ANNUAL REPORT 2018

BCB®

Bermuda Commercial Bank Limited

BCB ANNUAL REPORT 2018

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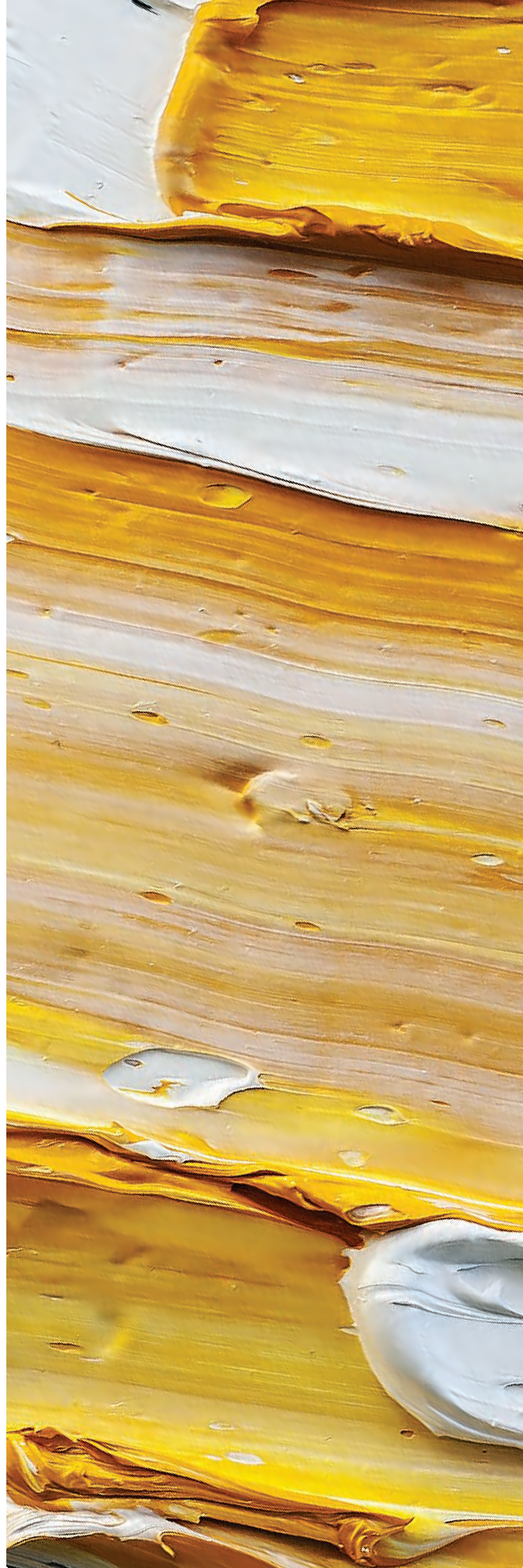
Corporate Profile

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



Core Values

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

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

History of Bermuda Commercial Bank

Bermuda Commercial Bank Limited ("BCB" or the "Bank") began by an Act of Parliament in February 1969. The Bank operated under the management of Barclays from its inception until May 1993. A decision was made by Barclays to sell its minority shareholdings world-wide in the early 1990's and this set the stage for the Bank to acquire a new shareholder who would bring a new focus and direction.

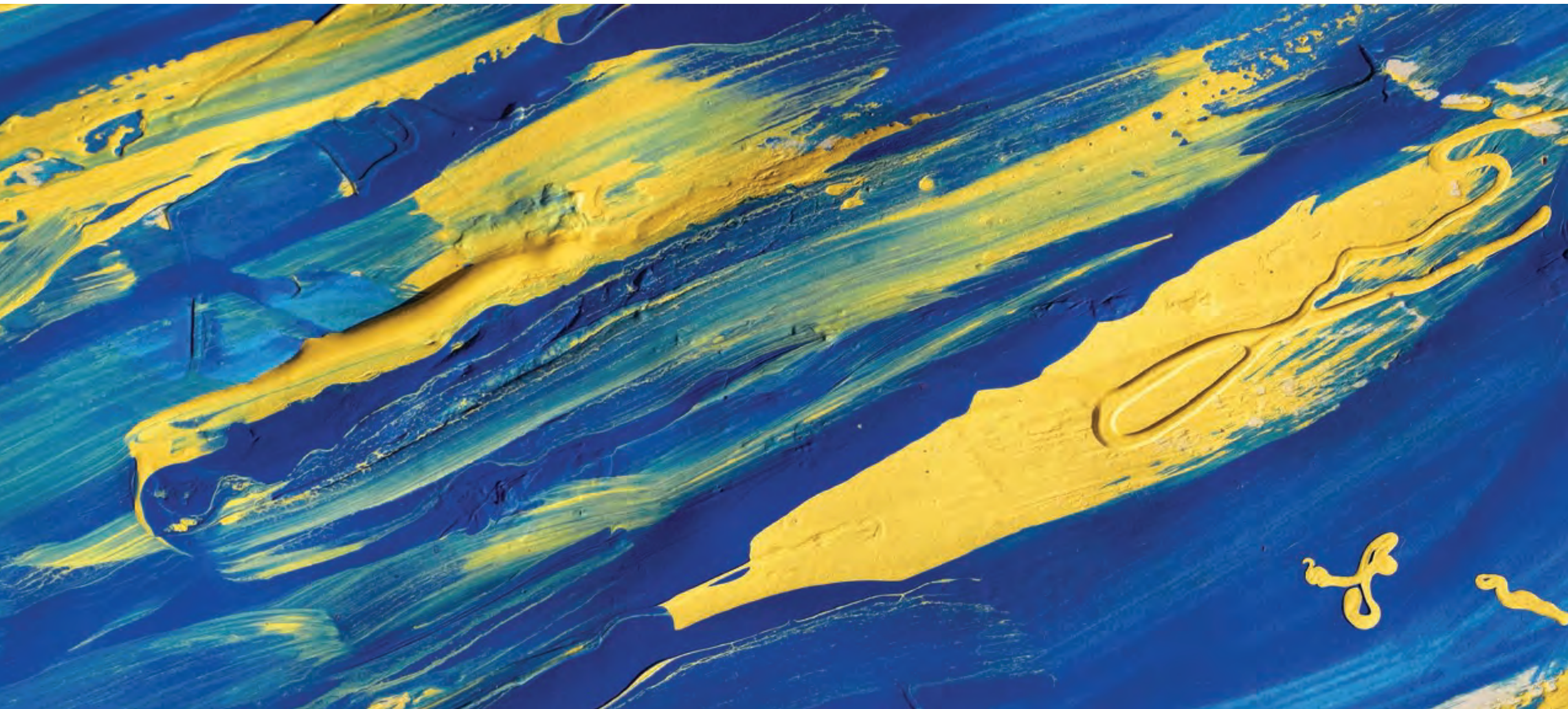
In April 2010, the majority shareholding in the Bank was purchased by an investor group through Permanent Investments Limited ("Permanent"). In October 2011, BCB expanded its trust and corporate administration services business through the acquisition of two established Bermuda companies. This was consistent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

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

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

In September 2015, BCB announced the acquisition of PCF Group plc, formerly known as Private and Commercial Finance Group plc ("PCFG"), a UK-based finance house quoted on the AIM stock exchange with a focus on vehicle financing in the business and consumer sectors. In 2016, PCFG became a licensed bank in the UK and continued to be a subsidiary of BCB until June 2018.

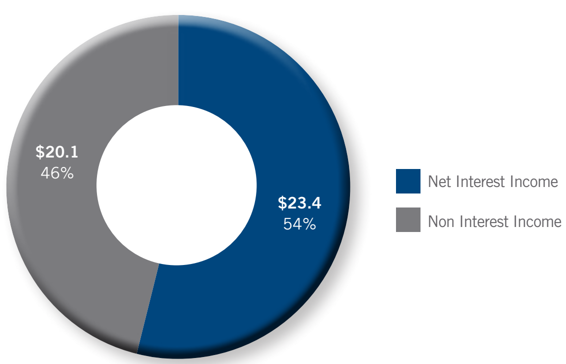
In 2019, BCB will celebrate its 50-year anniversary of providing banking services to Bermuda and internationally.



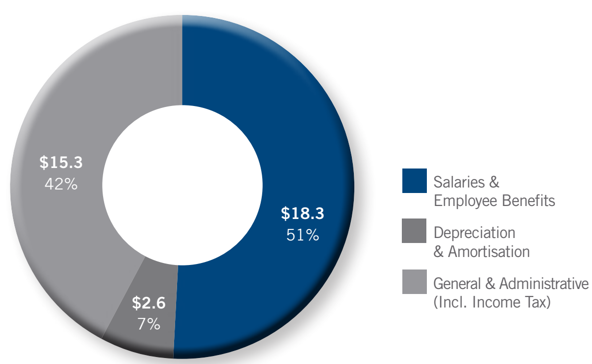
Key Financial Highlights

	2018	2017
Results of the year ($ million)		
Total income	$ 43.5	$ 35.1
Total expenses*	$ 36.3	$ 34.0
Net income	$ 7.2	$ 1.1
Results at the year end ($ million)		
Total assets	$ 482.8	$ 779.6
Total deposits	$ 367.7	$ 585.7
Total equity	$ 105.4	$ 121.9
Regulatory ratios		
Tier 1 capital ratio	41.3%	22.5%
Total capital ratio	41.3%	22.5%

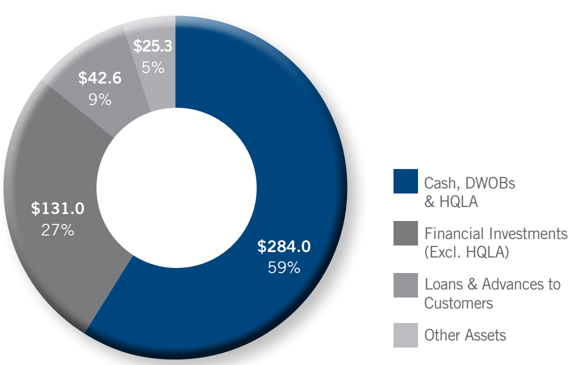
TOTAL INCOME ($ million)



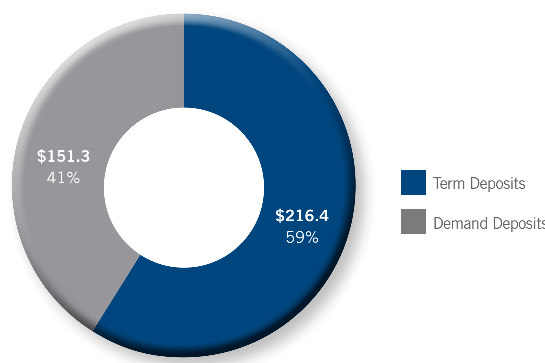
TOTAL EXPENSES ($ million)



TOTAL ASSETS ($ million)



TOTAL DEPOSITS ($ million)



*Includes income tax expense

Note: Numbers have been rounded to one decimal place.

Chairman's Letter

Bermuda Commercial Bank Limited ("BCB" or the "Bank") is a regulated bank which seeks to achieve attractive and sustainable financial performance. Strong capital and liquidity positions provide a stable base to support the continuing development of the Bank.

