BERMUDA COMMERCIAL BANK LIMITED

ANNUAL REPORT 2022

Published April 2023

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Corporate Profile

Bermuda Commercial Bank Limited is the specialist Bermuda bank delivering innovative and effective solutions to provide superior customer experience. We offer tailored financial solutions and personal attention to Bermuda-based and international business customers, individual clients and service providers. Since 1969, we have provided outstanding personal service to our clients. We offer competitive banking products and services as well as internet and mobile banking, consumer and commercial lending, and global custody and brokerage services.

Core Values

The BCB Board has established a set of values that guide the work of the business. These values are:

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

History of Bermuda Commercial Bank

The Bank began by an Act of Parliament in February 1969.

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

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

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

In 2019, BCB celebrated its 50-year anniversary of providing banking services to Bermuda and internationally.

In July 2021, the investment company, Provident Holdings Limited, purchased the BCB Group of Companies from Somers Limited.

On March 1, 2022, BCB sold its licensed trust business and a primary licensed corporate administration services 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.

Chairman's Letter

2022: OUR STRATEGY INTO ACTION

Dan Brown says that "Everything is possible, but the impossible just takes a little longer." In the Bermuda Commercial Bank context, this means that it has taken time to see the impact of the new strategic priorities that were developed in December of 2021 to gain traction in 2022. This focused the Bank on 5 key strategic priorities that we developed to make BCB a true "challenger bank" and we have seen material progress against these strategic priorities.

This also meant that we had to take a critical look at our operations to ensure it reflected our strategic priorities. To this end, we reviewed our trust business and corporate service provider businesses and completed a sale of our BCB Charter and Paragon businesses to a trusted local corporate servicer provider. This allowed BCB to focus on our core banking business and align the board's and management's attention to this sole effort. Our former customers managed by Charter and Paragon will also benefit from dedicated service from a qualified service provided.

One of the most significant challenges facing our community is the increased cost of living. Inflation and energy costs have risen, putting pressure on households and businesses alike. This has led to a greater need for financial support and solutions, particularly for those on lower incomes or with limited access to credit. As a bank, we have a responsibility to respond to these challenges and to support our community in any way we can. We are committed to providing our customers with the financial tools and resources they need to manage their finances effectively, to realize their financial goals and to helping Bermudians with innovative banking solutions.

We worked on improving our existing product suite, whilst ensuring new products were launched to meet customer demand. We are also committed to investing in our employees, who are the backbone of our organization. We believe that by providing our employees with the training and support they need to succeed, we can better serve our customers and community.

During its financial year to September 30, 2022, the Bank reported a net loss of $14.8 million. Total income decreased to $7.9 million, but this was partially offset by a decrease in the Bank's total expenses, which decreased by $1.3 million. The non-recurring loss from discontinued operations reported as part of the net loss was $3.2 million. In addition, the continued resilience of our business is evident in the Bank's balance sheet, which still remains strong and very liquid. The cash and cash equivalents at September 30, 2022 were 45.8% of total assets and the capital ratio of 27.0% remains strong and well above the regulatory minimum requirements.

In conclusion, I would like to thank our shareholders, the board, our customers and employees for their continued support and dedication. We remain committed to our Core Values and to supporting our community in the best way that we can.

DAVID BROWN
CHAIRMAN OF THE BOARD
BERMUDA COMMERCIAL BANK

Letter from the CEO

2022: OUR STRATEGY INTO ACTION

"The best way to predict the future is to invent it" - Alan Kay, which is why we established the 5 strategic priorities to help to create a new BCB future. These strategic priorities focused on the following:

1. **Grow our lending portfolio** - A specific focus on growing both the commercial and retail lending portfolio
2. **Reposition our Balance Sheet** - Reduce the risk profile of the bank's investment portfolio and define a clear asset and liability strategy
3. **Invest in, Develop and Grow our People** - Our staff are one of our key resources needed to deliver our business strategy
4. **Effectively Manage all our Risks to become a profitable bank** - When risk is effectively managed it can also be profitable for the bank
5. **Invest in Digitization to Become a Digital Bank** - Reducing manual processing, increasing automation as well as expanding our offing to the Digital Asset community

These strategic priorities have focused us on a path back to profitability while maintaining an exemplary risk profile, a productive working environment for our team and solutions that support our clients and our community. These strategic priorities will also provide the framework for future success at BCB. However, in 2022, we continued to see the impact of Covid19 on all facets of the local and international environment including BCB Fiscal Year 2022 performance, but we were still able to make substantial progress in achieving our goals.

We relaunched our retail mortgage solution with improved product features and advertised our BCB Base rate as the lowest on Island. This was one of the contributing factors, which showed growth of more than $23.3 million over Fiscal Year 2021. We have also developed a comprehensive credit transformation program, so that we can effectively manage the operational requirements of a rapidly growing loan book. This is a quality new loan book with no appreciable increase in expected credit losses or impairments.

Collectively, we worked on derisking our investment portfolio with significantly improved modified duration down from 2.31 in October 2021 to 1.47 in September 2022. In addition, credit spread duration decreased from 3.05 in October 2021 to 1.87 in September 2022 along with 65% of our portfolio having an investment grade credit rating vs 44% at the beginning of the fiscal year. Shifting to capital preservation versus capital growth also allowed us to update our investment parameters to improve the quality of our corporate investment portfolio which demonstrated that our derisking was effective.

We have seen great progress in our people initiatives with the launch of a new performance culture in the 2022 fiscal year. This included mandatory 121's, development plans and staff engagement surveys to gauge ongoing feedback from the team. We also developed a new set of desired organizational behaviours to help improve culture and improve the work environment. We also fully staffed our Executive team with a new CRO and promoted internally a new addition to the Executive team, a General Counsel. In recognition of these changes, BCB achieved 8th in the Top 10 Employers of 2022, which was a huge accomplishment after less than 1 year of people transformation work.

Our risk transformation was headlined by the divestiture of BCB Paragon and Charter in March of 2022. This divestment significantly reduced our risk profile, specifically our legal risk. We also made strategic improvements to our Interim Capital Assessment and Risk Profile (CARP), which strengthened our stress testing, capital models and forward financial projections. New financial reporting tools, enhanced budgeting and financial forecasts also allowed us to better manage the business.

Innovation is anything but business as usual and we strived to move the business forward with more straight through processing and a reduction of manual transactions. To this end, we launched our digital onboarding application for retail customers and established an online loan application process. We have also gained approval from the Board and the ownership team to embark on an upgrade of our existing core banking platform, which should deliver improved functionality and accessibility for our customers. Lastly, we actively work to explore how the banking system can invest in and leverage the Digital Asset sector in both the use of technology and better support customers in this emerging sector.

BCB has embraced its challenger bank status and is striving to carve out its own niche in the Bermuda banking sector. We will be different and compete in areas that we can win or create new spaces in the local and international banking sector. It is only with a strong financial sector that BCB, Bermuda and by extension, the world, can achieve their financial goals and return to a new normal. I and the team are excited about what is to come and how we can deliver for our stakeholders, employees and Bermuda.

NEVILLE GRANT, CEO
BERMUDA COMMERCIAL BANK

Board of Directors (As of September 30, 2022)

DAVID BROWN (CHAIRMAN)

Mr. Brown has served as the CEO or Chairman of several financial services companies including regulated and publicly listed entities. Prior to 1993 he was a partner with Ernst & Young. David is a Fellow of The Institute of Chartered Accountants in England and Wales and a member of The Chartered Professional Accountants of Bermuda.

CHRIS MAYBURY (DEPUTY CHAIRMAN)

Mr. Maybury is the founder and Chairman of Beacon Events. Chris has an extensive business background having held several senior positions. He also serves on the board of several charities and research organizations.

JEANNE ATHERDEN

Mrs. Atherden joined the BCB Board of Directors on December 18, 2013. She has over thirty years of accounting, finance and trust experience in management roles in several different business sectors in Bermuda. Mrs. Atherden is a Fellow of The Chartered Professional Accountants of Bermuda and a member of The Institute of Directors.

NEVILLE GRANT

Mr. Grant is the Chief Executive Officer of Bermuda Commercial Bank. Neville's 28-year business career includes a number of senior roles in banking with HSBC, both locally and internationally, as well as the former General Manager of Bermuda Economic Development Corporation. Neville has a BBA in Accounting and a Masters in Business Administration.

ANDREW BROOK*

Mr. Brook is an experienced non-executive director and was formerly the Asset Management and Banking Leader at PriceWaterhouseCoopers Bermuda. Mr. Brook has over thirty years financial services experience as a non-executive director of financial institutions and in audit and advisory work, incorporating off-shore and on-shore regulatory expertise.

JASON WOODY*

Mr. Woody is a Senior Managing Director at Palm Ventures and focuses on private equity investments. Prior to joining Palm Ventures, Mr. Woody was an associate with Dubilier & Company, a private investment firm focused on middle-market companies, and an analyst in the acquisition finance group at Chase Securities Inc. Mr. Woody holds a B.S. from Cornell University and an MBA, summa cum laude, from Babson College. Mr. Woody serves on the boards of several private companies.

* Denotes non-Bermudian Director

Senior Management (As of September 30, 2022)

SUNNY AGARWAL
Head of Compliance Operations

LISA BARNES
Head of Customer Experience

MARTIN BROWN
Chief Risk Officer

MEGAN COLLEY
General Counsel & Head of Regulatory Compliance

DANE COMMISSIONG
Head of Treasury

STEPHEN EGAN
Credit and Lending Risk

ANTHONY GARZIA
Head of Commercial & Retail Lending

NEVILLE GRANT
Chief Executive Officer

GRAHAM JACKSON
Chief Financial Officer

MARIA LINGHAM
Head of Financial Crime Compliance
and Money Laundering Reporting Officer

ANDY READING
Head of Information Technology

MICHAEL SCHULZ
Chief Strategy & Regulatory Officer

ARHNEL TERROZA
Head of Internal Audit

MARC ZINSMEISTER
Head of Regulatory and Investment Accounting

Management's Discussion & Analysis

This Management's Discussion and Analysis ("MD&A") is provided to enable users to assess the Bank's results and performance for the year ended September 30, 2022 and should be read in conjunction with the consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All references to BCB or the Bank refer to Bermuda Commercial Bank Limited and its subsidiaries on a consolidated basis. A list of subsidiaries of BCB is provided under note 17 to the consolidated financial statements.

On March 1, 2022, the trust and corporate service businesses were fully transferred to a third-party purchaser following a Sale and Purchase agreement. As a result, certain comparative amounts have been re-presented in line with IFRS as 'discontinued operations' on the Consolidated Statement of Income. More details are provided in Note 22 to the consolidated financial statements.

