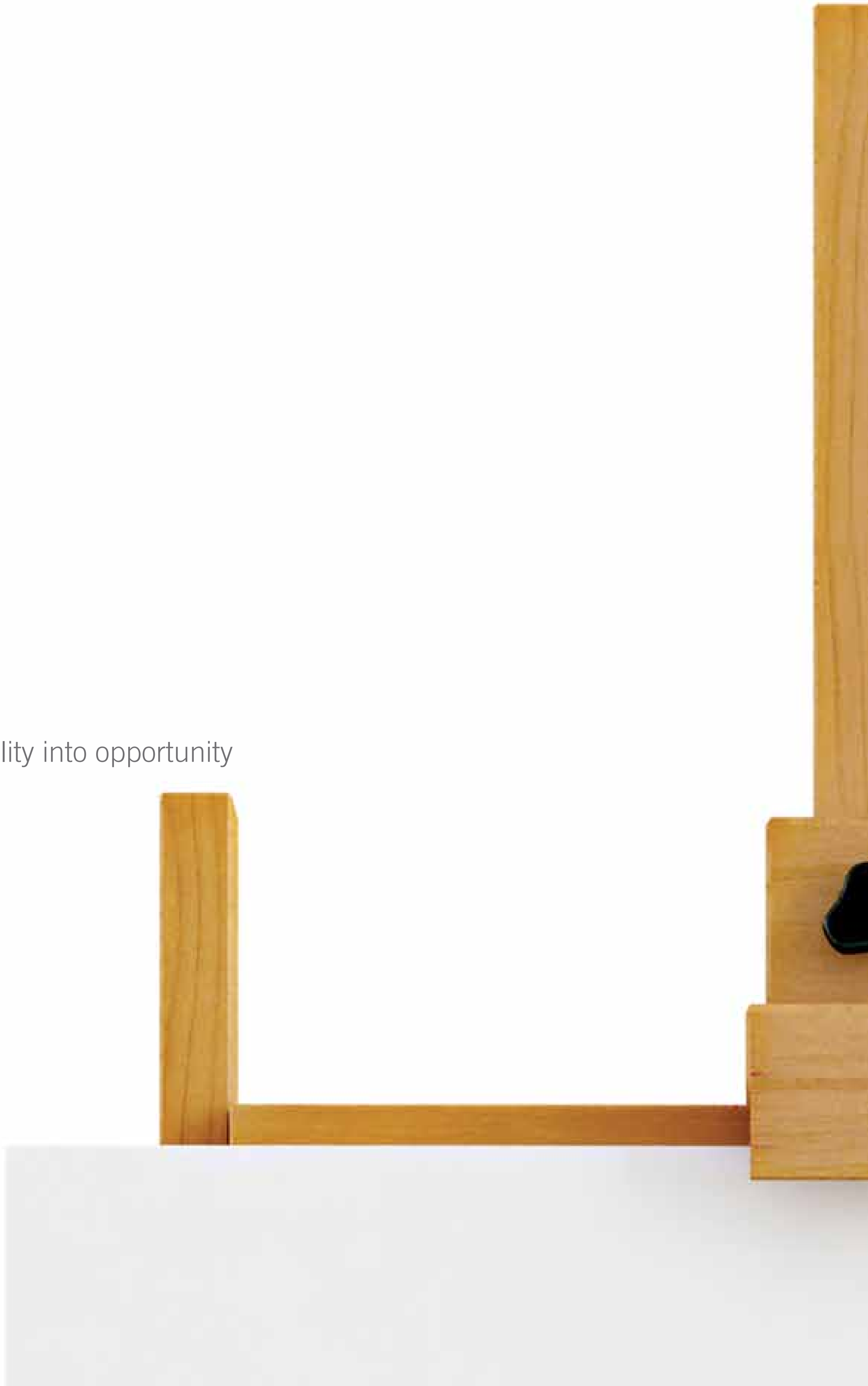