PRIMED FOR CONTROLLED GROWTH

As I explained in my prior report, in recent years BCB has mostly focused inwards. With patience and support from its shareholder, the Bank has utterly transformed its foundations. This involved very material investments in BCB's leadership and staff, its building, and its information technology systems. It also entailed devising and embedding the internal controls required for the Bank to operate and grow in a controlled and sustainable way.

We believe that this complex and challenging transformation is virtually complete. The Bank is ready to progressively re-focus outwards. BCB's new foundations give it the potential to add scale in a controlled framework. The goal will be to build a sustainably profitable business raising the prospect of a bright new future for a bank which will celebrate its 50th anniversary in 2019.

This will not happen overnight. The Bank has developed a new five year business plan which is currently being reviewed by our regulator. In essence, BCB plans to grow its market share rather than to rely on prospectively challenging market conditions. The key to market share will be to offer a genuinely superior customer service with a focused product line. Of course, simply saying you will offer good service has zero value; everyone does so. Actually demonstrating good service, on the other hand, catches attention. In my experience, the best marketing is via the word of mouth of happy customers.

The transformative work describe above was driven by the imperative of meeting and striving to exceed the expectations of our clients and our regulator. Of course, these are not static. BCB will need to be nimble enough to evolve along with client needs, and disciplined enough to retain strong risk management which adapts to evolving circumstances and regulations.

2018 IN REVIEW

During the year to September 30, 2018, BCB earned a pleasing net income of $7.2 million (2017: $1.1 million).

BCB's total income for the year grew to $43.5 million from $35.1 million. An important contribution stemmed from the sale of the majority of the Bank's investment in the PCF Group ("PCFG"). BCB continually reassesses the merits of investments such as this based on the inherent value of the business, the prevailing share price and capital considerations. Our admiration for PCFG's business is unchanged and it has grown strongly since being granted a UK banking licence. However, the position was capital-expensive and marked appreciation in the share price allowed the Bank to profitably reduce its position.

The total expenses for the year amounted to $36.3 million (2017: $34 million). This limited growth was attributable to PCFG, and the management team controlled BCB's own expenses tightly. The Bank incurred additional costs to strengthen its leadership depth by completing the senior management team and to uplift compliance standards. Both factors should prove to be sound investments in the Bank's future. These increases were balanced by reductions in other BCB cost centres.

As always, our priority is to ensure that BCB is stable and secure. At September 30, 2018, the Bank had an exceptionally strong 41.3% capital ratio (September 30, 2017: 22.5%), in part due to the recent divestment of PCF Group shares.

For more details see the Management's Discussion & Analysis on page 11.

IN CONCLUSION

Thank you to everybody who contributed to a year which was successful for BCB in two respects. From a narrow perspective, the Bank delivered improved results. More importantly, the work to rebuild BCB's foundations was continued and substantially completed. The Bank is now primed and ready to offer the standards of service which will allow it to build an attractive and sustainable business in the coming years.

That did not come without hard work, from the Board, management and staff. Thank you all. We also understand and appreciate the high expectations of and collaboration with key stakeholders such as our regulator and our shareholder.

Finally, thank you to our clients. Everyone at the Bank values and will work hard to deserve your business.

ALAN GILBERTSON
CHAIRMAN

Board of Directors (As of December 31, 2018)

ALAN GILBERTSON I CHAIRMAN

Mr. Gilbertson has thirty nine years of experience in the financial services and non-profit sectors in Bermuda, Asia and South Africa. He was a founding member of the Orbis Investment Management Group and the President of Orbis Holdings Limited for eleven years. Mr. Gilbertson is the Chairman of The Global FoodBanking Network, and is a co-founder and Board member of FoodForward South Africa, both of which are hunger relief projects. He also serves as a Non-Executive Director for other commercial and philanthropic boards in Bermuda.

DAVID MORGAN I DEPUTY CHAIRMAN *

Mr. Morgan has over thirty five years of experience in international banking, building his career at Standard Chartered Bank in Europe, the Far East and the USA. Since leaving Standard Chartered he has been involved in a wide range of business advisory and non-executive roles. In addition to Bermuda Commercial Bank he is also a Non-Executive Director of Somers Limited, PCF Group plc and Waverton Investment Management Limited.

GAVIN ARTON

Mr. Arton is currently Non-Executive Chairman of BF&M Limited and also serves as a Director of several Bermuda based and international organisations. With over forty years of corporate experience, Mr. Arton is a former senior executive of XL Group and previously was an executive of CIGNA Corporation and American International Group, Inc.

DEREK STAPLEY

Mr. Stapley is a Chartered Accountant with more than thirty years' experience in the Financial Services Industry. He currently serves as an independent director on the boards of several private or listed investment funds, insurance companies and private client structures. Mr. Stapley is a former partner in Ernst & Young's Financial Services Office. Mr. Stapley, who is Scottish and Bermudian, is a member of the Institute of Chartered Accountants of Scotland, the Chartered Professional Accountants in Bermuda, the Canadian Institute of Chartered Accountants and the Institute of Directors.

ALASDAIR YOUNIE

Mr. Younie is a Director of ICM Limited, a Bermuda based fund management company. He is a Chartered Accountant with experience in corporate finance and corporate investment. Mr. Younie is a Director of Ascendant Group Limited, One Communications Limited, Somers Limited and West Hamilton Holdings Limited. Mr. Younie is a member of the Institute of Chartered Accountants in England and Wales.

JEANNE ATHERDEN

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

ANDREW BROOK *

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

HUBERT ESPERON *

Mr. Esperon joined BCB in September 2016 as Chief Executive Officer. He has over twenty six years of experience in financial services and has previously held multiple senior executive roles at GE Capital across Europe, including more recently as CEO of GE Artesia Bank in the Netherlands. Before GE Capital, Mr. Esperon spent five years with PricewaterhouseCoopers. Mr. Esperon holds a Masters of Applied Mathematics and an MBA from ESSEC business school in France, majoring in Finance.

* Denotes non-Bermudian Director

Senior Management

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

LOUISE WAKEFIELD
Chief Innovation Officer

LASANTHA THENNAKOON
Chief Financial Officer

MICHAEL SCHULZ
Chief Strategy & Regulatory Officer

LISA BARNES
Head of Customer Experience

HUBERT ESPERON
Chief Executive Officer

LOUISE CHARLESON
Head of Legal

ANTHONY GARZIA
Commercial Team Leader

FREDRICA EVANS
General Manager, Trust Services, Paragon

ARHNEL TERROZA
Head of Internal Audit

STEPHEN EGAN
Interim Chief Risk Officer

Management's Discussion & Analysis

This Management's Discussion and Analysis ("MD&A") is provided to enable users to assess the Bank's results and performance for the year ended September 30, 2018 and should be read in conjunction with the consolidated financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All references to BCB or the Bank refer to Bermuda Commercial Bank Limited and its subsidiaries on a consolidated basis.

Bermuda Commercial Bank Limited is a wholly owned subsidiary of Somers Limited, a BSX listed financial services investment holding company, and BCB remains regulated by the Bermuda Monetary Authority. A list of subsidiaries of BCB is provided under note 16 to the consolidated financial statements.

FINANCIAL PERFORMANCE HIGHLIGHTS

- Total income for the year was $43.5 million ($35.1 million in 2017)
- Net income for the year was $7.2 million ($1.1 million in 2017).
- The total equity attributable to the Bank's equity holders was $105.4 million at September 30, 2018 ($98.4 million in 2017).
- A strong total capital ratio of 41.3% at the year-end (22.5% in 2017).
- Strong liquidity position – Cash and cash equivalents represents 35.4% of total assets (33.5% in 2017).

All balances of the 2017 financial year include the consolidated financial information of BCB's subsidiary in the United Kingdom, PCF Group PLC ("PCFG") which was deconsolidated in June 2018 following the sale of the majority shareholding in PCFG to Somers Limited. As such, BCB's consolidated statement of financial position at September 30, 2018 does not include the assets and liabilities of PCFG, while the consolidated statement of income includes PCFG's operational results up to June 30, 2018. A comprehensive disclosure relating to this transaction has been provided under note 16 to the consolidated financial statements.

RESULTS OF OPERATIONS FOR THE YEAR ENDED SEPTEMBER 30, 2018

During the year, the Bank generated a net income of $7.2 million compared to the net income of $1.1 million recorded in 2017. The increase in net income compared to the prior year was primarily driven by the improved earnings from the Bank's financial investments which also included the gain from the sale of PCFG, and effective management of expenses.

INTEREST INCOME

Total interest income was $30.5 million for the year ended September 30, 2018 ($36.0 million in 2017). Interest income from loans and advances to customers was $22.4 million ($28.9 million a year ago) and the movement was primarily due to the consolidation of nine months results of PCFG versus a full year in 2017. Interest from financial investments was $7.1 million ($6.5 million a year ago). As detailed in the asset section, over the course of the year, the Bank continued improving its risk management framework by appropriately diversifying its financial investment portfolio with improved asset quality and liquidity. Interest income from cash and term deposits saw an increase to $1.0 million from $0.6 million a year ago due to effective management of liquid assets and increase in market interest rates.

Interest expense saw a decrease to $7.1 million from $11.9 million a year ago and the year-on-year movement mainly pertained to the deconsolidation of PCFG in June 2018. The Bank's unencumbered balance sheet and strong capital levels, matched with a diversified portfolio of interest earning assets, allowed BCB to offer competitive interest rates on its deposit book.

NON-INTEREST INCOME

Net non-interest income was $20.1 million compared to $11.0 million in 2017. This material increase was mainly due to the improved net earnings from financial investments which included a $15.5 million gain from the sale of the majority shareholding in PCFG. The increase in non-interest income was partially offset by the increase in impairment losses on financial investments. Fees and commissions for 2018 were $3.8 million compared to $3.3 million recorded in 2017.

EXPENSES

The Bank is focused on effective management of expenses while continuing to deliver the top level of service that our customers expect to receive. In 2018, the Bank recorded total expenses of

$36.3 million ($34.0 million in 2017), and the total expenses were within the Board approved annual budget despite increased resource allocation towards a continued strengthening of compliance function.

FINANCIAL CONDITION AS AT SEPTEMBER 30, 2018

Assets

Cash and cash equivalents were $170.9 million at the year-end ($261.5 million in 2017). At September 30, 2018, cash and cash equivalents represented 35.4% of total assets compared to 33.5% in 2017. The Bank is committed to maintaining a prudent level of liquid assets which will be managed in line with the Bank's liquidity management framework.

The Bank's financial investment portfolio increased to $244.1 million from $233.7 million one year ago. The portfolio consists primarily of government debt securities, corporate debt securities (non-banks), and debt securities issued by banks along with a lesser percentages of portfolio funds, asset-backed securities and equities. It is anticipated that the Bank will continue to strengthen its High Quality Liquid Assets ("HQLA") portfolio in 2019 in response to new global regulatory requirements on liquidity and stable funding needs. The Bank's investment portfolio is monitored closely across a wide range of risk and performance characteristics, and in accordance with its risk management framework, BCB has actively diversified the portfolio at the industry, jurisdiction and counterparty level. The Bank remains comfortable with the composition and mix of its investment portfolio.