FINANCIAL PERFORMANCE HIGHLIGHTS

- Completed divestment of trust and corporate service businesses incurring a loss of $2.6 million
- Reduced market risk in the investment portfolio incurring a loss of $0.9 million
- Net loss of $14.8 million (Underlying net loss of $11.3 million excluding one-off losses for divestment and market risk reduction initiatives)
- Year end total capital ratio of 27.0%

RESULTS OF OPERATIONS FOR THE YEAR ENDED SEPTEMBER 30, 2022

During the year, the Bank incurred a net of loss of $14.8 million compared to a net loss of $3.2 million in 2021. This was primarily due to investment and impairment losses of $2.5 million versus $9.5 million gains in 2021 and the one-off disposal loss of $2.6 million relating to the operations discontinued during the year.

INTEREST INCOME

Total interest income was $9.5 million for the year ended September 30, 2022 compared to $9.1 million in 2021. Interest income from loans and advances to customers increased to $2.0 million in comparison to $1.4 million in 2021 as the Bank continues to grow its lending book. Interest income from financial investments was $6.8 million compared to $7.6 million in the prior year. This was mainly due to the net interest income from the credit investment portfolio declining as new positions bought during the year attracted lower yields which was partially offset by the increase in yield from High Quality Liquid Assets ("HQLA") portfolio. Interest income from cash and term deposits was $0.7 million up from $0.1 million in 2021 as the US Federal Reserve significantly increased USD overnight interest rates.

Interest expense decreased to $2.8 million from $3.2 million a year ago due to higher demand deposits as a proportion of total deposits.

NON-INTEREST INCOME

The Bank recorded net non-interest income of $1.1 million compared to net non-interest income of $12.9 million in 2021. The decrease was due to investment and impairment losses recognised in 2022 as interest rates increased and losses were incurred from the portfolio market risk reduction initiative.

Non-interest income excluding investment and impairment losses for 2022 increased to $3.6 million from $3.4 million in 2021. The composition of the income sources remained materially consistent with that of the previous year with fees and commissions income of $2.2 million (2021: $1.5 million) being the largest contributor.

EXPENSES

The Bank continues to focus on effective management of expenses. In 2022, the Bank achieved a reduction in total expenses of $1.3 million to $19.4 million from $20.7 million in 2021. The expense reduction was primarily related to lower investment advisory fees.

FINANCIAL POSITION AS AT SEPTEMBER 30, 2022

Assets

Consistent with previous years, the Bank maintained a prudent level of liquid assets in line with the Bank's liquidity management framework. As at September 30, 2022, the Bank held cash and cash equivalents of $269.0 million that represented 45.8% of total assets compared to $335.6 million or 52.6% a year ago.
The Bank's financial investment portfolio as at September 30, 2022 was $254.0 million compared to $259.4 million a year ago.

The Bank's investment portfolio is monitored across a wide range of risk and performance measures, and in accordance with its risk management framework, the portfolio is actively diversified at the industry, jurisdiction and counterparty level. The investment portfolio consisted primarily of government debt securities, corporate debt securities (non-banks), debt securities issued by banks, asset backed securities and investments in funds.

The Bank's loans and advances portfolio increased to $47.8 million at September 30, 2022 compared to $24.6 million a year ago primarily due to new consumer and commercial mortgages disbursed in 2022. The loan portfolio was comprised of commercial loans (53.2%), consumer mortgage loans (20.0%). commercial mortgage loans (14.6%) and commercial overdrafts (10.3%).

Liabilities

Total deposits as at September 30, 2022 were $525.4 million compared to $542.4 million a year ago and the movement was primarily due to a reduction in term deposits.

CAPITAL POSITION AS AT SEPTEMBER 30, 2022

BCB is subject to minimum capital requirements set by the Bermuda Monetary Authority ("BMA)" in accordance with guidelines developed by the Basel Committee on Banking Supervision. The Bank ended the financial year 2022 with a regulatory capital ratio of 27.0% (27.0% in 2021) significantly above BMA minimum requirements.

RISK MANAGEMENT

BCB 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. During 2022, BCB continued to enhance its risk management framework to ensure it remains aligned to its evolving business activities, the regulatory landscape and the dynamic operating environment.

Risk Culture

The fostering of a sound risk culture is a key tenet of BCB's ERMF. This is achieved by establishing and exercising accountability, promoting risk awareness and encouraging a proactive approach to the identification and mitigation of risks.

The Three Lines of Defence

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

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.

Risk Strategy

Prudent management of assets and liabilities forms a critical part of BCB's approach to management of capital, liquidity and funding risk. Through 2022 the Bank maintained a high level of HQLA and sought to improve the stability, diversification and maturity of its deposit base. The Bank continued to manage the maturity profile of its deposit funding to ensure that it is not exposed to high levels of re-financing within concentrated time periods.

While related party transactions continue to feature in BCB's profile, the Bank's loan growth strategy has reduced concentration and these transactions remain closely monitored and governed by the Bank's Board of Directors and the Board Audit and Risk Committee ("BARC"). The Bank ensures that credit exposure to related parties is examined appropriately, approved on market terms and conditions, and is subject to oversight by the Bank's Risk department.

Details of the Bank's risk structure are further outlined in note 20 to the consolidated financial statements.

BASEL III

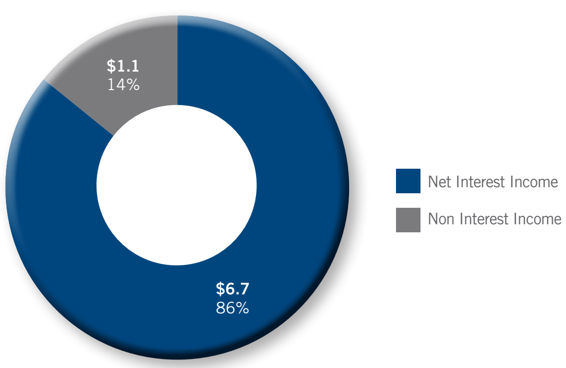
The Basel Committee's standards for capital and liquidity, commonly referred to as "Basel III", establish minimum requirements for common equity, a leverage ratio, a minimum Liquidity Coverage Ratio ("LCR"), a minimum Net Stable Funding Ratio ("NSFR"), and measures to promote the build-up of capital. The Basel III minimum capital requirements include a 4.5% Common Equity Tier 1 Capital ratio (CET1) and an 8.0% Total Capital ratio. In addition, banks need to build a capital conservation buffer of 2.5%. In terms of liquidity and stable funding, banks need to maintain minimum LCR and NSFR ratios of 100%. The Bank's Tier 1 capital, LCR and NSFR ratios at year end were significantly above these minimum regulatory requirements.

Key Financial Highlights ($ million)

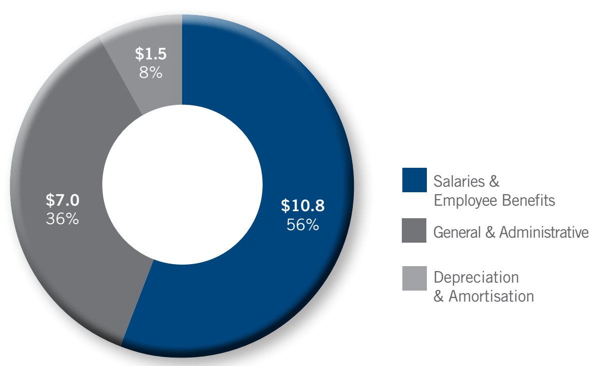
	2022	2021
Income Statement		
Total income	$ 7.8	$ 18.8
Total expenses	$ (19.4)	$ (20.7)
Loss from discontinued operations	$ (3.2)	$ (1.3)
Net loss	$ (14.8)	$ (3.2)
Balance Sheet		
Total assets	$ 587.2	$ 638.1
Total deposits	$ 525.4	$ 542.4
Total equity	$ 54.9	$ 86.8
Regulatory Ratios		
Tier 1/Total capital ratio	27%	27%
Liquidity coverage ratio	200%	217%
Net stable funding ratio	136%	123%

Note: Certain comparative amounts have been re-presented as a result of discontinued operations in 2022 (Note 22 in consolidated financial statements).

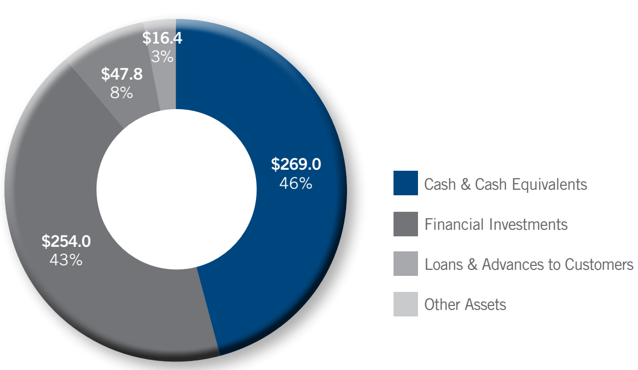
TOTAL INCOME



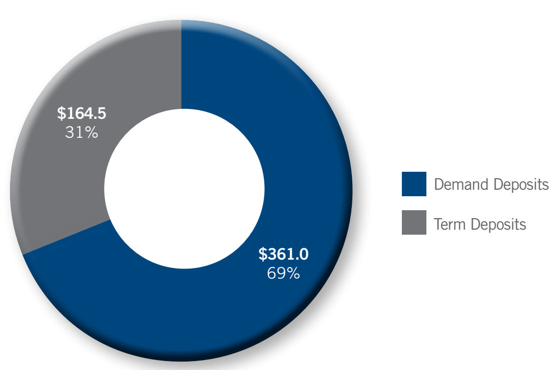
TOTAL EXPENSES



TOTAL ASSETS



TOTAL DEPOSITS



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INDEPENDENT AUDITOR'S REPORT

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Bermuda Commercial Bank Limited and its subsidiaries (the "Bank"), which comprise the consolidated statement of financial position as at September 30, 2022, the consolidated statements of income and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at September 30, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

KPMG

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

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

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Bank's audit. We remain solely responsible for our audit opinion.

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

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
December 8, 2022

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

September 30, 2022

		2022		2021
Assets				
Cash and cash equivalents (Note 3)	$	268,954,575	$	335,630,905
Interest receivable		2,109,818		1,748,764
Other assets (Note 9)		1,590,964		2,651,458
Financial investments (Notes 5, 17 and 21)		254,023,738		259,388,129
Loans and advances to customers (Notes 6 and 17)		47,825,725		24,562,255
Derivative financial instruments (Notes 4 and 21)		271,322		240,354
Property and equipment (Note 7)		12,288,647		12,520,691
Intangible assets (Note 8)		142,045		1,326,738
Total assets	$	587,206,834	$	638,069,294
Liabilities				
Deposits (Notes 10 and 17)	$	525,442,601	$	542,386,829
Customer drafts payable		726		11,002
Derivative financial instruments (Notes 4 and 21)		290,082		69,956
Other liabilities (Note 11)		3,523,495		5,828,603
Interest payable		3,045,760		2,940,208
Total liabilities	$	532,302,664	$	551,236,598

See accompanying notes.

