BCB

Bermuda Commercial Bank Limited

ANNUAL REPORT 2015

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Corporate Profile

Bermuda Commercial Bank is a boutique bank providing tailored financial solutions and personal attention to Bermuda based and international sophisticated business customers, private 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 global custody and brokerage, trust administration, and a comprehensive range of corporate services including company formation and management, corporate directorships, trademarks and special purpose vehicles for corporate transactions. The recent acquisition of Private and Commercial Finance Group plc means that we now also offer hire purchase and finance lease facilities to consumers and businesses throughout the United Kingdom.

Core Values

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

INTEGRITY
We can be relied upon to do the right thing in a moral way.

COMPLIANT
We can be relied upon to follow all regulatory and legal requirements.

PRISTINE BALANCE SHEET
We will proactively manage and optimise our balance sheet quality on an ongoing basis.

EFFICIENT
We will perform in a competent, capable and cost effective manner.

REPUTABLE
We will be conscientious, dependable and trustworthy.

History of Bermuda Commercial Bank

Bermuda Commercial Bank Limited ("BCB" or "the Bank") began by an Act of Parliament in February 1969. The Bank operated under the management of Barclays from its inception until May 10, 1993. A decision was made by Barclays to sell its minority shareholdings world-wide in the early 1990s and this set the stage for the Bank to acquire a new substantial shareholder and manager who would bring a new focus and direction. In the early 1990's, the Bank made a strategic decision to withdraw from the provision of local retail banking services.

The Bank changed its focus to serve international and corporate business, and, as part of this realignment, the majority of the Bank's loan portfolio was sold and the Bank exited from the credit market. This had the benefit of transferring almost all of the Bank's risk assets from the balance sheet and setting the stage for future unencumbered growth. As part of the re-focus, the Bank became smaller and more efficient, developed new products and was a pioneer in providing electronic banking to its clients.

In April 2010, the majority shareholding in the Bank was purchased by an investor group through Permanent Investments Limited ("Permanent"). Management welcomed the new investors and the renewed spark at the Bank helped revitalise the business and position the Bank well for future growth. The BCB focus on private wealth management and corporate business was reaffirmed, management began the work of updating technical infrastructure and the Bank re-engaged in the marketplace with new, competitive products.

These changes have been successful, and BCB is continuing to grow. Service and quality are our most important assets and BCB requires a high level of excellence from all of our employees, with some members of staff receiving long service awards for over thirty years of service to the Bank. BCB understands that it needs to remain pragmatic and versatile in this currently unstable economic environment and has positioned itself to remain a strong competitor in Bermuda's relatively saturated financial marketplace. In February 2011, the Bank was awarded the 2011 Kinetic Process Innovation Award for excellence in the Banking Technology category. BCB's unprecedented application of banking technology, the application of best practices in compliance excellence and mitigating transactional risks helped to secure this achievement. This award was a major accomplishment for the Bank and secured its status as a highly competitive, technically savvy financial institution.

In October of 2011, Bermuda Commercial Bank expanded its trust and corporate administration services business through the acquisition of two well-established Bermuda companies: Paragon Trust Ltd and Charter Corporate Services Ltd. This acquisition was consistent with Bermuda Commercial Bank's strategic objectives and overall business goals of creating a full-service, premier wealth management financial institution. Under their new names, BCB Paragon Trust Limited offers a complete range of trust services, as well as estate planning, estate administration and executorships. BCB Charter Corporate Services Limited offers a full range of corporate administrative and secretarial services to both local and exempted companies, which operate in a wide range of sectors. These exciting acquisitions solidified Bermuda Commercial Bank's position in the market as a financial institution on the rise.

In October 2012, as part of a strategic restructuring, BCB merged with BNL I Limited, a wholly owned subsidiary of Somers Limited ("Somers", formally known as "Bermuda National Limited" or "BNL"), resulting in BCB becoming a wholly owned subsidiary of Somers. BCB delisted from the Bermuda Stock Exchange and its shareholders received one share of Somers for each share of BCB held. Somers shares are now listed on the Bermuda Stock Exchange. This merger further allowed for an enlarged platform for corporate investments and acquisitions within the financial services sector, and offers a greater opportunity to outside investors who may wish to invest in a diversified financial services company. The formation of Somers as the holding company of the BCB Group has increased the Group's ability to access additional equity capital.

DEVELOPMENTS OVER THE 2014/2015 FISCAL PERIOD

Over the course of this fiscal year, BCB worked tirelessly with its strategic IT partners to implement the Temenos T24 Core Banking System, along with a suite of products, including Business Intelligence, Insight Risk, Anti-Money Laundering ("AML") and Foreign Account Tax Compliance Act ("FATCA"). The suite of products will allow BCB to grow its channel offerings and business lines, as well as providing better reporting and analysis through the Insight modules, thus improving upon the Bank's exceptional customer service. We are pleased to announce that the launch of the Core Banking and Internet Banking System took place on November 1, 2015.

BCB has continued to work closely with local Trust Company, Meritus Trust Company Limited ("Meritus") as a lead consultant in the restructuring of BCB Paragon Trust Limited. Meritus were brought on board to share their wealth of experience and to provide BCB with management services in key areas, which, along with BCB Paragon's team of dedicated professionals, will ensure that BCB Paragon continues to meet ever- changing client needs.

Governance continues to be a focus for the Bank and a key project to update all of the Bank's policies and procedures including a revised Code of Conduct for all employees and for the Board was completed during this fiscal year. BCB recognises that having robust corporate governance and systems of control, provides the basis for the responsible management and sustainable growth of the business.

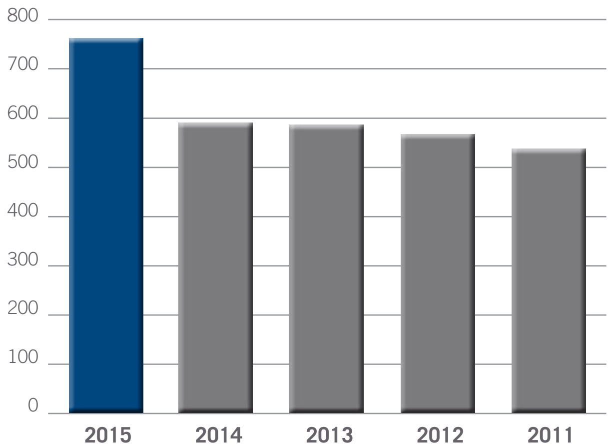
In September 2015, BCB announced the acquisition of Private and Commercial Finance Group Plc ("PCFG"), a UK-based finance house quoted on the AIM stock exchange with a focus on vehicle financing in the business and consumer sectors. The rationale behind the acquisition is the attractive income stream which will diversify the Bank's revenues along with the ability to more efficiently deploy BCB's assets in the wake of the BASEL III regulatory framework.

The BCB Group of Companies (see list of subsidiaries on page 59) are focused on delivering the key strategic initiatives agreed by the Board and the 2015/2016 fiscal year will see the implementation of a number of core projects including IT systems, product development, new premises and asset deployment.

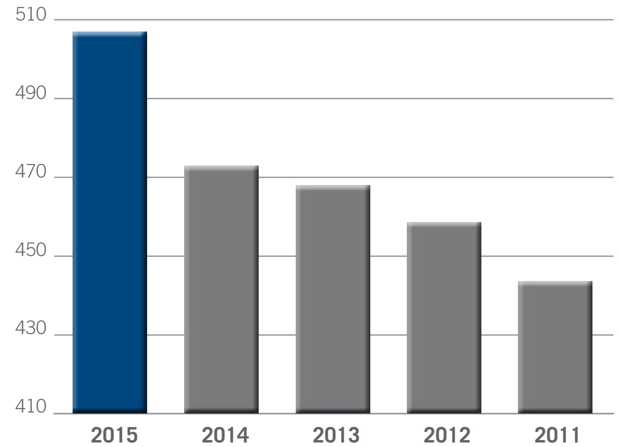
Key Financial Highlights

	2015	2014
Results of the year ($ million)		
Net interest income	$ 12.20	$ 18.17
Non interest income	$ 23.14	$ 14.69
Total income	$ 35.34	$ 32.86
Total expenses	$ 27.31	$ 23.65
Net income	$ 8.03	$ 9.21
Results at the year end ($ million)		
Total assets	$ 759.68	$ 592.57
Total deposits	$ 505.35	$ 471.28
Total equity	$ 109.55	$ 113.43
Financial ratios		
Return on equity	7.20%	8.27%
Cash and cash equivalents / total assets	37.59%	44.55%
Regulatory ratios		
Tier 1 capital ratio	21.13%	25.03%
Total capital ratio	21.11%	23.18%

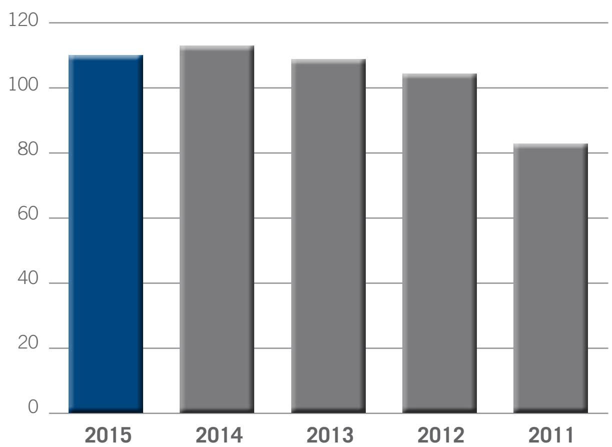
TOTAL ASSETS ($ million)



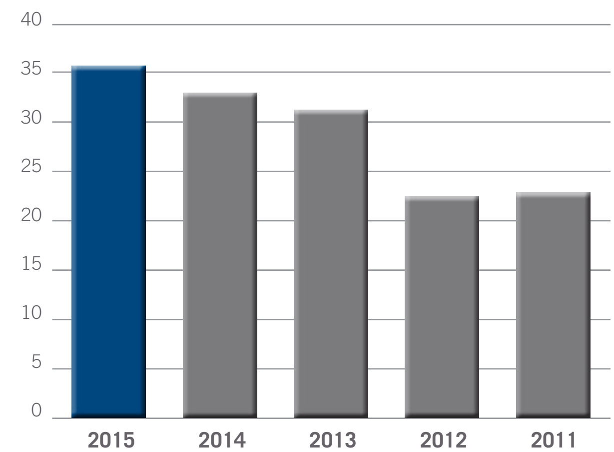
TOTAL DEPOSITS ($ million)



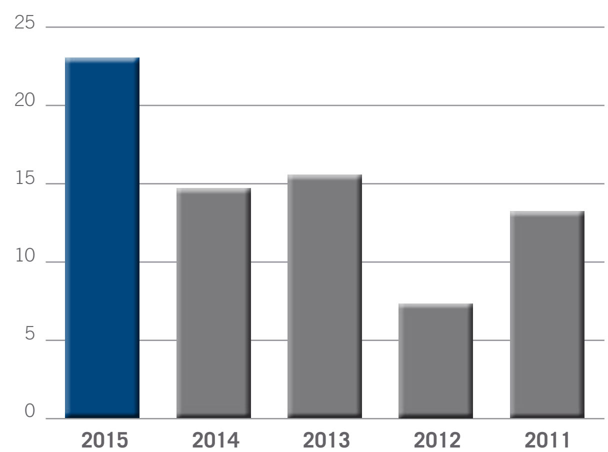
SHAREHOLDER'S FUNDS ($ million)



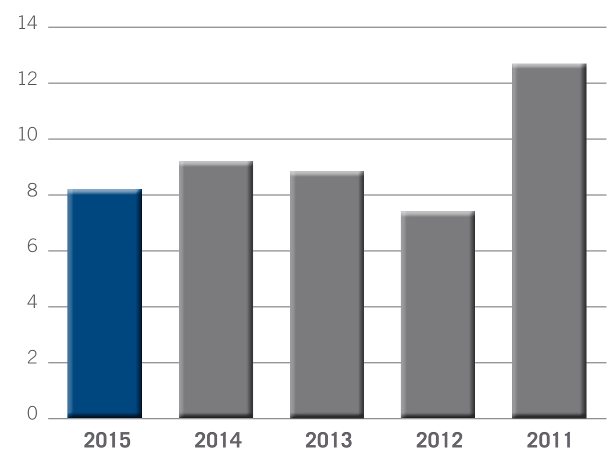
TOTAL INCOME ($ million)



NON INTEREST INCOME ($ million)



NET INCOME ($ million)



Chairman's Letter

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

2015 - A YEAR OF TRANSFORMATION

I am pleased to report on a year of great progress for Bermuda Commercial Bank Limited.