The Bank's loans and advances portfolio was $42.6 million at September 30, 2018 compared to $245.7 million recorded in 2017. The year-on-year movement was primarily due to the deconsolidation of PCFG, as the majority of the loan book at September 30, 2017 was related to PCFG's consumer and business finance facilities. The key components of the loan book at the year-end were commercial loans (94.1% of the loan book) and consumer mortgage loans (3.6% of the loan book).

Liabilities

Total deposits at September 30, 2018 were $367.7 million compared to $585.7 million a year earlier, which also included the deposits of PCFG. Management continues to strengthen the stable funding base including improvements to the weighted average maturity of the Bank's deposit base, as evident by the higher proportion of term deposits in the total deposits portfolio on a year-on-year basis.

CAPITAL POSITION AS AT SEPTEMBER 30, 2018

A key priority for the Bank is the deliverance of sustainable financial performance leading to increased capital security. Total equity attributable to equity holders at the year-end was $105.4 million compared to $98.4 million in 2017.

BCB is subject to minimum capital requirements externally imposed by the BMA in accordance with guidelines developed by the Basel Committee on Banking Supervision. The Bank ended the financial year 2018 with a strong regulatory capital ratio of 41.3% (22.5% in 2017) increasing its cushion significantly over and above the BMA requirements.

RISK MANAGEMENT

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

During 2018, BCB continued to focus its efforts on ensuring that its risk management practices are aligned with its business activities, the evolving regulatory environment and with the ever-changing challenges of the external operating environment. The Bank's risk management structure consists of the Board of Directors, the Board Audit and Risk Committee ("BARC"), Governance Committee, Executive Committee ("EXCO"), the Asset & Liability Committee ("ALCO"), and the Management Risk Committee ("MRC"). Please refer to note 19 in the financial statements for more details of these committees.

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

Prudent management of liquidity and stable funding form a part of BCB's fundamental approach to risk management. The Bank maintains HQLA and has sought to improve the stability, diversification and maturity of its deposit base. The Bank closely monitors developments in banking regulations in relation to liquidity management, and the maturity profile of its deposit funding is managed to ensure that the Bank is not exposed to high levels of re-financing within concentrated time periods.

While related party transactions continue to feature in BCB's profile, these transactions are closely monitored and governed by the Bank's Board of Directors and the BARC. The Bank ensures that all transactions with related parties are examined by the Board, approved on market terms and conditions, and are subject to oversight by the Bank's Risk Management function. In addition, the Bank's Internal Audit department carries out audit procedures to provide the Board of Directors with assurance that the Bank's policies and procedures to identify, authorise and report related party transactions are appropriately designed and operating effectively.

Details of the Bank's risk structure are outlined in note 19 to the financial statements.

BASEL III

The Basel Committee's new 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"), 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%. Banks also needs to maintain a minimum LCR of 90% for the year 2018 which will gradually be increased to 100% by 2019. Further, effective January 1, 2018, Basel III introduced a minimum regulatory requirement for stable funding known as Net Stable Funding Ratio ("NSFR") where banks are required to maintain a minimum NSFR of 100%. The Bank's actual capital, liquidity and stable funding ratios at the year end were over and above the minimum regulatory requirements.

Overall, based on BCB's capital, liquidity and funding position at September 30, 2018, the Bank is well positioned to fully meet the Basel III capital adequacy, liquidity and stable funding requirements.

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Bermuda Commercial Bank Limited and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at September 30, 2018, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at September 30, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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 Group's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

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

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

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

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

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
December 21, 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at September 30, 2018 (expressed in United States Dollars)

Assets	**2018**	**2017**
Cash and cash equivalents (Note 3)	$ 170,852,331	$ 261,451,315
Receivable from related parties (Note 16)	151,412	219,095
Interest receivable	2,291,733	2,490,428
Other assets (Note 9)	1,820,885	3,820,764
Loans and advances to customers (Notes 6 and 16)	42,585,759	245,676,577
Available-for-sale financial investments (Notes 5, 16 and 21)	244,067,643	233,729,929
Derivative financial instruments (Notes 4 and 21)	157,916	151,841
Deferred tax assets (Note 23)	–	1,615,787
Property and equipment (Note 7)	13,486,735	14,072,203
Goodwill and other intangible assets (Note 8)	7,400,751	16,410,401
Total assets	$ 482,815,165	$ 779,638,340
Liabilities		
Deposits (Note 10 and 16)	$ 367,689,377	$ 585,731,005
Interest bearing loans and borrowings (Note 11)	–	49,684,880
Customer drafts payable	112,926	369,607
Derivative financial instruments (Notes 4 and 21)	417,558	–
Other liabilities (Note 12)	6,982,607	19,505,918
Taxes payable (Note 22)	–	223,066
Interest payable	2,193,013	2,181,153
Total liabilities	$ 377,395,481	$ 657,695,629
Equity		
Capital stock (Note 13)	$ 16,807,963	$ 16,807,963
Share premium (Note 13)	22,131,188	22,131,188
Reserve for available-for-sale financial investments	122,696	(983,811)
Foreign currency translation differences for foreign subsidiary	–	(782,056)
Retained earnings	66,357,837	61,178,319
Total equity attributable to equity holders	105,419,684	98,351,603
Non-controlling interests (Note 16)	–	23,591,108
Total equity	105,419,684	121,942,711
Total liabilities and equity	$ 482,815,165	$ 779,638,340

SIGNED ON BEHALF OF THE BOARD:

ALAN GILBERTSON
CHAIRMAN

HUBERT ESPERON
CHIEF EXECUTIVE OFFICER

See accompanying notes

CONSOLIDATED STATEMENT OF INCOME

For the year ended September 30, 2018 (expressed in United States Dollars)

Income		**2018**		**2017**
Interest income:				
Cash and term deposits	$	969,363	$	646,286
Loans and advances to customers		22,393,834		28,864,703
Available-for-sale financial investments		7,092,162		6,494,172
Total interest income		30,455,359		36,005,161
Interest expense		(7,091,224)		(11,921,952)
Net interest income		23,364,135		24,083,209
Fees and commissions (Note 14)		3,837,528		3,259,354
Net foreign exchange gains		817,178		1,275,484
Gains (losses) on derivative financial instruments		96,376		(57,767)
Dividend income		668,368		1,781,733
Gains from financial investments (Note 16)		17,572,755		5,402,727
Impairment losses on financial investments (Note 5)		(3,136,243)		(757,260)
Other operating income		231,772		70,766
Total income	$	43,451,869	$	35,058,246
Expenses				
Salaries and employee benefits (Note 17)	$	18,316,131	$	17,223,219
Depreciation (Note 7)		485,738		940,420
Amortisation (Note 8)		2,131,504		1,580,825
General and administrative expenses (Note 15)		14,342,410		13,148,945
Total expenses		35,275,783		32,893,409
Net income before taxation		8,176,086		2,164,837
Income tax expense (Note 22)		(998,504)		(1,071,410)
Net income	$	7,177,582	$	1,093,427

See accompanying notes

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended September 30, 2018 (expressed in United States Dollars)

	2018	2017
Net income for the year	$ 7,177,582	$ 1,093,427
Other comprehensive income:		
Net unrealised gains on financial investments	3,224,771	6,483,685
Reclassification of realised gains (losses) recognised in net income	(2,118,264)	(5,402,727)
Other comprehensive income	1,106,507	1,080,958
Total comprehensive income	$ 8,284,089	$ 2,174,385

See accompanying notes

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended September 30, 2018 (expressed in United States Dollars)

	CAPITAL STOCK	SHARE PREMIUM	RESERVE FOR AVAILABLE-FOR-SALE FINANCIAL INSTRUMENTS	FOREIGN CURRENCY TRANSLATION DIFFERENCES FOR FOREIGN SUBSIDIARY	RETAINED EARNINGS	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance at September 30, 2016	$ 16,807,963	$ 22,131,188	$ (2,064,769)	$ (199,411)	$ 58,468,648	$ 95,143,619	$ 8,778,523	$ 103,922,142
Total comprehensive income	–	–	1,080,958	–	(287,817)	793,141	1,381,244	2,174,385
Dividends declared by PCFG to NCI	–	–	–	–	–	–	(134,632)	(134,632)
FX translation of foreign operations	–	–	–	(55,739)	–	(55,739)	1,498,553	1,442,814
Change in values resulting from PCFG share issue	–	–	–	–	2,997,488	2,997,488	12,067,420	15,064,908
Net gain on hedge of investments	–	–	–	(526,906)	–	(526,906)	–	(526,906)
Balance at September 30, 2017	$ 16,807,963	$ 22,131,188	$ (983,811)	$ (782,056)	$ 61,178,319	$ 98,351,603	$ 23,591,108	$ 121,942,711
Total comprehensive income	–	–	1,106,507	–	5,402,826	6,509,333	1,774,756	8,284,089
Dividends declared by PCFG to NCI	–	–	–	–	–	–	(242,529)	(242,529)
Loss of control in PCFG	–	–	–	782,056	(223,308)	558,748	(25,123,335)	(24,564,587)
Balance at September 30, 2018	$ 16,807,963	$ 22,131,188	$ 122,696	$ –	$ 66,357,837	$ 105,419,684	$ –	$ 105,419,684

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended September 30, 2018 (expressed in United States Dollars)

Operating activities	**2018**	**2017**
Net income	$ 7,177,582	$ 1,093,427
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation	485,738	940,420
Amortisation	2,131,504	1,580,825
Loss on disposal of property and equipment	–	5,690
Loss on disposal of intangible assets	–	127,000
Gain from sale of financial investments (Note 16)	(17,572,755)	(5,402,727)
Impairment losses on financial investments (Note 5)	3,136,243	757,260
Translation of foreign subsidiary	868,931	(582,645)
	(3,772,757)	(1,480,750)
Changes in:		
Receivable from related parties	67,682	(26,863)
Interest receivable	421,532	440,850
Other assets	889,847	(539,176)
Deferred tax assets	(150,770)	232,591
Derivative financial instruments, net	411,483	3,821,711
Customer drafts payable	(256,681)	(13,070)
Other liabilities	(9,643,525)	14,195,234
Taxes payable	174,423	(154,762)
Interest payable	1,987,535	(899,064)
Net cash (used in) provided by operating activities	$ (9,871,231)	$ 15,576,701
Investing activities		
Net change in loans and advances to customers	(23,667,807)	(35,081,016)
Proceeds from sale of available-for-sale financial investments	395,784,977	631,652,778
Purchases of available-for-sale financial investments	(430,359,229)	(676,364,509)
Net sales proceeds from PCFG sale (Note 16)	5,235,534	–
Purchases of property and equipment	(186,752)	(2,333,167)
Purchases of intangible assets	(745,135)	(2,780,804)
Net cash used in investing activities	$ (53,938,412)	$ (84,906,718)
Financing activities		
Net change in deposits	(32,810,358)	131,940,107
Net change in interest bearing loans and borrowings	6,263,546	(30,576,021)
Convertible loan notes	–	(1,241,031)
Shares issued by subsidiary	–	16,563,461
Dividends paid	(242,529)	(134,632)
Net cash (used in) provided by financing activities	$ (26,789,341)	$ 116,551,884
Net increase (decrease) in cash and cash equivalents	(90,598,984)	47,221,867
Cash and cash equivalents, beginning of year	261,451,315	214,229,448
Cash and cash equivalents, end of year	$ 170,852,331	$ 261,451,315
Supplementary disclosure of cash flow information		
Interest paid	$ 5,103,689	$ 12,821,016
Interest received	$ 30,876,891	$ 36,446,011
Dividends received	$ 668,368	$ 1,931,733

See accompanying notes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2018 (expressed in United States Dollars)

1. Description of Business

Bermuda Commercial Bank Limited ("BCB") is a Bermuda incorporated company, licensed and regulated by the Bermuda Monetary Authority (the "BMA"). BCB, together with its subsidiaries (collectively, the "Bank"), provides banking, custody, consumer and business finance, corporate and trustee services. BCB's registered office is at 34 Bermudiana Road, Hamilton HM 11, Bermuda.