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

September 30, 2022

	2022	2021
Equity		
Capital stock (Note 12)	$ 16,807,963	$ 16,807,963
Share premium (Note 12)	22,131,188	22,131,188
Accumulated other comprehensive (loss) income	(12,346,968)	4,819,399
Retained earnings	28,311,987	43,074,146
Total equity	54,904,170	86,832,696
Total liabilities and equity	$ 587,206,834	$ 638,069,294

See accompanying notes.

Signed on behalf of the Board:

Neville Grant, *Director*

David Brown, *Director*

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

Year ended September 30, 2022

	2022	2021*
Continuing Operations		
Income		
Interest income calculated using the effective interest rate:		
Cash and term deposits (Note 3)	$ 731,384	$ 54,168
Loans and advances to customers (Note 6)	1,979,926	1,397,795
Financial investments (Note 5)	5,639,107	4,835,768
Other interest income:		
Financial investments (Note 5)	1,170,931	2,802,913
Total interest income	9,521,348	9,090,644
Interest expense (Note 10)	(2,787,692)	(3,180,283)
Net interest income	6,733,656	5,910,361
Fees and commissions (Note 13)	2,195,055	1,520,062
Net foreign exchange gains	340,268	570,362
(Losses) gains on derivative financial instruments	(21,701)	166,418
Dividend income (Notes 5 and 17)	600,000	654,575
(Losses) gains from financial investments (Notes 14 and 17)	(2,342,529)	7,399,799
Impairment (losses) gains on financial instruments (Notes 5, 6 and 9)	(156,505)	2,080,610
Other operating income (Note 15)	502,587	499,675
Total income	7,850,831	18,801,862
Expenses		
Salaries and employee benefits (Note 18)	10,832,267	9,912,706
Depreciation (Note 7)	360,542	390,466
Amortisation (Note 8)	1,184,693	1,203,169
General and administrative expenses (Note 16)	6,997,366	9,181,906
Total expenses	19,374,868	20,688,247
Net loss before taxation	$ (11,524,037)	$ (1,886,385)
Income tax expense	–	–
Loss from continuing operations	$ (11,524,037)	$ (1,886,385)
Discontinued Operations		
Loss from discontinued operations (Note 22)	(3,238,122)	(1,349,613)
Net loss for the year	$ (14,762,159)	$ (3,235,998)

* Certain comparative amounts in the consolidated statement of income have been re-presented as a result of discontinued operations in the year (Note 22).

See accompanying notes.

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

Year ended September 30, 2022

	2022	2021
Net loss for the year	$ (14,762,159)	$ (3,235,998)
Other comprehensive (loss) income:		
Items that may be reclassified subsequently to statement of income		
Debt instruments at fair value through other comprehensive income		
Net change in fair value	(11,582,438)	5,854,844
Reclassified to statement of income (Note 14)	(35,483)	(2,419,034)
Changes in allowance for expected credit losses (Note 5)	(90,768)	(2,016,942)
Items that will not be reclassified to statement of income		
Net change in fair value of equity securities designated at FVOCI (Note 5)	(5,457,678)	4,426,135
Other comprehensive (loss) income	(17,166,367)	5,845,003
Total comprehensive (loss) income	$ (31,928,526)	$ 2,609,005

See accompanying notes.

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

Year ended September 30, 2022

	Capital stock	Share premium	Accumulated other comprehensive income (loss)	Retained earnings	Total equity
Balance at September 30, 2020	$ 16,807,963	$ 22,131,188	$ (1,025,604)	$ 46,310,144	$ 84,223,691
Net loss for the year	–	–	–	(3,235,998)	(3,235,998)
Other comprehensive income	–	–	5,845,003	–	5,845,003
Balance at September 30, 2021	$ 16,807,963	$ 22,131,188	$ 4,819,399	$ 43,074,146	$ 86,832,696
Net loss for the year	–	–	–	(14,762,159)	(14,762,159)
Other comprehensive loss	–	–	(17,166,367)	–	(17,166,367)
Balance at September 30, 2022	$ 16,807,963	$ 22,131,188	$ (12,346,968)	$ 28,311,987	$ 54,904,170

See accompanying notes.

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

Year ended September 30, 2022

	2022	2021
Operating activities		
Net loss for the year	$ (14,762,159)	$ (3,235,998)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	360,542	390,466
Amortisation	1,184,693	1,203,169
Goodwill impairment	–	745,262
Losses/(Gains) from sale of financial investments	2,342,529	(7,399,799)
Impairment losses/(gains) on financial instruments	156,505	(2,115,496)
Interest expense on lease liability	–	123
	(10,717,890)	(10,412,273)
Changes in:		
Receivable from related parties	–	164,294
Interest receivable	(361,054)	803,725
Other assets	811,465	(293,591)
Derivative financial instruments, net	189,158	(245,447)
Customer drafts payable	(10,276)	(48,545)
Other liabilities	(2,305,108)	(5,530,326)
Interest payable	105,552	(208,785)
Net cash used in operating activities	$ (12,288,153)	$ (15,770,948)

See accompanying notes.

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

September 30, 2022

	2022	2021
Investing activities		
Net change in loans and advances to customers	(23,261,714)	(235,033)
Proceeds from sale and maturity of financial investments	671,038,263	567,533,317
Purchases of financial investments	(685,092,000)	(591,378,328)
Purchases of property and equipment	(128,498)	(86,664)
Net cash used in investing activities	$ (37,443,949)	$ (24,166,708)
Financing activities		
Net change in deposits	(16,944,228)	133,525,037
Principal lease payments	–	(15,325)
Net cash (used in)/provided by financing activities	(16,944,228)	133,509,712
Net (decrease)/increase in cash and cash equivalents	(66,676,330)	93,572,056
Cash and cash equivalents, beginning of year	335,630,905	242,058,849
Cash and cash equivalents, end of year	$ 268,954,575	$ 335,630,905
Supplementary disclosure of cash flow information:		
Interest paid	$ 2,682,140	$ 3,389,068
Interest received	$ 9,160,294	$ 9,894,369
Dividends received	$ 600,000	$ 654,575

See accompanying notes.

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

September 30, 2022

1. Description of business

Bermuda Commercial Bank Limited (“BCB”) is a Bermuda incorporated company, licensed and regulated by the Bermuda Monetary Authority (“the BMA”). BCB, together with its subsidiaries (collectively, the “Bank”), provides banking, custody, and consumer and business finance services. Up until March 1, 2022, when certain subsidiaries were sold, the Bank also provided corporate and trustee services (Note 22). BCB’s registered office is at 34 Bermudiana Road, Hamilton HM 11, Bermuda.

Until July 20, 2021, BCB was a wholly owned subsidiary of Somers Limited (“Somers”), a Bermuda exempt investment holding company with investments in the financial services sector, and whose ultimate parent undertaking is, Somers Isles Private Trust Company Limited, a company incorporated in Bermuda and owned by Mr. Duncan Saville. On July 20, 2021 Somers’ entire holding in BCB was acquired by Provident Holdings Ltd (“Provident”), a Bermuda investment company whose ultimate parent undertaking and the majority shareholder, is BFG Hamilton Investments, LLC, a company incorporated in the United States of America and owned by Mr. Bradley Palmer.

2. Basis of preparation and significant accounting policies

2.1 Basis of preparation

The consolidated financial statements for the year ended September 30, 2022 have been prepared on a going concern basis. In this regard, management has assessed the Bank’s ability to continue as a going concern and to meet regulatory requirements applicable to capital, liquidity and funding with no exception at least, but not limited to, twelve months from the reporting date.

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments measured at fair value (“FV”). The consolidated financial statements are presented in United States dollars, which is the Bank’s functional and reporting currency. All values are rounded to the nearest dollar, except when otherwise indicated.

The consolidated financial statements for the year ended September 30, 2022, were authorised for issue in accordance with a resolution of the Board of Directors on December 8, 2022.

2.2 Statement of compliance

The consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). The Bank has consistently applied the significant accounting policies to all periods presented in these consolidated financial statements.

All intercompany balances and transactions are eliminated in full on consolidation. The financial statements of the Bank’s subsidiaries still owned at the financial year-end are presented for the same reporting year as the Bank, using consistent accounting policies. The Bank is using consistent accounting policies for discontinued operations. Certain comparative amounts in the consolidated statement of income have been re-presented as a result of discontinued operations in the year (Note 22).

Subsidiaries were fully consolidated until the date on which control was relinquished by the Bank. Control is forfeited when the Bank no longer has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

September 30, 2022

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

2.3 Presentation of consolidated financial statements

The Bank presents its Consolidated Statement of Financial Position broadly in order of liquidity. An analysis regarding recovery or settlement of assets and liabilities within 12 months after the reporting date (“current”), and more than 12 months after the reporting date (“non-current”), is presented in Note 20.

2.4 Significant accounting judgments, estimates, and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires management to make certain significant estimates, judgments, and assumptions that affect the application of the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Estimates, judgments and assumptions are continually evaluated, and are based on historical experience and other factors, including expectations of future events, that are believed to be reasonable under the circumstances. The estimates, judgments, and assumptions that have a risk of causing material adjustments to the consolidated financial statements within the next financial year are discussed below:

Impairment assessment of goodwill

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

Classification of financial assets

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

Impairment / Expected credit loss (“ECL”) Allowance on financial assets

The impairment or ECL allowance for loans and advances and debt instruments in the investment portfolio that are carried at Amortised Cost (“AC”) or Fair Value Through Other Comprehensive Income (“FVOCI”) is measured according to the significant increase in credit risk of those assets from their initial recognition. The significance of the increase in credit risk is assessed based on internally developed parameters and may include estimates and judgements. Further, several internal and external forward-looking judgements, estimates and assumptions including economic effects pertaining to the COVID-19 pandemic are used in assessing the ECL allowances. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the Consolidated Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility and discount rates. The valuation of financial instruments is described in more detail in Note 21.

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

September 30, 2022

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

2.5 Significant Accounting Policies

Basis of consolidation

The consolidated financial statements include the assets, liabilities, and results of operations of the Bank and all its subsidiaries as at September 30, 2022. A list of these subsidiaries is presented in Note 17.

Foreign currency translation

The consolidated financial statements are presented in United States dollars. The Bank and each of its subsidiaries determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Bermuda dollar balances and transactions are translated into United States dollars at par. Monetary assets and liabilities in other currencies are translated into United States dollars at the rates of exchange prevailing at the reporting date and non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into United States dollars at historic rates or the rates of exchange prevailing at the dates of the transactions.