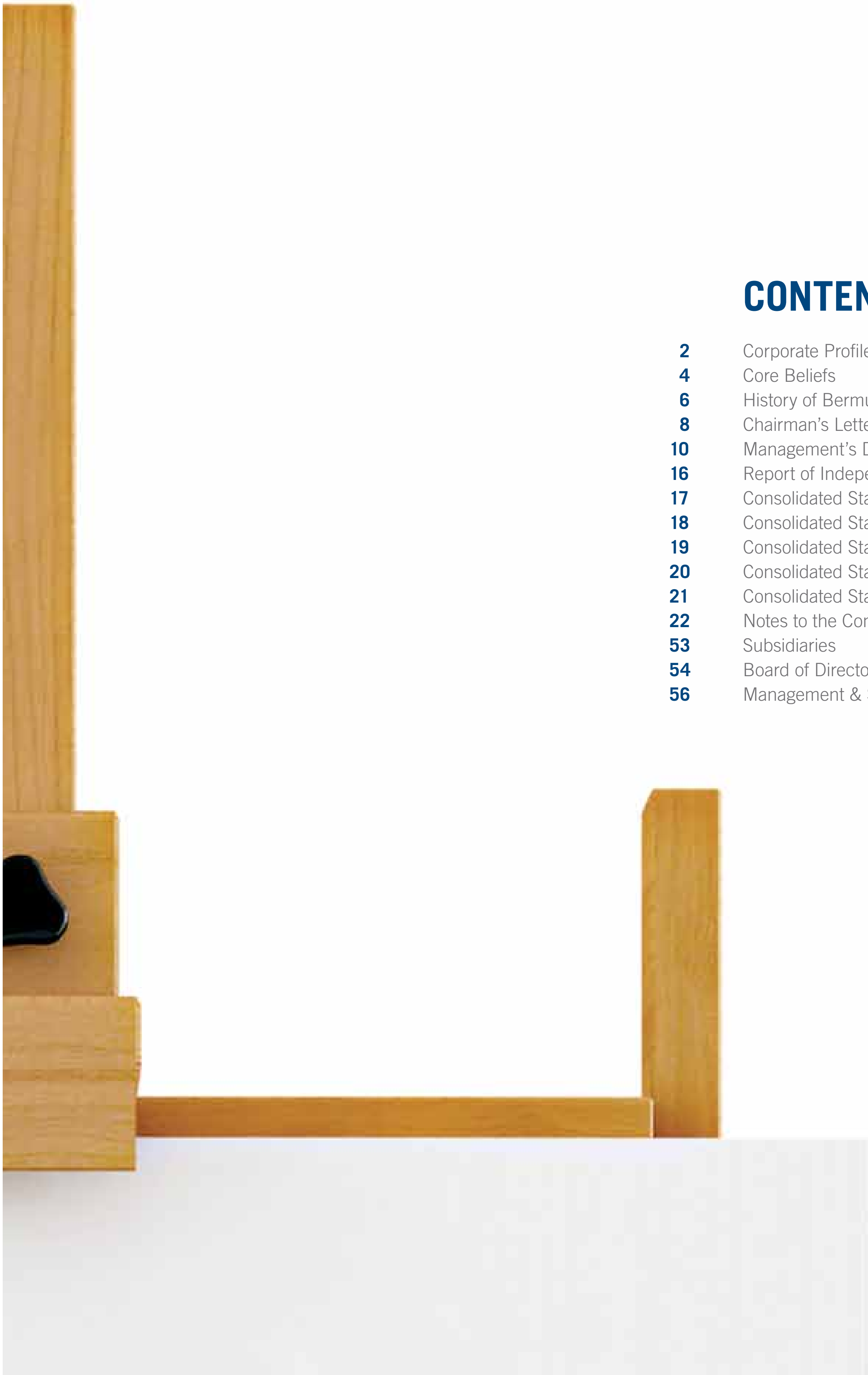
THE TOOLS TO CREATE

