BERMUDA COMMERCIAL BANK LIMITED

ANNUAL REPORT 2023



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Published July 2024





Table of Contents

2 Corporate Profile
2 Core Values
3 History of Bermuda Commercial Bank
4 Chairman's Letter
5 Letter from the CEO
6 Environment, Social and Governance (ESG)
7 Board of Directors
8 Executive Committee & Senior Management
9 Management's Discussion & Analysis
11 Key Financial Highlights
12 Independent Auditor's Report
14 Consolidated Statement of Financial Position
15 Consolidated Statement of Income
16 Consolidated Statement of Other Comprehensive Income
17 Consolidated Statement of Changes in Equity
18 Consolidated Statement of Cash Flows
19 Notes to the Consolidated Financial Statements
56 Subsidiaries

Corporate Profile

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

Core Values

The BCB Board has established a set of values that guide how we engage with clients, stakeholders and the community. 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

EVOLUTION OF THE BANK

1969 The Bank is created by an Act of Parliament.

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

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

2016 BCB moved into its new owned premises at 34 Bermudiana Road, Hamilton.

2019 BCB celebrated its 50-year anniversary.

2021 The investment company, Base Financial Limited, purchased BCB from Somers Limited.

2022 Divested the trust and corporate services business together with two minor operational subsidiaries.

Chairman's Letter

2023: LAYING THE STRONG FOUNDATION OF A CHALLENGER BANK

Gordon B Hinckley said; "You can't build a great building on a weak foundation. You must build a solid foundation if you are going to have a strong superstructure". We continue to build Bermuda Commercial Bank with the forward view that we will be a strong bank, both locally and internationally, by continuing to execute on the Bank's 5 key strategic priorities. In the second fiscal year of this strategic focus, we have made measurable progress on each priority.

In the first quarter of 2023, the banking system came under tremendous pressure with numerous bankruptcies, bank closures and mergers, many of which were digital asset focused banks impacted by the challenges faced in that sector during late 2022. This was the biggest banking crisis since the financial crisis of 2008. Specifically, the mismatch in a few banks' investment portfolios and liquidity needs, caused large losses when there were large deposit outflows. This required the remaining banks to demonstrate that they were resilient, have a strong capital structure and sufficient liquidity to support both growth and operational requirements.

The Bermuda economy showed steady signs of growth with 3rd quarter 2023 GDP growth of 8.3%. In addition, the Bermuda banking system remained very robust during this time of financial uncertainty and did not come under the same level of pressure as the US community banks. Bermuda Commercial Bank also remained in good stead with a repositioned balance sheet with high quality assets and an appropriate maturity profile for growth.

During its financial year to September 30, 2023, the Bank reported a net loss of $2.4 million. Total income increased by $8.7 million largely driven by an increase in net interest income of $7.3 million. The Bank's total expenses decreased year over year by $0.4 million owing largely to a decrease in amortization and minor decreases across all other expense lines, with the exception of an increase in salaries and employee benefits, as we invest in our workforce. In addition, the Bank's balance sheet remains strong and very liquid with cash and cash equivalents at September 30, 2023 of 42.2% of total assets. The capital ratio of 31.8% remains strong and well above the regulatory minimum requirements.

This year, Bermuda Commercial Bank launched a range of initiatives that focused on Environmental, Social and Governance (ESG) to ensure that sustainability is fully considered within our business model. Our ESG focus is definitely a journey and not a destination. A working group was formed, sponsorship with employee participation in quarterly clean-ups of Chaplin Bay, enhanced BCB's governance framework, participation in the End to End walk with a sponsored water stop, placed 2nd place in the Corporate Games for the Multiple Sclerosis Society of Bermuda, increased internal recycling and introduced an enhanced approach for internal trash collection. A more detailed report on our ESG initiatives is included in this year's Annual Report.

We are pleased with the improved performance of the Bank and the progress made against our plan. We have expanded our offering, launched new initiatives, restructured elements of the Bank and our asset profile. On behalf of the Board, we look forward to continued progress to better serve the community, our shareholders, our staff and customers.



DAVID BROWN
CHAIRMAN OF THE BOARD
BERMUDA COMMERCIAL BANK

Letter from the CEO

2023: LAYING THE STRONG FOUNDATION OF A CHALLENGER BANK

Our strategic plan must be robust, anticipatory of the fast-changing world of banking and flexible enough to take advantage of new growth opportunities. Our 5 strategic priorities demonstrated these core principles in FY2023 and our strategic priorities remained focused on the following:

1. **Grow our lending portfolio** - A specific focus on growing both the commercial and retail lending portfolio
2. **Reposition our Balance Sheet** - Reduce the risk profile of the Bank's investment portfolio and define a clear asset and liability strategy
3. **Invest in, Develop and Grow our People** - Our staff are one of our key resources needed to deliver our business strategy. We must continue to train, develop and support our staff to achieve our objectives
4. **Effectively Manage all our Risks to become a profitable Bank** - When risk is effectively managed it can also be profitable for the Bank and allow us to sustainably grow our income
5. **Invest in Digitization to Become a Digital Bank** - Reducing manual processing, increasing automation as well as expanding our offering to the Digital Asset community. This will allow us to grow in size and scale with an improved customer experience.

Our loan portfolio grew from $47.8 million in 2022 to $55.8 million or 17% in 2023 by progressing our various credit transformation initiatives, recruiting specific credit expertise to the Bank and launching the Government Mortgage Guarantee Program. This program, extended into its first two phases; the first provides a government guarantee for Bermudian first time home buyers with a reduced deposit requirement of 10% and the second phase supporting Government employees looking to switch their mortgages from another local institution for a lower mortgage rate. This program generated new loan advances in 2023 of $7.0 million.

The derisking of our investment portfolio saw the asset mix improve from 65% investment grade in 2022 to 90% in 2023. In addition, we moved to a more diversified sector exposure with a reduction of our exposure to 'Financials' from 53% in 2022 to 31% in 2023. Whilst credit spread duration risk increased marginally from 1.87 in 2022 to 2.24 in 2023 this was to improve the overall return profile to 6.12% in 2023. Duration risk increased from 1.47 in 2022 to 1.92 in 2023. Shifting to capital preservation rather than a focus on capital growth allowed for an increase in OCI growth of $4.8 million in 2023.

Driving the new performance culture in the 2023 fiscal year saw an embedding of our employee performance appraisal process with our first mid-year and end of year calibration sessions to further differentiate staff contributions and highlight performance. We also recruited Relationship Managers to grow our deposit and lending balances, recruited our Head of Credit to continue the credit growth plans and expanded our Risk Team to include an Enterprise Risk Manager. We also launched new behavioral values to better focus on how we work by being; Entrepreneurial, Accountable, Collaborative and Communicative. Once again, BCB achieved a place on the Top 10 Employers of Bermuda for 2023, but this time coming in 5th besting our previous place of 8th in 2022. This was an important recognition of our ongoing work to support our 3rd strategic initiative.

Continuing to build out our risk framework included successfully completing our SWIFT Audit with no medium or high-risk findings, ongoing reviews of our clients' risk profiles, modifying our credit risk approval matrix to improve approval times and expanding our Enterprise Risk Management Framework to better support all aspects of BCB's risk matrix. We are looking forward to additional investment in technology to further improve the efficiency and effectiveness of our risk management activities.

We are now fully immersed in our upgrade of both our core banking system and online banking platform. This upgrade was completed in the 2nd quarter of 2024 and it will provide us with an excellent technology platform to further expand our offerings and services. Lastly, we continue to see how we can support the Digital Asset sector and have established a Digital Asset Steering Committee to support the operational accounts of Bermuda regulated Digital Asset entities. This is a growing sector with a strong regulatory framework in Bermuda that will need sophisticated technology needs and traditional fiat banking, which aligns to our focus on advancing our technology stack.

BCB is working to build on the foundation that has been laid by strong progress on the 5 strategic priorities. We will continue to tell our story and offer what we feel is a differentiated offering from our competition. Bermuda, its people and our clients, local and international, will continue to see the benefits as we deliver for all stakeholders.



