exposure values (by RW bands)			Exposure values (by regulatory approach)	RWA (by regulatory approach)	Capital charge after cap
		≤20% RW	>20% to 50% RW	>50% to 100% RW	SA/SSFA	SA/SSFA	SA/SSFA
1	**Total exposures**	**0**	**0**	**127**	**127**	**127**	**10**
2	Traditional securitisation	0	0	127	127	127	10
3	Of which securitisation	0	0	127	127	127	10
4	Of which retail underlying	0	0	127	127	127	10

All amounts in '000's

The above table represents the aggregate amount of the Bank's securitisation holdings as at September 30, 2022 categorised by risk weighting.

Market Risk

Overview

Market risk is the risk that a change in the value of an underlying market variable (such as interest rates or foreign exchange rates) will give rise to a reduction in the Bank's income or an adverse movement in the value of the Bank's financial assets. BCB's main source of income is through the performance of its investment portfolio and interest income. The investment portfolio is managed to maximise returns within Risk Appetite. Market risks are monitored by ALCO. ALCO is responsible for balance sheet planning from a risk-return perspective, including the monitoring of primary financial risks, and the ongoing process of formulating, implementing, monitoring and revising strategies on assets and liabilities management to achieve the Bank's objectives, within approved policy risk tolerances.

Foreign Exchange Risk

Table 31: Market risk under the Standardised Approach ("SA") (MR1)

		a
		Capital charge in SA
4	Foreign exchange risk	805
12	**Total**	**805**

All amounts in '000's

The Bank holds a portion of its investments in currencies other than US dollars and hence has exposure to adverse changes in foreign exchange rates. The Bank manages its exposure to foreign exchange rate risk through the management of its net non-USD/BMD exposures to minimal levels via the utilisation of appropriate hedging instruments, master netting agreements, and other techniques as appropriate for maintaining a retained net risk position within the prescribed risk parameters.

It is the Bank's policy to hedge all major foreign exchange exposure with respect to BCB's functional currency. However, ALCO may agree to allow certain positions to remain unhedged, where the cost outweighs the benefit.

Interest Rate Risk

In April 2016, the Basel Committee on Banking Supervision issued standards for Interest Rate Risk in the Banking Book ("IRRBB"). Those principles set out supervisory expectations for banks' identification, measurement, monitoring, and control of IRRBB, as well as supervision of this risk. The IRRBB was adopted by the Bank on January 2018 to manage its interest rate risk exposure.

Table 32: Quantitative information on IRRBB (IRRBB1)

In reporting currency	∆EVE		∆NII	
Period	30-Sep-22	30-Jun-22	30-Sep-22	30-Jun-22
Parallel up	(3,860)	(4,976)	1,078	601
Parallel Down	3,860	4,976	(1,078)	(601)
Steepener	538	880		
Flattener	(139)	(590)		
Short rate up	345	(268)		
Short rate down	(568)	43		
Maximum	**(3,860)**	**(4,976)**	**1,078**	**601**
Period	**30-Sep-22**		**30-Jun-22**	
Tier 1 capital	**67,251**		**69,337**	

All amounts in '000's

IRRBB is the exposure to movements in interest rates. Such risk occurs from a mismatch of interest rate exposures tied to the Bank's assets and liabilities and is a normal part of banking and an important contributor to earnings. The Bank developed an internal model to monitor IRRBB and report the impact to the ALCO on a monthly basis. Adverse movements in interest rates can result in a reduction in the Bank's Economic Value of Equity ("EVE") and Net Interest Income ("NII"). Changes in interest rates affect earnings through NII variations and also affect the underlying values of assets, liabilities and off-balance sheet instruments, and thereby the Bank's EVE, given that the present value of future cash flows changes as interest rates shift. The Bank discloses the impact of interest rate shocks on its Changes in Economic Value of Equity ("ΔEVE") and Net Interest Income ("ΔNII"), computed based upon the six minimum interest rate shock scenarios applied by the Bank as prescribed in the Basel guidance which are: Parallel Up, Parallel Down, Steepener, Flattener, Short Rate Up and Short Rate Down. Key assumptions and stress scenarios used to compute the IRRBB are approved by the ALCO. The Bank targets to maintain the maximum negative movement to its EVE, due to changes in interest rates, below 15% of its Tier 1 Capital.