Income and expense items in other currencies are translated into United States dollars at the rates prevailing at the dates of the transactions. Realised and changes in unrealized gains and losses on foreign currency positions are reported under net exchange gains or losses in the Consolidated Statement of Income of the current year.

Cash and cash equivalents

Cash and cash equivalents consist of cash and term deposits which are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value and have original maturities of three months or less from the reporting date. Cash and cash equivalents may also include high quality liquid assets (“HQLA”) such as treasury bills and money market funds, which have daily liquidity and which invest in highly liquid instruments, such as term deposits and commercial papers.

Financial instruments

Recognition and initial measurement

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

Classification

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

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

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

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

September 30, 2022

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

Financial instruments (continued)

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

Assessment of whether contractual cash flows are SPPI

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

Reclassifications

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

Financial liabilities

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

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

September 30, 2022

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

Financial instruments (continued)

Derivatives

Derivatives include foreign exchange forward contracts and warrants. The Bank uses derivatives to manage its credit and market risk exposures and also to provide clients with the ability to manage their own risk exposures. The Bank does not use derivatives for trading or for speculative purposes.

The Bank uses foreign exchange forward contracts to manage the Bank's foreign exchange risk on certain investment securities denominated in foreign currencies.

Derivatives are recorded at fair value and carried as assets when the fair value is positive, and as liabilities when the fair value is negative.

The accounting treatment for a fair value gain or loss on a derivative depends on whether the derivative is designated as a hedging instrument. Changes in the fair value of derivatives are included in the Consolidated Statement of Income in gains (losses) on derivative financial instruments for the option contracts, and in net foreign exchange gains or losses for the forward contracts, unless they qualify for hedge accounting. The Bank does not currently apply hedge accounting.

Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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

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

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the Consolidated Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses will not be offset in the Consolidated Statement of Income unless required or permitted by an accounting standard or interpretation as specifically disclosed in the accounting policies of the Bank.

Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

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

Financial instruments (continued)

When available, the Bank measures fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of fair value of a financial instrument at initial recognition is normally the transaction price which is the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is measured initially at fair value and it is adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, the difference is recognised in the Consolidated Statement of Income on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Impairment

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

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

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

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

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

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

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

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

September 30, 2022

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

Financial instruments (continued)

Impairment (continued)

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

Significant increase in credit risk

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

These include:

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

Measurement of ECL

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

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

- Probability of Default (“PD”)
- Loss Given Default (“LGD”)
- Exposure at Default (“EAD”)

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

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

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

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

September 30, 2022

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

Financial instruments (continued)

Impairment (continued)

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

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

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

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

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

Incorporation of forward-looking information

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

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

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

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

September 30, 2022

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

Financial instruments (continued)

Impairment (continued)

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

Definition of default and cure

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

As a part of the assessment of whether an individually significant customer is in default, the Bank also considers a variety of factors that may indicate their inability to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such factors include, but are not limited to, downgrade in internal rating of the loan, deterioration in loan-to-value, and other qualitative indications that suggest that the borrower of the loan or the issuer of the financial investment is unlikely to honour its credit obligation in full, or in part, due to reasons such as significant financial difficulty of the issuer, breach of covenants, potential bankruptcy, other financial reorganization, the disappearance of an active market, and the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses. It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when one or more of the above criteria have improved.

Modification of financial assets

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

Write-offs

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

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

September 30, 2022

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

Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its estimated recoverable amount.

Property and equipment

Property and equipment are carried at historical cost less accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the property and equipment. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets, which are up to forty years for buildings, seven years for equipment, four years for computer hardware, seven years for operating lease equipment, and the term of the lease for leasehold improvements. Depreciation commences once the property and equipment is put into use.

Subsequent costs, such as repairs and maintenance, are charged to the Consolidated Statement of Income during the financial year in which they are incurred.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in other operating income in the Consolidated Statement of Income in the year the asset is derecognised.

Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

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

Bank as a Lessee

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

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

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

Bank as a Lessor

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

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

September 30, 2022

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

Leases (continued)

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

When the Bank is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head-lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Bank applies the exemption described above, then the Bank classifies the sub-lease as an operating lease. However, there were no sub-leases in the Bank's consolidated financial statements at either year-end.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method at the acquisition date which is deemed to be when control is transferred to the Bank. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Bank elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and presented in the Consolidated Statement of Income.

When the Bank acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. This involves recognising identifiable assets (including previously unrecognised intangible assets), and liabilities (including contingent liabilities but excluding future restructuring costs), of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the Consolidated Statement of Income at the date of acquisition.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's relevant CGU that is expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal.

Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

Subsidiaries

Subsidiaries are investees controlled by the Bank. The Bank controls an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of the subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

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

Business combinations and goodwill (continued)

Loss of control

When the Bank loses control over a subsidiary it derecognises the assets and liabilities of the subsidiary and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in the Consolidated Statement of Income. Any interest retained in the former subsidiary is measured at fair value when control is lost and is categorised under financial investments.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Non-controlling interests

Non-controlling interests (when applicable) are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Bank's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Other intangible assets

The Bank's other intangible assets include the value of computer software and, previously, customer relationships acquired in business combinations. An intangible asset is recognised only when its cost can be measured reliably, and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank. Intangible assets are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination equals their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any impairment losses. Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

Computer software	Up to 8 years

Amortisation of computer software commences once it is put into use. On November 2, 2015, the Bank commenced usage of its core banking software and the cost of the software is being amortised over its expected useful life of 7 years.

Subsequent expenditure on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Customer drafts payable

Customer drafts payable consist of the balance of un-cashed customer drafts at the reporting date. This balance is customer-driven and fluctuates based on when customers purchase drafts and when they are presented for payment. Customer drafts payable are presented under liabilities on the Consolidated Statement of Financial Position upon issue.

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(Expressed in United States Dollars)

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

Discontinued operation

A discontinued operation is a component of the Bank's business, the operations and cash flows of which can be clearly distinguished from the rest of the Bank and which:

- Represent a separate major line of business or geographic area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operation; or
- Is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale. When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

Recognition of income

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

Interest income

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

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

Revenue from contracts with customers - Fees and commissions

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

Dividend income

Dividend income is recognised when the Bank's right to receive the payment is established.

Expenses

Expenses are recognised in the Consolidated Statement of Income on the accrual basis. Interest expense is calculated using the effective interest rate method.

Notes to Consolidated Financial Statements
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2. Basis of preparation and significant accounting policies (continued)

Dividends on common shares

Dividends on common shares are recognised as a liability and are deducted from equity in the period in which they are declared.

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the Consolidated Statement of Income, net of any reimbursement.

Fiduciary activities

The Bank acts as custodian (and trustee until March 1, 2022) that results in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions. These assets and income arising thereon are excluded from these consolidated financial statements, as they are not assets or income of the Bank.

New standards, interpretations, and amendments to published standards relevant to the bank issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Bank's consolidated financial statements which may be relevant to the Bank are listed below. The following new and amended standards are not expected to have a significant impact on the consolidated financial statements or intended to be adopted early:

Classification of Liabilities as Current or Non-Current (Amendments to IAS1)
The amendments, as issued in 2020, aim to clarify the requirements on determining whether a liability is current or non-current, and apply for annual reporting periods beginning on or after 1 January 2023. However, the IASB has subsequently proposed further amendments to IAS 1 and the deferral of the effective date of the 2020 amendments to no earlier than 1 January 2024. Due to these ongoing developments, the Bank is unable to determine the impact of these amendments on the consolidated financial statements in the period of initial application. The Bank is closely monitoring the developments.

Other Standards
The following new and amended standards are not expected to have a significant impact on the Bank's consolidated financial statements:

- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).
- Definition of Accounting Estimates (Amendments to IAS 8).

Early adoption

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

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3. Cash and cash equivalents

Cash and cash equivalents were made up as follows:

	2022	2021
Cash and demand deposits	$ 62,255,247	$ 117,440,584
Term deposits maturing within three months	106,611,763	84,457,881
HQLA maturing within three months	100,087,565	133,732,440
Total	$ 268,954,575	$ 335,630,905

Term deposits amounting to $15,980,184 were collateralized at September 30, 2022 (2021: $16,633,750).

The average effective yields earned were as follows:

	2022	2021
Cash and demand deposits	0.01%	-0.04%
Term deposits maturing within three months	0.93%	0.08%
HQLA maturing within three months	0.26%	0.43%

4. Derivative financial instruments

At their inception, derivatives often involve only a mutual exchange of rights and obligations with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and can be very volatile. A relatively small movement in the value of the asset, index or price underlying a derivative contract may have a significant impact on the fair value of the instrument.

Over-the-counter derivatives may expose the Bank to the risks associated with the absence of an exchange market on which to close out an open position.

The Bank's exposure under derivative contracts is closely monitored as part of the overall management of the Bank's market risk (see also Note 20).

Foreign exchange forward contracts

Foreign exchange forward contracts are contractual agreements to buy or sell a specified amount of foreign currency at a future date at an exchange rate fixed at inception of the contract. Forward contracts are customized contracts transacted in the over-the-counter market. The Bank uses these contracts to manage its exposure to foreign currency risk.

Warrants

Warrants are contractual agreements under which the seller grants the purchaser the right, but not the obligation, either to buy or sell a security at, or by, a specific future date. The Bank purchases warrants through regulated exchanges and in the over-the-counter markets. Warrants purchased by the Bank provide it with the opportunity to purchase the underlying asset at an agreed-upon value either on or before the expiration of the contract. The Bank is exposed to credit risk on purchased warrants only to the extent of their carrying amount, which is their fair value. The warrant contracts that the Bank entered into during the previous financial year were equity warrants.

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4. Derivative financial instruments (continued)

The table below shows the fair values of derivative financial instruments recorded as assets and liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying reference asset, index, or price and is the basis upon which changes in the value of derivatives are measured. The notional amounts of the derivatives are not recorded on the Consolidated Statement of Financial Position. The notional amounts presented below on net basis indicate the volume of transactions outstanding at the year-end and are not indicative of the market risk or the credit risk.

	2022			2021		
	Assets	**Liabilities**	**Notional amount**	**Assets**	**Liabilities**	**Notional amount**
Foreign exchange forward contracts	$ 271,322	$ 290,082	$ (486,074)	$ 68,515	$ 69,956	$ 10,039
Warrants	–	–	–	171,839	–	1,429,928
Total	$ 271,322	$ 290,082	$ (486,074)	$ 240,354	$ 69,956	$ 1,439,967

At September 30, 2022, the net cost of the derivatives amounted to $nil (2021: $nil).