NEVILLE GRANT, CEO
BERMUDA COMMERCIAL BANK

Environment, Social and Governance (ESG)

BCB has played a critical role in Bermuda's financial services industry since 1969 and continues to embrace the need to deliver a sustainable business that supports the environment and society in which it operates today and in the future.

During 2023, an environmental, social and governance (ESG) working group was formed that reports to the Bank's Executive Committee. This group has led the coordination and enhancement of BCB's efforts to deliver on the Bank's sustainable commitments as part of its wider strategic turnaround and deliver improved governance for BCB.

GOVERNANCE

Enhancements to the Bank's governance framework have been delivered to ensure that the business is managed and decisions made in a responsible and sustainable way.

SOCIAL

BCB is committed to the development of its people, providing $1,500 per employee for formal accreditation and training each year. The Bank continued to support a wide range of community and charity events, including the Bermuda End to End race, the Corporate Games benefitting the MS Society of Bermuda and completed a food drive, donating 25 bags of dry goods to the Transformational Living Centre for Women and Children.

ENVIRONMENTAL

The Bank partnered with Keep Bermuda Beautiful and sponsored quarterly clean-ups of Chaplin Bay, removing c.343kg of waste from this area of natural beauty.

During 2023, the Bank also revised its approach to internal trash collection, increasing recycling of glass, aluminium and tin by c.20kgs each week.











Board of Directors (As of September 30, 2023)



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



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



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



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



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



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

Executive Committee

NEVILLE GRANT
Chief Executive Officer

MARTIN BROWN
Chief Risk Officer

MEGAN COLLEY
General Counsel and Head of Regulatory Compliance

STEPHEN EGAN
Credit and Lending Risk

GRAHAM JACKSON
Chief Financial Officer

MICHAEL SCHULZ
Chief Strategy & Regulatory Officer

Senior Management

SUNNY AGARWAL
Head of Compliance Operations

LISA BARNES
Head of Customer Experience

ANDREW CASSIDY
Head of Credit

DANE COMMISSIONG
Head of Treasury

VINOL COORAY
Head of Finance

ANTHONY GARZIA
Head of Commercial & Retail Lending

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

ANDY READING
Head of Information Technology

ARHNEL TERROZA
Head of Internal Audit

MARC ZINSMEISTER
Head of Regulatory and Investment Accounting

Management's Discussion & Analysis

This Management's Discussion and Analysis ("MD&A") is provided to enable users to assess the Bank's results and performance for the year ended September 30, 2023 and should be read in conjunction with the consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All references to BCB or the Bank refer to Bermuda Commercial Bank Limited and its subsidiaries on a consolidated basis. A list of subsidiaries of BCB is provided under note 17 to the consolidated financial statements.

FINANCIAL PERFORMANCE HIGHLIGHTS

- Strong liquidity position with cash and cash equivalents representing 42.2% of total assets
- Growth in loans and advances to customers by 16.6% to $55.8 million in 2023 from $47.8 million in 2022
- Net loss of $2.4 million compared to net loss of $14.8 million in 2022
- Total income improved by 111% to $16.6 million in 2023 from $7.9 million in 2022
- Year-end total capital ratio of 31.8%
- Total equity attributable to the Bank's equity holders at September 30, 2023 was $57.3 million versus $54.9 million in 2022

RESULTS OF OPERATIONS FOR THE YEAR ENDED SEPTEMBER 30, 2023

During the year, the Bank incurred a net loss of $2.4 million compared to a net loss of $14.8 million in 2022. This was primarily due to $7.3 million higher net interest income, $2.2 million lower investment and impairment losses, $0.4 million lower operating expenses and $3.2 million discontinued operations losses recorded in 2022, partially offset by $0.8 million lower other non-interest income.

INTEREST INCOME

Total interest income was $17.8 million for the year ended September 30, 2023 compared to $9.5 million in 2022. Interest income from loans and advances to customers increased to $2.8 million in comparison to $2.0 million in 2022 as the Bank continues to grow its lending book. Interest income from financial investments was $10.2 million compared to $6.8 million in the prior year. Interest income from cash and term deposits was $4.8 million compared to $0.7 million in 2022 due to the increase in the overnight Fed Funds interest rate by the Federal Reserve.

Interest expense increased to $3.8 million from $2.8 million a year ago due to higher term deposits balances and interest rates.

NON-INTEREST INCOME

The Bank recorded net non-interest income of $2.6 million compared to net non-interest income of $1.1 million in 2022. The increase was due to $2.2 million lower investment and impairment losses recognised in 2023 primarily as a result of the portfolio market risk reduction initiative completed in 2022. Other changes compared to 2022 included $0.6 million lower fees and commissions, $0.4 million lower dividend income partially offset by $0.2 million higher net forex gains. The composition of the non-interest income sources remained materially consistent with that of the previous year with fees and commissions income of $1.6 million (2022: $2.2 million) being the largest contributor.

EXPENSES

The Bank continues to focus on effective management of expenses. This is evidenced by the Bank achieving a reduction in total expenses of $0.4 million to $19.0 million in 2023 from $19.4 million in 2022.

FINANCIAL POSITION AS AT SEPTEMBER 30, 2023

Assets

Consistent with previous years, the Bank maintained a prudent level of liquid assets in line with the Bank's liquidity management framework. As at September 30, 2023, the Bank held cash and cash equivalents of $194.9 million that represented 42.2% of total assets compared to $269.0 million or 45.8% a year ago. The Bank's financial investment portfolio as at September 30, 2023 was $195.1 million compared to $254.0 million a year ago.

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

The Bank's loans and advances portfolio increased to $55.8 million at September 30, 2023 compared to $47.8 million a year ago primarily due to new consumer and commercial mortgages disbursed in 2023. The loan portfolio was primarily comprised of commercial loans (31.3%), consumer mortgage loans (34.9%), commercial mortgage loans (12.5%), government backed mortgages (12.6%) and commercial overdrafts (6.6%).

Liabilities

Total deposits as at September 30, 2023 were $399.0 million compared to $525.4 million a year ago due to a combination of portfolio de-risking and clients repatriating funds outside of Bermuda.

CAPITAL POSITION AS AT SEPTEMBER 30, 2023

BCB is subject to minimum capital requirements set by the Bermuda Monetary Authority ("BMA)" in accordance with guidelines developed by the Basel Committee on Banking Supervision. The Bank ended the financial year 2023 with a regulatory capital ratio of 31.8% (27.0% in 2022) significantly above BMA minimum requirements.

RISK MANAGEMENT

BCB is exposed to a wide range of financial and non-financial risks and maintains a comprehensive approach to effectively manage these risks through a defined Enterprise Risk Management Framework ("ERMF"). This framework outlines how these risks are categorized and managed to ensure it can achieve its strategic goals whilst protecting the Bank's customers' funds and providing responsible products and services that support the markets in which it operates. The Bank's ERMF is designed on core principles of maintaining a sound risk culture, delivering effective governance ensuring all risks are clearly understood and appropriately prioritized with a forward-looking approach and the provision of robust monitoring and reporting. During 2023, BCB continued to enhance its risk management framework to ensure it remains aligned to its evolving business activities, the regulatory landscape and the dynamic operating environment.

Risk Culture

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

The Three Lines of Defence

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

Governance

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

Risk Strategy

Prudent management of assets and liabilities forms a critical part of BCB's approach to management of capital, liquidity and funding risk. Through 2023 the Bank maintained a high level of High Quality Liquid Assets ("HQLA") and sought to improve the stability, diversification and maturity of its deposit base. The Bank continued to manage the maturity profile of its deposit funding to ensure that it is not exposed to high levels of re-financing within concentrated time periods.