The financial results for the year were solid. The Bank earned total revenues of $35.3 million (up by 7.5% year-on-year) and a net profit of $8.0 million (2014: $9.2 million). The Bank ended the financial year with shareholder's capital of $109.5 million and total assets of $759.7 million.

However, these short term results do not reflect the major strides taken this year. The Bank has laid many of the foundations required for long term success. Notably, many of the planned investments I discussed in last year's letter have been executed. As examples, we finalised a strategic plan to steer the Bank's development for the next five years; we implemented a full suite of core banking information technology systems which will revolutionise the Bank's customer offering; and we took important steps to focus only on profitable businesses.

These major strides will help BCB to become a focused and effective organisation ready to offer excellent service. Success in doing so will underpin our financial results for many years to come.

OUR 2020 VISION—A CLEAR AND STRONG STRATEGY

During the year we developed "**Our 2020 Vision**", a strategic plan to guide BCB until September 30, 2019. In terms of this plan, BCB will focus on three core **strategic objectives**:

- **Build a Great Business**
  The Bank will, before the end of the planning horizon on September 30, 2019, achieve a sustainable return on equity of 15% per annum with acceptable risk.

- **Deliver Great Service**
  The Bank will provide excellent service to clearly defined customer segments.

- **Build a Great Team**
  The Bank will invest in, nurture, and work to retain the best people, and seek to optimise their contributions to the business.

A strategic plan is of no value unless it is implemented successfully. However, the Bank's senior management are determined to implement **Our 2020 Vision**. They have made a strong start, as described below. The Board of Directors can play a key role and has established a Board Strategy Committee to oversee and support management's strategic efforts.

A key ingredient of our planning process was to identify a focused list of activities which must be undertaken if BCB is to achieve the three strategic objectives set out above. These **strategic activities**, with examples of early progress this year, are:

- **To Build a Great Business:**

  - **Retain a pristine balance sheet.** The Bank divested its major stake in West Hamilton Holdings Limited, because this property position did not align with our new strategy.

  - **Run every business unit profitably and reputably.** Behind-the-scenes work has been undertaken to analyse and improve each business unit.

  - **Focus only on those clients we can serve profitably and excellently.** The Bank will not aspire to be a high street retail bank offering every product to every potential client. Instead it will become a boutique bank, determined to offer excellent service to carefully selected market niches**.**

  - **Develop and implement a coherent and effective marketing plan.** Late in the financial year, the Board approved management's marketing plan, along with their planned concrete steps to implement it within three years.

  - **Profitably diversify asset deployment to reduce concentration risk and enhance capital efficiency.** Immediately prior to the year end, the Bank purchased a controlling stake in Private & Commercial Finance Group. This will both contribute to profits in future years and provide BCB with exposure to a sound and diverse loan book, to allow reduced concentration in the Bank's bond portfolio.

- **To Deliver Great Service:**
  - **Successfully implement industry-leading technology.** On November 1, 2015 the Bank transformed its technology platform by introducing a cutting edge and comprehensive suite of core banking - including mobile banking - software.
  - **Selectively broaden our product offering to meet the requirements of our target clients.** Our massively upgraded information technology systems will soon allow new offerings such as local bill payment and debit cards. This will also reduce manual process, in turn allowing improved controls.
  - **Motivate and train everyone in the organisation to offer excellent service.** We are determined not just to pay lip service to this challenging target. We made a positive start by reinforcing our Human Resources Department. The latter is already redefining BCB's culture and has introduced performance targets throughout the Bank.
- **To Build a Great Team:**
  - **Attract, nurture and retain excellent people.** This has begun from the top downwards, including this year's strengthening of the Board, as discussed below.
  - **Selectively broaden our product offering to meet the requirements of our target clients.** This is a longer term aspiration. Foundational steps include the complete overhaul of our enterprise risk management framework in the past two years.

In last year's annual report I highlighted our investment in the LP Gutteridge Building. Construction work is well underway at the building. We expect to relocate the entire business to the new building by mid-2016. Moving the operations under one roof will bring meaningful efficiencies and allow our clients a notably improved experience.

Major on-island commitments such as this, along with our continued support of local charitable organisations, demonstrate our continued support for the Bermuda community.

OUR BOARD

In the prior financial year I accepted a role as the Bank's Chairman on an interim basis. During this year, I was delighted to drop the word "interim" because I can see the Bank's determination and potential to transform itself into a profitable and reputable leader. It would be an honour to be part of that journey.

During the year, Christopher Swan stood down from the Board due to the increasing demands of his legal practice. Chris left us with our friendship and thanks for his valued contributions.

I am pleased to advise that we made two very strong additions to the Board during the year in the form of David Cash and Derek Stapley, whose biographies appear on page 12.

The Board has worked tirelessly during this year to support management in positioning the Bank for the future. The Board's commitment is best exemplified by the fact that our key quarterly Board meetings enjoyed 100% attendance from all 10 current Directors.

AN EXCITING FUTURE

Banks today face an increasingly challenging economic and regulatory environment, both locally and internationally. However, we are confident that the strategic direction we have set and the work already undertaken will enable BCB to rise to these challenges and excel.

As we continue the journey of building a strong and enduring business and brand, I would like to thank our clients for their support. BCB will work hard to increasingly deserve it. I also acknowledge and appreciate the loyalty, hard work and commitment our Board, management and staff offer to BCB. Together we can ensure that BCB has an exciting future.

ALAN GILBERTSON
CHAIRMAN

Letter from the CEO

KEY DEVELOPMENTS DURING 2015

During the year, the Bank's financial performance remained strong. This position provided us with a sound financial platform to fulfil our strategic objectives for the future growth of our business.

During the past 12 months, we have continued to move the Bank forward. Our newly developed strategic plan, discussed in the Chairman's Letter, sets out a very clear direction for the business around the three pillars of **Building a Great Business, Delivering Great Service** and **Building a Great Team**. The successful implementation of this strategy is a journey. With the strong support of my leadership team, the Board and the Board Strategy Committee, I believe we are well placed to reach our objectives.

2015 has already seen significant changes within the business as we began the journey of transformation. These include:

- **Technology**
  Throughout the year, considerable focus and effort was concentrated on replacing the banking technology infrastructure, including replacing both the core banking and internet banking platforms. I am extremely pleased to be able to report that the system changeover occurred successfully, and I would like to record my personal thanks for the hard work and dedication shown by the BCB staff during this time. The new systems give the Bank flexibility, stability and adaptability to support an improved customer proposition and to enable us to scale our operations.

- **PCFG Acquisition**
  In September 2015, the Bank concluded the acquisition of a stake of approximately 75% in Private and Commercial Finance Group ("PCFG"). PCFG is a UK based asset finance business and the transaction supported the Bank's desire to broaden its income base and to diversify our asset deployment ahead of the Basel III implementation. We are already seeing synergies with PCFG and ultimately this should allow the Bank to achieve economies of scale that we previously found elusive.

- **West Hamilton Divestment**
  The introduction of BASEL III and anticipated further enhancements to the regulatory capital framework have heightened our focus on capital management. During the year the Bank divested its former position in West Hamilton Holdings

Ltd., a Bermuda property holding company. West Hamilton was not seen as core to our strategy and the successful divestment is clear evidence of our desire and ability to enact our new strategic plan. The divestment improves our capital efficiency and helps to ensure that all the Bank's investments align with our longer term core business model.

- **Risk Focus**

  We are maintaining our strong focus on regulatory compliance, including meeting the requirements of both the Foreign Account Tax Compliance Act ("FATCA") and the Common Reporting Standard ("CRS"). During the year, we continued to enhance the Bank's risk management. In that regard, I am pleased that the senior leadership team was expanded with the arrival of David Austen as our Chief Risk Officer. Our recent technology investments have incorporated a strong focus on regulatory and reporting matters. In addition, the Board and its sub-committees have worked closely with management to ensure that we maintain a strong risk focus.

- **People**

  Our strategic objectives make it very clear that the people of BCB will play an essential role in our future success. We therefore continue to build our HR environment to ensure optimal recruitment, retention, reward and staff development.

PERFORMANCE

Our 2015 financial performance was consistent and in line with expectations.

The most notable aspect of the 2015 financial performance is the consolidation of PCFG into our balance sheet. Our year end total assets increased to $759.7 million from $592.6 million last year, predominantly as a result of the PCFG loan portfolio of over $160 million. Profits have reduced slightly to $8.0 million (2014: $9.2 million). This primarily reflects the impact of the change initiatives underway in the business, in that we built our infrastructure, including overheads, in preparation for working to increase revenues in the 2016 financial year. The profit figures do not include any consolidation of the PCFG figures, because the acquisition was concluded in the final month of the financial year. These profits will be added to reported profits in future years. The investment portfolio continued to perform strongly, with total income increasing to $35.3 million (2014: $32.9 million), including realised gains of $14.9 million (2014: $17.8 million).

The Bank's strategic objectives include a focus on retaining a pristine balance sheet. This includes retaining strong capital and liquidity ratios. I am pleased that at the year end the Capital Adequacy Ratio stood at 21.1% (2014: 23.2%) and our cash to total assets ratio was 37.6% (2014: 44.6%). The Bank's return on equity was 7.2% (2014: 8.3%). The full benefits of our capital restructuring are yet to be fully seen, and this will continue to be an area of focus. The Bank is already satisfying the Liquidity Coverage Ratio Regulatory requirement under BASEL III.

OUTLOOK

The economic outlook, both domestically and internationally, remains challenging. However, we are confident that our investments over the period of 2015, together with a further focus on strategy implementation in 2016, will position us well for the future. The principles of having a strong balance sheet, diversified earnings, a focus on customer service and strong teamwork are becoming more and more entrenched in our business. This will serve us well during 2016 and beyond.

I would like to take this opportunity to extend a special thank you to all our stakeholders including clients, shareholders, Board members and staff for their continued support.

PETER HORTON
CHIEF EXECUTIVE OFFICER

Board of Directors

ALAN GILBERTSON I CHAIRMAN

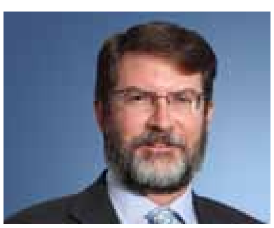
Mr. Gilbertson is the former President of the Orbis Investment Management Group. He has over thirty five years of experience in the financial services and non-profit sectors in Bermuda, Asia and South Africa.

DAVID MORGAN I DEPUTY CHAIRMAN *

Mr. Morgan has over thirty five years of experience in international banking, building his career at Standard Chartered Bank in Europe and the Far East and becoming Chief Executive for the UK and Europe in 1998. Since leaving Standard Chartered in 2003, he has been involved in a wide range of business advisory and non-executive roles. He is currently a non-executive director of Somers Limited, Private & Commercial Finance Group Plc, Ascot Lloyd Financial Services Ltd and Waverton Investment Management Limited.

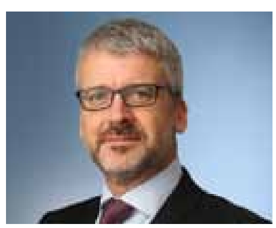
GAVIN ARTON

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



DAVID CASH

Mr. Cash joined the BCB Board of Directors in December 2014 and also currently serves as the Deputy Chairman of the Bermuda Business Development Agency. Mr. Cash has over twenty five years of international insurance and reinsurance experience and is the former Chief Executive Officer of Endurance Specialty Holdings Limited [NYSE: ENH]. Prior to his time as an executive with Endurance, Mr. Cash worked in New York with Towers Watson and more recently with various Zurich Financial Services entities.

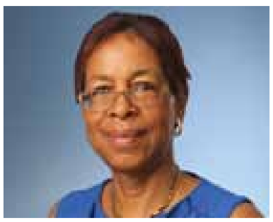


PETER HORTON *

Mr. Horton joined BCB in October 2013 having previously been Chief Executive Officer of the Bank of Maldives. He has previously held senior posts at Barclays Bank in Kenya, LEMA Group in South Africa, First Caribbean International Bank in the Bahamas and Turks and Caicos.

DEREK STAPLEY

Mr. Stapely is a Chartered Accountant and former partner with the international accounting firm, Ernst & Young. He spent twenty years with Ernst & Young's Bermuda office holding a number of positions in the Financial Services Group. He now serves as an independent director on various boards. Mr. Stapley holds a Bachelor of Accounting degree from the Caledonian University in Glasgow and is a member of the Institutes of Chartered Accountants of Scotland, Bermuda and Canada.