BCB is a wholly owned subsidiary of Somers Limited ("Somers"), a Bermuda exempted investment holding company with investments in the financial services sector.

The consolidated financial statements for the year ended September 30, 2018, were authorised for issue in accordance with a resolution of the Board of Directors on December 21, 2018.

2. Basis of Preparation and Significant Accounting Policies

Basis of Preparation

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale financial investments and derivative financial instruments which are measured at fair value. The consolidated financial statements are presented in United States Dollars, which is the Bank's functional and presentational currency. All values are rounded to the nearest dollar, except when otherwise indicated.

Statement of Compliance

The consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). Except for the determination of fair value and reclassification of financial instruments as discussed further below, the Bank has consistently applied the significant accounting policies to all periods presented in these consolidated financial statements.

All intercompany balances and transactions are eliminated in full on consolidation. The financial statements of the Bank's subsidiaries are presented for the same reporting year as the Bank, using consistent accounting policies.

Subsidiaries are fully consolidated from the date on which control is obtained by the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Presentation of Consolidated Financial Statements

The Bank presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement of assets and liabilities within 12 months after the consolidated statement of financial position date (current), and more than 12 months after the consolidated statement of financial position date (non-current), is presented in Note 19.

Significant Accounting Judgments, Estimates, and Assumptions

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

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

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.

Impairment Losses on Loans and Advances

The Bank reviews its individually significant loans and advances to assess impairment at least on an annual basis. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining impairment loss. These estimates are based on assumptions about a number of factors (such as, among others, the significant financial difficulty of the borrower/s and default or delinquency in interest or principal payments), and actual results may differ from current estimates resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired, and all individually insignificant loans, are then assessed collectively in groups of assets with similar risk characteristics to determine whether a provision should be made for incurred loss events, for which there is objective evidence, but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as, among others, levels of arrears, credit utilisation, loan to collateral ratios, etc.), and judgments regarding concentrations of risks and economic data (including country risk, and the performance of different individual loan groups).

Impairment of Available-for-Sale Financial Investments

The Bank reviews its debt and other securities classified as available-for-sale financial investments at each reporting date and more frequently when conditions warrant an impairment assessment. This requires similar judgments as those applied to the individual assessment of loans and advances.

The Bank also records impairment charges on available-for-sale financial investments when there has been a significant or prolonged decline in fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Bank evaluates, among other factors, historical price movements, their duration, and the extent to which the fair value of an investment is less than its cost.

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, 2018. A list of these subsidiaries is presented in Note 16.

Foreign Currency Translation

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

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

Income and expense items in other currencies are translated into United States Dollars at the rates prevailing at the dates of the transactions. Realised and changes in unrealised gains and losses on foreign currency positions are reported under net exchange gains or losses in the consolidated statement of income of the current year.

Cash and Cash Equivalents

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

Financial Instruments – Initial Recognition and Subsequent Measurement

Date of Recognition

All financial assets and financial liabilities are initially recognised on the trade date basis which is the date that the Bank becomes a party to the contractual provisions of the instrument. This includes purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the market place.

Initial Recognition of Financial Instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities designated as fair value through profit or loss.

The Bank classifies its financial assets into the following categories:

Financial Assets and Financial Liabilities at Fair Value through Profit or Loss

Financial Assets and Financial Liabilities Designated at Fair Value through Profit or Loss

Financial assets and financial liabilities designated at fair value through profit or loss are designated as such by management on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring assets or liabilities or recognising gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities, or both which are managed and their performance re-evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded. This category comprises financial assets held for trading. A financial asset is classified in this category if it is acquired principally for the purpose of selling in the short-term, or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.

Financial assets and financial liabilities designated at fair value through profit or loss are recorded in the consolidated statement of financial position at fair value. Items which may be included in this classification are debt securities, equities, and short positions, and customer loans which have been acquired for the purpose of selling or repurchasing in the near term. Changes in fair value are recorded in the consolidated statement of income.

Derivatives Recorded at Fair Value through Profit or Loss

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

Derivatives embedded in financial instruments, such as warrants, and the conversion option in an acquired convertible bond, are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held-for-trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value.

Changes in the fair value of derivatives are reported under gains or losses on derivative financial instruments for option contracts and under net foreign exchange gains or losses for forward contracts in the consolidated statement of income.

Loans and Advances to Customers

Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as held for trading, designated as available-for-sale, or designated at fair value through profit or loss. After initial measurement, loans and advances are measured at amortised cost using the effective interest rate ("EIR") method, less the allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The EIR amortisation is reported under interest income, and losses arising from impairment are reported under the general & administrative expenses in the consolidated statement of income.

Available-for-Sale Financial Investments

Available-for-sale financial investments include equity investments, debt securities, and portfolio funds. Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions. After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Changes in unrealised gains and losses, with the exception of foreign exchange gains and losses, which are recorded in the consolidated statement of income, are recognised directly in equity under other comprehensive income or loss. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is included in the realised gain or loss on sale of available-for-sale financial investments in the consolidated statement of income.

Interest on available-for-sale financial investments is reported under interest income in the consolidated statement of income using the EIR method, and dividends are recorded as dividend income in the consolidated statement of income when the right of the payment has been established. The losses arising from impairment of such investments are reported under impairment losses on available-for-sale financial investments in the consolidated statement of income and removed from equity.

Investments in portfolio funds are initially recorded at cost and then carried at their net asset value ("NAV") per unit at the reporting date. This represents the fair value of the investment if the portfolio funds are not subject to any lock up period or other restrictions on their redemption.

Derecognition of Financial Assets and Financial Liabilities

Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The contractual rights to the cash flows from the financial asset expire;
- The Bank has transferred 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
- 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.

Financial Liabilities

A financial liability is derecognised when the contractual obligation under the liability is discharged or cancelled or expires.

Determination of Fair Value

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

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

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

The best evidence of fair value of a financial instrument at initial recognition is normally the transaction price which is the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is measured initially at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, the difference is recognised in profit or loss 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.

An analysis of fair values of financial instruments and further details as to how they are measured is provided in Note 21.

Impairment of Financial Assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event), and the loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

In assessing evidence of impairment, the Bank evaluates, among other factors, counterparty, issuer and borrower financial information, historical share prices, counterparty ratings, history of defaults, subordination, transaction nature, and other market and security-specific factors.

If there is objective evidence that an impairment loss has been incurred, the financial asset is written down to its realisable value, with the impairment loss being recognised in the consolidated statement of income. Any subsequent increase in the fair value of such assets that can be objectively related to an event that occurred after the impairment was recognised will result in a reversal of the impairment loss in the period in which the event occurs.

Financial Assets at Amortised Cost

For financial assets carried at amortised cost (such as amounts due from banks, and loans and advances to customers), the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognised in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was initially recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the consolidated statement of income. Any impairment loss or recovery of impairment loss is reported net in the consolidated statement of income.

Available-for-Sale Financial Investments

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is evidence that an investment is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised and it is removed from equity and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in the fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the same interest rate as that used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the consolidated statement of income.

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

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.

Reclassification of Financial Investments

The Bank may reclassify certain financial assets out of the available-for-sale classification into loans and advances to customers. Reclassification to loans and advances to customers is permitted when the financial assets meet the definition of loans and advances and the Bank has the intent and ability to hold these assets for the foreseeable future or until maturity.

For a financial asset reclassified from available-for-sale, the fair value at the date of reclassification becomes its new amortised cost, and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the asset, using the EIR method. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR method. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of income.

Offsetting Financial Instruments

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

Derivative Financial Instruments

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

The Bank uses foreign exchange forward contracts to manage the Bank's foreign exchange risk on certain investment securities denominated in foreign currencies. The Bank also uses option instruments when necessary to reduce its exposure to credit or market risks, and interest rate swaps to hedge its exposure to interest rate fluctuations.

Derivatives are carried at fair value and shown in the consolidated statement of financial position on a gross basis. These include exchange traded options, warrants, and other derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. An embedded derivative is a component of a hybrid instrument that includes a non-derivative host contract, with the effect that some of the cash flows of the hybrid instrument vary in a way similar to a stand-alone derivative. When an embedded derivative is separated, the host contract is accounted for based on accounting standards applicable to contracts of that type without the embedded derivative.

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

Property and Equipment

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

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 (NCI) 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 cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit 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 cash-generating unit retained.

Subsidiaries

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

Loss of Control

When the Bank loses control over a subsidiary it derecognises the assets and liabilities of the subsidiary and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in the consolidated statement of income. Any interest retained in the former subsidiary is measured at fair value when control is lost and is categorised under available-for-sale 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. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Non-Controlling Interests

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

Other Intangible Assets

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

Computer software	Up to 8 years
Customer relationships	Up to 15 years

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

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

Interest-Bearing Loans and Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated statement of income when the liabilities are derecognised as well as through the amortisation process.

Customer Drafts Payable

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

Recognition of Income

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

Interest Income

Interest income is recognised in the consolidated statement of income for all interest bearing instruments on the accrual basis, using the effective interest rate method.

Fees and Commissions

Fees and commissions include fees and commissions earned from banking and custodial services, consumer and business finance, trustee services, company management and corporate registrar services.

Income is recognised as revenue on the accrual basis over the period during which the services are provided.

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.

Operating Leases - The Bank as a Lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term and are included in rent and premises within general and administrative expenses in the consolidated statement of income.

Operating Leases - The Bank as a Lessor

Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Rental income arising from an operating lease is accounted for on a straight-line basis over the lease term.

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.

Defined Contribution Pension Plan

The Bank operates a defined contribution pension plan. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Bank by its employees, and is recorded as an expense under salaries and employee benefits in the consolidated statement of income.

Share-Based Payment Transactions

A previously held subsidiary of the Bank, PCF Group plc ("PCFG"), operated an approved and an unapproved equity-settled share option plan for its employees (Note 16). For awards granted after November 7, 2002 (and not vested by January 1, 2006) and in accordance with IFRS 2 'Share-based payment', an expense was recognised in prior years in respect of the fair value of employee services received in exchange for the grant of share options. A corresponding amount was recorded as an increase in equity within retained earnings. The expense was recognised over the relevant vesting period and was calculated by reference to the fair value of the share options granted.