5. Financial investments

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

	2022	**2021**
Financial investments measured at FVOCI		
Government debt securities	**$** 61,391,729	$ 46,773,220
Corporate debt securities (non-banks)	78,954,193	88,958,740
Debt securities issued by banks	80,029,283	51,226,504
Asset-backed securities	127,385	276,608
Total debt securities at FVOCI	**220,502,590**	187,235,072
Equity securities designated at FVOCI	25,364,521	30,822,199
Total financial investments measured at FVOCI	**245,867,111**	218,057,271
Financial investments mandatorily measured at FVTPL		
Corporate debt securities (non-banks)	5,892,176	29,066,008
Debt securities issued by banks	2,264,451	10,526,978
Equity securities	–	1,737,872
Total financial investments measured at FVTPL	8,156,627	41,330,858
Total financial investments	**$ 254,023,738**	$ 259,388,129

At September 30, 2022, the amortised cost of financial investments amounted to $266,344,355 (2021: $250,136,303).

The carrying value of investments subject to the ECL assessment at September 30, 2022 was $220,502,590 (2021: $187,235,072) and solely represent debt securities measured at FVOCI.

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5. Financial investments (continued)

Reconciliations from the opening to the closing balance of debt instruments subject to ECL, and the corresponding ECL allowance are as follows:

2022

	Financial investments							
	Gross carrying amount				**ECL Allowance**			
	Non-credit impaired		**Credit impaired**	**Total**	**Non-credit impaired**		**Credit impaired**	**Total**
	Stage 1	**Stage 2**	**Stage 3**		**Stage 1**	**Stage 2**	**Stage 3**	
As at October 1, 2021	$186,803,483	$ –	$431,589	$ 187,235,072	$ 563,711	$ –	$216,209	$779,920
Transfers to:								
Net movement in financial investments	32,419,051	1,189,780	(341,313)	33,267,518	–	–	–	–
ECL charge (reversal)	–	–	–	–	(284,622)	39,686	154,168	(90,768)
As at September 30, 2022	$219,222,534	$1,189,780	$90,276	$220,502,590	$ 279,089	$39,686	$370,377	$689,152

2021

	Financial investments							
	Gross carrying amount				**ECL Allowance**			
	Non-credit impaired		**Credit impaired**	**Total**	**Non-credit impaired**		**Credit impaired**	**Total**
	Stage 1	**Stage 2**	**Stage 3**		**Stage 1**	**Stage 2**	**Stage 3**	
As at October 1, 2020	$105,288,808	$9,175,391	$2,488,822	$ 116,953,021	$ 812,715	$ 901,673	$1,082,474	$2,796,862
Transfers to:								
From Stage 3	163,030	–	(163,030)	–	57,463	–	(57,463)	–
Net movement in financial investments	81,351,645	(9,175,391)	(1,894,203)	70,282,051	–	–	–	–
ECL charge (reversal)	–	–	–	–	(306,467)	(901,673)	(808,802)	(2,016,942)
As at September 30, 2021	$186,803,483	$ –	$ 431,589	$187,235,072	$ 563,711	$ –	$ 216,209	$ 779,920

Equity securities designated as at FVOCI

The FVOCI designation was made for certain equity securities because those investments are being held for strategic purposes. Dividend income in 2022 from these securities was $600,000 (2021: $654,575). Realized profits for the year from derecognition of equity securities measured at FVOCI was $3,794,706 (2021: $5,423,524 (Note 17)).

Interest income from financial investments

Interest income calculated using the effective interest method, on financial investments measured at AC and FVOCI were $nil and $5,639,107 respectively (2021: $87,386 and $4,748,382 respectively). Interest income on financial investments measured at FVTPL, presented under other interest income on the Consolidated Statement of Income, was $1,170,931 (2021: $2,802,913).

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September 30, 2022

6. Loans and advances to customers

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

		2022		2021
Commercial loans	$	25,465,099	$	17,975,093
Commercial overdrafts		4,904,739		4,846,977
Commercial mortgage loans		7,000,000		–
Consumer mortgage loans		9,579,087		1,401,653
Credit cards		261,941		183,429
Other		614,859		155,103
Total	$	47,825,725	$	24,562,255

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

2022

	Within 1 year	1-5 years	5-10 years	More than 10 years	ECL allowance	Total
Commercial loans	$ 5,100,000	$ 19,316,283	$ 1,059,492	$ –	$ (10,676)	$ 25,465,099
Commercial overdrafts	4,915,236	–	–	–	(10,497)	4,904,739
Commercial mortgage loans	–	7,000,000	–	–	–	7,000,000
Consumer mortgage loans	–	–	376,411	9,202,676	–	9,579,087
Credit cards	265,802	–	–	–	(3,861)	261,941
Other	343	614,896	–	–	(380)	614,859
Total	$ 10,281,381	$ 26,931,179	$ 1,435,903	$ 9,202,676	$ (25,414)	$ 47,825,725

2021

	Within 1 year	1-5 years	5-10 years	More than 10 years	ECL allowance	Total
Commercial loans	$ 2,000,000	$ 16,000,000	$ –	$ –	$ (24,907)	$ 17,975,093
Commercial overdrafts	4,846,989	–	–	–	(12)	4,846,977
Consumer mortgage loans	–	–	–	1,401,653	–	1,401,653
Credit cards	185,649	–	–	–	(2,220)	183,429
Other	4,991	150,143	–	–	(31)	155,103
Total	$ 7,037,629	$ 16,150,143	$ –	$ 1,401,653	$ (27,170)	$ 24,562,255

Notes to Consolidated Financial Statements
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6. Loans and advances to customers (continued)

Credit quality

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

Loans and advances at September 30, 2022

	Gross carrying amount				ECL allowance				Net carrying amount
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	
Commercial loans	$ 25,475,775	$ –	$ –	$ 25,475,775	$ 10,676	$ –	$ –	$ 10,676	$ 25,465,099
Commercial overdrafts	4,915,236	–	–	4,915,236	10,497	–	–	10,497	4,904,739
Commercial mortgage loans	7,000,000	–	–	7,000,000	–	–	–	–	7,000,000
Consumer mortgage loans	9,440,800	138,287	–	9,579,087	–	–	–	–	9,579,087
Credit cards	–	265,802	–	265,802	–	3,861	–	3,861	261,941
Other	614,896	–	343	615,239	67	–	313	380	614,859
Total at AC	$ 47,446,707	$ 404,089	$ 343	$ 47,851,139	$ 21,240	$ 3,861	$ 313	$ 25,414	$ 47,825,725

Loans and advances at September 30, 2021

	Gross carrying amount				ECL allowance				Net carrying amount
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	
Commercial loans	$ 18,000,000	$ –	$ –	$ 18,000,000	$ 24,907	$ –	$ –	$ 24,907	$ 17,975,093
Commercial overdrafts	4,846,989	–	–	4,846,989	12	–	–	12	4,846,977
Consumer mortgage loans	1,257,322	144,331	–	1,401,653	–	–	–	–	1,401,653
Credit cards	–	185,649	–	185,649	–	2,220	–	2,220	183,429
Other	154,545	589	–	155,134	27	4	–	31	155,103
Total at AC	$ 24,258,856	$ 330,569	$ –	$ 24,589,425	$ 24,946	$ 2,224	$ –	$ 27,170	$ 24,562,255

The above ECL allowance of $25,414 includes an ECL allowance of $11,191 (2021: $nil) estimated on undrawn commitments totaling $2,068,120 (2021: $1,169,630).

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6. Loans and advances to customers (continued)

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

Loans and advances as at 30 September 2022

	Gross carrying amount				ECL allowance			
	Non-credit impaired		Credit impaired	Total	Non-credit impaired		Credit impaired	Total
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
As at October 1, 2021	$ 24,258,856	$ 330,569	$ –	$ 24,589,425	$ 24,946	$ 2,224	$ –	$ 27,170
Transfers:								
From Stage 1	–	–	–	–	–	–	–	–
From Stage 2	–	–	–	–	–	–	–	–
From Stage 3	–	(589)	589	–	–	(5)	5	–
Net movement in loans and advances	23,187,851	74,109	(246)	23,261,714	–	–	–	–
ECL charge (reversal)	–	–	–	–	(3,706)	1,642	308	(1,756)
As at September 30, 2022	$ 47,446,707	$ 404,089	$ 343	$ 47,851,139	$ 21,240	$ 3,861	$ 313	$ 25,414

Loans and advances as at 30 September 2021

	Gross carrying amount				ECL allowance			
	Non-credit impaired		Credit impaired	Total	Non-credit impaired		Credit impaired	Total
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
As at October 1, 2020	$ 21,453,859	$ 2,746,943	$ 153,590	$ 24,354,392	$ 50,099	$ 39,017	$ 1,723	$ 90,839
Transfers:								
From Stage 1	–	–	–	–	–	–	–	–
From Stage 2	–	–	–	–	–	–	–	–
From Stage 3	–	153,590	(153,590)	–	–	1,723	(1,723)	–
Net movement in loans and advances	2,804,997	(2,569,964)	–	235,033	–	–	–	–
ECL reversal	–	–	–	–	(25,153)	(38,516)	–	(63,669)
As at September 30, 2021	$ 24,258,856	$ 330,569	$ –	$ 24,589,425	$ 24,946	$ 2,224	$ –	$ 27,170

Notes to Consolidated Financial Statements
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6. Loans and advances to customers (continued)

Collateral held by the Bank

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

The aggregate discounted value of collateral held by the Bank for credit impaired assets reported at September 30, 2022 was $nil (2021: $ nil).

Assets modified during the year

No loans and advances were modified during the year (2021: $nil).

Average effective yields

The average effective yields earned were as follows:

	2022	2021
Commercial loans	6.56%	6.20%
Commercial overdrafts	6.07%	6.05%
Commercial mortgage loans	5.50%	–
Consumer mortgage loans	5.05%	5.51%
Credit cards	16.00%	16.00%
Other	5.99%	6.63%

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

7. Property and equipment

2022

	Equipment	Land	Building	Right-of-use Assets	Total
Cost					
Beginning of year	$ 1,316,654	$ 1,306,800	$ 12,756,849	$ 87,491	$ 15,467,794
Additions	63,078	-	65,420	-	128,498
End of year	$ 1,379,732	$ 1,306,800	$ 12,822,269	$ 87,491	$ 15,596,292
Accumulated Depreciation					
Beginning of year	$ 1,250,021	$ -	$ 1,609,591	$ 87,491	$ 2,947,103
Depreciation charge	41,043	-	319,499	-	360,542
End of year	1,291,064	-	1,929,090	87,491	3,307,645
Net book value at end of year	$ 88,668	$ 1,306,800	$ 10,893,179	$ -	$ 12,288,647

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7. **Property and equipment** (continued)

2021

	Equipment	Land	Building	Right-of-use Assets	Total
Cost					
Beginning of year	$ 1,279,990	$ 1,306,800	$ 12,706,849	$ 87,491	$ 15,381,130
Additions	36,664	–	50,000	–	86,664
End of year	$ 1,316,654	$ 1,306,800	$ 12,756,849	$ 87,491	$ 15,467,794
Accumulated Depreciation					
Beginning of year	$ 1,192,316	$ –	$ 1,291,913	72,408	$ 2,556,637
Depreciation charge	57,705	–	317,678	15,083	390,466
End of year	1,250,021	–	1,609,591	87,491	2,947,103
Net book value at end of year	$ 66,633	$ 1,306,800	$ 11,147,258	$ –	$ 12,520,691

Right-of-use assets represent leased equipment.