JEANNE ATHERDEN

Ms. 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. Ms. Atherden is a Chartered Accountant and a member of the Institute of Directors and was appointed Minister of Health, Seniors and Environment in May 2014. She currently sits on the Board of KeyTech Limited.

ANDREW BROOK *

Mr. Brook was formerly a partner for twelve years at PriceWaterhouseCoopers Bermuda. Mr. Brook has nearly twenty five years financial services experience in audit and advisory work, incorporating off-shore and on-shore regulatory expertise.

JON L. BRUNSON

Mr. Brunson has over twenty five years of experience in Investments and International Banking developing his career at Orbis Investment Management Limited, The Bank of N.T.Butterfield and Heddington Insurance Limited. Mr. Brunson currently serves as a non-executive director of Colonial Group International Limited, Take Five Limited and is on various philanthropic Boards and is a former Member of Parliament in Bermuda.

ALASDAIR YOUNIE

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

* Denotes non-Bermudian Director

Senior Executives

Front Row Left To Right: *Lasantha Thennakoon, Peter Horton, Hemant Ratanjankar, David Austen*
Back Row Left To Right: *Deanna Didyk, Sara Schroter Ross*

PETER HORTON
Chief Executive Officer

LASANTHA THENNAKOON
Chief Financial Officer

HEMANT RATANJANKAR
Chief Operating Officer

SARA SCHROTER ROSS
General Counsel

DAVID AUSTEN
Chief Risk Officer

DEANNA DIDYK
Managing Director, BCB Paragon Trust Limited and BCB Charter Corporate Services Limited

Management's Discussion & Analysis

Management's Discussion and Analysis ("MD&A") should be read in conjunction with our Consolidated Financial Statements, and notes to those financial statements. This MD&A is provided to enable users to assess the Bank's results and performance for the year ended September 30, 2015. All references to BCB or the Bank refer to Bermuda Commercial Bank Limited and its subsidiaries on a consolidated basis.

Bermuda Commercial Bank Limited is a wholly owned subsidiary of Somers Limited, a BSX listed financial services investment holding company, and BCB remains regulated by the Bermuda Monetary Authority.

FINANCIAL PERFORMANCE HIGHLIGHTS

- BCB maintained a stable capital position at $109.5 million at September 30, 2015 ($113.4 million in 2014).
- Net profit for the year was $8.0 million ($9.2 million in 2014).
- Total assets for the year increased by 28.2% to $759.7 million in 2015 ($592.6 million in 2014).
- A strong total capital ratio of 21.1% at the year end (23.2% in 2014).
- Customer deposits at September 30, 2015 were $505.3 million compared to $471.3 million at the prior year end.
- Strong liquidity position – Cash and cash equivalents represents 37.6% of total assets (44.5% in 2014).

RESULTS OF OPERATIONS FOR THE YEAR ENDED SEPTEMBER 30, 2015

The Bank recorded net profit of $8.0 million for the year. This compares to net profit of $9.2 million in 2014.

INTEREST INCOME

Total interest income was $16.2 million for the year ended September 30, 2015 ($22.3 million in 2014). Interest income from loans and advances to customers including some asset backed loan notes was $5.2 million ($7.0 million a year ago). Interest from financial investments was $10.8 million ($15.1 million, a year ago). As detailed in the asset section, over the course of the year, the Bank continued improving its risk management framework by appropriately diversifying its financial investment portfolio with improved asset quality. Interest income from cash and term deposits made up 1.6% of total interest income as short term interest rates remain at historically low levels.

Interest expense saw a decrease to $4.0 million from $4.1 million a year ago. The Bank's unencumbered balance sheet and strong capital levels, matched with our diversified portfolio of interest earning securities, allowed BCB to offer competitive interest rates on its deposit book.

NON-INTEREST INCOME

Net non-interest income was up significantly at $23.1 million compared with $14.7 million in 2014, a 57.5% year over year increase.

Fees and commissions for 2015 were $3.9 million compared to $5.2 million in 2014. This decrease occurred at our trust and corporate services business lines, BCB Paragon Trust Limited ("Paragon") and BCB Charter Corporate Services Limited ("Charter"). Trust revenue was $1.1 million for the year, down from $1.8 million in 2014 while corporate services revenue, which includes custody fees, was $2.0 million, down from $2.7 million. Banking Services, on the other hand, saw an increase in fee income to $0.8 million in 2015 from $0.7 million recorded a year earlier.

BCB's investment portfolio comprises bonds and other financial investments purchased taking into account their income generating capabilities, liquidity and other characteristics. Over the course of 2015, the value of these securities increased by $10.8 million. As part of the Bank's risk and liquidity management process, securities are sold from time to time to reposition the portfolio for increased credit quality, liquidity and yield, and shorter duration purposes. The Bank particularly realises gains or losses to offset the movement in hedges put in place to mitigate market risk. For 2015, the Bank recorded realised gains of $14.9 million following the sale and early maturity of financial investments compared to gains of $17.8 million recorded in 2014. As this income stream is heavily influenced by general market performance, the Bank assesses performance both before and after the impact of these items and remains focused on diversifying its income streams and building up core profitability. For 2015, the Bank recorded dividend income of $3.7 million compared to $1.8 million in 2014, a $1.9 million increase.

The Bank saw a reduction in foreign exchange costs to $0.9 million from $1.5 million recorded in 2014. Overall gains on derivative financial investments which comprise equity index, foreign exchange derivatives and equity portion of some convertible instruments, were at $4.7 million in 2015. This compares to a loss of $4.2 million recorded in 2014. The Bank recorded impairment losses of $3.5 million on our available-for-sale investment portfolio, down from $4.7 million incurred in 2014.

EXPENSES

The Bank is focused on controlling costs while at the same time continuing to deliver the top level of service that our customers expect to receive. Part of this long term focus is offset by short to medium term increases in cost of resources required for strategic or other business requirements. Additionally, certain segments of our expenses are linked to growth and performance and therefore will grow as our operations expand. In 2015, the Bank recorded total expenses of $27.3 million compared to $23.6 million recorded in 2014.

Salaries and employee benefits were $13.0 million in 2015, up from $11.4 million in 2014. This increase is primarily due to resources allocated to some key strategic projects which is expected to be normalised in 2016 upon successful completion of these projects.

Total general and administrative expenses were $11.8 million compared to $11.4 million recorded in 2014. General and administrative expenses include expenses related to the operations of the Bank including premises related expenses, systems and technology related expenses, professional fees and other administrative expenses. General and administrative expenses also include investment advisory fees of $1.9 million, down from $2.6 million recorded in 2014. As we look forward, other than the costs associated with the new IT infrastructure platform, we anticipate that the other operating costs of the business will continue to trend downward in coming years through operational efficiencies the new technological platform could bring to the business.

FINANCIAL CONDITION AS AT SEPTEMBER 30, 2015

The Bank continued to consolidate and strengthen its position during 2015 increasing its total assets to $759.7 million with the acquisition of PCFG ($592.6 million in 2014).

Assets

Cash and cash equivalents were $285.6 million at year end compared to $264.0 million a year earlier. At September 30, 2015, cash and cash equivalents represented 37.6% of total assets. The Bank is committed to maintaining a prudent level of liquid assets which will be managed in line with the Bank's liquidity management framework.

The Bank's financial investment portfolio increased to $213.6 million from $202.8 million one year ago. The portfolio consists primarily of corporate debt securities, debt securities issued by banks, and government debt securities along with a lesser percentage of asset-backed securities, equities and portfolio funds. As part of our liquidity and capital management strategy at the year end we held short term US Treasury instruments totalling $85.0 million ($65.0 million in 2014). It is anticipated that the Bank will continue to increase its High Quality Liquid Assets ("HQLA") portfolio in 2016 in response to new global regulatory liquidity requirements. Our investment portfolio is monitored closely across a wide range of risk and performance characteristics, and in accordance with our risk management framework, we have actively diversified our portfolio at the industry, jurisdiction and counterparty level. The Bank remains comfortable with the composition and mix of its investment portfolio.

The Bank's loans and advances portfolio significantly increased to $215.4 million at September 30, 2015, from $65.3 million recorded in 2014. The addition of the loan book of PCFG which contains consumer finance and business finance loans of $162.6 million was the reason for this increase.

During the year, the Bank sold its investment in associate - West Hamilton Holdings Limited at the carrying value of $19.4 million which approximated the fair value at the date of sale.

Liabilities

Total deposits at September 30, 2015, were $505.3 million compared to $471.3 million a year earlier. Management continues to prioritise improvements in the weighted average maturity of our deposit base, and although more customer deposits were due on demand than were held in term deposits at the end of the year, the longer term deposit composition of our term deposits continue to increase in line with management's expectations. The Bank attributes this growth to a strong personalised customer service, competitive deposit interest rates and a focus on acquiring and retaining customers.

CAPITAL POSITION AS AT SEPTEMBER 30, 2015

A key priority for the Bank is the deliverance of sustainable financial performance leading to increased capital security. BCB's capital position at the year end remained stable at $109.5 million ($113.4 million in 2014).

BCB is subject to minimum capital requirements externally imposed by the Bermuda Monetary Authority ("BMA") in accordance with guidelines developed by the Basel Committee on Banking Supervision. The Bank ended 2015 with a strong regulatory capital ratio of 21.1% (September 30, 2014: 23.2%) increasing its cushion over and above the BMA requirements. The Bank's risk weighted assets at the year end was $462.0 million, up from $381.4 million recorded in 2014 primarily due to the acquisition of PCFG at the year end.

Retention of earnings is the Bank's key source of capital growth. The distribution of dividends will take into consideration the Bank's strategic growth plans. The increase in our capital base is important for capital adequacy, large exposure and liquidity purposes. It is possible that the dividend to be paid to our shareholders will vary considerably depending on these items, and dividends will only be paid when the Board considers such a dividend is appropriate and is in line with the Bank's future strategic and risk management objectives.

RISK MANAGEMENT

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

During 2015, BCB has focused its efforts on ensuring that its risk management practices are aligned with its business activities, an evolving regulatory environment and with the ever-changing challenges of the external operating environment.

BCB has decided to adopt 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 level as the first line of defence. The Risk and Compliance function forms the second line of defence and is 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 the activities of the firm including the risk management framework, and assesses the appropriateness and effectiveness of internal controls.

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

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

Details of the Bank's risk structure are outlined in note 22 of the financial statements.

BASEL III

The Basel Committee's new standards for capital and liquidity, commonly referred to as Base III, establish minimum requirements for common equity, a new global leverage ratio, a minimum liquidity coverage ratio 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"), a 6.0% Tier 1 Capital ratio and an 8.0% Total Capital ratio. In addition, the banks need to build a capital conservation buffer of 2.5%. The banks also need to maintain a Liquidity Coverage ratio of 60% for the year 2015 which will gradually be increased to 100% by 2019.

Based on our capital and liquidity position at September 30, 2015, and our ability to generate additional capital from our business lines, we are well positioned to fully meet the Basel III capital adequacy and liquidity requirements.