In arriving at fair values, the Black-Scholes pricing model was used and estimates were made for dividend yields, share price volatility, risk-free rates and expected life of the share options.

Provisions

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

Fiduciary Activities

The Bank acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions. These assets and income arising thereon are excluded from these consolidated financial statements, as they are not assets or income of the Bank.

Current Tax

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using rates of tax that have been enacted, or substantively enacted, by the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated statement of income.

Deferred Tax

Deferred tax is provided in full, using the asset liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred tax is recognised in the consolidated statement of income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Deferred tax is determined using tax rates and laws which have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer considered probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value Added Tax ("VAT")

Revenues, expenses and assets are recognised net of the amount of VAT where applicable except in the case of overdue loans and receivables, other receivables and other payables which are shown inclusive of VAT.

The net amount of VAT recoverable from, or payable to, the taxation authority (if any) is included as part of other receivables or other payables in the balance sheet.

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

Standards issued but not yet effective up to the date of issuance of the Bank's consolidated financial statements which may be relevant to the Bank are listed below. This listing is of standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date. The Bank does not intend to adopt these standards early.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

In October 2017, the IASB issued *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*. The amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

BCB will apply IFRS 9 as issued in July 2014 initially on October 1, 2018 and will adopt the amendments to IFRS 9 on the same date. Based on assessments undertaken to date, the total estimated adjustment on the opening balance of the Bank's equity at October 1, 2018 upon the adoption of IFRS 9 is approximately $0.7mn which represents:

- impairment requirements and,
- classification and measurement requirements other than impairment.

The above assessment is preliminary because not all transition work has been finalised. Therefore, the actual impact of adopting IFRS 9 on October 01, 2018 may change because the new accounting policies assumptions, judgements and estimation techniques are subject to change until the Bank finalizes its first financial statements that include the date of initial application.

Classification and measurement

IFRS 9 introduces a principles-based approach to the classification of financial assets based on the entity's business model and the nature of the cash flows of the asset. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit and loss ('FVPL'). For financial liabilities, IFRS 9 includes the requirements for the classification and measurement previously included in IAS 39. For certain liabilities measured at fair value, gains or losses relating to changes in the entity's own credit risk are to be included in other comprehensive income.

Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' model.

The impairment requirements of IFRS 9 apply to the financial assets measured at amortised cost and FVOCI, lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, an allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months

('12 month ECL'). In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all the possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment are considered to be in default or otherwise impaired are in 'stage 3'.

The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instruments, rather than by considering an increase in ECL.

The assessment of credit risk, and the estimation of ECL, are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecast of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile.

Transition

The classification and measurement and impairment requirements are to be applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Accordingly the Bank will adopt this standard on October 1, 2018.

IFRS 9 Implementation

Within the Bank, significant preparatory, design and implementation work has taken place focused on the introduction of an IFRS 9 compliant impairment calculation model. The documentation of the Bank's accounting policy, the development of operating and risk modelling methodologies and an impact assessment of the classification and measurement requirements have also been included in the process. This work was largely completed in 2017/18 and since completion the model has been running in parallel with the Bank's current processes, in order to assess its impact and enhance its effectiveness.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The new model for revenue recognition is based on the transfer of control and it replaces the existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018.

IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing lease guidance including IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.

Amendments to IFRS 2, Classification and Measurement of Share-Based Payment Transactions

The amendment provides accounting guidance for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; classification of share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018.

Amendments to IFRIC 22, Foreign currency Transactions and Advance Consideration

The amendments clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The amendments are effective for annual periods beginning on or after January 1, 2018.

Amendments to IFRIC 23, Uncertainty over Income Tax Treatments

The amendments clarify the accounting for uncertainties in income taxes. It is to be applied to the determination of taxable profit (loss), tax bases, unused tax losses, credits and rates, when there is uncertainty over income tax treatments under IAS 12. It does not introduce new disclosures, but reinforces compliance with existing disclosure requirements about judgements made, assumptions and other estimates used and the potential impact of uncertainties that are not reflected. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019.

Other than the consideration of the impact of adopting IFRS 9 as described above, the Bank is currently evaluating the impact that these new standards will have on its financial statements when they become effective.

Early Adoption

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

3. Cash and Cash Equivalents

	2018	2017
Cash and demand deposits	$ 20,178,722	$ 129,039,032
Term deposits maturing within one month	35,087,172	42,554,760
HQLA maturing within three months	115,586,437	89,857,523
Total	$ 170,852,331	$ 261,451,315

Term deposits amounting to $20,223,199 were collateralised at September 30, 3018 (2017: $16,954,760).

The average effective yields earned were as follows:

	2018	2017
Cash and demand deposits	0.09%	0.07%
Term deposits maturing within one month	1.40%	0.83%
HQLA maturing within three months	1.34%	1.11%

4. Derivative Financial Instruments

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

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

The Bank's exposure under derivative contracts is closely monitored as part of the overall management of the Bank's market risk (see also Note 19).

Foreign Exchange Forward Contracts

Foreign exchange forward contracts are contractual agreements to buy or sell a specified amount of foreign currency at a future date at an exchange rate fixed at inception of the contract. Forwards are customised 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 option. The Bank is exposed to credit risk on purchased warrants only to the extent of their carrying amount, which is their fair value. The only warrant contract that the Bank entered into during the current year was an equity warrant.

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

	2018			2017		
	ASSETS	LIABILITIES	NOTIONAL AMOUNT	ASSETS	LIABILITIES	NOTIONAL AMOUNT
Foreign exchange forward contracts	$ –	$ 417,558	$ 35,834,888	$ 105,349	$ –	$ 124,839,440
Warrants	157,916	–	66,069	46,492	–	40,079
Total	$ 157,916	$ 417,558	$ 35,900,957	$ 151,841	$ –	$ 124,879,519

At September 30, 2018, the net cost of the derivatives amounted to $nil (2017: $nil).

5. Financial Investments

Available-for-Sale Financial Investments

The fair values of available-for-sale financial investments by major classifications at September 30 were as follows:

	2018	2017
Government debt securities	$ 113,099,740	$ 121,618,395
Corporate debt securities (non-banks)	71,366,283	50,193,053
Debt securities issued by banks	23,259,455	34,332,790
Asset-backed securities	678,297	694,579
Portfolio funds	24,068,892	23,140,583
Equities	11,594,976	3,750,529
Total	$ 244,067,643	$ 233,729,929

At September 30, 2018, the cost of available-for-sale financial investments amounted to $243,931,735 (2017: $234,711,716).

Impairment Losses on Financial Investments

During the year, the Bank recognised impairment losses on its financial investments of $3,136,243 (2017: $757,260).

6. Loans and Advances to Customers

Loans and advances to customers and the allowance for loan losses at September 30 were as follows:

	2018			2017		
	GROSS	ALLOWANCE FOR LOSSES	NET	GROSS	ALLOWANCE FOR LOSSES	NET
Commercial loans	$ 40,140,138	$ 55,568	$ 40,084,570	$ 43,674,496	$ 49,568	$ 43,624,928
Commercial overdrafts	57,725	–	57,725	4,114,069	–	4,114,069
Consumer mortgage loans	1,541,982	–	1,541,982	1,515,033	–	1,515,033
Consumer and business finance	–	–	–	196,737,037	1,416,295	195,320,742
Credit cards	240,347	2,500	237,847	259,268	–	259,268
Other	663,635	–	663,635	842,537	–	842,537
Total	$ 42,643,827	$ 58,068	$ 42,585,759	$ 247,142,440	$ 1,465,863	$ 245,676,577

The allowance for loan losses consists of:

	2018	2017
Balance at beginning of year	$ 1,465,863	$ 1,891,193
Reversal of individually assessed allowance for losses	(1,385,466)	(580,000)
Reversal of collectively assessed allowance for losses	(30,829)	(796,429)
Collectively assessed allowance for losses during the year	–	30,829
Individually assessed allowance for losses during the year	8,500	920,270
Total	$ 58,068	$ 1,465,863

Credit Quality

	2018			
	NEITHER PAST DUE NOR IMPAIRED	PAST DUE	IMPAIRED	GROSS
Commercial loans	$ 40,084,570	$ –	$ 55,568	$ 40,140,138
Commercial overdrafts	57,725	–	–	57,725
Consumer mortgage loans	1,179,014	362,968	–	1,541,982
Credit cards	237,847	–	2,500	240,347
Other	656,749	6,886	–	663,635
Total	$ 42,215,905	$ 369,854	$ 58,068	$ 42,643,827

	2017			
	NEITHER PAST DUE NOR IMPAIRED	PAST DUE	IMPAIRED	GROSS
Commercial loans	$ 43,624,573	$ –	$ 49,923	$ 43,674,496
Commercial overdrafts	4,114,069	–	–	4,114,069
Consumer mortgage loans	1,178,927	336,106	–	1,515,033
Consumer and business finance	176,414,256	8,088,870	12,233,911	196,737,037
Credit cards	259,268	–	–	259,268
Other	839,761	–	2,776	842,537
Total	$ 226,430,854	$ 8,424,976	$ 12,286,610	$ 247,142,440

At September 30, 2018, the carrying amount of gross loans and advances whose terms have been renegotiated which would otherwise be past due or impaired was $nil (2017: $489,879).

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

	2018					
	WITHIN 1 YEAR	1-5 YEARS	5-10 YEARS	MORE THAN 10 YEARS	ALLOWANCE FOR LOSSES	TOTAL
Commercial loans	$ 9,526,424	$ 28,878,994	$ –	$ 1,734,720	$ (55,568)	$ 40,084,570
Commercial overdrafts	57,725	–	–	–	–	57,725
Consumer mortgage loans	–	408,584	–	1,133,398	–	1,541,982
Credit cards	240,347	–	–	–	(2,500)	237,847
Others	549,593	114,042	–	–	–	663,635
Total	$ 10,374,089	$ 29,401,620	$ –	$ 2,868,118	$ (58,068)	$ 42,585,759

2017						
	WITHIN 1 YEAR	1-5 YEARS	5-10 YEARS	MORE THAN 10 YEARS	ALLOWANCE FOR LOSSES	TOTAL
Commercial loans	$ 2,468,467	$ 18,895,917	$ –	$ 22,310,112	$ (49,568)	$ 43,624,928
Commercial overdrafts	4,114,069	–	–	–	–	4,114,069
Consumer mortgage loans	–	387,721	–	1,127,312	–	1,515,033
Consumer and business finance	67,558,889	127,708,571	1,469,577	–	(1,416,295)	195,320,742
Credit cards	259,268	–	–	–	–	259,268
Others	11,500	830,993	–	44	–	842,537
Total	$ 74,412,193	$ 147,823,202	$ 1,469,577	$ 23,437,468	$ (1,465,863)	$ 245,676,577

The average effective yields earned were as follows:

	2018	2017
Commercial loans	5.75%	5.60%
Commercial overdrafts	6.11%	6.10%
Consumer mortgage loans	4.04%	5.77%
Consumer and business finance	11.2%	12.20%
Credit Cards	14.50%	14.50%