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

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

BASEL III

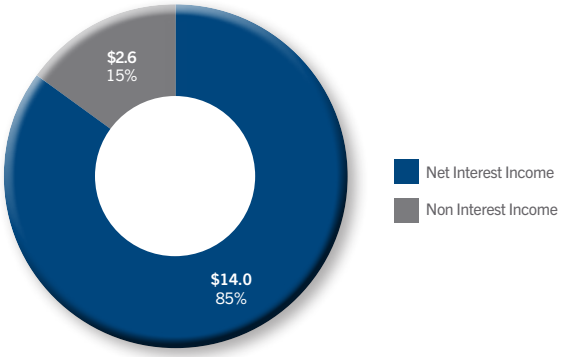
The Basel Committee's standards for capital and liquidity, commonly referred to as "Basel III", establish minimum requirements for common equity, a leverage ratio, a minimum Liquidity Coverage Ratio ("LCR"), a minimum Net Stable Funding Ratio ("NSFR"), and measures to promote the build-up of capital.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



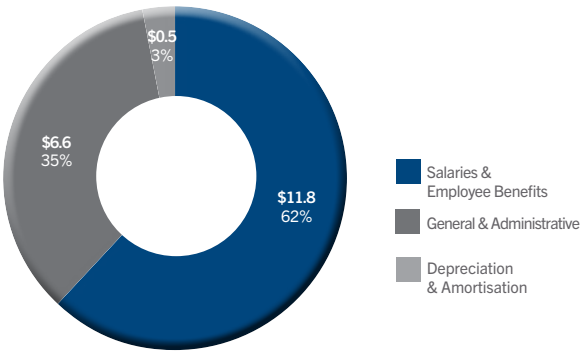
Key Financial Highlights ($ million)

	2023	2022
Income Statement		
Total income	$ 16.6	$ 7.9
Total expenses	$ (19.0)	$ (19.4)
Loss from discontinued operations	–	$ (3.2)
Net loss for the year	$ (2.4)	$ (14.8)
Balance Sheet		
Total assets	$ 462.2	$ 587.2
Total deposits	$ 399.0	$ 525.4
Total equity	$ 57.3	$ 54.9
Regulatory Ratios		
Tier 1/Total capital ratio	32%	27%
Liquidity coverage ratio	438%	200%
Net stable funding ratio	164%	136%

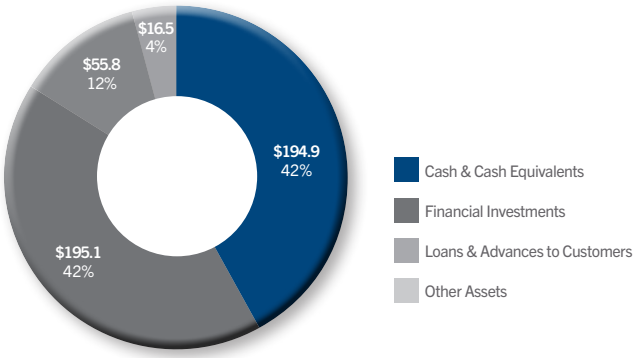
TOTAL INCOME



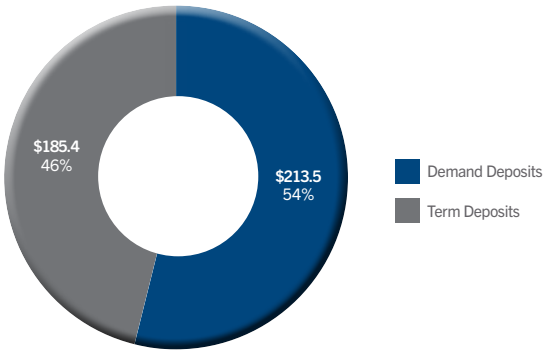
TOTAL EXPENSES



TOTAL ASSETS



TOTAL DEPOSITS



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INDEPENDENT AUDITOR'S REPORT

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Bermuda Commercial Bank Limited and its subsidiaries (the "Bank"), which comprise the consolidated statement of financial position as at September 30, 2023, the consolidated statements of income and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at September 30, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

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

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

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

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

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

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

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

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KPMG

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

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

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

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

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

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

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

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

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
February 20, 2024

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

September 30, 2023

	2023	2022
Assets		
Cash and cash equivalents (Note 3)	$ 194,868,492	$ 268,954,575
Interest receivable	1,948,561	2,109,818
Other assets (Note 9)	1,636,797	1,590,964
Financial investments (Notes 5 and 21)	195,137,506	254,023,738
Loans and advances to customers (Notes 6 and 17)	55,777,476	47,825,725
Derivative financial instruments (Notes 4 and 21)	23,630	271,322
Property and equipment (Note 7)	11,939,123	12,288,647
Intangible assets (Note 8)	911,585	142,045
Total assets	$ 462,243,170	$ 587,206,834
Liabilities		
Deposits (Notes 10 and 17)	$ 398,961,873	$ 525,442,601
Customer drafts payable	198,373	726
Derivative financial instruments (Notes 4 and 21)	22,948	290,082
Other liabilities (Note 11)	3,292,703	3,523,495
Interest payable	2,478,231	3,045,760
Total liabilities	$ 404,954,128	$ 532,302,664
Equity		
Capital stock (Note 12)	$ 16,807,963	$ 16,807,963
Share premium (Note 12)	22,131,188	22,131,188
Accumulated other comprehensive loss	(7,585,215)	(12,346,968)
Retained earnings	25,935,106	28,311,987
Total equity	57,289,042	54,904,170
Total liabilities and equity	$ 462,243,170	$ 587,206,834

See accompanying notes.

Signed on behalf of the Board:

Neville Grant, *Director*

David Brown, *Director*

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

Year ended September 30, 2023

	2023	2022
Continuing Operations		
Income		
Interest income calculated using the effective interest rate:		
Cash and term deposits (Note 3)	$ 4,797,519	$ 731,384
Loans and advances to customers (Note 6)	2,797,082	1,979,926
Financial investments (Note 5)	9,850,727	5,639,107
Other interest income:		
Financial investments (Note 5)	386,927	1,170,931
Total interest income	17,832,255	9,521,348
Interest expense (Note 10)	(3,819,448)	(2,787,692)
Net interest income	14,012,807	6,733,656
Fees and commissions (Note 13)	1,598,618	2,195,055
Net foreign exchange gains	503,696	340,268
Losses on derivative financial instruments	-	(21,701)
Dividend income (Notes 5)	236,250	600,000
Losses from financial investments (Notes 14)	(425,096)	(2,342,529)
Impairment gains (losses) on financial instruments (Notes 5, 6 and 9)	123,849	(156,505)
Other operating income (Note 15)	525,134	502,587
Total income	16,575,258	7,850,831
Expenses		
Salaries and employee benefits (Note 18)	11,833,910	10,832,267
Depreciation (Note 7)	357,557	360,542
Amortisation (Note 8)	140,519	1,184,693
General and administrative expenses (Note 16)	6,620,153	6,997,366
Total expenses	18,952,139	19,374,868
Net loss before taxation	$ (2,376,881)	$ (11,524,037)
Income tax expense	–	–
Loss from continuing operations	$ (2,376,881)	$ (11,524,037)
Discontinued Operations		
Loss from discontinued operations (Note 22)	–	(3,238,122)
Net loss for the year	$ (2,376,881)	$ (14,762,159)

See accompanying notes.

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

Year ended September 30, 2023

	2023	2022
Net loss for the year	$ (2,376,881)	$ (14,762,159)
Other comprehensive income (loss):		
Items that may be reclassified subsequently to statement of income		
Debt instruments at fair value through other comprehensive income		
Net change in fair value	2,367,716	(11,582,438)
Reclassified to statement of income (Note 14)	1,005,486	(35,483)
Changes in allowance for expected credit losses (Note 5)	(176,315)	(90,768)
Items that will not be reclassified to statement of income		
Net change in fair value of equity securities designated at FVOCI (Note 5)	1,564,866	(5,457,678)
Other comprehensive income (loss)	4,761,753	(17,166,367)
Total comprehensive income (loss)	$ 2,384,872	$ (31,928,526)

See accompanying notes.