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INDEPENDENT AUDITOR'S REPORT

The Shareholder and Board of Directors
Bermuda Commercial Bank Limited

We have audited the accompanying 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, 2015, and the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies, and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the consolidated financial statements, whether due to error or fraud. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at September 30, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Audit Limited

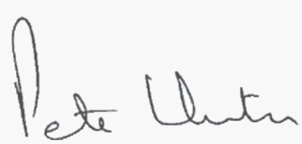
Chartered Professional Accountants
Hamilton, Bermuda
December 10, 2015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at September 30, 2015 (expressed in United States Dollars)

Assets	**2015**	**2014**
Cash and cash equivalents (Note 3)	$ 285,586,512	$ 263,996,459
Receivable from related parties (Note 19)	386,353	1,157,931
Interest receivable	3,415,318	4,164,452
Other assets (Note 10)	4,377,358	15,896,043
Loans and advances to customers (Note 6)	215,402,330	65,288,119
Available-for-sale financial investments (Notes 5 and 24)	213,555,162	202,773,948
Derivative financial instruments (Notes 4 and 24)	11,235,268	4,672,397
Deferred tax asset (Note 25)	2,597,375	–
Property and equipment (Note 8)	7,597,661	7,067,192
Goodwill and other intangible assets (Note 9)	15,525,274	8,805,842
Investment in associate (Note 7)	–	18,747,783
Total assets	$ 759,678,611	$ 592,570,166
Liabilities		
Deposits (Note 11)	$ 505,348,470	$ 471,278,863
Interest bearing loans and borrowings (Note 12)	131,316,734	–
Convertible loan notes (Note 13)	2,218,482	–
Customer drafts payable	352,181	488,075
Derivative financial instruments (Notes 4 and 24)	2,190,247	–
Other liabilities (Note 14)	5,367,687	3,605,909
Taxes payable (Note 25)	461,252	–
Interest payable	2,875,107	3,763,275
Total liabilities	$ 650,130,160	$ 479,136,122
Equity		
Capital stock (Note 15)	$ 16,807,963	$ 16,807,963
Share premium (Note 15)	22,131,188	22,131,188
Reserve for available-for-sale financial investments	(6,632,480)	12,698,270
Share of other comprehensive income (loss) of an associate	–	(416,246)
Translation of foreign subsidiary	627,581	–
Retained earnings	68,641,723	62,212,869
Total equity attributable to equity holders	101,575,975	113,434,044
Non-controlling interests (Note 26)	7,972,476	–
Total equity	109,548,451	113,434,044

SIGNED ON BEHALF OF THE BOARD:



See accompanying notes

ALAN GILBERTSON
CHAIRMAN

PETER HORTON
CHIEF EXECUTIVE OFFICER

CONSOLIDATED STATEMENT OF INCOME

For the year ended September 30, 2015 (expressed in United States Dollars)

Income	**2015**	**2014**
Interest income:		
Cash and term deposits	$ 254,177	$ 215,380
Loans and advances to customers	5,192,913	6,986,668
Available-for-sale financial investments	10,772,309	15,063,534
Total interest income	16,219,399	22,265,582
Interest expense	(4,018,892)	(4,092,034)
Net interest income	12,200,507	18,173,548
Fees and commissions (Note 17)	3,876,136	5,208,756
Net foreign exchange losses	(905,989)	(1,503,806)
Gains/(Losses) on derivative financial instruments	4,672,585	(4,218,132)
Dividend income	3,724,743	1,788,922
Gain from sale of available-for-sale financial investments	14,929,569	17,838,642
Impairment losses on financial investments (Note 5)	(3,503,664)	(4,675,154)
Share of profit of associate (Note 7)	233,906	146,834
Other operating income	113,378	102,332
Total income	35,341,171	32,861,942
Expenses		
Salaries and employee benefits (Note 20)	13,012,375	11,401,144
Depreciation (Note 8)	298,860	307,171
Amortisation (Note 9)	2,232,007	525,251
General and administrative expenses (Note 18)	11,769,075	11,415,790
Total expenses	27,312,317	23,649,356
Net income	$ 8,028,854	$ 9,212,586

See accompanying notes

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended September 30, 2015 (expressed in United States Dollars)

	2015	2014
Net income for the year	$ 8,028,854	$ 9,212,586
Other comprehensive income (loss):		
Net (loss) gain on available-for-sale financial investments	(4,401,181)	20,092,449
Reclassification of realised gains recognised in net income	(14,929,569)	(17,838,642)
Share of other comprehensive income (loss) of associate	416,246	(11,530)
Other comprehensive (loss) income	(18,914,504)	2,242,277
Total comprehensive (loss) income	$ (10,885,650)	$ 11,454,863

See accompanying notes

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended September 30, 2015 (expressed in United States Dollars)

	CAPITAL STOCK	SHARE PREMIUM	RESERVE FOR AVAILABLE-FOR-SALE	SHARE OF OTHER COMPREHENSIVE INCOME OF ASSOCIATE	TRANSLATION OF FOREIGN SUBSIDIARY	RETAINED EARNINGS	EQUITY ATTRIBUTABLE TO EQUITY HOLDERS	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance at September 30, 2013	$ 16,807,963	$ 22,131,188	$ 10,444,463	$ (404,716)	$ –	$ 60,484,382	$109,463,280	$ –	$109,463,280
Total comprehensive income	–	–	2,253,807	(11,530)	–	9,212,586	11,454,863	–	11,454,863
Cash dividends (Note 16)	–	–	–	–	–	(7,500,000)	(7,500,000)	–	(7,500,000)
Dissolution of subsidiaries	–	–	–	–	–	15,901	15,901	–	15,901
Balance at September 30, 2014	16,807,963	22,131,188	12,698,270	(416,246)	–	62,212,869	113,434,044	–	113,434,044
Total comprehensive income	–	–	(19,330,750)	416,246	–	8,028,854	(10,885,650)	–	(10,885,650)
Cash dividends (Note 16)	–	–	–	–	–	(1,600,000)	(1,600,000)	–	(1,600,000)
Acquisition of subsidiary (Note 26)	–	–	–	–	627,581	–	627,581	7,972,476	8,600,057
Balance at September 30, 2015	$ 16,807,963	$ 22,131,188	$ (6,632,480)	$ –	$ 627,581	$ 68,641,723	$ 101,575,975	$ 7,972,476	$109,548,451

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended September 30, 2015 (expressed in United States Dollars)

Operating activities	**2015**	**2014**
Net income	$ 8,028,854	$ 9,212,586
Adjustments to reconcile net income to cash used in operating activities:		
Depreciation	298,860	307,171
Amortisation	2,232,007	525,251
Impairment loss of intangible assets	620,572	401,814
Loss on disposal of property and equipment	–	845,523
Share of profit of associate	(233,906)	(146,834)
Gain from sale of available-for-sale financial investments	(14,929,569)	(17,838,642)
Impairment losses on financial investments	3,503,664	4,675,154
	(479,518)	(2,017,977)
Changes in:		
Receivable from related parties	771,578	20,254,419
Interest receivable	749,134	(223,687)
Other assets	13,096,373	(6,543,353)
Derivative financial instruments	(4,828,871)	(7,081,817)
Customer drafts payable	(135,894)	(1,685,346)
Other liabilities	(277,218)	1,476,412
Interest payable	(888,168)	(58,390)
Net cash provided by operating activities	8,007,416	4,120,261
Investing activities		
Net decrease in loans and advances to customers	12,466,970	12,761,235
Acquisition of subsidiary, net of cash acquired	(3,373,532)	–
Proceeds from sale of available-for-sale financial investments	145,636,399	186,956,584
Purchases of available-for-sale financial investments	(168,360,299)	(121,699,820)
Proceeds from sale of property and equipment	–	1,910,872
Purchases of property and equipment	(678,296)	(6,604,175)
Dissolution of subsidiaries	–	15,901
Purchases of intangible assets	(4,578,212)	(2,538,155)
Dividend from an associate	–	183,442
Net cash (used in) provided by investing activities	$ (18,886,970)	$ 70,985,884
Financing activities		
Net increase in deposits	34,069,607	3,775,778
Dividends paid	(1,600,000)	(7,500,000)
Net cash provided by (used in) financing activities	32,469,607	(3,724,222)
Net increase in cash and cash equivalents	21,590,053	71,381,923
Cash and cash equivalents, beginning of year	263,996,459	192,614,536
Cash and cash equivalents, end of year	$ 285,586,512	$ 263,996,459
Supplementary disclosure of cash flow information		
Interest paid	$ 4,907,060	$ 4,150,424
Interest received	$ 16,945,738	$ 22,041,895
Dividends received	$ 4,291,131	$ 1,061,246

See accompanying notes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended September 30, 2015 (expressed in United States Dollars)

1. Description of Business

Bermuda Commercial Bank Limited ("BCB") is a Bermuda incorporated company, licensed and regulated by the Bermuda Monetary Authority (the "BMA"). BCB, together with its subsidiaries (collectively, the "Bank"), provides banking, custody, consumer and business finance, corporate and trustee services. BCB's registered office is at Bermuda Commercial Bank Building, 19 Par-la-Ville Road, Hamilton HM 11, Bermuda.

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

The consolidated financial statements for the year ended September 30, 2015, were authorised for issue in accordance with a resolution of the Board of Directors on December 10, 2015.

2. Basis of Preparation and Significant Accounting Policies

Basis of Preparation

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

Statement of Compliance

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

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

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

Presentation of Consolidated Financial Statements

The Bank presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement of assets and liabilities within 12 months after the consolidated statement of financial position date (current), and more than 12 months after the consolidated statement of financial position date (non-current), is presented in Note 22.

Certain reclassifications have been made to the 2014 comparative financial information in order to conform to the current year presentation.

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 reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

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

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 are 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 24.

Impairment Losses on Loans and Advances

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

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

Impairment of Available-for-Sale Financial Investments

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

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

Basis of Consolidation

The consolidated financial statements include the assets, liabilities, and results of operations of the Bank and all its wholly owned subsidiaries as at September 30. A list of these subsidiaries is presented in Note 19.

Investment in Associate

The Bank’s investment in its associate was accounted for using the equity method. An associate is an entity in which the Bank has significant influence.

Under the equity method, the investment in the associate was carried on the consolidated statement of financial position at cost plus post acquisition changes in the Bank’s share of the net assets of the associate. Any excess of the Bank’s share of the net fair value of the associate’s identifiable assets and liabilities over the cost of the investment was included as income in the determination of the Bank’s share of the associate’s profit or loss.

The consolidated statement of income reflects the Bank’s share of the results of operations of the associate. When there has been a change recognised directly in the equity of the associate, the Bank recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Bank and the associate are eliminated to the extent of the interest in the associate.

The Bank's share of profit of an associate is shown on the face of the consolidated statement of income. The financial statements of the associate are prepared on a coterminous basis with that of the Bank. When necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

After application of the equity method, the Bank determines whether it is necessary to recognise an additional impairment loss on its investment in the associate. The Bank determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Bank calculates the amount of impairment as the difference between the recoverable amount of the investment in the associate and its carrying value, and recognises the amount in the share of profit or loss of an associate in the consolidated statement of income.

Upon loss of significant influence over the associate, the Bank measures and recognises any remaining investment at its fair value. Any difference between the carrying amount of the associate and the fair value of the retained investment, and proceeds from disposal is recognised in profit or loss.

Foreign Currency Translation

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

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

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

Cash and Cash Equivalents

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

Financial Instruments – Initial Recognition and Subsequent Measurement

Date of Recognition

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

Initial Recognition of Financial Instruments

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

The Bank classifies its financial assets into the following categories:

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

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

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

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

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

Derivatives Recorded at Fair Value through Profit or Loss

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

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

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

Loans and Advances to Customers

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

Available-for-Sale Financial Investments

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

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

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

Derecognition of Financial Assets and Financial Liabilities

Financial Assets

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

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

Financial Liabilities

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

Determination of Fair Value

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

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

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

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

An analysis of fair values of financial instruments and further details as to how they are measured is provided in Note 24.

Impairment of Financial Assets

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

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

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

Financial Assets at Amortised Cost

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

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

Available-for-Sale Financial Investments

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

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

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

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

Impairment of Non-Financial Assets

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

Reclassification of Financial Investments

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

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

Offsetting Financial Instruments

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

Derivative Financial Instruments

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

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

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

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

Property and Equipment

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

Subsequent costs, such as repairs and maintenance, are charged to the consolidated statement of income during the financial year in which they are incurred.

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

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method at the acquisition date which is deemed to be when control is transferred to the Bank. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest 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 in the year of acquisition.

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

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

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

Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Subsidiaries

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

Loss of Control

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

Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Non-Controlling Interests

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

Other Intangible Assets

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

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

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

Convertible Debt

The component of the convertible debt which exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. The coupon on the debt is charged as interest expense in the consolidated statement of income. On issuance of the convertible debt, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholder's equity, net of transaction costs. The carrying amount of the conversion option is not re-measured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible debt based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Interest-Bearing Loans and Borrowings

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

Customer Drafts Payable

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

Recognition of Income

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

Interest Income

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

Fees and Commissions

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

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

Dividend Income

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

Expenses

Expenses are recognised in the consolidated statement of income on the accrual basis. Interest expense is calculated using the effective interest rate method.

Operating Leases - The Bank as a Lessee

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

Operating Leases - The Bank as a Lessor

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

Dividends on Common Shares

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

Defined Contribution Pension Plan

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

Share-Based Payment Transactions

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

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

Provisions

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

Fiduciary Activities

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

Current Tax

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

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

Deferred Tax

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

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

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

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

Value Added Tax ("VAT")

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

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

New Standards, Interpretations and Amendments to Published Standards Relevant to the Bank

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

IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

Amendments to IFRS 11, Accounting for Acquisitions of Interests in Joint Operations

The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business and specify the appropriate accounting treatment for such acquisitions. The amendments are effective for annual reporting periods beginning on or after January 1, 2016, with early adoption permitted.

Amendments to IAS 16 and IAS 38, Clarification of Acceptable Methods of Depreciation and Amortisation

- The amendment to IAS 16, *Property, Plant and Equipment* explicitly states that revenue-based methods of depreciation cannot be used. This is because such methods reflect factors other than the consumption of economic benefits embodied in the assets.
- The amendment to IAS 38, *Intangible Assets* introduces a rebuttable presumption that the use of revenue-based amortisation methods is inappropriate for intangible assets.