ALCO monitors asset deployment limits, including investment limits, in order to monitor and manage exposure to liquidity, interest rate and currency risk and to ensure that the assets in the Bank's balance sheet are consistent with its risk appetite. ALCO ensures an appropriate ALM Policy is maintained for the Bank. The ALM Policy sets forth the Bank's asset and liability management general policy relating to financial risk management including a contingency liquidity plan, interest rate risk management, capital management, foreign currency risk management including hedging and the use of derivatives, investment and other asset deployment limits.

Like many banks, BCB is exposed to IRRBB through its exposure to fixed income securities, loans, other assets sensitive to interest rate movements, and customer deposits. A material impact of IRRBB comes through the Bank's exposure to a diversified portfolio of fixed income securities including HQLA. Duration is a measure of the price sensitivity of a fixed income security to changes in interest rate. The Bank manages the duration of its fixed income securities to mitigate the adverse impact of IRRBB.

For IRRBB, the Bank applies the following assumptions:

- The loan portfolio comprises a small portion of the overall assets of the Bank. As such, loan prepayment rates have not been utilised as the impact was deemed to be immaterial to the EVE;
- The majority of the Bank's currency exposure is in BMD and USD. Accordingly, all currencies have been aggregated and the US Treasury yield curve has been applied across all currencies;
- Commercial margins have not been included in the calculation of EVE, and;
- The modified duration of the investment portfolio is assumed to be the repricing impact for the parallel interest rate shock down.

With respect to investments, this risk only arises in the banking book, as the Bank does not have a trading book.

Funding & Liquidity Risk

Overview

Funding and Liquidity Risk is the risk that the Bank does not have sufficient financial resources to meet its financial obligations as they fall due, or can only do so at excessive cost. Funding and Liquidity risk exists where demand from clients to withdraw funds from their accounts exceeds the cash the Bank has available to fund those withdrawals because either there are no alternative sources of funds available to the Bank or it has failed to maintain sufficient liquid assets to be able to manage the outflow.

The objective of the BCB's liquidity risk management framework is to ensure that the Bank maintains a core liquidity position that can meet its cash flow requirements on a timely and cost effective basis. The Bank manages its liquidity risk through cash and liquidity management techniques that maximise its liquidity, and through controls on the percentage of its balance sheet that can be converted to cash within specific short-term bands. The Bank maintains prudent levels of liquid assets in the form of cash and high quality liquid assets ("HQLA") which are managed in parallel with the Bank's liability profile.

The Bank maintains significant liquidity thresholds in its balance sheet in the form of cash or near cash, other HQLA and assets within its investment portfolio. This high level of readily liquid assets factors into the Bank's contingency liquidity plan which is designed to provide alternative sources of liquidity to allow the Bank to meet its cash obligations without relying on external funding support during periods of stress.

The Bank has a Liquidity Risk Management Policy approved by the BARC on the recommendation of MRC which defines the objectives for managing liquidity risk, sets conditions for the calculation of the minimum size of the liquidity buffer and the funding needed to support an adequate liquidity buffer. Ongoing monitoring and implementation of the liquidity policy is the responsibility of ALCO, under the approval of the BARC, and with responsibility for the daily monitoring and management assigned to the Treasury Department. The Treasury Department prepares liquidity reports and monitors stress testing results through ALCO on a monthly basis.

As part of its asset and liability management activities, the Bank produces a maturity funding ladder of relevant assets and liabilities into time buckets corresponding to their economic maturities. The matrix is compiled on an aggregated currency basis. Assets and liabilities from the deposit and mortgage book that show a history of being renewed or prolonged are assigned to time buckets reflecting their expected extension.