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

Year ended September 30, 2023

	Capital stock	Share premium	Accumulated other comprehensive income (loss)	Retained earnings	Total equity
Balance at September 30, 2021	$ 16,807,963	$ 22,131,188	$ 4,819,399	$ 43,074,146	$ 86,832,696
Net loss for the year	–	–	–	(14,762,159)	(14,762,159)
Other comprehensive loss	–	–	(17,166,367)	–	(17,166,367)
Balance at September 30, 2022	$ 16,807,963	$ 22,131,188	$ (12,346,968)	$ 28,311,987	$ 54,904,170
Net loss for the year	–	–	–	(2,376,881)	(2,376,881)
Other comprehensive income	–	–	4,761,753	–	4,761,753
Balance at September 30, 2023	**$ 16,807,963**	**$ 22,131,188**	**$ (7,585,215)**	**$ 25,935,106**	**$ 57,289,042**

See accompanying notes.

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

Year ended September 30, 2023

	2023	2022
Operating activities		
Net loss for the year	$ (2,376,881)	$ (14,762,159)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation	357,557	360,542
Amortisation	140,519	1,184,693
Losses from sale of financial investments	425,096	2,342,529
Impairment (gains)/losses on financial instruments	(123,849)	156,505
	(1,577,558)	(10,717,890)
Changes in:		
Interest receivable	161,257	(361,054)
Other assets	(45,833)	811,465
Derivative financial instruments, net	(19,442)	189,158
Customer drafts payable	197,647	(10,276)
Other liabilities	(230,792)	(2,305,108)
Interest payable	(567,529)	105,552
Net cash used in operating activities	$ (2,082,250)	$ (12,288,153)
Investing activities		
Net change in loans and advances to customers	(8,004,218)	(23,261,714)
Proceeds from sale and maturity of financial investments	557,734,487	671,038,263
Purchases of financial investments	(494,335,282)	(685,092,000)
Capital cost on intangible assets (Note 8)	(910,059)	–
Purchases of property and equipment (Note 7)	(8,033)	(128,498)
Net cash generated from/(used in) investing activities	$ 54,476,895	$ (37,443,949)
Financing activities		
Net change in deposits	(126,480,728)	(16,944,228)
Net cash used in financing activities	(126,480,728)	(16,944,228)
Net decrease in cash and cash equivalents	(74,086,083)	(66,676,330)
Cash and cash equivalents, beginning of year	268,954,575	335,630,905
Cash and cash equivalents, end of year	$ 194,868,492	$ 268,954,575
Supplementary disclosure of cash flow information:		
Interest paid	$ 4,386,977	$ 2,682,140
Interest received	$ 17,993,513	$ 9,160,294
Dividends received	$ 236,250	$ 600,000

See accompanying notes.

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

September 30, 2023

1. Description of business

Bermuda Commercial Bank Limited ("BCB") is a Bermuda incorporated company, licensed and regulated by the Bermuda Monetary Authority ("the BMA") to conduct banking under the Banks and Deposit Companies Act 1999 and investment business under the Investment Business Act 2003. BCB, together with its subsidiaries (collectively, the "Bank"), provides banking, custody, investment and lending to retail and corporate clients. BCB's subsidiaries include Bercom Nominees Limited (licensed and regulated by the BMA under the Corporate Service Provider Business Act 2012), BCB Asset Management Limited and VT Strategies Limited.

Up until March 1, 2022, when certain subsidiaries were sold, the Bank also provided corporate and trustee services (Note 22) which were appropriately licensed and regulated by the BMA. BCB's registered office is at 34 Bermudiana Road, Hamilton HM 11, Bermuda.

BCB is a wholly owned subsidiary of Base Financial Ltd (formerly known as "Provident Holdings Ltd"), a Bermuda investment holding company whose majority shareholder ultimate parent undertaking is BFG Hamilton Investments, LLC, a company incorporated in the United States of America and owned by Mr. Bradley Palmer.

2. Basis of preparation and significant accounting policies

2.1 Basis of preparation

The consolidated financial statements for the year ended September 30, 2023 have been prepared on a going concern basis. In this regard, management has assessed the Bank's ability to continue as a going concern and to meet regulatory requirements applicable to capital, liquidity and funding with no exception at least, but not limited to, twelve months from the reporting date.

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

The consolidated financial statements for the year ended September 30, 2023, were authorised for issue in accordance with a resolution of the Board of Directors on February 20, 2024.

2.2 Statement of compliance

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

All intercompany balances and transactions are eliminated in full on consolidation. The financial statements of the Bank's subsidiaries still owned at the financial year-end are presented for the same reporting year as the Bank, using consistent accounting policies. The Bank is also using consistent accounting policies for its discontinued operations (if any).

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

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

2.3 Presentation of consolidated financial statements

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

2.4 Significant accounting judgments, estimates, and assumptions

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

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

Classification of financial assets

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

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

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

Fair value of financial instruments

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

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

September 30, 2023

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

2.5 Significant Accounting Policies

Basis of consolidation

The consolidated financial statements include the assets, liabilities, and results of operations of the Bank and its subsidiaries as at September 30, 2023. A list of these subsidiaries is presented in Note 17.

Foreign currency translation

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

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

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

Cash and cash equivalents

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

Financial instruments

Recognition and initial measurement

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

Classification

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

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

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

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

September 30, 2023

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

Financial instruments (continued)

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

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

Assessment of whether contractual cash flows are SPPI

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

Reclassifications

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

Financial liabilities

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

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

September 30, 2023

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

Financial instruments (continued)

Derivatives

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

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

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

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

Derecognition

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

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

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

Offsetting financial instruments

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

Determination of fair value

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

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

September 30, 2023

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

Financial instruments (continued)

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

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

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

Impairment

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

ECL allowances are a probability-weighted estimate of credit losses that are expected to arise over the life of the asset (the lifetime expected credit loss), unless there has been no 'significant increase in credit risk' since origination (12 month expected credit loss). Accordingly, for loans and advances and financial investments, an assessment is performed at the end of each reporting period to evaluate whether a financial instrument's credit risk has increased significantly since its initial recognition.

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

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

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

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

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

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

September 30, 2023

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

Financial instruments (continued)

Impairment (continued)

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

Significant increase in credit risk

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

These include:

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

Measurement of ECL

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

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

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

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

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

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

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

Financial instruments (continued)

Impairment (continued)

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

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

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

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

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

Incorporation of forward-looking information

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

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

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

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

September 30, 2023

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

Financial instruments (continued)

Impairment (continued)

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

Definition of default and cure

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

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

Modification of financial assets

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

Write-offs

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

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

September 30, 2023

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

Impairment of non-financial assets

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

Property and equipment

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

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

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

Leases

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

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

Bank as a Lessee

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

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

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

Bank as a Lessor

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

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

September 30, 2023

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

Leases (continued)

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

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

Business combinations and goodwill

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

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

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill (if any) 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 (if any) acquired in a business combination is, from the acquisition date, allocated to each of the Bank's relevant cash generating units ("CGU") that is expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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

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

Subsidiaries

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

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

September 30, 2023

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

Business combinations and goodwill (continued)

Loss of control

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

Transactions eliminated on consolidation

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

Non-controlling interests

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

Other intangible assets

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

Computer software	Up to 8 years

Amortisation of computer software commences once it is put into use.

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

Customer drafts payable

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

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

September 30, 2023

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

Discontinued operations

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

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

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

Recognition of income

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

Interest income

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

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

Revenue from contracts with customers - Fees and commissions

Revenue from contracts with customers primarily includes fees and commissions earned from banking and custodial services; and prior to 2023, trustee services, company management and corporate registrar services. Income is recognised when the performance obligations associated to those contracts are satisfied. Accordingly, income is recognised at the time of the transaction unless the performance obligations associated with the contract are satisfied over a period of time, in which case, the income is recognised over that period according to the complete satisfaction of the performance obligations. Consideration for fees and commissions is collected at the time of the transaction unless it is due upon the receipt of the invoice by the customer. Consideration receivable from customers is presented under other assets on the Statement of Financial Position while the consideration received in advance before the Bank provides the service (i.e. a contract liability) is deferred and presented under other liabilities on the Consolidated Statement of Financial Position.