The amendments are effective for accounting periods beginning on or after January 1, 2016, with early adoption permitted.

IAS 1, Presentation of Financial Statements

This has been amended to clarify or state the following:

- Specific single disclosures that are not material do not have to be presented even if they are the minimum requirement of a standard;
- The order of notes to the financial statements is not prescribed;
- Line items on the statement of financial position and the statement of profit or loss and other comprehensive income ("OCI") should be disaggregated if this provides helpful information to users. Line items can be aggregated if they are not material;
- Specific criteria is now provided for presenting sub-totals on the statement of financial position and in the statement of profit or loss and OCI, with additional reconciliation requirement for the statement of profit or loss and OCI; and
- The presentation in the statement of OCI of items of OCI arising from joint ventures and associates accounted for using the equity method follows the IAS 1 approach of splitting items that may, or that will never, be reclassified to profit or loss.

The amendment is effective for accounting periods beginning on or after January 1, 2016, with early adoption permitted.

Amendments to IAS 27, Equity Method in Separate Financial Statements

The amendment allows the use of the equity method in separate financial statements, and apply to the accounting for subsidiaries, associates and joint ventures. This is effective for accounting periods beginning on or after January 1, 2016, with early adoption permitted.

Amendments to IFRS 10, Consolidated Financial Statements, and IAS 28, Investments in Associates and Joint Ventures

The amendments introduce clarifications on sale or contribution of assets between an investor and its associate or joint venture, and require that when a parent loses control of a subsidiary in a transaction with an associate or joint venture, the full gain be recognised when the assets transferred meet the definition of a 'business' under IFRS 3, *Business Combinations*. The amendments are effective for annual reporting periods beginning on or after January 1, 2016, with early adoption permitted.

Amendments to IFRS 10, Consolidated Financial Statements, IFRS 12, Disclosure of Interests in Other Entities and IAS 28, Investments in Associates and Joint Ventures

The amendments introduce clarifications on which subsidiaries of an investment entity are consolidated instead of being measured at fair value through profit or loss. IFRS 10 was amended to confirm that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity. An investment entity shall measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. IAS 28 was amended to provide an exemption from applying the equity method for investment entities that are subsidiaries and that hold interests in associates and joint ventures. IFRS 12 was amended to clarify that the relevant disclosure requirements in the standard apply to an investment entity in which all of its subsidiaries are measured at fair value through profit or loss. The amendments are effective for accounting periods beginning on or after January 1, 2016, with early adoption permitted.

The Bank is currently evaluating the impact that these new standards will have on its financial statements when they become effective.

Early Adoption

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

3. Cash, Term Deposits and HQLA

	2015	2014
Cash and demand deposits	$ 164,170,594	$ 55,831,248
Term deposits maturing within one month	36,414,890	143,164,598
HQLA maturing within three months	85,001,028	65,000,613
Total	$ 285,586,512	$ 263,996,459

The average effective yields earned were as follows:

	2015	2014
Cash and demand deposits	0.03%	0.03%
Term deposits maturing within one month	0.16%	0.14%
HQLA maturing within three months	(0.05%)	(0.01%)

4. Derivative Financial Instruments

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

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

The Bank's exposure under derivative contracts is closely monitored as part of the overall management of the Bank's market risk (see also Note 22).

Foreign Exchange Forward Contracts

Foreign exchange forward contracts are contractual agreements to buy or sell a specified amount of foreign currency at a future date at an exchange rate fixed at inception of the contract. Forwards are customised contracts transacted in the over-the-counter market. The Bank uses these contracts to manage its exposure to foreign currency risk. They are not designated in qualifying hedge relationships.

Option Contracts

Option contracts are contractual agreements under which the seller grants the purchaser the right, but not the obligation, either to buy or sell a security at or by a specific future date. The Bank purchases options through regulated exchanges and in the over-the-counter markets. Options purchased by the Bank provide it with the opportunity to purchase the underlying asset at an agreed-upon value either on or before the expiration of the option. The Bank is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value. The only option contracts that the Bank entered into during the year were index and equity options (2014: index and equity options).

Interest Rate Swaps

Interest rate swaps are the exchange of one set of cash flows, based on interest rate specifications, for another. The Bank uses interest rate swaps to hedge its exposure to interest rate fluctuations. The fair value of interest rate swap contracts is determined by discounted cash model analysis with reference to relevant market interest rates and yield curves.

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

	2015			2014		
	ASSETS	LIABILITIES	NOTIONAL AMOUNT	ASSETS	LIABILITIES	NOTIONAL AMOUNT
Foreign exchange forward contracts	$ 2,816,164	$ –	$ 129,139,088	$ 3,953,587	$ –	$ 141,116,748
Index option contracts - long	5,736,000	–	61,750,000	205,500	–	34,625,000
Index option contracts - short	–	1,734,000	58,000,000	–	–	–
Equity option contracts	2,663,255	–	9,873,107	436,510	–	5,734,599
Warrants	19,849	–	–	76,800	–	–
Interest rate swaps	–	456,247	47,637,450	–	–	–
Total	$ 11,235,268	$ 2,190,247	$ 306,399,645	$ 4,672,397	$ –	$ 181,476,347

At September 30, 2015, the net cost of the derivatives amounted to $3,717,293 (2014: $3,501,428).

5. Financial Investments

Available-for-Sale Financial Investments

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

	2015	2014
Corporate debt securities	$ 96,931,685	$ 80,910,320
Government debt securities	52,104,903	589,139
Debt securities issued by banks	26,895,840	55,945,329
Asset-backed securities	892,304	8,442,278
Equities	15,947,738	32,620,343
Portfolio funds	20,782,692	24,266,539
	$ 213,555,162	$ 202,773,948

At September 30, 2015, the cost of available-for-sale financial investments amounted to $223,646,291 (2014: $189,734,940).

Impairment Losses on Financial Investments

During the year, the Bank recognised impairment losses on its financial investments of $3,503,664 (2014: $4,675,154).

6. Loans and Advances to Customers

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

	2015			2014		
	GROSS	ALLOWANCE FOR LOSSES	NET	GROSS	ALLOWANCE FOR LOSSES	NET
Commercial loans	$ 42,850,772	$ –	$ 42,850,772	$ 49,927,493	$ –	$ 49,927,493
Commercial overdrafts	8,854,075	–	8,854,075	14,607,881	–	14,607,881
Consumer mortgage loans	848,311	49,568	798,743	434,540	49,568	384,972
Consumer and business finance (Note 26)	168,922,196	6,341,017	162,581,179	–	–	–
Credit cards	229,802	–	229,802	238,966	–	238,966
Other	87,759	–	87,759	128,807	–	128,807
Total	$ 221,792,915	$ 6,390,585	$ 215,402,330	$ 65,337,687	$ 49,568	$ 65,288,119

Allowance for loan losses consists of:

	2015	2014
Balance at beginning of year	$ 49,568	$ 50,000
Reversal of collectively assessed allowance for losses	–	(50,000)
Collectively assessed allowance for losses acquired from PCFG (Note 26)	219,284	–
Individually assessed allowance for losses acquired from PCFG (Note 26)	6,121,733	49,568
	$ 6,390,585	$ 49,568

Credit Quality

2015	NEITHER PAST DUE NOR IMPAIRED	PAST DUE	IMPAIRED	GROSS
Commercial loans	$ 42,847,159	$ 3,613	$ –	$ 42,850,772
Commercial overdrafts	8,854,075	–	–	8,854,075
Consumer mortgage loans	457,614	341,129	49,568	848,311
Commercial business finance	148,274,554	5,523,553	15,124,089	168,922,196
Credit cards	196,005	33,797	–	229,802
Other	87,759	–	–	87,759
	$ 200,717,166	$ 5,902,092	$ 15,173,657	$ 221,792,915

2014	NEITHER PAST DUE NOR IMPAIRED	PAST DUE	IMPAIRED	GROSS
Commercial loans	$ 49,914,595	$ 12,898	$ –	$ 49,927,493
Commercial overdrafts	14,607,881	–	–	14,607,881
Consumer mortgage loans	114,531	270,441	49,568	434,540
Commercial business finance	–	–	–	–
Credit cards	216,037	22,929	–	238,966
Other	128,807	–	–	128,807
	$ 64,981,851	$ 306,268	$ 49,568	$ 65,337,687

At September 30, 2015, the carrying amount of gross loans and advances whose terms have been renegotiated which would otherwise be past due or impaired was $412,109 (2014: $nil).

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

2015	WITHIN 1 YEAR	1-5 YEARS	5-10 YEARS	MORE THAN 10 YEARS	IMPAIRED	TOTAL
Commercial loans	$ 850,723	$ 13,626,796	$ 135,307	$ 28,237,946	$ –	$ 42,850,772
Commercial overdrafts	8,854,075	–	–	–	–	8,854,075
Consumer mortgage loans	686,171	162,140	–	–	(49,568)	798,743
Consumer and business finance	64,454,004	104,468,192	–	–	(6,341,017)	162,581,179
Credit cards	229,802	–	–	–	–	229,802
Others	45,623	42,136	–	–	–	87,759
Total	$ 75,120,398	$118,299,264	$ 135,307	$ 28,237,946	$(6,390,585)	$ 215,402,330

2014						
	WITHIN 1 YEAR	1-5 YEARS	5-10 YEARS	MORE THAN 10 YEARS	IMPAIRED	TOTAL
Commercial loans	$ 860,140	$ 15,366,269	$ 3,565,569	$ 30,135,515	$ –	$ 49,927,493
Commercial overdrafts	14,607,881	–	–	–	–	14,607,881
Consumer mortgage loans	–	434,540	–	–	(49,568)	384,972
Consumer and business finance	–	–	–	–	–	–
Credit cards	238,966	–	–	–	–	238,966
Others	8,186	120,621	–	–	–	128,807
Total	$ 15,715,173	$ 15,921,430	$ 3,565,569	$ 30,135,515	$ (49,568)	$ 65,288,119

The average effective yields earned were as follows:

	2015	2014
Commercial loans	8.90%	9.35%
Commercial overdrafts	5.03%	4.45%
Consumer and business finance	13.33%	N/A
Credit Cards	14.50%	14.50%

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

Yields are not provided for consumer mortgage loans as these products are in run-off.

7. Investment in Associate

West Hamilton Holdings Limited ("West Hamilton") is a Bermuda limited liability company and is the parent company of West Hamilton Limited ("WHL"). WHL is a Bermuda limited liability company that owns two commercial properties known as the Belvedere Building and Belvedere Place. Belvedere Building is an office building where space is generally let under short to long term commercial leases and Belvedere Place is a multi-story parking facility on Pitts Bay Road in Hamilton, which leases parking on a short term basis.

The movement in West Hamilton's shares owned by BCB was as follows:

	2015	2014
Balance at beginning of year	1,222,949	1,222,949
Sold during the year	(1,222,949)	–
Balance at end of year	–	1,222,949

During the year, the Bank sold its entire investment in West Hamilton to its Parent Company. Consideration for the sale amounted to $19,397,935 which was equal to the Bank's carrying value of the investment and as a result there was no gain nor loss recorded on disposal. The carrying value approximated the fair value at the date of sale.