8. **Intangible assets**

2022

	Computer software
Cost	
Beginning of year	$ 11,295,749
Additions	–
Disposals	–
End of year	11,295,749
Accumulated amortisation and impairment	
Beginning of year	9,969,011
Impairment	–
Amortisation charge for the year	1,184,693
End of year	11,153,704
Net book value at end of year	$ 142,045

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8. Intangible assets (continued)

	2021		
	Computer software	**Goodwill**	**Total**
Cost			
Beginning of year	$ 11,295,749	$ 2,723,371	$ 14,019,120
Additions	–	–	–
Disposals	–	–	–
End of year	11,295,749	2,723,371	14,019,120
Accumulated amortisation and impairment			
Beginning of year	8,765,842	1,978,109	10,743,951
Impairment	–	745,262	745,262
Amortisation charge for the year	1,203,169	–	1,203,169
End of year	9,969,011	2,723,371	12,692,382
Net book value at end of year	$ 1,326,738	$ –	$ 1,326,738

Computer software

Amortisation of computer software is calculated using the straight-line method to write down the cost to its residual value over its estimated useful life. Amortisation commences once the software is put into use.

Goodwill (applicable for the year ended September 30, 2021)

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

Goodwill is subject to an impairment test on at least an annual basis, but more frequently if events or changes in circumstances indicate that the recoverable value is less than the carrying value. The recoverable amount of goodwill is calculated based on the value in use of the CGU by determining the discounted future cash flows expected to be generated from the continuing use of the CGU. Estimated cash flows are based on expectations of future outcomes considering past experience adjusted for anticipated revenue and expense growth and were discounted at 12% in 2021. Key assumptions used in this process may change as economic and market conditions change.

Based on the assessment performed during the prior year, management determined that the CGU had an estimated recoverable value below the carrying value primarily due to the change in anticipated revenue from the CGU and, as a result, fully impaired the remaining goodwill of $745,262 in the consolidated financial statements as at September 30, 2021.

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9. Other assets

Other assets were made up of:

	2022	2021
Accounts receivable, net of ECL	$ 245,596	$ 830,877
Accrued income	297,673	357,678
Prepayments	1,047,695	1,462,903
Total	$ 1,590,964	$ 2,651,458

The ECL allowance recorded at September 30, 2022 in accordance with IFRS 9 was $549,028 (2021: $1,306,789).

10. Deposits

Deposits were made up of:

	2022	2021
Demand deposits	$ 360,969,559	$ 356,291,665
Term deposits:		
Deposits maturing within 1 month	18,405,453	12,175,589
Deposits maturing – 1-3 months	33,288,882	30,188,492
Deposits maturing – 3-12 months	60,061,428	53,528,480
Deposits maturing – 1-5 years	52,717,279	90,202,603
	164,473,042	186,095,164
Total	$ 525,442,601	$ 542,386,829

The average effective rates paid were as follows:

	2022	2021
Term deposits based on book values and contractual interest rates	1.76%	2.01%
Demand deposits	0.00%	0.13%

11. Other liabilities

Other liabilities were made up of:

	2022	2021
Accounts payable	$ 2,128,387	$ 3,049,328
Accrued liabilities	1,395,108	2,779,275
Total	$ 3,523,495	$ 5,828,603

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12. Equity

All shares are common shares with a par value of $2.40 each:

	Authorised shares		Par value	Issued & fully paid shares		Par value		Share premium
Balance at September 30, 2022 and 2021	10,000,000	$	24,000,000	7,003,318	$	16,807,963	$	22,131,188

Regulatory capital

The Bermuda Monetary Authority ("BMA") adopts the Basel III Accord which requires detailed disclosures on regulatory capital and risk management. The BMA assesses the risk of each banking institution and determines a separate individual capital guidance for each bank. The Bank has complied with all minimum capital requirements prescribed by the BMA and at September 30, 2022, the Bank's Tier 1 and total regulatory capital ratios 27.01% (2021: 27.01%) and 27.01% (2021: 27.01%) respectively, and exceeded the prescribed minimum.

Capital management

The Bank maintains its capital base and capital ratios above the regulatory minimum capital requirements. The Bank's capital levels are continuously reviewed by the Board of Directors in light of changes in economic conditions and the risk characteristics of the Bank's activities. In order to maintain or adjust its capital structure, the Bank may adjust the amount of dividend payments to shareholders, return capital to shareholders or issue new capital securities.

13. Fees and commissions

Fees and commissions are made up as follows:

		2022		2021
Banking services	$	1,727,699	$	1,003,549
Custody services		467,356		516,513
Total	$	2,195,055	$	1,520,062

14. (Losses) gains from financial investments

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

		2022		2021
From financial investments measured at FVTPL	$	(2,378,012)	$	4,980,765
On derecognition of financial investments measured at FVOCI		35,483		2,419,034
Total	$	(2,342,529)	$	7,399,799

15. Other operating income

		2022		2021
Lease income from operating leases	$	502,587	$	499,675

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

Notes to Consolidated Financial Statements
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16. General and administrative expenses

General and administrative expenses are made up as follows:

		2022		2021
Premises related costs	$	300,937	$	284,524
Advertising and marketing		13,632		67,139
Professional fees		1,526,439		1,415,435
Information technology and systems		1,764,444		1,630,446
Banking services and licenses		1,014,484		1,027,370
Investment advisory fees		816,617		2,510,020
Impairment loss on intangible assets (Note 8)		–		745,262
Administrative		1,560,813		1,501,710
Total	$	6,997,366	$	9,181,906

17. Related party disclosures

Related party transactions with shareholder controllers and the related parties of shareholder controllers

The Bank provides banking services and enters into transactions with shareholder controllers and the related parties of shareholder controllers under the same terms as an unrelated party would receive. Outstanding balances and/or transactions with shareholder controllers and the related parties of shareholder controllers were as follows:

Loans and advances to customers

At September 30, 2022, total loans and advances receivable from related parties amounted to $6,000,000 (2021: $nil), which was fully secured by publicly listed securities owned by the borrower. The undrawn portion of credit facilities granted to these related parties at September 30, 2022 was $nil (2021: $nil).

For the year ended September 30, 2022, the Bank earned net interest income and fees of $280,566 (2021: $1,095,485) for banking and other services provided to such related parties.

Deposit liabilities

At September 30, 2022, deposit balances held by related parties with the Bank amounted to $1,600,540 (2021: $7,010,578).

Transactions with Board of Directors

Total Directors' fees for the year ended September 30, 2022, amounted to $356,444 (2021: $623,551). The Bank provides banking services to Board of Directors under the same terms as an unrelated party would receive. At September 30, 2022, Board of Directors and parties associated with Board of Directors had deposit balances with the Bank of $112,743 (2021: $2,047,476). At September 30, 2022, total loans and advances receivable from Board Directors and parties associated with Board of Directors, and the undrawn portion of credit facilities committed, amounted to $nil (2021: $nil).

Interest expense (net of fees) on deposits from Board of Directors for the year was $2,993 (2021: $2,833).

Compensation of key management personnel of the Bank

The Bank classifies the Board of Directors of the Bank and senior management as key management personnel. For the year ended September 30, 2022, the total compensation paid to key management personnel amounted to $3,236,325 (2021: $2,461,685), excluding the Directors' fees.

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17. Related party disclosures (continued)

Principal subsidiary undertakings at September 30, 2022

Name	% ownership	Location
BCB Asset Management Limited	100.00	Bermuda
Bercom Nominees Limited	100.00	Bermuda
VT Strategies Holdings Limited	100.00	Bermuda

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

Details of the subsidiaries disposed of during the year can be found in Note 22.

Related Party Disclosures applicable to the financial year ended September 30, 2021 only

In accordance with *IAS 24 – Related Party Disclosures* ("IAS24"), upon the acquisition of the Bank by Provident Holdings Ltd, certain parties who were considered to be related to the Bank through common control of the former Parent, Somers Limited, ceased to be related parties effective July 20, 2021 ("acquisition date"). As such, unless specified, the transactions disclosed below for the current financial year include only the transactions for the period that any party was related to the Bank in line with IAS 24.

Financial Investments

The Bank held certain financial investments which were considered related at September 30, 2020, but ceased to be related parties after the acquisition date. The financial investments at September 30, 2020 included debt instruments issued by Bermuda First Investment Company Limited (a party related to the Bank through common control) with a carrying value of $10,923,308 and an accrued interest of $329,520. The position was settled by the issuer in 2021 and the interest earned in 2021 was $87,386.

The financial investments at September 30, 2020 also included equity investments in PCF Group PLC (sold during 2021 and a party related to the Bank through common control), Merrion Pentagon High Conviction Bond Fund Class B and Pentagon Global Diversified Bond Fund Limited (parties related to the Bank by way of common investment adviser, ICM Limited) with a total carrying value of $30,742,788 and a dividend receivable of $150,000. The dividend income from these investments in 2021 were $450,000.

Financial Investments Purchases and Sales

During 2021, the Bank did not purchase securities from related parties.

In July 2021, as a strategic action, the equity investment in PCF Group PLC that was classified and measured at FVOCI was sold to Somers Limited at a price of GBP 0.1725 per share or for an equivalent total consideration of $4,985,655 (Note 5 and 21).

Additionally, the Bank sold financial investments to related parties at amounts equal to their estimated fair value of $2,807,758. The estimated fair value of financial investments bought from related parties was $2,036,912. There were no receivables or payables as a result of the sale of these securities at September 30, 2021.

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17. Related party disclosures (continued)

Mergers during the year ended September 30, 2021

On July 20, 2021, in accordance with the provisions of Section 108 of the Companies Act 1981, Provident Growth Ltd ("merger sub"), a company registered in Bermuda, was merged with the Bank, the surviving company. The merger sub had no assets or liabilities at the date of the merger, and therefore, did not impact the Bank's consolidated financial statements.