The maturity ladder identifies the excess, or the shortfall, of assets over liabilities in each time bucket, facilitating the management of open liquidity exposures. The maturity ladder together with the liquidity planning process, which forecasts the funding supply and demand across business units, provides the key input parameters for the Bank's liquidity planning.

Liquidity Coverage Ratio ("LCR")

The LCR metric is designed to measure the short-term resilience of a bank's liquidity profile ensuring the Bank has sufficient unencumbered HQLA that can be easily converted into cash to meet its liquidity needs in a 30-calendar day liquidity stress scenario. The BMA requires Bermuda banks to maintain a minimum LCR of 100% effective from January 1, 2019. The average month end BCB LCR has reflected 179.4% for the 6 month period ended September 30, 2022 which meets minimum requirements.

Table 19: Liquidity Coverage Ratio ("LCR") (LIQ1)

		a	b
		Total unweighted value (average)	Total weighted value (average)
	High-quality liquid assets		
1	Total HQLA		**216,259**
	Cash outflows		
2	**Retail deposits and deposits from small business customers, of which:**	**33,472**	**8,354**
4	Less stable deposits	33,472	8,354
5	**Unsecured wholesale funding, of which:**	**326,629**	**180,079**
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	135,707	33,927
7	Non-operational deposits (all counterparties)	190,922	146,152
9	**Secured wholesale funding**		**0**
10	**Additional requirements, of which:**	**13,268**	**12,530**
11	Outflows related to derivative exposures and other collateral requirements	9,981	9,981
13	Credit and liquidity facilities	2,891	2,153
15	**Other contingent funding obligations**	397	397
16	**TOTAL CASH OUTFLOWS**		**200,963**
	Cash inflows		
18	**Inflows from fully performing exposures**	132,964	79,632
19	**Other cash inflows**	815	815
20	**TOTAL CASH INFLOWS**	**133,779**	**80,446**
			Total adjusted value
21	**Total HQLA**		**216,259**
22	**Total net cash outflows**		**120,517**
23	**Liquidity coverage ratio (%)**		**179.4%**

All amounts in '000's. Note: average values were calculated using the simple average of the last six month-end balances reported.

Net Stable Funding Ratio ("NSFR")

NSFR is a measure of stable funding over a one year time horizon. The BMA requires Bermuda banks to maintain a minimum NSFR of 100% from January 1, 2018 onwards. The Bank NSFR stood at 135.9% as at September 30, 2022.

Table 34: Net Stable Funding Ratio ("NSFR") (LIQ2)

		a	b	c	d	e
		Unweighted value by residual maturity				Weighted value
		No maturity*	<6 months	6 months to <1 year	≥1 year	
	Available stable funding (ASF) item					
1	Capital:	67,251	-	-	-	67,251
2	*Regulatory capital*	67,251	-	-	-	67,251
4	Retail deposits and deposits from small business customers:	-	94,333	22,917	52,060	157,585
6	*Less stable deposits*	-	94,333	22,917	52,060	157,585
7	Wholesale funding:	-	352,799	2,676	658	126,562
8	*Operational deposits*	-	134,262	-	-	67,131
9	*Other wholesale funding*	-	218,537	2,676	658	59,431
12	NSFR derivative liabilities	-	-	-	290	0
13	*All other liabilities and equity not included in the above categories*	-	4,872	742	(11,391)	(11,020)
14	**Total ASF**					**340,378**
	Required stable funding (RSF) item					
15	Total NSFR high-quality liquid assets (HQLA)					22,665
16	Deposits held at other financial institutions for operational purposes	-	53,788	-	-	53,788
17	Performing loans and securities:	-	138,486	22,537	136,120	157,558
19	*Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions*	-	112,471	1,100	17,500	34,921
20	*Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:*	-	3,262	39	10,487	10,564
22	*Performing residential mortgages, of which:*	-	-	-	9,579	6,226
23	*With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk*	-	-	-	9,579	6,226
24	*Securities that are not in default and do not qualify as HQLA, including exchange-traded equities*	-	22,753	21,398	98,554	105,846
26	Other assets:	-	3,770	77	12,562	16,409
29	*NSFR derivative assets*				271	271
31	*All other assets not included in the above categories*	-	3,499	77	12,562	16,138
32	Off-balance sheet items		-	-	7,464	100
33	***Total RSF***					**250,520**
34	***Net Stable Funding Ratio (%)***					**135.9%**