8. Property and Equipment

2015	EQUIPMENT	LEASEHOLD IMPROVEMENTS	LAND	BUILDING	TOTAL
Cost					
Beginning of year	$ 1,447,933	$ 497,152	$ 1,306,800	$ 5,102,035	$ 8,353,920
Additions	339,348	16,155	–	473,826	829,329
Disposals	(6,039)	–	–	–	(6,039)
End of year	1,781,242	513,307	1,306,800	5,575,861	9,177,210
Accumulated depreciation					
Beginning of year	851,011	435,717	–	–	1,286,728
Disposals	(6,039)	–	–	–	(6,039)
Depreciation charge for the year	290,000	8,860	–	–	298,860
End of year	1,134,972	444,577	–	–	1,579,549
Net book value at end of year	$ 646,270	$ 68,730	$ 1,306,800	$ 5,575,861	$ 7,597,661

2014	EQUIPMENT	LEASEHOLD IMPROVEMENTS	LAND	BUILDING	TOTAL
Cost					
Beginning of year	$ 1,641,183	$ 564,394	$ 993,300	$ 1,806,700	$ 5,005,577
Additions	194,374	1,520	1,306,800	5,102,035	6,604,729
Disposals	(387,624)	(68,762)	(993,300)	(1,806,700)	(3,256,386)
End of year	1,447,933	497,152	1,306,800	5,102,035	8,353,920
Accumulated depreciation					
Beginning of year	950,514	438,145	–	90,335	1,478,994
Disposals	(359,467)	(16,942)	–	(123,028)	(499,437)
Depreciation charge for the year	259,964	14,514	–	32,693	307,171
End of year	851,011	435,717	–	–	1,286,728
Net book value at end of year	$ 596,922	$ 61,435	$ 1,306,800	$ 5,102,035	$ 7,067,192

9. Goodwill and Other Intangible Assets

2015	COMPUTER SOFTWARE	CUSTOMER RELATIONSHIPS	GOODWILL	TOTAL
Cost				
Beginning of year	$ 5,663,395	$ 4,154,402	$ 2,723,371	$ 12,541,168
Additions	5,291,634	–	4,280,377	9,572,011
End of year	10,955,029	4,154,402	7,003,748	22,113,179
Accumulated amortisation				
Beginning of year	2,503,100	830,412	401,814	3,735,326
Impairment loss	–	–	620,572	620,572
Amortisation charge for the year	280,324	1,951,683	–	2,232,007
End of year	2,783,424	2,782,095	1,022,386	6,587,905
Net book value at end of year	$ 8,171,605	$ 1,372,307	$ 5,981,362	$ 15,525,274

	2014							
		COMPUTER SOFTWARE		CUSTOMER RELATIONSHIPS		GOODWILL		TOTAL
Cost								
Beginning of year	$	3,125,240	$	4,154,402	$	2,723,371	$	10,003,013
Additions		2,538,155		–		–		2,538,155
End of year		5,663,395		4,154,402		2,723,371		12,541,168
Accumulated amortisation								
Beginning of year		2,254,653		553,608		–		2,808,261
Impairment loss		–		–		401,814		401,814
Amortisation charge for the year		248,447		276,804		–		525,251
End of year		2,503,100		830,412		401,814		3,735,326
Net book value at end of year	$	3,160,295	$	3,323,990	$	2,321,557	$	8,805,842

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

The Bank recognised $2,723,371 in goodwill from the acquisition of Paragon and Charter in October 2011. The Bank also recognised $4,280,377 in goodwill from the acquisition of PCFG in September 2015, which included goodwill of $600,609 relating to an acquisition made by PCFG in November 2000. See Note 26 for details of the acquisition.

Goodwill is subject to an impairment test on at least an annual basis, but more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The recoverable amount of goodwill is calculated based on the value in use of the cash generating units it relates to by determining the discounted future cash flows expected to be generated from the continuing use of the relevant cash generating units. Estimated cash flows are based on expectations of future outcomes taking into account past experience adjusted for anticipated revenue growth. Five years of cash flows along with a discounted rate in perpetuity are included in the discounted cash flow model. Based on this assessment performed during the year, management determined that the carrying value exceeded the recoverable value and, as a result, an impairment of $620,572 (2014: $401,814) was recorded.

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.

10. Other Assets

		2015		2014
Amounts receivable for sales of financial investments	$	11,288	$	12,461,955
Accounts receivable, net of allowance for bad debts of $662,275 (2014: $314,061)		2,817,449		1,524,318
Accrued income		463,125		1,150,230
Prepayments		1,085,496		759,540
Total	$	4,377,358	$	15,896,043

11. Deposits

		2015		2014
Demand deposits	$	323,535,061	$	243,186,204
Term deposits:				
Deposits maturing within 1 month		47,525,584		98,950,656
Deposits maturing – 1-3 months		19,663,270		21,002,001
Deposits maturing – 3-12 months		40,276,007		34,203,528
Deposits maturing – 1-5 years		74,348,548		73,936,474
		181,813,409		228,092,659
Total	$	505,348,470	$	471,278,863

The average effective rates paid were as follows:

	2015	2014
Term deposits based on book values and contractual interest rates	2.25%	2.00%
Demand deposits	0.00%	0.02%

12. Interest-Bearing Loans and Borrowings

Interest-bearing loans and borrowings relates to PCFG (see Note 26), which has entered into various interest bearing loans and borrowing arrangements as follows:

	2015	2014
Secured loans and borrowings	$ 131,316,734	$ –

Bank Overdraft

A bank overdraft in the amount of $693,663 is included in the secured loans and borrowings total and has an effective interest rate of base rate plus a margin and is secured by a debenture over the individual group undertaking to which it applies. The facility is repayable on demand.

$83.2 Million (£55.0 Million) Term Loan Facility

This loan has an effective interest rate of LIBOR plus a margin and a maturity date of September 30, 2016. The loan is secured by both a charge over the loans and receivables of PCFG and a debenture over the assets of the company undertaking to which it applies and the guarantee of the company.

$18.2 Million (£12.0 Million) Term Loan Facility

This loan has an effective interest rate of LIBOR plus a margin and a maturity date of January 9, 2017. The loan is secured by both a charge over the loans and receivables and a debenture over the assets of the company undertaking to which it applies and the guarantee of the company.

$12.1 Million (£8.0 Million) Term Loan Facility

This loan has fixed interest rates and maturity dates of up to four years. The loan is secured by both a charge over the loans and receivables and a debenture over the assets of the company undertaking to which it applies and the guarantee of the company.

$18.1 Million (£12.0 Million) Block Discounting Facility

This loan has a fixed interest rate and maturity dates of up to four years. The facility is secured by both a charge over the loans and receivables and a debenture over the assets of the company undertaking to which it applies and the guarantee of the company.

$48.4 Million (£32.0 Million) Block Discounting Facility

These loans have fixed interest rates and maturity dates of up to four years. The facilities are secured by charges over the loans and receivables of the company undertaking to which they apply.

As at September 30, 2015, the total undrawn amount on the above-mentioned facilities was $48.9 million (£32.4 million).

13. Convertible Loan Notes

	2015	2014
Convertible loan notes	$ 2,218,482	$

In November 2012, PCFG issued 5,930,000 of £1 convertible unsecured loan notes at par, by way of a placing and open offer. On September 30, 2013, PCFG issued an additional 4,070,000 of £1 convertible unsecured loan notes at par. The loan notes can be converted into ordinary shares of PCFG at the price of 8.5p on any interest payment date before September 30, 2016 subject to the proviso that any loan note holder holding a nominal value of loan notes of $1.5 million (£1 million) or more may convert their loan notes into ordinary shares on any Business Day between December 1, 2012 and September 30, 2016. The loan notes have a final maturity date of September 30, 2016 and carry an interest rate of 6%. The unamortised issue costs of the loan notes have been offset against the debt. At September 30, 2015, total loan notes of 8,533,041 had been converted at 8.5p.

PCFG is unable to call and redeem the loan notes until the maturity date.

14. Other Liabilities

	2015	2014
Accounts payable	$ 2,677,155	$ 1,648,561
Accrued liabilities	2,690,532	1,957,348
Total	$ 5,367,687	$ 3,605,909

15. 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, 2015 and 2014	10,000,000	$ 24,000,000	7,003,318	$ 16,807,963	$ 22,131,188

Regulatory Capital

The BMA adopts the Basel II Accord which calls for additional and more detailed disclosures and risk management. The BMA assesses the risk of each banking institution and determines a separate Individual Capital Guidance for each bank. The Bank has complied with all minimum capital requirements prescribed by the BMA and at September 30, 2015, the Bank's Tier 1 and total regulatory capital ratios of 21.13% (2014: 25.03%) and 21.11% (2014: 23.18%) respectively, exceeded the prescribed limits.

Capital Management

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

16. Dividends

	2015	2014
Dividends on common shares:		
December 2013 declared and paid	$ –	$ 2,500,000
June 2014 declared and paid	–	5,000,000
October 2014 declared and paid	600,000	–
December 2014 declared and paid	1,000,000	–
Total	$ 1,600,000	$ 7,500,000

17. Fees and Commissions

Fees and commissions are made up as follows:

	2015	2014
Corporate services	$ 2,033,209	$ 2,725,399
Trust	1,063,003	1,799,399
Banking services	779,924	683,958
Total	$ 3,876,136	$ 5,208,756

18. General and Administrative Expenses

General and administrative expenses are made up as follows:

	2015	2014
Rent and premises	$ 1,186,747	$ 1,097,407
Advertising and marketing	361,759	340,528
Professional fees	2,818,961	918,717
Information technology and systems	1,081,863	1,006,748
Banking services and licence	852,989	819,181
Investment advisory fees (Note 19)	1,861,439	2,598,804
Directors fees (Note 19)	587,027	406,773
Impairment loss of intangible assets	620,572	401,814
Loss on disposal of property and equipment	–	845,523
Administrative	2,397,718	2,980,295
Total	$ 11,769,075	$ 11,415,790

19. Related Party Disclosures

Investment Adviser Agreement

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

In February 2012, the Bank and the Investment Adviser entered into a variation agreement whereby the former agreed to pay the Investment Adviser for its advisory services an annual fee of 0.50% (payable quarterly in arrears) of the value of the portfolio effective April 1, 2012 (previously 0.25%). For the year ended September 30, 2015, such fees amounted to $1,051,132 (2014: $1,198,804), of which $nil remained payable at year end (2014: $nil). In addition, pursuant to a consultancy agreement, a fee of $100,000 (2014: $100,000) was paid to the Investment Adviser for its consultancy services. These fees are included in investment advisory fees within general and administrative expenses in the consolidated statement of income (Note 18).

In addition, under the terms of a second variation agreement dated July 17, 2015, the Bank may determine that the Investment Adviser ought to receive a payment on account of the services provided based on the performance of the portfolio. The Investment Adviser is also entitled to recover all and any expenses incurred by it that relate exclusively to the services specified in the agreement, following disclosure of details of the expense to the Bank. During the year ended September 30, 2015, the Bank incurred a performance fee of $710,307 (2014: $1,300,000) of which $441,307 remained payable at year end (2014: $nil). These fees are included in investment advisory fees within general and administrative expenses in the consolidated statement of income (Note 18).

Related Party Transactions with Shareholder Controllers and the Related Parties of Shareholder Controllers

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

Available-for-Sale Financial Investments

At September 30, 2015, the Bank held certain investments in its available-for-sale portfolio which are considered related. The Bank held debt instruments issued by Bermuda First Investment Company Limited (related to the Bank by way of a common investment adviser, ICM Limited) with a carrying value of $7,834,908 (2014: $12,564,152). Interest income from these investments for the year was $448,029 (2014: $1,151,302). At September 30, 2015, interest of $236,353 (2014: $213,558) was included in the amount receivable from related parties on the consolidated statement of financial position. The Bank also held equity investments in BCB Bond Fund Limited, Value Income Multi Strategy Bond Fund Ltd., and Bermuda First Investment Company Limited with a carrying value of $23,871,042 (2014: $27,354,889). Dividend income from these positions totaled $3,254,147 (2014: $1,440,485). At September 30, 2015, $150,000 in dividends (2014: $716,951) were included in receivable from related parties on the consolidated statement of financial position.

During the year, the Bank sold securities to related parties at amounts equal to their fair value of $1,185,760 (2014: $24,487,185). At September 30, 2015, $nil (2014: $227,422) was receivable as a result of the sale of these securities.

During the year, the Bank purchased securities from related parties at amounts equal to their fair value of $7,364,300 (2014: $17,826,098). There were no payables as a result of the purchase of these securities at either year end.

Loans and Advances to Customers
At September 30, 2015, total loans and advances receivable from related parties amounted to $19,615,817 (2014: $29,696,444), of which $5,984,031 (2014: $6,867,614) was unsecured and $13,631,786 (2014: $22,828,829) was secured by the related parties' cash and portfolio assets managed/custodied by the Bank. For the years ended September 30, 2015 and 2014, the Bank has not made any provision for impairment relating to amounts owed by such related parties. The undrawn portion of credit facilities granted to these related parties at September 30, 2015 totaled $436,062 (2014: $2,728,795).

For the year ended September 30, 2015, the Bank earned net interest and fees of $1,069,876 (2014: $2,188,039) for banking services provided to such related parties.

At September 30, 2015, the Bank had investments in asset-backed notes in various securitisation entities set up by Resimac Limited, a related party to the Bank, with a carrying value of $28,237,946 (2014: $31,653,936). These asset-backed notes were recorded in the consolidated statement of financial position within loans and advances to customers.

Deposit Liabilities
At September 30, 2015, deposit balances of such related parties with the Bank amounted to $4,467,031 (2014: $7,131,975).