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

7. Property and Equipment

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

2017					
	EQUIPMENT	LEASEHOLD IMPROVEMENTS	LAND	BUILDING	TOTAL
Cost					
Beginning of year	$ 1,500,219	$ 28,853	$ 1,306,800	$ 10,746,272	$ 13,582,144
Additions	622,664	1,118	–	1,709,385	2,333,167
Disposals	(85,755)	(5,692)	–	–	(91,447)
End of year	2,037,128	24,279	1,306,800	12,455,657	15,823,864
Accumulated depreciation					
Beginning of year	833,396	–	–	63,359	896,755
Disposals	(85,514)	–	–	–	(85,514)
Depreciation charge for the year	650,982	7,799	–	281,639	940,420
End of year	1,398,864	7,799	–	344,998	1,751,661
Net book value at end of year	$ 638,264	$ 16,480	$ 1,306,800	$ 12,110,659	$ 14,072,203

8. Goodwill and Other Intangible Assets

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

2017		COMPUTER SOFTWARE		CUSTOMER RELATIONSHIPS		GOODWILL		TOTAL
Cost								
Beginning of year	$	11,929,938	$	4,154,402	$	6,918,519	$	23,002,859
Additions		2,763,845		–		16,959		2,780,804
Disposals		(477,809)		–		–		(477,809)
End of year		14,215,974		4,154,402		6,935,478		25,305,854
Accumulated amortisation								
Beginning of year		3,699,241		2,943,810		1,022,386		7,665,437
Impairment loss		(350,809)		–		–		(350,809)
Amortisation charge for the year		1,382,538		198,287		–		1,580,825
End of year		4,730,970		3,142,097		1,022,386		8,895,453
Net book value at end of year	$	9,485,004	$	1,012,305	$	5,913,092	$	16,410,401

Customer Relationships

Customer relationships are initially recorded at the net present value of the estimated future net cash flows that are expected to be gained from the existing customer base at the date of acquisition. The Bank recognised intangible assets of $4,154,402, relating to customer relationships resulting from the acquisition of BCB Paragon Trust Limited ("Paragon") and BCB Charter Corporate Services Limited ("Charter") in October 2011. This amount is amortised on a straight-line basis over the expected lives of the customer relationships and the related net cash flows.

Goodwill

The Bank recognised $2,723,371 in goodwill from the acquisition of Paragon and Charter in October 2011. In prior year, the Bank also recognised $4,280,377 in goodwill from the acquisition of PCFG in September 2015, which included goodwill of $600,609 relating to an acquisition made by PCFG in November 2000. However, due to the loss of control of PCFG in June 2018 (Note 16), the carrying value of the goodwill was derecognised.

Goodwill is subject to an impairment test on at least an annual basis, but more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The recoverable amount of goodwill is calculated based on the value in use of the cash generating units it relates to by determining the discounted future cash flows expected to be generated from the continuing use of the relevant cash generating units. Estimated cash flows are based on expectations of future outcomes taking into account past experience adjusted for anticipated revenue growth. Key assumptions used in this process may change as economic and market conditions change. The Bank currently estimates that reasonably possible changes in these assumptions would not cause the recoverable amount of the cash generating units to decline below the carrying amount at September 30, 2018.

Computer Software

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

9. Other Assets

	2018	2017
Accounts receivable, net of allowance for bad debts of $857,611 (2017: $714,650)	$ 632,132	$ 2,107,989
Accrued income	220,170	199,134
Prepayments	968,583	1,513,641
Total	$ 1,820,885	$ 3,820,764

10. Deposits

	2018	2017
Demand deposits	$ 151,294,671	$ 334,343,933
Term deposits:		
Deposits maturing within 1 month	65,608,788	32,995,436
Deposits maturing – 1-3 months	31,629,943	37,201,213
Deposits maturing – 3-12 months	40,754,563	77,093,347
Deposits maturing – 1-5 years	78,401,412	100,408,175
Deposits maturing – Over 5 years	–	3,688,901
	216,394,706	251,387,072
Total	$ 367,689,377	$ 585,731,005

The average effective rates paid were as follows:

	2018	2017
Term deposits based on book values and contractual interest rates	2.13%	2.09%
Demand deposits	0.00%	0.00%

11. Interest-Bearing Loans and Borrowings

Interest-bearing loans and borrowings related to PCFG, which had entered into various interest bearing loans and borrowing arrangements, were as follows:

	2018	2017
Secured loans and borrowings	$ –	$ 49,684,880

The total value of loan facilities available to PCFG at September 30, 2017 was $107.2mn/ £80mn.

12. Other Liabilities

	2018	2017
Accounts payable	$ 4,939,389	$ 16,984,088
Accrued liabilities	2,043,218	2,521,830
Total	$ 6,982,607	$ 19,505,918

13. 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, 2018 and 2017	10,000,000	$ 24,000,000	7,003,318	$ 16,807,963	$ 22,131,188

Regulatory Capital

The BMA adopts the Basel III Accord which calls for additional and more detailed disclosures on regulatory capital and risk management. The BMA assesses the risk of each banking institution and determines a separate individual capital guidance for each bank. The Bank has complied with all minimum capital requirements prescribed by the BMA and at September 30, 2018, the Bank's Tier 1 and total regulatory capital ratios of 41.25% (2017: 22.48%) and 41.25% (2017: 22.48%) respectively, exceeded the prescribed limits.

Capital Management

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

14. Fees and Commissions

Fees and commissions are made up as follows:

	2018	2017
Corporate services	$ 1,462,266	$ 1,595,037
Trust services	889,665	1,007,158
Banking services	960,293	957,127
Lease termination income	348,552	442,327
Other	176,752	(742,295)
Total	$ 3,837,528	$ 3,259,354

15. General and Administrative Expenses

General and administrative expenses are made up as follows:

	2018	2017
Rent and premises	$ 1,044,099	$ 868,413
Advertising and marketing	301,921	250,156
Professional fees	3,602,044	3,345,066
Information technology and systems	2,446,271	2,195,210
Banking services and licences	1,156,397	1,105,300
Investment advisory fees (Note 16)	521,680	1,579,243
Impairment of loans and advances	1,636,686	898,418
Administrative	3,633,312	2,907,139
Total	$ 14,342,410	$ 13,148,945

16. Related Party Disclosures

Investment Adviser Agreement

In 2010, the Bank entered into an investment adviser agreement with ICM Limited ("Investment Adviser"), a related party to the Bank through common control, which remains in force until terminated by the Bank or the Investment Adviser upon giving the other party not less than three month's written notice of termination or such lesser period of notice as the Bank or the Investment Adviser agree. Pursuant to the agreement, the Bank's investment objective is to achieve an appropriate income return and/or capital growth in the value of the portfolio by investing in suitable investments, which may be amended by a specific written instruction to the Investment Adviser by the Bank.

In February 2012, the Bank and the Investment Adviser entered into a variation agreement whereby the former agreed to pay the Investment Adviser an annual fee of 0.50% (payable quarterly in arrears) of the value of the portfolio effective April 1, 2012 (previously 0.25%) for its advisory services. For the year ended September 30, 2018, such fees amounted to $421,680 (2017: $529,243), of which $107,508 remained payable at year end (2017: $128,157). In addition, pursuant to a consultancy agreement, a fee of $100,000 (2017: $100,000) was paid to the Investment Adviser for consultancy services, of which $25,000 remained payable at year end (2017: $25,000). These fees are included in investment advisory fees within general and administrative expenses in the consolidated statement of income (Note 15) and other liabilities in the consolidated statement of financial position respectively.

Further, under the terms of a second variation agreement dated July 17, 2015, the Bank may determine that the Investment Adviser ought to receive a payment on account of the services provided based on the performance of the portfolio. The Investment Adviser is also entitled to recover all and any expenses incurred by it that relate exclusively to the services specified in the agreement. During the year ended September 30, 2018, the Bank incurred a performance fee of $nil (2017: $950,000) of which $nil remained payable at year end (2017: $950,000). These fees are included in investment advisory fees within general and administrative expenses in the consolidated statement of income (Note 15).

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:

Available-for-Sale Financial Investments

At September 30, 2018, the Bank held certain investments in its available-for-sale portfolio which are considered related. The Bank held debt instruments issued by Bermuda First Investment Company Limited (a related party to the Bank through common control) with a carrying value of $10,923,308 (2017: $10,923,308). Interest income from these investments for the year was $655,398 (2017: $648,116) and the accrued interest at the year end was $329,520 (2017:$1,821). The Bank also held equity investments in Merrion Pentagon High Conviction Bond Fund Class B and Pentagon Global Diversified Bond Fund Limited formerly known as BCB Bond Fund Limited (related parties to the Bank by way of common investment advisor, ICM Limited) with a carrying value of $24,068,892 at September 30, 2018 (2017: $23,140,583). Dividend income from these investments totalled $600,000 (2017: $1,600,000). At September 30, 2018, $150,000 of dividends (2017: $150,000) were receivable from related parties.

During 2018, the Bank sold available-for-sale securities to related parties at amounts equal to their estimated fair value of $567,840 (2017: $12,555,499). There were no receivables as a result of the sale of these securities at either year end.

During 2018, the Bank purchased securities from related parties at amounts equal to their estimated fair value of $840,760 (2017: $4,243,339). There were no payables as a result of the purchase of these securities at either year end.

Loans and Advances to Customers

At September 30, 2018, total loans and advances receivable from related parties amounted to $20,529,986 (2017: $17,156,100), of which $8,500,000 (2017: $10,665,095) was unsecured and $12,029,986 (2017: $6,491,005) was secured by the related parties' cash and portfolio assets custodied by the Bank. For the years ended September 30, 2018 and 2017, the Bank did not make any provision for impairment relating to amounts owed by such related parties. The undrawn portion of credit facilities granted to these related parties at September 30, 2018 was $nil (2017: $121,839).

For the year ended September 30, 2018, the Bank earned net interest income and fees of $1,683,064 (2017: $1,403,302) for banking services provided to such related parties.

At September 30, 2018, the Bank had one investment in asset-backed notes in a securitisation entity set up by Homeloans Ltd Group, a related party to the Bank, by virtue of common control, with a carrying value of $1,734,720 (2017: $22,309,681). These asset-backed notes were recorded in the consolidated statement of financial position within loans and advances (under the category of Commercial loans) to customers.

Deposit Liabilities

At September 30, 2018, deposit balances held by such related parties with the Bank amounted to $7,987,277 (2017: $8,285,439).

Transactions with Directors

Total directors' fees for the year ended September 30, 2018, amounted to $749,426 (2017: $780,156). The Bank provides banking services to directors under the same terms as an unrelated party would receive. At September 30, 2018, directors and parties associated with directors had deposit balances with the Bank of $1,266,076 (2017: $301,888). At September 30, 2018, total loans and advances receivable from directors and parties associated with directors amounted to $nil (2017: $nil). The undrawn portion of credit facilities committed to directors and parties associated with directors at the year end totalled $nil (2017: $nil). Net interest received from directors for the year was $nil (2017: $nil).