Bermuda Commercial Bank | Annual Report 2012

BERMUDA COMMERCIAL BANK LIMITED

turning possibility into opportunity





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CORPORATE PROFILE & SERVICES

Bermuda Commercial Bank Limited provides tailored financial solutions and personal attention for business and private clients. We act as trusted advisors to our clients to craft efficient solutions for wealth preservation, asset management, corporate finance and management. Our team of professionals serve Bermuda and international clients including families and private individuals, as well as companies of all sizes including large multi-nationals.

Since 1969 we have provided outstanding personal services to our clients. We are the only bank in Bermuda focused solely on serving local and international corporate and private wealth clients. We offer competitive banking products & services, as well as trust & estate management, custody & brokerage, asset management & investment. We also offer a comprehensive range of corporate services including company formation and management, trademarks, and special purpose vehicles for corporate transactions.

a balance between insight and strategy

SERVICES

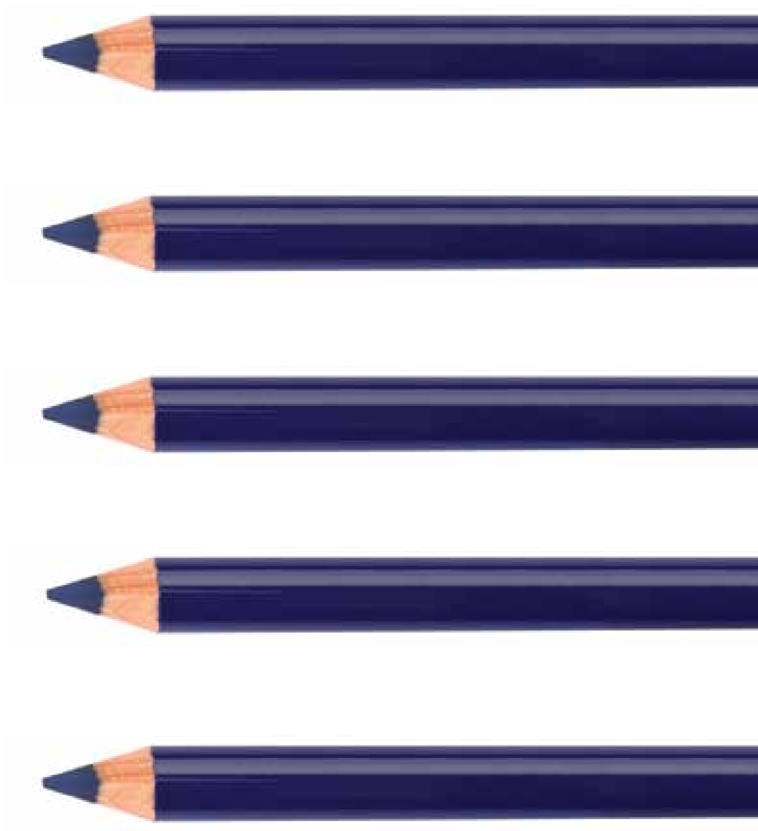
ESTATE PLANNING AND TRUST ADMINISTRATION

BANKING AND WEALTH MANAGEMENT

CORPORATE ADMINISTRATION

GLOBAL CUSTODY AND BROKERAGE

BUSINESS BANKING



CORE BELIEFS

a considered approach

PERSONALISED SERVICE

We have taken advantage of our relatively small size and strict focus to provide highly personalised service to a select client base. We maintain the highest standard of service, seeking to foster a strong bond with our clients based on integrity, knowledge, mutual trust and respect. We keep abreast of relevant developments in the industry and markets, advise our clients, and update our services to reflect the changing environment.

CONSERVATIVE RISK MANAGEMENT

The management of risk is an important criterion to all users of financial services. We minimise our corporate risk by following a conservative policy in balance sheet and asset management. We follow highly conservative liquidity policies and maintain one of the strongest capital ratios in the banking industry. We strive to deliver the strength and safety that our clients demand from their bank.

COMPREHENSIVE PRODUCTS & SERVICES, COMPLETE SOLUTIONS

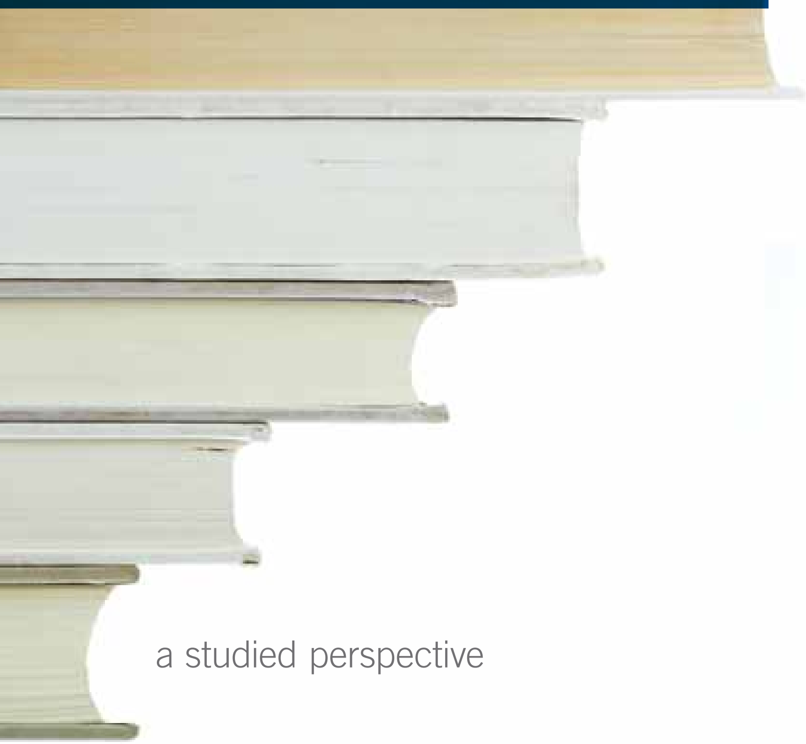
Our services are offered through the Bank and through our principal subsidiaries; we provide our clients with a one-stop solution for all their financial needs whether it be for simple deposit accounts or more comprehensive banking, including internet banking, credit cards, and foreign exchange services.