18. Salaries and employee benefits

The Bank meets the minimum requirements of the Bermuda National Pension Scheme (Occupational Pensions) Act 1998, and related amendments and regulations. Under this legislation, the Bank contributes to its employees' pension requirements using a defined contribution plan at the rates below, following the completion of 720 hours of work for new staff:

- 5% of gross salary if service does not exceed 15 years
- 10% of gross salary if service exceeds 15 years (until May 2022)

As permitted under the legislation, staff members are required to contribute a minimum of 5% annually based on the employees' pensionable earnings. Until May 2022, staff members with greater than 15 years of service were not required to make contributions.

The scheme is administered by an independent party and all such funds are segregated from the assets and liabilities of the Bank. Pension expense incurred during 2022 amounted to $477,776 (2021: $387,751) and is included within salaries and employee benefits in the Consolidated Statement of Income.

19. Commitments and contingent liabilities

Commitments

At September 30, 2022, the Bank was committed to $3,469,144 (2021: $2,463,111) in undrawn credit facilities. This amount relates to the undrawn portion of approved commercial loans, unused portion of approved overdraft facilities and credit card limits.

Contingent liabilities

In the ordinary course of business, the Bank and its subsidiaries can, from time to time, be defendant in, or party to, pending and contingent legal actions and proceedings. The Bank is required to recognise a provision for a liability when it is probable that an outflow of economic benefits would be required to settle an obligation which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. While the outcome of such events is inherently uncertain and cannot be reliably measured, based on the information currently available to management, no contingent liabilities exist as at September 30, 2022 (2021: None).

20. Risk management

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.

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20. Risk management (continued)

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 governance framework and policies and supported by the Bank's Code of Conduct. 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 remuneration which incorporates behavioural values.

Governance

Robust and effective risk governance ensures clear accountability for the management of risk is embedded at every level within the Bank. The Board of Directors ("the Board") is ultimately responsible for oversight of the enterprise-wide risk management of the Bank and its alignment with the organisation's objectives and strategies. The Board's responsibilities include understanding the Bank's risk exposures, defining its risk appetite, and establishing risk measurement parameters that reflect its risk appetite.

The Board utilizes an underlying committee structure that oversees Executive Management's implementation of an effective risk management function.

The Bank's corporate governance practices are consistent with the BMA's Corporate Governance Policy (December 2012) that sets out the 13 principles and related guidance applicable to deposit taking institutions licensed under the Banks and Deposits Companies Act 1999 of Bermuda.

The Board Audit and Risk Committee ("BARC") acts as the primary committee under the Board for oversight of risk. It maintains broad responsibility over matters relating to the Bank's risk exposure, including definition, measurement, assessment, policy setting, and risk mitigation strategies. It establishes the 'tone from the top', and sets the expectations and requirements for risk management by Executive Management and the underlying management committees. The Governance Committee's ("GC") remit is to oversee all Human Resources matters, policies and procedures and any other matters concerning Employees and management. Below these Board level committees are a series of management level committees that further divide responsibility and oversight within the ERMF including the Executive Committee ("EXCO"), the Asset and Liability Management Committee ("ALCO") and the Management Risk Committee ("MRC"). Through this governance structure, the Bank's Executive Management are responsible for the practical execution of the ERMF and ongoing oversight as required by the Board.

BCB has adopted the three lines of defence model which addresses how specific duties related 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. The first line of defence are the risk owners that operate 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 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. The Second Line of Defence provides risk oversight through 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. The third line of defence is 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.

Notes to Consolidated Financial Statements
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20. Risk management (continued)

Significant risk categories

Risk is inherent in all of the Bank's business activities whether these are actively taken to maximise shareholder value (financial risks) or those that arise as a consequence of its activities (non-financial risks). The primary financial risks that the Bank faces are credit risk, liquidity risk, and market risk, and the primary non-financial risk is operational risk.

Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

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

While the methodologies and assumptions applied in ECL calculations remained unchanged from those applied in the previous year, special attention was given to the implications of the COVID-19 pandemic in assessing the ECL allowances recorded by the Bank. This included, but was not limited to, revisiting the Bank's internal models applicable to ECL and multiple economic scenarios analyses ("ESA"), change in staging of financial assets due to any significant increases in credit risk, and various other assumptions/inputs used in the ECL process. ECL allowances are based on the economic information available at September 30, 2022. However, the economic impact of the COVID-19 pandemic could be deeper or more prolonged than anticipated in the ECL process, and therefore future ECL allowances may change when updated and/or actual data is available. Please refer to Note 5, 6 and 9 for more details on the ECL allowances recorded during the year on financial assets measured at AC and FVOCI.

All counterparty banks and money market funds must be approved by the Bank's ALCO. The maximum amount that may be lent to any single bank via the deposit market or invested in a money market fund is governed by a number of controlling variables including the external credit ratings for that bank or money market fund. Counterparty lending limits and limits for money market fund investments are reviewed semi-annually and are adjusted if the capital ratio of a counterparty bank changes, or if the credit rating of a counterparty bank or money market fund goes below the rating levels identified above.

Liquidity risk and funding management

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting its obligations associated with financial liabilities when they fall due. To limit this risk, management has adopted policies that prioritize liquidity among the parameters for asset selection. Additionally, management monitors the term structure of the Bank's current funding, its future cash flows, and the market liquidity of its balance sheet assets on a daily basis.

The Bank maintains significant balances of short maturity interbank deposits, along with a diversified portfolio of mainly highly liquid and marketable assets that can be liquidated in the event of an unforeseen drain of cash flow. The Bank's liquidity position is assessed daily and is strategically managed over the long run to be capable of handling a variety of stress scenarios, including those related to systemic market conditions and those related specifically to the Bank.

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20. Risk management (continued)

Liquidity risk and funding management (continued)

Maturity profile

The below tables summarize the maturity profile of the Bank's assets and liabilities as at September 30, 2022 and 2021. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay, and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

	2022						
	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	ECL allowance	Total
Assets							
Cash and cash equivalents	$ 227,011,348	$ 41,943,227	$ –	$ –	$ –	$ –	$ 268,954,575
Interest receivable	701,325	805,358	477,924	104,402	20,809	–	2,109,818
Other assets	1,537,956	297,338	304,698	–	–	(549,028)	1,590,964
Loans and advances to customers	1,268,501	–	9,012,880	26,931,179	10,638,579	(25,414)	47,825,725
Financial investments	–	6,982,636	102,704,082	94,674,783	49,662,237	–	254,023,738
Derivative financial instruments	2,194	269,128	–	–	–	–	271,322
Property and equipment	–	–	–	88,668	12,199,979	–	12,288,647
Goodwill and other intangible assets	141,021	1,024	–	–	–	–	142,045
	$ 230,662,345	$ 50,298,711	$ 112,499,584	$ 121,799,032	$ 72,521,604	$ (574,442)	$ 587,206,834
Liabilities							
Deposits	379,375,012	33,288,882	60,061,428	52,717,279	–	–	525,442,601
Customer drafts payable	726	–	–	–	–	–	726
Derivative financial instruments	–	290,082	–	–	–	–	290,082
Other liabilities	1,542,539	882,974	166,616	931,366	–	–	3,523,495
Interest payable	90,324	454,499	1,544,977	955,960	–	–	3,045,760
	$ 381,008,601	$ 34,916,437	$ 61,773,021	$ 54,604,605	$ –	$ –	$ 532,302,664
Net assets (liabilities)	$ (150,487,256)	$ 15,382,274	$ 50,726,563	$ 67,194,427	$ 72,521,604	$ (574,442)	$ 54,904,170

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20. Risk management (continued)

Liquidity risk and funding management (continued)

	2021						
	Within 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**ECL allowance**	**Total**
Assets							
Cash and cash equivalents	$ 282,636,205	$ 52,994,700	$ –	$ –	$ –	$ –	$ 335,630,905
Interest receivable	535,978	712,615	466,254	29,868	4,049	–	1,748,764
Other assets	2,887,263	308,834	760,900	1,250	–	(1,306,789)	2,651,458
Loans and advances to customers	187,269	4,845,370	2,004,991	16,150,143	1,401,652	(27,170)	24,562,255
Financial investments	1,780	293,188	45,179,158	102,679,416	111,234,587	–	259,388,129
Derivative financial instruments	–	68,515	–	171,839	–	–	240,354
Property and equipment	–	–	–	66,633	12,454,058	–	12,520,691
Goodwill and other intangible assets	–	–	–	1,326,738	–	–	1,326,738
	$ 286,248,495	$ 59,223,222	$ 48,411,303	$ 120,425,887	$ 125,094,346	$ (1,333,959)	$ 638,069,294
Liabilities							
Deposits	368,467,254	30,188,492	53,528,480	90,202,603	–	–	542,386,829
Customer drafts payable	11,002	–	–	–	–	–	11,002
Derivative financial instruments	1,537	68,419	–	–	–	–	69,956
Other liabilities	3,659,644	990,442	261,432	917,085	–	–	5,828,603
Interest payable	23,082	397,283	669,495	1,850,348	–	–	2,940,208
	$ 372,162,519	$ 31,644,636	$ 54,459,407	$ 92,970,036	$ –	$ –	$ 551,236,598
Net assets (liabilities)	$ (85,914,024)	$ 27,578,586	$ (6,048,104)	$ 27,455,851	$ 125,094,346	$ (1,333,959)	$ 86,832,696

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The market risk for the Bank's financial instruments is managed and monitored using sensitivity analyses. This analysis is performed using market information and in practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

Interest rate movements cause changes in interest income and interest expense, and although these changes move in the same direction, their relative magnitude will favorably or unfavorably impact net interest income and the economic value of equity. The extent of that impact depends on several factors, including matching of asset and liability maturities and the interest rate term structure. Assets and liabilities are managed to optimize the impact of interest rate movements in view of anticipated rate changes.

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

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20. Risk management (continued)

		2022		2021
200-basis-point increase in interest rates				
Impact on Economic Value of Equity	$	(3,860,205)	$	(8,767,198)
200-basis-point decrease in interest rates				
Impact on Economic Value of Equity	$	3,860,205	$	8,775,797

Foreign Currency Risk

Foreign currency risk is the risk that the value of assets and liabilities will fluctuate due to changes in foreign exchange rates. The Board of Directors has set limits on positions by currency. In accordance with the Bank's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits. A 10 per cent increase in the FX rates to which the Bank had significant exposure at September 30, 2022 would have decreased net income and equity by $36,338 (2021: $80,044). An equivalent decrease in these same FX rates would have resulted in an equivalent but opposite impact.

Equity Price Risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. A 10 per cent increase in the value of the Bank's equity securities in the investment portfolio at September 30, 2022 would have increased equity by $nil (2021: $173,787). An equivalent decrease would have resulted in an equivalent but opposite impact.