Compensation of Key Management Personnel of the Bank

The Bank classifies the directors of the Bank and senior management as the key management personnel. For the year ended September 30, 2018, the total compensation paid to key management personnel amounted to $2,464,261 (2017: $2,082,428), excluding the directors' fees.

Principal Subsidiary Undertakings at September 30, 2018

NAME	% OWNERSHIP	LOCATION
BCB Charter Corporate Services Limited	100.00	Bermuda
BCB Paragon Trust Limited	100.00	Bermuda
BCB Luxembourg S.A.R.L.	100.00	Luxembourg
BCB Asset Management Limited	100.00	Bermuda
BCB Resource Fund Limited	100.00	Bermuda
BCB Management Limited	100.00	Bermuda
BCB Management Services Limited	100.00	Bermuda
Bercom Nominees Limited	100.00	Bermuda
VT Strategies Holdings Limited	100.00	Bermuda

All of the above subsidiaries and PCFG (up to June 30, 2018) are included in the Bank's consolidated financial statements.

BCB Luxembourg S.A.R.L, an investment holding entity was in the process of liquidation at September 30, 2018. All investments held by the entity were fully settled and the corresponding funds were received during the year. Further, the operating results and the residual value of remaining assets and liabilities of BCB Luxembourg are not material to the consolidated financial statements at September 30, 2018.

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

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

	2018
Assets	
Cash and cash equivalents	$ 33,447,778
Interest receivable	197,733
Other assets	1,110,032
Loans and advances to customers	259,771,125
Available-for-sale financial investments	33,727,845
Deferred tax assets	1,766,557
Property and equipment	274,567
Goodwill and other intangible assets	3,959,147
Total Assets	$ 334,254,784
Liabilities	
Deposits	$ 185,231,270
Interest-bearing loans and borrowings	88,960,926
Other liabilities	2,879,786
Taxes Payable	397,489
Interest Payable	2,396,245
Total Liabilities	$ 279,865,716

As at September 30, 2018, BCB also held $13.0mn (£10.0mn) in extendible loan notes issued by PCFG (2017: $53.6mn/£40.0mn), eliminated when consolidated). The loan notes are listed on the Bermuda Stock Exchange and are included in loans and advances to customers in the statement of financial position at September 30, 2018.

17. Employee Benefits

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

- 5% of gross salary if service does not exceed 15 years and
- 10% of gross salary if service exceeds 15 years.

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

The scheme is administered by an independent party and all such funds are segregated from the assets and liabilities of the Bank. Pension expense incurred during 2018 amounted to $926,664 (2017: $1,048,677) and is included within salaries and employee benefits in the consolidated statement of income.

18. Commitments and Contingent Liabilities

Commitments

In September 2014, PCFG entered into a premises lease at Pinners Hall, 105-108 Old Broad Street, London, UK. The lease expires on September 5, 2019.

Future minimum rental payments under the aforementioned lease as at September 30, are as follows:

	2018	2017
Within one year	$ –	$ 326,050
After one year but not more than five years	–	298,878
Total	$ –	$ 624,928

At September 30, 2018, the Bank was committed to $1.5mn (2017: $1.4mn) 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 can from time to time be defendant in, or party to, pending and threatened legal actions and proceedings. The Bank is also subject to periodic regulatory reviews by the Banking Regulator for Prudential and/or Anti-Money Laundering/Anti-Terrorist Financing (AML/ATF) activities. In relation to these matters (if any), 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 matters is inherently uncertain and cannot be reliably measured, based on the information currently available to management, no provision was necessary as at September 30, 2018 (2017:None).

19. Risk Management

Risk is inherent in banking and is part of every bank's activities. The management of risk is a key function of all banks and it is core to a bank's profitability; a failure to manage risk can result in losses. The Bank is exposed to a variety of risks as a result of holding financial instruments, the most significant of which are credit risk, liquidity risk, and market risk. The Bank manages risk through a set of formal processes that includes controls, policies, reporting, and review.

The Bank's risk management structure is as follows:

Board of Directors
The Board of Directors is responsible for oversight of overall risk management and sets the level of risk tolerance through policy and approval of the Bank's risk appetite statement. It delegates authority for implementing risk control activities to board and management committees.

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

Governance Committee
The Governance Committee is a committee of the Board of Directors and is chaired by an independent director. The committee has the oversight responsibilities with respect to corporate governance principles, the code of ethics applicable to the Bank, human resources policies, compensation and benefits programs, Board of Directors performance and performance objectives for the key executives of the Bank.

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

Asset & Liability Committee ("ALCO")
The ALCO is a management committee established to oversee the Asset and Liability Management of the Bank which is defined in the Asset and Liability Management ("ALM") Policy and ALCO Charter. The ALCO monitors liquidity, funding, asset deployment limits, including investment limits, in order to monitor and manage the exposure of the balance sheet to liquidity, funding, interest rate and currency risk, and to ensure that the assets in the Bank's balance sheet are consistent with its risk appetite.

Management Risk Committee ("MRC")
The MRC is a management committee established to provide oversight of the Bank's enterprise-wide risk management framework, including the strategies, policies, procedures, and systems established by management to identify, assess, measure, and manage the significant risks facing the Bank. The MRC manages the key risk elements of the Bank's Capital Adequacy & Risk Profile ("CARP"). The Bank's transition to Basel III is also being managed by the MRC. The MRC also reviews the credit risk associated with the Bank's activities and, where relevant, provides approval with respect to new business initiatives and individual credit proposals.

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

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

Liquidity Risk and Funding Management

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

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

The tables on the succeeding pages summarise the maturity profile of the Bank's assets and liabilities as at September 30, 2018 and 2017. 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.

	2018					
	WITHIN 1 MONTH	**1-3 MONTHS**	**3-12 MONTHS**	**1-5 YEARS**	**OVER 5 YEARS**	**TOTAL**
Assets						
Cash and cash equivalents	$ 143,015,429	$ 27,836,902	$ –	$ –	$ –	$ 170,852,331
Receivable from a related party	151,412	–	–	–	–	151,412
Interest receivable	1,122,379	611,539	557,666	149	–	2,291,733
Other assets	644,469	329,103	801,063	46,250	–	1,820,885
Loans and advances to customers	213,966	5,500,875	4,601,180	29,401,620	2,868,118	42,585,759
Available-for-sale financial investments	–	–	31,552,991	111,763,715	100,750,937	244,067,643
Derivative financial instruments	–	–	–	157,916	–	157,916
Deferred tax assets	–	–	–	–	–	–
Property and equipment	–	–	–	205,770	13,280,965	13,486,735
Goodwill and other intangible assets	–	–	–	5,087,552	2,313,199	7,400,751
	$ 145,147,655	$ 34,278,419	$ 37,512,900	$ 146,662,972	$ 119,213,219	$ 482,815,165
Liabilities						
Deposits	$ 216,903,459	$ 31,629,943	$ 40,754,563	$ 78,401,412	$ –	$ 367,689,377
Interest-bearing loans and borrowings	–	–	–	–	–	–
Convertible loan notes	–	–	–	–	–	–
Customer drafts payable	112,926	–	–	–	–	112,926
Derivative financial instruments	(25,298)	513,110	(70,254)	–	–	417,558
Other liabilities	4,144,000	2,047,974	–	–	790,633	6,982,607
Taxes payable	–	–	–	–	–	–
Interest payable	664,900	320,548	413,020	794,545	–	2,193,013
	221,799,987	34,511,575	41,097,329	79,195,957	790,633	377,395,481
Net assets (liabilities)	$ (76,652,331)	$ (233,156)	$ (3,584,428)	$ 67,467,014	$ 118,422,585	$ 105,419,684

	2017					
	WITHIN 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	TOTAL
Assets						
Cash and cash equivalents	$ 261,451,315	$ –	$ –	$ –	$ –	$ 261,451,315
Receivable from a related party	219,095	–	–	–	–	219,095
Interest receivable	857,978	548,999	1,020,342	63,109	–	2,490,428
Other assets	2,220,941	499,087	903,774	194,661	2,301	3,820,764
Loans and advances to customers	12,460,282	35,130,980	41,883,929	150,353,914	5,847,472	245,676,577
Available-for-sale financial investments	6,047,653	–	30,874,433	94,946,388	101,861,455	233,729,929
Derivative financial instruments	2,591,180	(2,485,830)	–	46,491	–	151,841
Deferred tax assets	–	–	–	1,615,787	–	1,615,787
Property and equipment	–	–	–	638,265	13,433,938	14,072,203
Goodwill and other intangible assets	–	–	–	9,485,004	6,925,397	16,410,401
	$ 285,848,444	$ 33,693,236	$ 74,682,478	$ 257,343,619	$ 128,070,563	$ 779,638,340
Liabilities						
Deposits	$ 367,339,369	$ 37,201,213	$ 77,093,347	$ 100,408,175	$ 3,688,901	$ 585,731,005
Interest-bearing loans and borrowings	2,222,513	4,571,535	23,008,651	19,882,181	–	49,684,880
Customer drafts payable	369,607	–	–	–	–	369,607
Other liabilities	8,187,023	1,274,148	–	–	10,044,747	19,505,918
Taxes payable	–	–	223,066	–	–	223,066
Interest payable	399,412	445,374	651,550	684,817	–	2,181,153
	378,517,924	43,492,270	100,976,614	120,975,173	13,733,648	657,695,629
Net assets (liabilities)	$ (92,669,480)	$ (9,799,034)	$ (26,294,136)	$ 136,368,446	$ 114,336,915	$ 121,942,711

Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The market risk for the Bank's financial instruments is managed and monitored using sensitivity analyses.

Interest Rate Risk

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

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

As a result of the current low interest rate environment and the uncertainty prevailing in the credit markets, it is difficult to accurately forecast the potential impact of an immediate and sustained variation in interest rates on net income and on the amount of equity. On the assumption that interest rates remain positive, the Bank assesses the impact on net income due to negative variation in interest rates to be limited.

The following table demonstrates the Bank's sensitivity to a reasonably possible change in interest rates, with all other variables held constant. The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on net income or loss for the year, based on the floating rate financial assets and financial liabilities held at September 30.

	2018	2017
25-basis-point increase in interest rates		
Impact on profit (for the next 12 months)	$ (116,650)	$ 268,703
Impact on equity (for the next 12 months)	$ (1,849,703)	$ (1,427,880)
25-basis-point decrease in interest rates		
Impact on profit (for the next 12 months)	$ 116,650	$ 26,578
Impact on equity (for the next 12 months)	$ 1,849,703	$ 1,723,160

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. In accordance with the Bank's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits. A 10 per cent increase in the currency rates to which the Bank had significant exposure at September 30, 2018, would have decreased net income and equity by $83,725 (2017: decreased by $46,700). An equivalent decrease in these same currency rates would have resulted in an equivalent but opposite impact.

Equity Price Risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. A 10 per cent increase in the value of the Bank's available-for-sale equities at September 30, 2018, would have increased equity by $1,159,498 (2017: $375,053). An equivalent decrease would have resulted in an equivalent but opposite impact.

20. Segment Information

For management purposes, the Bank is organised into six reportable segments. These segments offer different products and services and are managed separately based on the Bank's management and internal reporting structure.