Transactions with Directors
Total directors' fees for the year ended September 30, 2015, amounted to $587,027 (2014: $406,773). The Bank provides banking services to directors under the same terms as an unrelated party would receive. At September 30, 2015, directors and parties associated with directors had deposit balances with the Bank of $52,383 (2014: $220,454). At September 30, 2015, total loans and advances receivable from directors and parties associated with directors amounted to $5,318 (2014: $2,008,431). The undrawn portion of credit facilities committed to directors and parties associated with directors at the year end totaled $49,666 (2014: $56,561). Net interest received from directors for the year was $83,439 (2014: paid to $35,094).

Compensation of Key Management Personnel of the Bank
The Bank classifies the directors of the Bank and senior management as the key management personnel. For the year ended September 30, 2015, total compensation of key management personnel amounted to $1,681,727 (2014: $1,346,504), excluding the directors' fees.

Share-Based Payments
PCFG offers an equity-settled share option plan to its employees. The grant price is determined by reference to the average mid-market price of PCFG's ordinary shares for the three days immediately preceding the date of the grant. The options are conditional upon continued employment and have a minimum vesting period of three years. If options remain unexercised after a period of ten years from the date of the grant, the options expire. Furthermore, options are forfeited if the employee leaves PCFG before the options vest. The weighted-average remaining contractual life is nine years.

At September 30, 2015, there were 2,100,000 options outstanding with a weighted-average exercise price of 13 pence. PCFG's ordinary shares were trading at 20 pence as of the close of trading on September 30, 2015.

Principal Subsidiary Undertakings

NAME	% OWNERSHIP	LOCATION
BCB Charter Corporate Services Limited	100.00	Bermuda
BCB Paragon Trust Limited	100.00	Bermuda
BCB Luxembourg S.A.R.L.	100.00	Luxembourg
BCB Asset Management Limited	100.00	Bermuda
BCB Resource Fund Limited	100.00	Bermuda
BCB Management Limited	100.00	Bermuda
BCB Management Services Limited	100.00	Bermuda
Bercom Nominees Limited	100.00	Bermuda
Private & Commercial Finance Group plc	75.47	United Kingdon
VT Strategies Holdings Limited	100.00	Bermuda

All of the above subsidiaries are included in the Bank's consolidated financial statements.

During the year, BCB Asset Management Limited ceased offering investment advisory services and surrendered its investment business license to the Bermuda Monetary Authority. On June 30, 2015, the Authority accepted the surrender and BCB Asset Management Limited has been removed from the public register of licensed investment businesses.

20. Employee Benefits

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

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

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

The scheme is administered by an independent party, and all such funds are segregated from the assets and liabilities of the Bank. Pension expense incurred during 2015 amounted to $320,808 (2014: $368,305) and is included within salaries and employee benefits in the consolidated statement of income.

21. Commitments and Contingent Liabilities

In September 2006, the Bank moved premises and entered into a premises lease at 19 Par-La-Ville Road. The lease expires on June 30, 2016.

In August 2014, the Bank entered into a second premises lease at 8 Par-La-Ville-Road. The lease expires on July 31, 2016.

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

Future minimum rental payments under the aforementioned leases as at September 30 were as follows:

	2015	2014
Within one year	$ 850,445	$ 653,764
After one year but not more than five years	1,072,934	131,614
	$ 1,923,379	$ 785,378

At September 30, 2015, the Bank was committed to $1,500,485 (2014: $2,915,739) in undrawn credit facilities. This amount relates to the unused portion of approved overdraft facilities and credit card limits.

Litigation

In the ordinary course of business, the Bank can, from time to time, be defendant in, or party to, pending and threatened legal actions and proceedings. Apart from the matters described below, the Bank considers that none of these matters are material, either individually or in the aggregate. The Bank recognises a provision for a liability in relation to these matters when it is probable that an outflow of economic benefits will 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. Any provision recognised does not constitute an admission of wrong doing or legal liability. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, no provision is necessary in respect of legal proceedings as at September 30, 2015.

In 2013, BCB and BCB Paragon (for the purposes of this paragraph, together “the BCB entities”) were named as defendants in a legal action brought by a trust client alleging breach of fiduciary duty. Management believes the claim to be without merit and the BCB entities will be vigorously defending the claim. In 2015, the BCB entities were successful in a motion challenging the legal jurisdiction of the Court. The trust client appealed the decision, and at year end, the BCB entities were awaiting a revised ruling from the Court of Appeal on the jurisdiction motion. It is too early to determine whether the BCB entities may suffer a financial loss as a result of the claim. The costs of defending the claim are covered by an insurance policy so the BCB entities do not expect there to be a material future expense incurred.

Construction

Subsequent to the year end, the Bank entered into a construction contract commitment to fit out office space owned by the Bank at 34 Bermudiana Road in Hamilton. The contract totals $3,430,466 and is expected to be completed by August 2016. At that time, the Bank expects to have fully paid for the value of the contract.

22. Risk Management

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

The management of risk is a core function of the Bank and it has policies, procedures, and reports designed to facilitate the management of risks arising from financial instruments. The Bank’s risk management structure is as follows:

Board of Directors

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

Board Risk Committee (“BRC”)

The BRC is a committee of the Board and is chaired by an independent director. The BRC oversees the work of the management risk and asset and liability committees, provides policy level direction, defines the risk appetite for the Bank, and assesses performance of the risk management framework of the Bank. The BRC is also responsible for the oversight of related party relationships and exposures.

Audit Committee

The Audit Committee is a committee of the Board and is chaired by an independent director. It provides oversight and direction for the internal audit function and manages the relationship with the Bank’s external auditors. It reviews the results of both audit programs and the progress of work undertaken to correct risk issues, and reviews the annual financial statements.

Asset & Liability Committee (“ALCO”)

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

Management Risk Committee ("MRC")

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

Governance Committee (formerly the Appointment, Nomination, Governance, and Human Resources Committee)

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

Significant Risk Categories

Credit Risk

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

All counterparty banks and money market funds must be approved by the Bank's ALCO. The maximum amount that may be lent to any single bank via the deposit market or invested in a money market fund is governed by a number of controlling variables including the external credit ratings for that bank or money market fund. Banks with a rating lower than A-/A3/A and money market funds rated below AAA/Aaa are not utilised for interbank lending or investments. Counterparty lending limits and limits for money fund investments are reviewed semi-annually and will be adjusted if the capitalisation ratio of the Bank changes, or if the credit rating of a counterparty bank or money market fund goes below the rating levels identified above.

Liquidity Risk and Funding Management

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

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

The tables on the succeeding pages summarise the maturity profile of the Bank's assets and liabilities as at September 30, 2015. 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.

2015						
	WITHIN 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	TOTAL
Assets						
Cash and cash equivalents	$ 285,586,512	$ –	$ –	$ –	$ –	$ 285,586,512
Receivable from a related party	385,047	1,306	–	–	–	386,353
Interest receivable	1,254,758	1,006,368	1,154,192	–	–	3,415,318
Other assets	2,737,900	351,396	1,213,062	75,000	–	4,377,358
Loans and advances to customers	22,677,030	9,206,947	36,895,405	118,249,695	28,373,253	215,402,330
Available-for-sale financial investments	28,123,542	2,507,394	14,202,745	101,483,804	67,237,677	213,555,162
Derivative financial instruments	1,984,899	4,271,849	2,315,887	2,662,633	–	11,235,268
Deferred tax assets	–	–	–	2,597,375	–	2,597,375
Property and equipment	–	–	–	715,000	6,882,661	7,597,661
Goodwill and other intangible assets	–	–	–	8,171,605	7,353,669	15,525,274
	$ 342,749,688	$ 17,345,260	$ 55,781,291	$ 233,955,112	$ 109,847,260	$ 759,678,611
Liabilities						
Deposits	$ 371,060,646	$ 19,663,270	$ 40,276,006	$ 74,348,548	$ –	$ 505,348,470
Interest-bearing loans and borrowings	2,339,396	3,246,721	18,647,369	107,083,248	–	131,316,734
Convertible loan notes	–	–	2,218,482	–	–	2,218,482
Customer drafts payable	352,181	–	–	–	–	352,181
Derivative financial instruments	–	692,000	1,103,103	395,144	–	2,190,247
Other liabilities	3,787,123	749,534	831,030	–	–	5,367,687
Taxes payable	–	–	461,252	–	–	461,252
Interest payable	751,546	310,945	636,905	1,175,711	–	2,875,107
	378,290,892	24,662,470	64,174,147	183,002,651	–	650,130,160
Net assets (liabilities)	$ (35,541,205)	$ (7,317,210)	$ (8,392,856)	$ 50,952,461	$ 109,847,260	$ 109,548,451

	2014					
	WITHIN 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	TOTAL
Assets						
Cash and cash equivalents	$ 263,996,459	$ –	$ –	$ –	$ –	$ 263,996,459
Receivable from a related party	1,157,931	–	–	–	–	1,157,931
Interest receivable	1,322,194	1,888,593	908,140	45,525	–	4,164,452
Other assets	2,128,163	296,848	795,903	4,982,590	7,692,539	15,896,043
Loans and advances to customers	14,896,287	810,700	8,186	15,871,862	33,701,084	65,288,119
Available-for-sale financial investments	33,945,213	–	116,690	66,765,816	101,946,229	202,773,948
Derivative financial instruments	3,610,317	548,770	–	513,310	–	4,672,397
Property and equipment	–	–	–	658,357	6,408,835	7,067,192
Goodwill and other intangible assets	–	–	–	3,160,295	5,645,547	8,805,842
Investment in associate	–	–	–	–	18,747,783	18,747,783
	$ 321,056,564	$ 3,544,911	$ 1,828,919	$ 91,997,755	$ 174,142,017	$ 592,570,166
Liabilities						
Deposits	$ 342,136,861	$ 21,002,001	$ 34,203,527	$ 73,936,474	$ –	$ 471,278,863
Customer drafts payable	488,075	–	–	–	–	488,075
Other liabilities	2,835,776	770,133	–	–	–	3,605,909
Interest payable	1,632,575	346,510	564,320	1,219,870	–	3,763,275
	347,093,287	22,118,644	34,767,847	75,156,344	–	479,136,122
Net assets (liabilities)	$ (26,036,723)	$ (18,573,733)	$ (32,938,928)	$ 16,841,411	$ 174,142,017	$ 113,434,044

Market Risk

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

Interest Rate Risk

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

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

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

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

	2015	2014
25-basis-point increase in interest rates		
Impact on profit (for the next 12 months)	$ 136,554	$ 209,032
Impact on equity (for the next 12 months)	$ (1,072,894)	$ (1,412,422)
25-basis-point decrease in interest rates		
Impact on profit (for the next 12 months)	$ 253,805	$ 69,062
Impact on equity (for the next 12 months)	$ 1,463,252	$ 1,690,516

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. In accordance with the Bank's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits. A 10 per cent increase in the currency rates to which the Bank had significant exposure at September 30, 2015, would have decreased net income and equity by $380,615 (2014: increased by $4,854). An equivalent decrease in these same currency rates would have resulted in an equivalent but opposite impact.

Equity Price Risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. A 10 per cent increase in the value of the Bank's available-for-sale equities at September 30, 2015, would have increased equity by $1,594,774 (2014: $3,262,034). An equivalent decrease would have resulted in an equivalent but opposite impact.

23. Segment Information

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

Banking Services

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

Investment Management

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

Consumer and Business Finance

PCFG is a UK-based finance company engaged in the provision of finance for vehicles, plant and equipment for consumers and businesses. These loan facilities are secured on the underlying assets.

Corporate Services

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

Trust

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

General and Administrative

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

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

The Bank operates in a single jurisdiction, Bermuda; and PCFG operates in the United Kingdom. The Bank also has a subsidiary in Luxembourg, but does not offer banking or other services in that jurisdiction. The assets, liabilities and results of these entities are incorporated into the segment information. No one single customer accounted for 10% or more of the Bank's revenues in 2015 or 2014.