Operational risk

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. The Bank manages operational risk via a comprehensive and standalone Operational Risk Management Framework ("ORMF") which outlines the required policies, processes and responsibilities. A key aspect of the ORMF is the Risk and Control Self-Assessment ("RCSA") process which identifies and evaluates the operational risks across all of the Bank's businesses and determines if these are effectively controlled within acceptable parameters. Where deficiencies are detected formal action is taken to address these. The results of the RCSA drive the first and second line of defence control monitoring and testing regime, which is monitored through the MRC. The Bank also operates a defined process to govern how operational risk incidents are managed to ensure sustainable control improvements are delivered, and how operational losses are calculated, categorized and reported.

Geopolitical and macroeconomic risks

The ongoing Russia-Ukraine conflict has increased geopolitical instability and resulted in the use of significant sanctions and trade restrictions against Russia, Russian government officials and individuals with close ties to the Russian government as well as Russian financial institutions and companies. The Bank managed the expanded sanctions requirements through its automated sanctions screening monitoring system which is set up to flag possible wires in connection to Russia and other relevant sanctions regimes. The Bank engaged an external law firm with a dedicated sanctions team which assisted with the interpretation of the rapidly changing sanctions against Russia. Since February 2022, the Bank gradually limited its customers' ability to transact with Russia until May 2022 when the Bank discontinued transfers to Russia. The Bank assessed its possible sanctions exposure from customers and made amendments to its customer portfolio where considered necessary.

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20. Risk management (continued)

Geopolitical and macroeconomic risks (continued)

Together with the economic impacts of the Covid-19 pandemic, the Russia-Ukraine conflict has sustained a significant and almost universal increase in inflation and rising interest rates as central banks tighten monetary policy to control the resulting economic uncertainty. Although the direct financial impact to the Bank in 2022 has been limited to increased volatility in the fair value of its investments (Notes 5, 17 and 21) the Bank is not immune to the sustained and evolving risks of this uncertain environment and continues to monitor and seek to manage the potential implications on our business and customers. Specifically, through its forward-looking risk governance structure, the impact that rising rates have on the financial instruments held by the Bank are closely considered through ALCO and the impact of a rising cost of living on current and future borrowers is assessed through MRC which drives enhancements to the Bank's credit and lending policies and control framework.

21. Financial instruments

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments;

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data;

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

Valuation techniques include net present value and discounted cash flow models, trinomial option pricing models and other valuation models. Changes in unobservable inputs may result in a significantly higher or lower fair value measurement.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, such as currency swaps that use only observable market data and require little management judgment and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives. The availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Derivative financial instruments

The fair value of the Bank's derivative financial instruments, which are estimated using a valuation technique with market observable inputs include foreign exchange forward contracts and warrants. The most frequently applied valuation technique for forward contracts includes the forward pricing model which incorporates various inputs including the forward rates while the valuation techniques for warrants follows trinomial option pricing model.

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

September 30, 2022

Financial instruments recorded at fair value

Financial investments

Certain financial investments, where applicable, are valued using valuation techniques and include unquoted equity and debt securities. These assets are valued using models that use both observable and unobservable data. The unobservable inputs to the models include the review of the historical financial and operating results of the investee and its underlying investments, assumptions regarding the expected future financial performance and the risk profile of the investee and its underlying investments, and economic assumptions regarding the industry and geographical jurisdiction in which the investee and its underlying investments operate.

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

	2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial instruments at FVTPL				
Foreign exchange forward contracts	$ –	$ 271,322	$ –	$ 271,322
	–	271,322	–	271,322
Financial investments at FVTPL				
Corporate debt securities (non-banks)	–	5,892,176	–	5,892,176
Debt securities issued by banks	2,264,451	–	–	2,264,451
	2,264,451	5,892,176	–	8,156,627
Financial investments at FVOCI				
Government debt securities - over 3 months	55,592,249	5,799,480	–	61,391,729
Corporate debt securities (non-banks)	60,621,904	18,332,289	–	78,954,193
Debt securities issued by banks	60,438,208	19,591,075	–	80,029,283
Asset-backed securities	–	120,032	7,353	127,385
Equity securities designated at FVOCI	–	25,364,521	–	25,364,521
	176,652,361	69,207,397	7,353	245,867,111
Government debt securities - within 3 months	100,087,565	–	–	100,087,565
	$ 279,004,377	$ 75,370,895	$ 7,353	$ 354,382,625
Financial liabilities				
Derivative financial instruments at FVTPL	–	290,082	–	290,082
	$ –	$ 290,082	$ –	$ 290,082

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(Expressed in United States Dollars)

September 30, 2022

21. Financial instruments (continued)

Movement in Level 3 financial instruments measured at fair value:

	2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial instruments at FVTPL				
Foreign exchange forward contracts	$ –	$ 68,515	$ –	$ 68,515
Warrants	171,839	–	–	171,839
	171,839	68,515	–	240,354
Financial investments at FVTPL				
Corporate debt securities (non-banks)	16,910,759	12,155,249	–	29,066,008
Debt securities issued by banks	7,181,304	3,345,674	–	10,526,978
Equity securities	1,737,872	–	–	1,737,872
	25,829,935	15,500,923	–	41,330,858
Financial investments at FVOCI				
Government debt securities - over 3 months	39,996,000	6,777,220	–	46,773,220
Corporate debt securities (non-banks)	83,095,605	5,863,135	–	88,958,740
Debt securities issued by banks	35,747,020	15,479,484	–	51,226,504
Asset-backed securities	–	128,483	148,125	276,608
Equity securities designated at FVOCI	–	30,822,199	–	30,822,199
	158,838,625	59,070,521	148,125	218,057,271
Government debt securities - within 3 months	133,732,440	–	–	133,732,440
	$ 318,572,839	$ 74,639,959	$ 148,125	$ 393,360,923
Financial liabilities				
Derivative financial instruments at FVTPL	–	69,956	–	69,956
	$ –	$ 69,956	$ –	$ 69,956

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

September 30, 2022

21. Financial instruments (continued)

Movement in Level 3 financial instruments measured at fair value:

	Asset backed securities	Equities	Warrants	Total
At September 30, 2020	$ 156,149	$ 71,102	$ 5,421	$ 232,672
Transfers to Level 3	–	4,885,119	–	4,885,119
Gains (losses) recorded in:				
- Consolidated Statement of Income	3,285	(71,102)	(5,421)	(73,238)
- Consolidated Statement of OCI	–	100,536	–	100,536
Sales	(11,309)	(4,985,655)	–	(4,996,964)
At September 30, 2021	$ 148,125	$ –	$ –	$ 148,125
Gains (losses) recorded in:				
- Consolidated Statement of Income	(129,273)	–	–	(129,273)
Sales	(11,499)	–	–	(11,499)
At September 30, 2022	$ 7,353	$ –	$ –	$ 7,353

22. Discontinued operations

In November 2021, a share Sales and Purchase Agreement was signed between BCB and an external third party (“the purchaser”) to transfer 100% shareholding of four wholly owned subsidiaries of BCB namely, BCB Paragon Trust Limited, BCB Charter Corporate Services Limited, BCB Management Limited and BCB Management Services Limited (collectively referred to as “target companies” or "disposal group") for a negative consideration of $2.5M. The negative consideration was not paid to the purchaser but maintained by way of cash balance in the target companies. The additional cash infused to maintain the $2.5M cash requirement was accounted for as an equity contribution to the target companies.

The transaction was completed on March 1, 2022 (the “Transaction date” or the "disposal date") by transferring the title of all shares of the target companies to the purchaser. In line with IFRS10 – Consolidated Financial Statements, the target companies were consolidated with BCB until the transaction date, and were deconsolidated thereafter. The disposal loss recognized in the consolidated financial statements under loss from discontinued operations was $2,568,244.

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

September 30, 2022

22. **Discontinued operations** (continued)

A. Results of Discontinued operations

Trust and Corporate services business units were classified as discontinued operations during the current financial year. The breakdown of the loss from these discontinued operations presented on the Consolidated Statement of Income is as follows. The presentation of comparatives including to cash flows has been changed as follows to show the discontinued operations separately from the continuing operations:

	5 Months Ended 1 March 2022	12 Months Ended 30 September 2021
Fees and commissions	$ 430,763	$ 1,089,495
Impairment (losses)/gains on financial instruments	(9,865)	34,886
Total income	**420,898**	**1,124,381**
Less: expenses		
Salaries and employee benefits	748,908	1,673,615
General and administrative expenses	341,868	800,379
Total expenses	**1,090,776**	**2,473,994**
Net loss from operating activities before taxation	**(669,878)**	**(1,349,613)**
Less: Income tax expense	-	-
Net Loss from operating activities before taxation	**(669,878)**	**(1,349,613)**
Less: Disposal loss on sale of discontinued operations	(2,568,244)	-
Loss from discontinued operations	**$ (3,238,122)**	**$ (1,349,613)**

The loss from discontinued operations is fully attributable to the shareholders of BCB.

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

September 30, 2022

22. Discontinued operations (continued)

B. Cash flows from (used in) discontinued operation

		2022		2021 (Re-presented)
Net cash from (used in) operating activities	$	(561,810)	$	(1,167,255)
Net cash from (used in) investing activities		–		–
Net cash from (used in) investing activities		–		–
Net cash flows for the year	$	(561810)	$	(1,167,255)

C. Fair value of assets and liabilities as at the date of disposal

		2022
Assets		
Cash and cash equivalents	$	2,500,000
Due from related parties		82,370
Other assets		1,145,126
	$	3,727,496
Liabilities		
Other liabilties	$	1,076,484
Due to related parties		82,768
	$	1,159,252

Additionally, a receivable equivalent to $249,028 was transferred from the disposal group to BCB on the date of disposal. This is receivable from the purchaser once payments for the underlying invoices are recovered from the customers of the disposal group.

23. Subsequent events

There have been no significant events or transactions from September 30, 2022 to the date that these consolidated financial statements were available for issuance that require adjustments to or disclosures in the consolidated financial statements.

Subsidiaries
As at September 30, 2022

BCB ASSET MANAGEMENT LIMITED
BCB Asset Management Limited (incorporated February 11, 2011) merged on January 11, 2012, with BCB Fund Services Limited (incorporated December 21, 1992).

BERCOM NOMINEES LIMITED
Incorporated in Bermuda on July 8, 1987.

VT STRATEGIES HOLDINGS LIMITED
Incorporated in Bermuda on August 21, 2013.

It has been said that every tool carries with it the spirit by which it has been created. That there is creativity in process and beauty in structure. At Bermuda Commercial Bank, we see the client experience in banking as an art form. Through exacting detail and a meticulous passion for our craft, we create inspired results for our clients locally and around the globe.

welcome to the art of banking

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