Our trust and corporate services are offered through our subsidiaries, BCB Paragon Trust Limited and BCB Charter Corporate Services Limited. Our strategic relationship with Westhouse Securities Limited in London delivers corporate finance, brokerage, and listing services on AIM, owned and operated by the London Stock Exchange ("LSE").

We are a member of the SWIFT ("Society of Worldwide Interbank Financial Telecommunication") network with correspondent banking relationships with major institutions around the world. Through our global custodial network, we provide our global custody clients with access to markets all over the world.

Bermuda Commercial Bank is focused on growing its business in the local and international markets through our investments in infrastructure and our commitment to high quality service and products.

HISTORY OF BERMUDA COMMERCIAL BANK



a studied perspective

Bermuda Commercial Bank Limited ("BCB" or "the Bank") began by an Act of Parliament in February 1969 under the name of The Provident People's Bank Limited. In May 1969, the Bank's name was changed to Bermuda Provident Bank Limited, and in 1984 the name of the Bank was changed once again to Bermuda Commercial Bank Limited.

The genesis of the Bank goes back 47 years to 1965 when Mr. Walter J. Seymour, the President of Provident Trust Company, conceived the idea of forming a savings and loan group in which persons of limited means could pool their resources to assist one another. His vision was supported by a number of Bermudians who saw the need for a widening of banking facilities in Bermuda and who, with Barclays Bank plc ("Barclays") as their partner, together founded the Bank. The granting of a banking license was a significant achievement for the shareholders and the first meeting of the Bank's Board was held on December 6, 1969. The first President of the Board was Mr. Arnold Francis, C.B.E., J.P. who continued to serve on the Board for 30 years.

The Bank operated under the management of Barclays from its inception until May 10, 1993. During that period, Barclays held 31.92 per cent of the shares of the Bank. A decision was made by Barclays to sell its minority shareholdings world-wide in the early 1990's and this set the stage for the Bank to acquire a new substantial shareholder and manager who would bring a new focus and direction. The purchaser of Barclays' shareholding was First Curacao International Bank N.V. ("FCIB"), a licensed Bank operating in the Netherlands Antilles.

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. The Bank retained its local mortgage and deposit company, Somers Mortgage & Finance Limited, which had established a strong position in its market, with the provision of traditional products and services carefully tailored to specific client groups.

The Bank established a new niche market focus providing services tailored to the international business and private client markets. As part of the re-focus, the Bank became smaller, leaner and more efficient. The Bank 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 to the Bank helped revitalise the business and position the Bank well for future growth. During the course of 2011, Permanent transferred a portion of its shareholding to two of its funders, Utilico Investments Limited ("Utilico", LSE: UL) and Resimac Limited ("Resimac") which became significant shareholders of BCB in their own right. The Bank's focus on private wealth management and corporate business was reaffirmed, management began the work of updating the Bank's infrastructure, and the Bank re-engaged with the marketplace with new, competitive products.

These changes have been successful, and BCB is continuing to grow. The Bank is involved in acquisitions and is always looking for new opportunities to expand our growing business portfolio. Because of our small size and niche market, the Bank is positioned to be more flexible and offer greater solutions for our clients. 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 30 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. This award programme recognises excellence in information technology. 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, technologically 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. The offices of Paragon Trust Ltd and Charter Corporate Services Ltd at the historic Trinity Hall in the City of Hamilton have become the centre for Private Wealth services for Bermuda Commercial Bank. This acquisition is 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 solidify 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 Bermuda National Limited ("BNL"), resulting in BCB becoming a wholly owned subsidiary of BNL. BCB delisted from the Bermuda Stock Exchange and its shareholders were offered one share of BNL for each share of BCB held. BNL shares are now listed on the Bermuda Stock Exchange. This merger further allows 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 implementation of BNL as the holding company of the BCB Group will increase the group's ability to access additional equity capital in the future.

CHAIRMAN'S LETTER

This year the Bank performed strongly with enhanced capital and increased profitability. It is therefore with great pleasure that I write to you as Chairman of BCB to share the results for the year ended September 30, 2012. I will also outline the accomplishments made during 2012, and expand on our strategy moving forward.