Banking Services

The Banking Services segment is responsible for corporate, institutional, and individual customers' deposits, credit facilities, and funds transfer facilities.

Investment Management

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

Consumer and Business Finance

PCFG is a UK-based Bank engaged in the provision of finance for vehicles, plant and equipment, and was a subsidiary of the bank until June 28, 2018. These loan facilities are secured on the underlying assets.

Corporate Services

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

Trust

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

General and Administrative

Operating expenses include centralised and other back-office functions that are not directly attributable to other reportable segments and are recorded in the General and Administrative segment.

Management monitors the operating results of these business segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating net income.

The Bank operates in a single jurisdiction, Bermuda; and PCFG operates in the United Kingdom (Note 16). The Bank also has a subsidiary in Luxembourg (Note 16), but does not offer banking or other services in that jurisdiction. The assets, liabilities and results of these entities are incorporated into the segment information. No one single customer accounted for 10% or more of the Bank's revenues in 2018 or 2017.

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

2018	BANKING SERVICES	INVESTMENT MANAGEMENT	CONSUMER & BUSINESS FINANCE	CORPORATE SERVICES	TRUST	GENERAL & ADMINISTRATIVE	ELIMINATION OF INTER-SEGMENT AMOUNTS	TOTAL
Net interest income from external customers	$ 6,923,219	$ 1,659,696	$ 14,781,220	$ –	$ –	$ –	$ –	$ 23,364,135
Fees and other income from external customers	1,268,264	1,466,747	525,304	1,462,641	889,663	1,053,716	(1,111,489)	5,554,846
(Loss)/ Gains on derivative financial instruments	–	96,376	–	–	–	–	–	96,376
Gain on sale of financial investments	–	17,572,755	–	–	–	–	–	17,572,755
Impairment losses on financial investments	–	(3,136,243)	–	–	–	–	–	(3,136,243)
Total income	$ 8,191,483	$ 17,659,331	$ 15,306,524	$ 1,462,641	$ 889,663	$ 1,053,716	$ (1,111,489)	$ 43,451,869
Depreciation	(3,106)	–	(82,142)	–	–	(400,490)	–	(485,738)
Amortisation	(455,347)	(41,000)	(397,011)	(23,316)	–	(814,739)	(400,091)	(2,131,504)
Operating expenses	(6,372,458)	(1,050,726)	(10,928,770)	(1,608,748)	(1,480,152)	(13,018,230)	802,039	(33,657,045)
Net income (loss)	$ 1,360,572	$ 16,567,605	$ 3,898,601	$ (169,423)	$ (590,489)	$ (13,179,743)	$ (709,541)	$ 7,177,582
Segment assets	$ 120,904,849	$ 359,799,996	$ –	$ 1,115,297	$ 2,351,021	$ 13,350,481	$ (14,706,479)	$ 482,815,165
Segment liabilities	$ 374,834,596	$ 457,558	$ –	$ 213,920	$ 1,870,887	$ 18,520	$ –	$ 377,395,481

	2017							
	BANKING SERVICES	**INVESTMENT MANAGEMENT**	**CONSUMER & BUSINESS FINANCE**	**CORPORATE SERVICES**	**TRUST**	**GENERAL & ADMINISTRATIVE**	**ELIMINATION OF INTER-SEGMENT AMOUNTS**	**TOTAL**
Net interest income from external customers	$ 6,036,098	$ 3,950,874	$ 14,096,237	$ –	$ –	$ –	$ –	$ 24,083,209
Fees and other income from external customers	1,371,022	2,764,730	(273,147)	1,611,027	1,007,158	1,588,279	(1,681,732)	6,387,337
(Loss)/ Gains on derivative financial instruments	–	(52,891)	(4,876)	–	–	–	–	(57,767)
Gain on sale of financial investments	–	5,402,727	–	–	–	–	–	5,402,727
Impairment losses on financial investments	–	(757,260)	–	–	–	–	–	(757,260)
Total income	$ 7,407,120	$ 11,308,180	$ 13,818,214	$ 1,611,027	$ 1,007,158	$ 1,588,279	$ (1,681,732)	$ 35,058,246
Depreciation	(44,700)	–	(443,475)	–	–	(452,245)	–	(940,420)
Amortisation	(480,543)	(44,149)	–	(24,111)	–	(833,734)	(198,288)	(1,580,825)
Operating expenses	(5,688,555)	(2,049,690)	(9,829,676)	(1,773,350)	(1,149,648)	(11,484,693)	532,038	(31,443,574)
Net income (loss)	$ 1,193,322	$ 9,214,341	$ 3,545,063	$ (186,434)	$ (142,490)	$ (11,182,393)	$ (1,347,982)	$ 1,093,427
Segment assets	$ 277,627,924	$ 323,157,501	$ 177,787,128	$ 1,093,191	$ 1,516,149	$ 13,356,231	$ (14,674,616)	$ 779,638,340
Segment liabilities	$ 530,580,848	$ –	$ 126,021,498	$ 191,032	$ 1,174,484	$ 10,000	$ –	$ 657,695,629

21. Financial Instruments

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

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

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

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

Valuation techniques include net present value and discounted cash flow models, trinomial option pricing models and other valuation models.

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

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

Financial Instruments Recorded at Fair Value

Derivative Financial Instruments

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

Available-for-Sale Financial Investments

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

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

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

	2017							
		LEVEL 1		LEVEL 2		LEVEL 3		TOTAL
Financial assets								
Derivative financial instruments								
Forward foreign exchange contracts	$	–	$	105,349	$	–	$	105,349
Warrants		–		–		46,492		46,492
		–		105,349		46,492		151,841
Available-for-sale financial investments								
Government debt securities maturing over 3 months		106,470,945		15,147,450		–		121,618,395
Corporate debt securities (non-banks)		19,793,907		19,270,838		11,128,308		50,193,053
Debt securities issued by banks		21,289,066		13,043,724		–		34,332,790
Asset-backed securities		–		508,263		186,316		694,579
Portfolio funds		–		23,140,583		–		23,140,583
Equities		1,439,714		–		2,310,815		3,750,529
		148,993,632		71,110,858		13,625,439		233,729,929
Government debt securities maturing within 3 months		81,855,680		8,001,843		–		89,857,523
Total	$	230,849,312	$	79,218,050	$	13,671,931	$	323,739,293
Financial liabilities								
Derivative financial instruments								
Total	$	–	$	–	$	–	$	–

Movement in Level 3 financial instruments measured at fair value:

		CORPORATE DEBT SECURITIES		ASSET-BACKED SECURITIES		EQUITIES		EQUITY OPTION CONTRACTS		WARRANTS		TOTAL
At September 30, 2016	$	11,128,308	$	387,319	$	2,940,000	$	22,596	$	–	$	14,478,223
Total gains recorded in Statement of income		–		15,934		–		–		46,492		62,426
Total gains (losses) recorded in equity		–		7,725		(629,185)		–		–		(621,460)
Sales		–		(224,662)		–		(22,596)		–		(247,258)
At September 30, 2017	$	11,128,308	$	186,316	$	2,310,815	$	–	$	46,492	$	13,671,931
Total gains (losses) recorded in Statement of income		(205,000)		5,751		(1,279,836)		–		111,424		(1,367,661)
Purchases		–		(20,635)		–		–		–		(20,635)
At September 30, 2018	$	10,923,308	$	171,432	$	1,030,979	$	–	$	157,916	$	12,283,635

22. Taxation

BCB and its subsidiaries domiciled in Bermuda are not subject to taxation in Bermuda as Bermuda does not impose any form of taxation on receipts, dividends, capital gains or net income. BCB's subsidiaries domiciled in Luxembourg and the United Kingdom are subject to the tax laws of those jurisdictions. The Bank records income taxes based on the tax rates applicable in the relevant jurisdiction and income tax expense of $998,504 (2017: $1,071,410) is recorded in the consolidated statement of income. PCFG's income taxes payable at September 30, 2018 was $nil (2017: $223,066).

Analysis of tax charge in the period

		2018		2017
Current Tax				
UK Corporation Tax on profit for the period	$	823,387	$	713,824
Adjustments in respect of prior periods		119,679		182,420
Total current tax	$	943,066	$	896,244
Deferred Tax				
Origination and reversal of temporary differences		176,187		69,269
Adjustments in respect of prior periods		(126,014)		(79,888)
Change in tax rate		(18,530)		198,454
Total deferred tax	$	31,643	$	187,835
Total UK tax charge for the period	$	974,709	$	1,084,079
Total Luxembourg tax charge for the period		23,795		(12,669)
Total tax charge for the period	$	998,504	$	1,071,410

Deferred tax on items recognised directly in equity

		2018		2017
Relating to cash flow hedges	$	–	$	116,018
Share based payments		(67,745)		(19,323)
Total deferred tax on items recognized directly in equity	$	(67,745)	$	96,695

Factors affecting current tax charge for the period

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

		2018		2017
Profit on ordinary activities before tax	$	4,873,310	$	4,629,145
Profit on ordinary activities multiplied by standard rate of Corporation Tax in the UK of 19% (2017: 20%)		925,929		925,829
Effects of:				
Expenses not deductible for taxation purposes		–		6,753
Expenses deductible for taxation purposes		5,219		–
Adjustments in respect of prior periods		(6,151)		91,627
Change in tax rate		(17,994)		145,573
Utilisation of previously unrecognized losses		–		(67,915)
Other		67,706		(17,788)
Total UK tax charge for the period	$	974,709	$	1,084,079

23. Deferred Tax Assets

		2018		2017
Accelerated capital allowances	$	–	$	(125,817)
Decelerated capital allowances		–		1,661,105
Derivative financial instruments		–		–
Other temporary differences		–		–
Provisions		–		8,667
Share based payments		–		71,832
Total	$	–	$	1,615,787

The unrecognised deferred tax asset applicable to PCFG at September 30, 2017 was $3,258,513 which related to the tax losses recorded in prior years and were unutilised at the reporting date. The unrecognized deferred tax at September 30, 2018 was $nil.

24. Subsequent Events

There have been no significant events or transactions from September 30, 2018 to the date that these financial statements were available for issuance that require adjustments to or disclosures in the consolidated financial statements.

Subsidiaries
As at September 30, 2018

BCB ASSET MANAGEMENT LIMITED
Telephone: (441) 295-5678
BCB Asset Management Limited (incorporated February 11, 2011) merged on January 11, 2012, with BCB Fund Services Limited (incorporated December 21, 1992). Provides listing sponsorship services and is a BSX trading member.

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

BCB LUXEMBOURG S.À.R.L.
13-15 Avenue de la Liberté
L-1931 Luxembourg
Incorporated in Luxembourg on May 4, 2011.
This was an investment holding company and was in the process of liquidation at September 30, 2018.

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

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

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

BCB RESOURCE FUND LIMITED
Telephone: (441) 295-5678
Incorporated in Bermuda on May 10, 2012.
Segregated cell company for natural resource investments.

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

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

The registered address for the above companies (unless otherwise indicated) is:
34 Bermudiana Road, Hamilton HM 11, Bermuda.

Bermuda is the principal country of operations for the above companies, with the exception of BCB Luxembourg S.A.R.L.

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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