All amounts in '000's

* Items reported in the "no maturity" time bucket do not have a stated maturity. These may include, but are not limited to, items such as capital with perpetual maturity, non-maturity deposits, short positions, open maturity positions, equities and physical traded commodities.

Operational Risk

Overview

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Bank is exposed to operational risk as a direct or indirect consequence of its normal business activities, as arising in the day to day execution of business processes, the functioning of its technologies and in the various activities performed by its staff, contractors and vendors. Operational risk is relevant to every aspect of the Bank and covers a wide range of issues including financial crime compliance, regulatory compliance, fraud, technology and conduct risks

Operational Risk Management Framework ("ORMF")

The monitoring and control of BCB's operational risks are underpinned by an Operational Risk Management Framework ("ORMF") a core component of which is the Risk and Control Self-Assessment (RCSA) process. All operational risks are captured within an RCSA where they are assessed by management in accordance with their likelihood and impact, to derive an inherent risk rating. 'Inherent' is defined as the status of the risk prior to the application of controls specifically designed to mitigate the risk.

The effectiveness of controls is then considered as an input to a residual risk rating. Both risk ratings are considered in order to prioritise the risk and mitigation activities required. Each risk is assigned a Risk Owner so that there is adequate accountability to assist with ensuring appropriate action. Monitoring is performed and reported to the MRC and BARC regularly. Risks are assessed, and control activities and policies and procedures are used to help ensure that a selected risk response is carried out properly and in a timely manner. These control activities range from high-level corporate policies to process-specific procedures.

The Group uses a variety of other types of control activities to ensure that proper risk responses are implemented, for example approvals of transactions, account balance reconciliations, verifications, segregation of duties, physical controls, security management control and information processing controls. Often, combinations of control activities are implemented. Risks are prioritised according to their inherent risk ratings, in order to identify the key controls that the business places highest reliance on. The controls against inherently high rated risks may be subject to second line testing in order to provide management with assurance that the business is adequately protected. Once the controls have been considered, risks are assessed on a residual basis as well. Where residual risk is assessed to be "High", additional resources may be deployed which are sufficient to protect the business.

Under the three lines of defence model, the first line represents the risk and control owners, accountable for managing risk in their day-to-day activities through the application of sound processes and controls. The second line refers to the Risk and Compliance function, who set policy, provide advice and challenge to the first line. BCB's control environment includes a programme of second line reviews to provide assurance to Management that controls are operating as expected. Through its role as third line, Internal Audit provide independent assurance that the Bank's operational risk management, governance and internal controls are effective and fit for purpose.

The effective management of ORMF is the responsibility of the MRC, which reports to the BARC. The MRC meets on a monthly basis to review and discuss the material risks, and operation of controls. MRC also has oversight over the incident management process, ensuring that incidents which do occur are reported and managed to conclusion.

Operational Risk Losses

Data on operational losses and any significant control failures are captured through the Bank's Risk Incident Reporting process. All events are reported to MRC with High Risk incidents reported to BARC, each of which assess the adequacy of corrective actions taken by Management and mitigants deployed to prevent recurrence. MRC, BARC and the Board receive regular reporting on performance against Board approved risk appetite metrics.