Dividend income

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

Expenses

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

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

September 30, 2023

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

Dividends on common shares

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

Provisions

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

Fiduciary activities

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

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

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

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

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

- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2). Financial years starting 1 Jan 2023
- Definition of Accounting Estimates (Amendments to IAS 8). Financial years starting 1 Jan 2023

Early adoption

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

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

September 30, 2023

3. Cash and cash equivalents

Cash and cash equivalents were made up as follows:

	2023	2022
Cash and demand deposits	$ 31,896,405	$ 62,255,247
Term deposits maturing within three months	113,198,468	106,611,763
HQLA maturing within three months	49,773,619	100,087,565
Total	$ 194,868,492	$ 268,954,575

Term deposits amounting to $10,501,094 were collateralized at September 30, 2023 (2022: $15,980,184).

The average effective yields earned were as follows:

	2023	2022
Cash and demand deposits	0.37%	0.01%
Term deposits maturing within three months	4.18%	0.93%
HQLA	3.80%	0.26%

4. Derivative financial instruments

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

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

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

Foreign exchange forward contracts

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

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

September 30, 2023

4. Derivative financial instruments (continued)

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

	2023		
	Assets	**Liabilities**	**Notional amount**
Foreign exchange forward contracts	$ 23,630	$ 22,948	$ 418,453

	2022		
	Assets	**Liabilities**	**Notional amount**
Foreign exchange forward contracts	$ 271,322	$ 290,082	$ (486,074)

At September 30, 2023, the net cost of the derivatives amounted to $nil (2022: $nil).

5. Financial investments

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

	2023	2022
Financial investments measured at FVOCI		
Government debt securities	**$ 51,887,760**	$ 61,391,729
Corporate debt securities (non-banks)	110,094,212	78,954,193
Debt securities issued by banks	33,048,725	80,029,283
Asset-backed securities	106,809	127,385
Total debt securities at FVOCI	**195,137,506**	220,502,590
Equity securities designated at FVOCI	–	25,364,521
Total financial investments measured at FVOCI	**195,137,506**	245,867,111
Financial investments mandatorily measured at FVTPL		
Corporate debt securities (non-banks)	–	5,892,176
Debt securities issued by banks	–	2,264,451
Total financial investments measured at FVTPL	-	8,156,627
Total financial investments	**$ 195,137,506**	$ 254,023,738

At September 30, 2023, the amortised cost of financial investments amounted to $201,016,226 (2022: $266,344,355).

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

September 30, 2023

5. Financial investments (continued)

The carrying value of investments subject to the ECL assessment at September 30, 2023 was $195,137,506 (2022: $220,502,590) and solely represent debt securities measured at FVOCI.

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

2023

	Financial investments							
	Gross carrying amount				ECL Allowance			
	Non-credit impaired		Credit impaired	Total	Non-credit impaired		Credit impaired	Total
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
As at October 1, 2022	$219,222,534	$1,189,780	$90,276	$220,502,590	$279,089	$39,686	$370,377	$689,152
Transfers to(from):								
Stage 3	(2,386,549)	-	2,386,549	-	(1)	-	1	-
Net movement in financial investments	(23,068,991)	178,790	(2,474,883)	(25,365,084)				
ECL charge (reversal)					(160,930)	22,193	(37,578)	(176,315)
As at September 30, 2023	$193,766,994	$1,368,570	$1,942	$195,137,506	$118,158	$61,879	$332,800	$512,837

2022

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

Equity securities designated as at FVOCI

The FVOCI designation was made for certain equity securities because those investments are being held for strategic purposes. Dividend income in 2023 from these securities was $236,250 (2022: $600,000). Realized loss for the year from derecognition of equity securities measured at FVOCI was $555,308 (2022: Profit of $3,794,706).

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

September 30, 2023

5. Financial investments (continued)

Interest income from financial investments

Interest income calculated using the effective interest method, on financial investments measured at FVOCI was $9,850,727 (2022: $5,639,107). Interest income on financial investments measured at FVTPL, presented under other interest income on the Consolidated Statement of Income was $386,927 (2022: $1,170,931). No investments were held nor measured at AC in 2023 (2022: $nil).

6. Loans and advances to customers

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

	2023	2022
Commercial loans	$ 17,477,460	$ 25,465,099
Commercial overdrafts	3,668,566	4,904,739
Commercial mortgage loans	7,000,000	7,000,000
Consumer mortgage loans	19,489,157	9,579,087
Government backed mortgages	7,034,876	-
Credit cards	396,210	261,941
Other	711,207	614,859
Total	$ 55,777,476	$ 47,825,725

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

	2023					
	Within 1 year	1-5 years	5-10 years	More than 10 years	ECL allowance	Total
Commercial loans	$ –	$ 16,514,326	$ 981,396	$ –	$ (18,262)	$ 17,477,460
Commercial overdrafts	3,668,566	–	–	–	–	3,668,566
Commercial mortgage loans	–	7,000,000	–	–	–	7,000,000
Consumer mortgage loans	–	90,215	1,643,217	17,776,450	(20,725)	19,489,157
Government backed mortgages	–	–	–	7,069,031	(34,155)	7,034,876
Credit cards	400,865	–	–	–	(4,655)	396,210
Other	290,000	143,107	278,184	_	(84)	711,207
Total	$ 4,359,431	$ 23,747,648	$ 2,902,797	$ 24,845,481	$ (77,881)	$ 55,777,476

	2022					
	Within 1 year	1-5 years	5-10 years	More than 10 years	ECL allowance	Total
Commercial loans	$ 5,100,000	$ 19,316,283	$ 1,059,492	$ –	$ (10,676)	$ 25,465,099
Commercial overdrafts	4,915,236	–	–	–	(10,497)	4,904,739
Commercial mortgage loans	–	7,000,000	–	–	–	7,000,000
Consumer mortgage loans	–	–	376,411	9,202,676	–	9,579,087
Credit cards	265,802	–	–	–	(3,861)	261,941
Other	343	614,896	–	–	(380)	614,859
Total	$ 10,281,381	$ 26,931,179	$ 1,435,903	$ 9,202,676	$ (25,414)	$ 47,825,725

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

September 30, 2023

6. Loans and advances to customers (continued)

Credit quality

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

	Loans and advances at September 30, 2023								
	Gross carrying amount				ECL allowance				Net carrying amount
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
Commercial loans	$ 17,495,722	$ –	$ –	$ 17,495,722	$ 18,262	$ –	$ –	$ 18,262	$ 17,477,460
Commercial overdrafts	3,668,566	–	–	3,668,566	–	–	–	–	3,668,566
Commercial mortgage loans	7,000,000	–	–	7,000,000	–	–	–	–	7,000,000
Consumer mortgage loans	19,378,099	131,783	–	19,509,882	20,725	–	–	20,725	19,489,157
Government backed mortgages	7,069,031	–	–	7,069,031	34,155	–	–	34,155	7,034,876
Credit cards	–	400,865	–	400,865	–	4,655	–	4,655	396,210
Other	711,291	–	–	711,291	84	–	–	84	711,207
Total at AC	$ 55,322,709	$ 532,648	$ –	$ 55,855,357	$ 73,226	$ 4,655	$ –	$ 77,881	$ 55,777,476

	Loans and advances at September 30, 2022								
	Gross carrying amount				ECL allowance				Net carrying amount
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
Commercial loans	$ 25,475,775	$ –	$ –	$ 25,475,775	$ 10,676	$ –	$ –	$ 10,676	$ 25,465,099
Commercial overdrafts	4,915,236	–	–	4,915,236	10,497	–	–	10,497	4,904,739
Commercial mortgage loans	7,000,000	–	–	7,000,000	–	–	–	–	7,000,000
Consumer mortgage loans	9,440,800	138,287	–	9,579,087	–	–	–	–	9,579,087
Credit cards	–	265,802	–	265,802	–	3,861	–	3,861	261,941
Other	614,896	–	343	615,239	67	–	313	380	614,859
Total at AC	$ 47,446,707	$ 404,089	$ 343	$ 47,851,139	$ 21,240	$ 3,861	$ 313	$ 25,414	$ 47,825,725

The above ECL allowance of $77,881 includes an ECL allowance of $6,713 (2022: $11,191) estimated on undrawn commitments totaling $2,049,618 (2022: $2,068,120).