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

2015	BANKING SERVICES	INVESTMENT MANAGEMENT	CONSUMER & BUSINESS FINANCE	CORPORATE SERVICES	TRUST	GENERAL & ADMINISTRATIVE	TOTAL
Net interest income from external customers	$ 4,261,071	$ 7,939,436	$ –	$ –	$ –	$ –	$ 12,200,507
Fees and other income from external customers	1,456,570	2,255,081	–	2,033,614	1,063,003	–	6,808,268
Gains on derivative financial instruments	–	4,672,585	–	–	–	–	4,672,585
Gain/(loss) on sale of available-for-sale financial investments	(613)	14,930,182	–	–	–	–	14,929,569
Gain on investment in associate	–	233,906	–	–	–	–	233,906
Impairment losses	–	(3,503,664)	–	–	–	–	(3,503,664)
Total income	5,717,028	26,527,526	–	2,033,614	1,063,003	–	35,341,171
Depreciation	(187,538)	–	–	(13,000)	–	(98,322)	(298,860)
Amortisation	–	–	–	(952,269)	(999,415)	(280,323)	(2,232,007)
Operating expenses	(6,085,715)	(2,125,292)	–	(2,017,826)	(3,697,624)	(10,854,993)	(24,781,450)
Net income	$ (556,225)	$ 24,402,234	$ –	$ (949,481)	$ (3,634,036)	$ (11,233,638)	$ 8,028,854
Segment assets	$ 252,877,042	$ 312,830,050	$ 168,992,188	$ 5,357,149	$ 4,932,869	$ 14,689,313	$ 759,678,611
Segment liabilities	$ 503,220,157	$ 1,734,000	$ 136,491,711	$ 205,406	$ 1,404,212	$ 7,074,674	$ 650,130,160

2014	Banking Services	Investment Management	Consumer & Business Finance	Corporate Services	Trust	General & Administrative	Total
Net interest income from external customers	$ 3,534,339	$ 14,639,176	$ –	$ 33	$ –	$ –	$ 18,173,548
Fees and other income from external customers	784,219	285,116	–	2,727,470	1,799,399	–	5,596,204
Losses on derivative financial instruments	–	(4,218,132)	–	–	–	–	(4,218,132)
Gain on sale of available-for-sale financial investments	–	17,838,642	–	–	–	–	17,838,642
Gain on investment in associate	–	146,834	–	–	–	–	146,834
Impairment losses	–	(4,675,154)	–	–	–	–	(4,675,154)
Total income	4,318,558	24,016,482	–	2,727,503	1,799,399	–	32,861,942
Depreciation	(180,921)	–	–	(13,000)	–	(113,250)	(307,171)
Amortisation	–	–	–	(138,402)	(138,402)	(248,447)	(525,251)
Operating expenses	(5,879,623)	(2,959,046)	–	(2,863,823)	(3,376,185)	(7,738,257)	(22,816,934)
Net income	$ (1,741,986)	$ 21,057,436	$ –	$ (287,722)	$ (1,715,188)	$ (8,099,954)	$ 9,212,586
Segment assets	$ 275,705,532	$295,983,461	$ –	$ 4,907,503	$ 5,976,499	$ 9,997,171	$ 592,570,166
Segment liabilities	$ 465,666,000	$ 4,207,965	$ –	$ 396,935	$ 1,977,827	$ 6,887,395	$ 479,136,122

24. Financial Instruments

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

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

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

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

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

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

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

Financial Instruments Recorded at Fair Value

Derivative Financial Instruments

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

The Bank's derivative financial instruments which are valued using a valuation technique with significant non-market observable inputs include equity option contracts. These derivatives are valued using models that calculate the present value such as the trinomial model for options. The model incorporates various unobservable assumptions that include the market rate volatilities.

Available-for-Sale Financial Investments

Available-for-sale financial investments valued using valuation techniques 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:

	2015			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets				
Derivative financial instruments				
Forward foreign exchange contracts	$ –	$ 2,816,164	$ –	$ 2,816,164
Exchange-traded index option contracts	5,736,000	–	–	5,736,000
Equity option contracts	–	–	2,663,255	2,663,255
Warrants	–	–	19,849	19,849
	5,736,000	2,816,164	2,683,104	11,235,268
Available-for-sale financial investments				
Corporate debt securities	43,746,836	41,966,574	11,218,275	96,931,685
Debt securities issued by banks	23,367,584	3,528,256	–	26,895,840
Asset-backed securities	–	540,325	351,979	892,304
Government debt securities	51,750,895	354,008	–	52,104,903
Equities	9,359,388	3,088,350	3,500,000	15,947,738
Portfolio funds	–	20,782,692	–	20,782,692
	128,224,703	70,260,205	15,070,254	213,555,162
HQLA				
HQLA maturing within 3 months	85,001,028	–	–	85,001,028
	$ 218,961,731	$ 73,076,369	$ 17,753,358	$ 309,791,458
Financial liabilities				
Derivative financial instruments				
Equity option contracts	$ 1,734,000	$ –	$ –	$ 1,734,000
Interest rate swaps	–	–	456,247	456,247
	$ 1,734,000	$ –	$ 456,247	$ 2,190,247

	2014			
	LEVEL 1	**LEVEL 2**	**LEVEL 3**	**TOTAL**
Financial assets				
Derivative financial instruments				
Forward foreign exchange contracts	$ –	$ 3,953,587	$ –	$ 3,953,587
Exchange-traded index option contracts	205,500	–	–	205,500
Equity option contracts	–	–	436,510	436,510
Warrants	–	–	76,800	76,800
	205,500	3,953,587	513,310	4,672,397
Available-for-sale financial investments				
Corporate debt securities	39,262,700	29,878,275	11,769,345	80,910,320
Debt securities issued by banks	15,591,756	38,813,260	1,540,313	55,945,329
Asset-backed securities	–	875,725	7,566,553	8,442,278
Government debt securities	–	589,139	–	589,139
Equities	23,791,993	3,088,350	5,740,000	32,620,343
Portfolio funds	–	24,266,539	–	24,266,539
	78,646,449	97,511,288	26,616,211	202,773,948
HQLA				
HQLA maturing within 3 months	65,000,613	–	–	65,000,613
	$ 143,852,562	$ 101,464,875	$ 27,129,521	$ 272,446,958

Movement in Level 3 financial instruments measured at fair value:

	CORPORATE DEBT SECURITIES	ASSET-BACKED SECURITIES	DEBT SECURITIES ISSUED BY BANKS	EQUITIES	EQUITY OPTION CONTRACTS	WARRANTS	TOTAL
At September 30, 2013	$ 19,140,830	$ 26,678,723	$ 4,165,051	$ 6,082,883	$ 581,211	$ 1,086,560	$ 57,735,258
Total gains recorded in profit or loss	3,849,715	6,147,324	–	144,375	–	–	10,141,414
Total gains (losses) recorded in equity	(1,392,469)	(1,023,595)	(136,364)	1,490,000	186,591	76,800	(799,037)
Purchases	5,945,177	187,917	1,676,678	1,000,000	–	–	8,809,772
Sales	(15,773,908)	(24,423,816)	–	(2,977,258)	(331,292)	(1,086,560)	(44,592,834)
Transfer to level 2	–	–	(4,165,052)	–	–	–	(4,165,052)
At September 30, 2014	$ 11,769,345	$ 7,566,553	$ 1,540,313	$ 5,740,000	$ 436,510	$ 76,800	$ 27,129,521
Total gains recorded in profit or loss	200,206	5,903,464	62,617	–	–	–	6,166,287
Total gains (losses) recorded in equity	(194,536)	(3,060,912)	44,295	(2,240,000)	2,226,745	(56,951)	(3,281,359)
Purchases	5,607,242	–	823,613	–	–	–	6,430,855
Sales	(6,163,982)	(10,057,126)	(2,470,838)	–	–	–	(18,691,946)
At September 30, 2015	$ 11,218,275	$ 351,979	$ –	$ 3,500,000	$2,663,255	$ 19,849	$ 17,753,358

25. Taxation

BCB and its subsidiaries domiciled in Bermuda are not subject to taxation in Bermuda as Bermuda does not impose any form of taxation on receipts, dividends, capital gains or net income. BCB's subsidiaries domiciled in Luxembourg and the United Kingdom are subject to the tax laws of those jurisdictions. The Bank records income taxes based on the tax rates applicable in the relevant jurisdiction and income taxes of $4,093 (2014: $4,282) were recorded in administrative expenses within general and administrative expenses in the consolidated financial statements. PCFG's taxes payable at September 30, 2015 were $461,252.

Deferred Tax Assets

	2015	2014
Decelerated capital allowances	$ 2,514,697	$ –
Derivative financial instruments	82,678	–
Total	$ 2,597,375	$ –

Deferred tax assets are applicable to PCFG (see Note 26). As part of the Finance Act 2014, the UK Government legislated to reduce the main rate of Corporation Tax to 20% with effect from 1 April 2015. The deferred tax asset has been calculated based on a rate of 20% to the extent that it is expected to reverse in future years.

26. Business Combination

Effective September 18, 2015, BCB acquired 15,553,800 ordinary shares and 5,830,446 convertible loan notes from Somers Limited. These loan notes together with convertible loan notes of 2,670,000 already held by BCB were converted into ordinary shares at September 24, 2015 and September 28, 2015, which resulted in BCB acquiring a 75.47% interest in PCFG.

Established in 1994, PCFG is a UK-based finance company engaged in the provision of finance for vehicles, plant and equipment for consumers and businesses. The company is listed in the Alternative Investment Market of the London Stock Exchange.

The following is a breakdown of fair values of assets and liabilities at the date of acquisition:

	FAIR VALUE AT ACQUISITION
Assets	
Cash and cash equivalents	$ 770,882
Other assets	1,577,688
Loans and advances to customers	162,581,179
Property and equipment	151,034
Goodwill and other intangible assets	1,314,031
Deferred tax asset	2,597,376
Total assets	168,992,190
Liabilities	
Interest bearing loans and borrowings	131,316,734
Convertible loan notes	2,218,482
Derivative financial instruments	456,247
Taxes payable	461,252
Other liabilities	2,038,997
Total liabilities	136,491,712
Total identifiable net assets at fair value	$ 2,500,478
BCB's share of total identifiable net assets at fair value	$ 4,528,002
Goodwill arising on acquisition	3,679,768
Purchase consideration transferred	$ 8,207,770

PCFG's financial year end is March 31 and its financial statements are presented in GBP. In consolidation, the Bank used the interim audited financials of PCFG as at September 30, 2015. The consolidated financial statements of the Bank included only the statement of financial position of PCFG as at September 30, 2015 as the Bank's share of PCFG's net income from acquisition to September 30, 2015 was considered immaterial.

The goodwill of $3,679,768 represents the value of expected synergies arising from the acquisition.

Non-controlling interest applicable to the PCFG acquisition at September 30, 2015 was $7,972,476, which represents 24.53% of the total identifiable net assets of PCFG at fair value.

Subsidiaries

As at September 30, 2015

BCB ASSET MANAGEMENT LIMITED
Telephone: (441) 295-5678 | Fax: (441) 295-6699
BCB Asset Management Limited (incorporated February 11, 2011) merged on January 11, 2012, with BCB Fund Services Limited (incorporated December 21, 1992). Provides listing sponsorship services and is a BSX trading member.

BCB CHARTER CORPORATE SERVICES LIMITED
Telephone: (441) 295-5678 | Fax: (441) 295-6699
Amalgamated in Bermuda on October 4, 2011.
Provides company secretarial and corporate services.

BCB LUXEMBOURG S.À.R.L.
13-15 Avenure de la Liberté
L-1931 Luxembourg
Incorporated in Luxembourg on May 4, 2011.
Investment holding company.

BCB MANAGEMENT LIMITED
Telephone: (441) 295-5678 | Fax: (441) 295-6699
Incorporated in Bermuda on March 2, 2012.
Provides corporate directorships to companies.

BCB MANAGEMENT SERVICES LIMITED
Telephone: (441) 295-5678 | Fax: (441) 295-6699
Incorporated in Bermuda on September 5, 2012.
Provides accounting services to companies and trusts.

BCB PARAGON TRUST LIMITED
Telephone: (441) 295-5678 | Fax: (441) 295-7024
Amalgamated on October 4, 2011, and subsequently amalgamated on December 15, 2011, with BCB Trust Company Limited (incorporated February 9, 1970). Provides trust services.

BCB RESOURCE FUND
Telephone: (441) 295-5678 | Fax: (441) 295-4759
Incorporated in Bermuda on May 10, 2012.
Segregated cell company for natural resource investments.

BERCOM NOMINEES LIMITED
Telephone: (441) 295-5678 | Fax: (441) 295-3980
Incorporated in Bermuda on July 8, 1987 as a nominee company.
Provides nominee services.

PRIVATE & COMMERCIAL FINANCE GROUP PLC
Pinners Hall, 105-108 Old Broad Street, London EC2N 1ER, England
Established in 1993 whose shares are quoted on the AIM market of the London Stock Exchange. Provides finance for vehicles, plant and equipment.

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

The registered address for the above companies (unless otherwise indicated) is: Bermuda Commercial Bank Building, 19 Par-la-Ville Road, Hamilton HM 11, Bermuda.

Bermuda is the principal country of operations for the above companies,with the exception of BCB Luxembourg S.A.R.L. and Private & Commercial Finance Group plc.

Notes

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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