Other Information

Abbreviations:

The following abbreviated terms are used throughout the document:

ALCO	Asset and Liability Committee
ALM	Asset and Liability Management
ASF	Available Stable Funding
AT1	Additional Tier 1 Capital
BARC	Board Audit and Risk Committee
BCB or the Bank	Bermuda Commercial Bank Limited
BDCA	Banks and Deposit Companies Act 1999
BMA or Authority	Bermuda Monetary Authority
BSX	Bermuda Stock Exchange
CARP	Capital Adequacy and Risk Profile
CC	Credit Committee
CCF	Credit Conversion Factor
CCP	Central Counter Party
CCR	Counterparty Credit Risk
CET1	Common Equity Tier 1
Code of Conduct	Group Code of Conduct and Ethics for Employees and Directors
CRM	Credit Risk Mitigation
EAD	Exposure at Default
ECAI	External credit assessment institutions
ECL	Expected Credit Loss
ERM	Enterprise Risk Management
ERMF	Enterprise Risk Management Framework
EVE	Economic Value of Equity
EXCO	Executive Committee
FVOCI	Fair Value Through Other Comprehensive Income
GC	Governance Committee
Group	Bank and its subsidiaries
HQLA	High Quality Liquid Assets
IFRS	International Financial Reporting Standards
IRRBB	Interest Rate Risk in the Banking Book
ISDA	International Swaps and Derivatives Association
KPIs	Key Performance Indicators
LCR	Liquidity Coverage Ratio
MDB	Multilateral Development Bank
MRC	Management Risk Committee
MSR	Mortgage Servicing Rights
NII	Net Interest Income
NSFR	Net Stable Funding Ratio
OCI	Other Comprehensive Income
Provident	Provident Holdings Ltd.
RSF	Required Stable Funding
RWA	Risk Weighted Assets
SA	Standardised Approach
SFT	Securities Financing Transaction
SSFA	Simplified Supervisory Formula Approach
T1	Tier 1 Capital
T2	Tier 2 Capital
TC	Total Capital

Cautionary statements regarding forward-looking statements

These Capital and Risk Management Pillar 3 Disclosures as at September 30, 2022 contain certain forward-looking statements with respect to Bermuda Commercial Bank Limited ("the Bank"). Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based on our current beliefs, expectations or assumptions regarding the future of our business, future plans and strategies, our operational results and other future conditions. Words such as 'will', 'believe', 'expect', 'anticipate', 'project', 'estimate', 'predict' and similar expressions, are intended to identify forward-looking statements.

These forward-looking statements may appear in the disclosures and may include, among others, statements with respect to our liquidity and capital requirements; business strategy; financial and operating targets or plans; projections of revenues, income, market share or other financial forecasts; expansion and growth of our business and operations; and future capital expenditures. These statements are based on certain assumptions and analyses we have made in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors believed to be appropriate in the circumstances. However, whether actual results and developments will conform to expectations and predictions is subject to a number of risks and uncertainties that could cause actual results to differ materially from expectations, including, among others, the risks discussed in this disclosure document.

We believe that these risks and uncertainties include, but are not limited to, those described in the Notes of Bank's Audited Financial Statements, which include, but are not limited to: changes in economic and market conditions; changes in market interest rates; our access to sources of liquidity and capital to address our liquidity needs; our ability to attract and retain customer deposits; our ability to effectively compete with other financial services companies and the effects of competition in the financial services industry on our business; our ability to successfully execute our business plan and implement our strategy; our ability to successfully manage our credit risk and the sufficiency of our allowance for credit loss; our ability to successfully develop and commercialize new or enhanced products and services; damage to our reputation from any of the factors described in this section.

Consequently, all of the forward-looking statements made in this document are qualified by these cautionary statements and the results or developments that we anticipate may not be realized or, even if substantially realized, they may not have the expected consequences to, or effects on, us or our business or operations. The Bank assumes no obligation to update publicly any such forward-looking statements, whether as a result of new information, future events or otherwise.

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

E-MAIL & WEBSITE:
ENQUIRIES@BCB.BM
WWW.BCB.BM

MEMBER – DEPOSIT INSURANCE SCHEME