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

September 30, 2023

6. Loans and advances to customers (continued)

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

Loans and advances as at 30 September 2023

	Gross carrying amount				ECL allowance			
	Non-credit impaired		Credit impaired	Total	Non-credit impaired		Credit impaired	Total
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
As at October 1, 2022	$ 47,446,707	$ 404,089	$ 343	$ 47,851,139	$ 21,240	$ 3,861	$ 313	$ 25,414
Transfers:								
From Stage 1	–	–	–	–	–	–	–	–
From Stage 2	–	–	–	–	–	–	–	–
From Stage 3	–	–	–	–	–	–	–	–
Net movement in loans and advances	7,876,002	128,559	(343)	8,004,218				
ECL charge (reversal)					51,986	794	(313)	52,467
As at September 30, 2023	$ 55,322,709	$ 532,648	$ –	$ 55,855,357	$ 73,226	$ 4,655	$ –	$ 77,881

Loans and advances as at 30 September 2022

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

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

September 30, 2023

6. Loans and advances to customers (continued)

Collateral held by the Bank

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

The Bank did not hold any credit impaired assets as of September 30, 2023. Therefore, the aggregate discounted value of collateral held by the Bank for credit impaired assets reported at September 30, 2023 was $nil (2022: $ nil).

Assets modified during the year

No loans and advances were modified during the year (2022: $nil).

Average effective yields

The average effective yields earned were as follows:

	2023	2022
Commercial loans	6.10%	6.56%
Commercial overdrafts	6.34%	6.07%
Commercial mortgage loans	5.50%	5.50%
Consumer mortgage loans	5.60%	5.05%
Government backed mortgages	5.00%	-
Other	6.28%	5.99%

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

Outstanding credit card balances are charged interest at 16% per annum.

7. Property and equipment

	2023				
	Equipment	**Land**	**Building**	**Right-of-use Assets**	**Total**
Cost					
Beginning of year	$ 1,379,732	$ 1,306,800	$ 12,822,269	$ 87,491	$ 15,596,292
Additions	8,033	-	-	-	8,033
Disposals	(250)	-	-	(87,491)	(87,741)
End of year	$ 1,387,515	$ 1,306,800	$ 12,822,269	$ -	$ 15,516,584
Accumulated Depreciation					
Beginning of year	$ 1,291,064	$ -	$ 1,929,090	$ 87,491	$ 3,307,645
Depreciation charge	37,000	-	320,557	-	357,557
Disposals	(250)	-	-	(87,491)	(87,741)
End of year	1,327,814	-	2,249,647	-	3,577,461
Net book value at end of year	$ 59,701	$ 1,306,800	$ 10,572,622	$ -	$ 11,939,123

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

September 30, 2023

7. Property and equipment (continued)

2022

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

Right-of-use assets represent leased equipment.

8. Intangible assets

	2023			2022
	Computer software	Computer software - WIP	Total	Computer software
Cost				
Beginning of year	$ 11,295,749	$ –	$ 11,295,749	$ 11,295,749
Additions	–	910,059	910,059	–
End of year	11,295,749	910,059	12,205,808	11,295,749
Accumulated amortisation and impairment				
Beginning of year	11,153,704	–	11,153,704	9,969,011
Amortisation charge for the year	140,519	–	140,519	1,184,693
End of year	11,294,223	–	11,294,223	11,153,704
Net book value at end of year	$ 1,526	$ 910,059	$ 911,585	$ 142,045

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.

Computer software – WIP represents the capital cost incurred to upgrade the Bank's core-banking IT platform and amortisation will commence once the software is available for use.

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

September 30, 2023

9. Other assets

Other assets were made up of:

	2023	2022
Accounts receivable, net of ECL	$ 291,200	$ 245,596
Accrued income	190,142	297,673
Prepayments	1,155,455	1,047,695
Total	$ 1,636,797	$ 1,590,964

The ECL allowance recorded at September 30, 2023 in accordance with IFRS 9 was $549,029 (2022: $549,028).

10. Deposits

Deposits were made up of:

	2023	2022
Demand deposits	$ 213,514,360	$ 360,969,559
Term deposits:		
Deposits maturing within 1 month	37,702,796	18,405,453
Deposits maturing – 1-3 months	38,101,054	33,288,882
Deposits maturing – 3-12 months	55,635,661	60,061,428
Deposits maturing – 1-5 years	54,008,002	52,717,279
	185,447,513	164,473,042
Total	$ 398,961,873	$ 525,442,601

The average annual effective rates paid were as follows:

	2023	2022
Term deposits based on book values and contractual interest rates	2.42%	1.76%
Demand deposits	0.00%	0.00%

11. Other liabilities

Other liabilities were made up of:

	2023	2022
Accounts payable	$ 2,553,192	$ 2,128,387
Accrued liabilities	739,511	1,395,108
Total	$ 3,292,703	$ 3,523,495

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

September 30, 2023

12. Equity

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

	Authorised shares	Par value	Issued & fully paid shares	Par value	Share premium
Balance at September 30, 2023 and 2022	10,000,000	24,000,000	7,003,318	16,807,963	22,131,188

Regulatory capital

The Bermuda Monetary Authority ("BMA") adopts the Basel III Accord which requires detailed disclosures on regulatory capital and risk management. The BMA assesses the risk of each banking institution and determines a Pillar 2 individual capital guidance for each bank. The Bank has complied with all minimum capital requirements prescribed by the BMA and at September 30, 2023, the Bank's Tier 1 and total regulatory capital ratios 31.83% (2022: 27.01%) and 31.83% (2022: 27.01%) respectively, and exceeded the required minimum.

Capital management

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

13. Fees and commissions

Fees and commissions are made up as follows:

	2023	2022
Banking services	$ 1,086,274	$ 1,684,958
Custody services	512,344	510,097
Total	$ 1,598,618	$ 2,195,055

14. Gains (losses) from financial investments

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

	2023	2022
From financial investments measured at FVTPL	$ 580,390	$ (2,378,012)
On derecognition of financial investments measured at FVOCI	(1,005,486)	35,483
Total	$ (425,096)	$ (2,342,529)

15. Other operating income

	2023	2022
Lease income from operating leases	$ 525,134	$ 502,587

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

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

September 30, 2023

16. General and administrative expenses

General and administrative expenses are made up as follows:

	2023	2022
Advertising and marketing	$ 119,762	$ 13,632
Banking services and licenses	623,990	1,014,484
Directors fees	382,750	356,444
Information technology and systems	1,662,915	1,764,444
Investment advisory fees	414,049	816,617
Insurance	275,708	367,997
Premises related costs	420,884	300,937
Professional fees	1,470,562	1,526,439
Sub-custodian charges	267,187	252,848
Other administrative	982,346	583,524
Total	$ 6,620,153	$ 6,997,366

17. Related party disclosures

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

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

Consultancy services provided by Base Financial Ltd.

During the year, the Bank incurred $648,596 (2022: $nil) for consultancy services provided by Base Financial Ltd. to the Bank and it has been recorded as part of salaries and employee benefits on the Consolidated Statement of Income.

Loans and advances to customers

At September 30, 2023, total loans and advances receivable from related parties amounted to $8,502,350 (2022: $6,000,000), which was fully secured by publicly listed securities owned by the borrower. The undrawn portion of credit facilities granted to these related parties at September 30, 2023 was $nil (2022: $nil).

For the year ended September 30, 2023, the Bank earned net interest income and fees of $432,563 (2022: $280,566) for banking and other services provided to such related parties.

Deposit liabilities

At September 30, 2023, deposit balances held by related parties with the Bank amounted to $814,905 (2022: $1,600,540).

Transactions with Board of Directors

Total Directors' fees for the year ended September 30, 2023, amounted to $382,750 (2022: $356,444). The Bank provides banking services to Board of Directors under the same terms as an unrelated party would receive. At September 30, 2023, Board of Directors and parties associated with Board of Directors had deposit balances with the Bank of $183,392 (2022: $112,743). At September 30, 2023, total loans and advances receivable from Board Directors and parties associated with Board of Directors (not disclosed above) amounted to $824,167 (2022: $nil), and the undrawn portion of credit facilities committed, amounted to $nil (2022: $nil).

Net interest income and fees earned from Board of Directors for the year was $15,385 (2022: expense of $2,993).

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

September 30, 2023

17. Related party disclosures (continued)

Compensation of key management personnel of the Bank

The Bank classifies the Board of Directors of the Bank and executive committee as key management personnel. For the year ended September 30, 2023, the total compensation paid to key management personnel amounted to $2,301,136 (2022: $3,236,325), excluding the Directors' fees.

Principal subsidiary undertakings at September 30, 2023

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

BCB as the sole shareholder of these companies provides financial and administrative support to its subsidiaries for at least, but not limited to, 12 months from the date these consolidated financial statements are issued. Further, the details of the subsidiaries disposed of in 2022 can be found in Note 22.

18. Salaries and employee benefits

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

- If service exceeded 15 years before May 2022: 5% of gross salary for the first 15 years and 10% thereafter
- All others: 5% of gross salary

As permitted under the legislation, staff members are required to contribute a minimum of 5% annually based on the employees' pensionable earnings. Staff members who completed 15 years of service prior to May 2022 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 2023 amounted to $378,640 (2022: $477,776) and is included within salaries and employee benefits in the Consolidated Statement of Income.

19. Commitments and contingent liabilities

Commitments

At September 30, 2023, the Bank was committed to $3,757,621 (2022: $3,469,144) 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.
Capital commitments in relation to the core-banking upgrade that was in progress as of September 30, 2023 was $2,093,894 (2022: not applicable). The cost incurred to date is disclosed under *computer software WIP* in Note 8.

Contingent liabilities

In the ordinary course of business, the Bank and its subsidiaries can, from time to time, be defendant in, or party to, pending and contingent legal actions / proceedings. The Bank is also subject to periodic regulatory reviews or actions of the Banking Regulator. As a part of these actions, an examination of the Bank's Anti-Money Laundering / Anti-Terrorist Financing policies and procedures is in progress at the reporting date. In relation to these matters, the Bank is required to recognise a provision for a liability when it is probable that an outflow of economic benefits would be required to settle an obligation which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. While the outcome of such events is inherently uncertain and cannot be reliably measured, based on the information currently available to management, no provision is necessary in respect of legal proceedings or regulatory actions as at September 30, 2023 (2022: None).

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

September 30, 2023

20. Risk management

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

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

Risk culture

The fostering of a sound risk culture is a key responsibility of the Bank's Executive Management. This is achieved by establishing and exercising accountability, promoting risk awareness and encouraging a proactive approach to the identification and mitigation of risks. These responsibilities are laid out in the governance framework and policies and supported by the Bank's Code of Conduct. A wide range of training is provided on key risk topics to ensure appropriate technical risk skills are developed and maintained at all levels of the organisation whilst also raising awareness of critical risk issues. The Bank also ensures a safe environment for any staff member to confidentially escalate any concerns through provision of a whistleblowing framework. The Bank's risk culture is reinforced through its employee performance management framework and approach to remuneration which incorporates behavioural values.

Governance

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

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

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

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

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

September 30, 2023

20. Risk management (continued)

Governance (continued)

BCB has adopted the three lines of defence model which addresses how specific duties related to risk and control are segregated and coordinated. All employees are responsible for identifying and managing risk within the scope of their role as part of this framework. The first line of defence are the risk owners that operate within the business units of the bank. This includes client-facing staff as well as non-client facing support functions (e.g. Operations, Technology and Finance). Employees in the first line of defence are accountable for the risk-taking activities and the results, ramifications and opportunities of those activities; establishing appropriate operating procedures and internal control systems; performing regular assessments or testing of controls; monitoring risk exposures against established appetite; and reporting exceptions and incidents in a timely manner. The Second Line of Defence provides risk oversight through the Risk and Compliance functions that provide guidance to, and oversight of, the first line through the setting of risk policies, limits and processes that ensure adherence to required standards and parameters. Critically this requires identification, measurement, monitoring and reporting of the Group's aggregated risk exposures through the risk governance framework. In addition to the above, there are other key operational functions that may have a mixture of first and second line of defence duties. These are Legal, Human Resources, segments of Finance and Information Technology. The third line of defence is the Internal Audit (IA) function which provides independent and objective assurance over the adequacy of design and operational effectiveness of the first and second line functions.

Significant risk categories

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

Credit risk

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

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

The Bank regularly reviews the methodologies and assumptions applied in its ECL calculations to ensure they reflect prevailing and expected market conditions. ECL allowances are based on the economic information available at September 30, 2023. Please refer to Note 5, 6 and 9 for more details on the ECL allowances recorded during the year on financial assets measured at AC and FVOCI.

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

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

September 30, 2023

20. Risk management (continued)

Treasury risk

Treasury risk is broken down into (a) liquidity and funding risk which is defined as the risk that the Bank will be unable to meet its contractual or contingent obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets, and; (b) capital risk which is defined as the risk of insufficient capital to support its normal business activities and to meet its regulatory capital requirements.

To limit this risk, management has adopted policies that prioritize liquidity among the parameters for asset selection. Additionally, management monitors the term structure of the Bank's current funding, its future cash flows, and the market liquidity of its balance sheet assets on a daily basis. Management adheres to conservative parameters using a defined capital risk management framework to ensure regulatory capital adequacy is maintained at all times.

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.

Maturity profile
The below tables summarize the maturity profile of the Bank's assets and liabilities as at September 30, 2023 and 2022. 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.

	2023						
	Within 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**ECL allowance**	**Total**
Assets							
Cash and cash equivalents	$ 191,185,806	3,682,686	-	-	-	-	194,868,492
Interest receivable	594,431	824,488	390,837	73,641	65,164	-	1,948,561
Other assets	1,555,560	299,136	331,130	-	-	(549,029)	1,636,797
Loans and advances to customers	4,069,431	-	290,000	23,747,648	27,748,278	(77,881)	55,777,476
Financial investments	2,316,676	5,776,117	59,738,162	120,293,041	7,013,510	-	195,137,506
Derivative financial instruments	23,630	-	-	-	-	-	23,630
Property and equipment	-	-	-	59,701	11,879,422	-	11,939,123
Other intangible assets	-	1,526	-	-	910,059	-	911,585
	$ 199,745,534	10,583,953	60,750,129	144,174,031	47,616,433	(626,910)	462,243,170
Liabilities							
Deposits	251,217,156	38,101,054	55,635,661	54,008,002	-	-	398,961,873
Customer drafts payable	198,373	-	-	-	-	-	198,373
Derivative financial instruments	22,948	-	-	-	-	-	22,948
Other liabilities	1,476,985	690,436	87,592	1,037,690	-	-	3,292,703
Interest payable	324,908	536,477	758,393	858,453	-	-	2,478,231
	$ 253,240,370	39,327,967	56,481,646	55,904,145	-	-	404,954,128
Net assets (liabilities)	$ (53,494,836)	(28,744,014)	4,268,483	88,269,886	47,616,433	(626,910)	57,289,042

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

September 30, 2023

20. Risk management (continued)

Treasury risk (continued)

	2022						
	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	ECL allowance	Total
Assets							
Cash and cash equivalents	$ 227,011,348	$ 41,943,227	$ –	$ –	$ –	$ –	$ 268,954,575
Interest receivable	701,325	805,358	477,924	104,402	20,809	–	2,109,818
Other assets	1,537,956	297,338	304,698	–	–	(549,028)	1,590,964
Loans and advances to customers	1,268,501	–	9,012,880	26,931,179	10,638,579	(25,414)	47,825,725
Financial investments	–	6,982,636	102,704,082	94,674,783	49,662,237	–	254,023,738
Derivative financial instruments	2,194	269,128	–	–	–	–	271,322
Property and equipment	–	–	–	88,668	12,199,979	–	12,288,647
Other intangible assets	141,021	1,024	–	–	–	–	142,045
	$ 230,662,345	$ 50,298,711	$ 112,499,584	$ 121,799,032	$ 72,521,604	$ (574,442)	$ 587,206,834
Liabilities							
Deposits	379,375,012	33,288,882	60,061,428	52,717,279	–	–	525,442,601
Customer drafts payable	726	–	–	–	–	–	726
Derivative financial instruments	–	290,082	–	–	–	–	290,082
Other liabilities	1,542,539	882,974	166,616	931,366	–	–	3,523,495
Interest payable	90,324	454,499	1,544,977	955,960	–	–	3,045,760
	$ 381,008,601	$ 34,916,437	$ 61,773,021	$ 54,604,605	$ –	$ –	$ 532,302,664
Net assets (liabilities)	$ (150,346,256)	$ 15,382,274	$ 50,726,563	$ 67,194,427	$ 72,521,604	$ (574,442)	$ 54,904,170

Market risk

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

Interest rate risk

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

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

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

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

September 30, 2023

20. Risk management (continued)

	2023	2022
200-basis-point increase in interest rates		
Impact on Economic Value of Equity	$ (5,324,630)	$ (3,860,205)
200-basis-point decrease in interest rates		
Impact on Economic Value of Equity	$ 5,324,630	$ 3,860,205

Foreign Currency Risk

Foreign currency risk is the risk that the value of assets and liabilities will fluctuate due to changes in foreign exchange rates. The Board of Directors has set limits on positions by currency. In accordance with the Bank's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits. A 10 per cent increase in the FX rates to which the Bank had significant exposure at September 30, 2023 would have decreased net income and equity by $6,858 (2022: $36,338). An equivalent decrease in these same FX rates would have resulted in an equivalent but opposite impact.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Bank is exposed to operational risk as a direct or indirect consequence of its normal business activities, as arising in the day to day execution of business processes, the functioning of its technologies and in the various activities performed by its staff, contractors and vendors. Operational risk is relevant to every aspect of the Bank and covers a wide range of areas including, amongst others, financial crime compliance, regulatory compliance, fraud, cyber security, technology and conduct risks. The Bank manages operational risk via a comprehensive and standalone Operational Risk Management Framework ("ORMF") which outlines the required policies, processes and responsibilities. A key aspect of the ORMF is the Risk and Control Self-Assessment ("RCSA") process which identifies and evaluates the operational risks across all of the Bank's businesses and determines if these are effectively controlled within acceptable parameters. Where deficiencies are detected formal action is taken to address these. The results of the RCSA drive the first and second line of defence control monitoring and testing regime, which is monitored through the MRC. The Bank also operates a defined process to govern how operational risk incidents are managed to ensure sustainable control improvements are delivered, and how operational losses are calculated, categorized and reported.

Geopolitical and macroeconomic risks

The continuing Russia-Ukraine conflict has increased geopolitical instability and resulted in the use of significant sanctions and trade restrictions against Russia, Russian government officials and individuals with close ties to the Russian government as well as Russian financial institutions and companies. The Bank manages the expanded sanctions requirements through its automated sanctions screening monitoring system which is set up to identify possible wires in connection to Russia and other relevant sanctions regimes. The Bank engaged an external law firm with a dedicated sanctions team which assisted with the interpretation of the rapidly changing sanctions against Russia. All transactions with Russia were discontinued in 2022. The Bank also assessed its possible sanctions exposure from business relationships and made amendments to its customer portfolio to reduce possible exposure to sanctions.

20. Risk management (continued)

Geopolitical and macroeconomic risks (continued)

Sustained global macroeconomic uncertainty has resulted in a significant and almost universal increase in inflation and a rapid rise in interest rates as central banks tightened monetary policy in response. Although the direct financial impact to the Bank in 2023 has been limited to increased volatility in the fair value of its investments (Notes 5 and 21) the Bank is not immune to the sustained and evolving risks of this uncertain environment and continues to monitor and seek to manage the potential implications on its business and customers. Specifically, through its forward-looking risk governance structure, the impact that rising rates have on the financial instruments held by the Bank are closely considered through ALCO and the impact of a rising cost of living on current and future borrowers is assessed through MRC which drives enhancements to the Bank's credit and lending policies and control framework.

21. Financial instruments

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

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

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

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

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

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

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

Derivative financial instruments

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

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

September 30, 2023

21. Financial instruments (continued)

Financial instruments recorded at fair value

Financial investments

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

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

	2023		
	Level 1	**Level 2**	**Total**
Financial assets			
Derivative financial instruments at FVTPL			
Foreign exchange forward contracts	$ –	23,630	23,630
	–	23,630	23,630
Financial investments at FVOCI			
Government debt securities - over 3 months maturity	46,082,700	5,805,060	51,887,760
Corporate debt securities (non-banks)	93,575,470	16,518,742	110,094,212
Debt securities issued by banks	28,600,925	4,447,800	33,048,725
Asset-backed securities	–	106,809	106,809
	168,259,095	26,878,411	195,137,506
Government debt securities - within 3 months maturity	47,946,031	1,827,588	49,773,619
	$ 216,205,126	28,729,629	244,934,755
Financial liabilities			
Derivative financial instruments at FVTPL	–	22,948	22,948
	$ –	22,948	22,948

There were no level 3 financial instruments as of September 30, 2023.

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

September 30, 2023

21. Financial instruments (continued)

Movement in Level 3 financial instruments measured at fair value:

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

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

September 30, 2023

21. Financial instruments (continued)

Movement in Level 3 financial instruments measured at fair value:

	Asset backed securities	Total
At September 30, 2021	$ 148,125	$ 148,125
Gains (losses) recorded in:		
- Consolidated Statement of Income	(129,273)	(129,273)
Sales / Maturities	(11,499)	(11,499)
At September 30, 2022	$ 7,353	$ 7,353
Sales / Maturities	(7,353)	(7,353)
At September 30, 2023	$ –	–

22. Discontinued operations (Applicable to financial year ended September 30, 2022 only)

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

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

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

September 30, 2023

22. Discontinued operations (continued)

A. Results of Discontinued operations

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

	5 Months Ended 1 March 2022
Fees and commissions	$ 430,763
Impairment (losses)/gains on financial instruments	(9,865)
Total income	**420,898**
Less: expenses	
Salaries and employee benefits	748,908
General and administrative expenses	341,868
Total expenses	**1,090,776**
Net loss from operating activities before taxation	**(669,878)**
Less: Income tax expense	-
Net Loss from operating activities before taxation	**(669,878)**
Less: Disposal loss on sale of discontinued operations	(2,568,244)
Loss from discontinued operations	**$ (3,238,122)**

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

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

September 30, 2023

22. Discontinued operations (continued)

B. Cash flows from (used in) discontinued operation

		2022
Net cash from (used in) operating activities	$	(561,810)
Net cash from (used in) investing activities		–
Net cash from (used in) investing activities		–
Net cash flows for the year	$	(561,810)

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

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

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

23. Subsequent events

There have been no significant events or transactions from September 30, 2023 to the date that these consolidated financial statements were available for issuance that require adjustments to or disclosures in the consolidated financial statements.

Subsidiaries
As at September 30, 2023

BCB ASSET MANAGEMENT LIMITED
Incorporated February 11, 2011.

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

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

Bermuda Commercial Bank Limited and a subsidiary offer a variety of regulated services in Bermuda. Bermuda Commercial Bank Limited is authorised and regulated by the Bermuda Monetary Authority and licensed to carry out banking business under the Banks and Deposit Companies Act 1999 and to carry out investment business under the Investment Business Act 2003. Bercom Nominees Limited is authorised and regulated by the Bermuda Monetary Authority and is licensed to carry out business as a Limited corporate services provider pursuant to the Corporate Service Provider Business Act 2012.

BCB Asset Management Limited is a Listing Sponsor and Trading Member of the Bermuda Stock Exchange ("BSX"). BSX is an exchange that acts as a central clearing counterparty for Bermudian securities. Through BCB Asset Management Limited, Bermuda Commercial Bank Limited provides limited execution-only investment services through the BSX. BCB has no current BSX listing sponsorships or services in place.

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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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