FINANCIAL RESULTS

The Bank's balance sheet, capital position and profitability all improved significantly during the year and this growth has been driven particularly by solid customer deposits, increased fee income and strong, stable interest earnings on our investment portfolio. The continued focus of maintaining a balance sheet invested in a diversified portfolio of securities, as opposed to overnight deposits, resulted in strong interest income growth. The Bank's profit, together with the unrealised growth of the Bank's investment portfolio, boosted shareholder's equity to $104.76 million at September 30, 2012 compared with $82.92 million at September 30, 2011. Profit for the year was $7.45 million, up from $2.60 million last year while total assets increased by $40.03 million to $572.01 million from $531.98 million in 2011. The Bank's Tier 1 capital ratio, which is a measure of financial strength and stability, was 26.42% at year end, significantly higher than general industry standards and a clear indication of the strength of BCB's balance sheet.

This strong performance allowed us to announce increased annual dividends of $0.30 per share to our ultimate shareholders - up from $0.20 last year.

CAPITAL POSITION AND CAPITAL RATIOS

I take comfort from the strength of the Bank's capital position at September 30, 2012. The Bank's capital ratio of 23.34% remains almost double the Bank of International Settlements' industry target of 12.0%, and is substantially ahead of Basel III target capital levels. During the year, as a result of expanding our investment programme, we experienced a slight reduction in the Bank's capital adequacy ratio, but this decrease still did not approach the Board mandated minimum ratio of 20%, which itself is significantly higher than the Bank's regulatory requirements. It is particularly pleasing that our capital ratios have outperformed our target in a period where we have significantly grown our balance sheet.

STRATEGY AND RISK

The Board continues to focus on risk management as it relates to strategies moving forward. We feel it is extremely important to carefully monitor our risk appetite to maintain the right balance between risk and sustainable financial results. BCB prides itself on being a conservative bank; as a result we have avoided many of the pitfalls experienced by other banks in recent times, all the while steadily growing our profit levels. Going forward, we will monitor new opportunities as they arise. We will make every effort to preserve the Bank's capital by managing risk and maintaining a detailed understanding of the Bank's liquidity position.

The Board continues to oversee the evolution and implementation of a revitalised and dynamic corporate strategy since the major ownership change in 2010. We have provided guidance on the implementation of a number of internal initiatives to meet the challenges and opportunities that lie ahead. These initiatives, detailed in the Management's Discussion and Analysis section, continue the Bank's traditional conservative, risk-sensitive approach to its business.

Given the challenges faced by the global and local economy during the past year, BCB has been successful to date in executing our corporate strategies. The backing of the shareholder group and the influx of new employees has provided the Bank with fresh impetus and strong momentum and has positioned us well to maintain our strong growth trajectory.

DEPOSIT BASE

BCB offers a fresh approach to banking and competitive deposit interest rates. This has combined to form a valuable option for local and international companies. The result has been a broadening of our deposit base as we increased our customer numbers and saw a strengthening of existing customers' deposit levels. Of particular interest this year has been the improvement in average deposit maturity, which has created further investment opportunities for the Bank.

ACQUISITION

As previously announced, BCB acquired Paragon Trust Ltd ("Paragon") and Charter Corporate Services Ltd ("Charter") during the year. As part of this purchase, the Bank acquired Trinity Hall, a building on Cedar Avenue, which has become the centre for BCB's private wealth services. This transaction expanded the Bank's business platform significantly, strengthened our team of legal and trust professionals, as well as allowed the Bank to offer a wider scope of corporate services. I am pleased to report that the amalgamation of Paragon and Charter into BCB's existing operations was a smooth transition and the two entities are now a well-established part of the BCB group. The client base acquired in this transaction presents many opportunities for the Bank to develop an expanded suite of financial services tailored specifically to their needs.

EMPLOYEES

BCB has experienced significant growth in staffing levels during the year, especially with the Paragon and Charter acquisitions adding to our legal, trustee, and corporate services capabilities. We have made a concerted effort to strengthen our team in the area of customer service, as that is a major focus of the Bank moving forward. Our future success will rely heavily on our ability to meet our customers' needs in a professional and efficient manner.

On behalf of the Board of Directors of the Bank, I would like to thank our shareholders and clients for their continued support. I would like to express our appreciation to all of our dedicated staff and management for their continued hard work and commitment to Bermuda Commercial Bank.

J. MICHAEL COLLIER, JP
CHAIRMAN

MANAGEMENT'S DISCUSSION & ANALYSIS

Management's Discussion and Analysis ("MD&A") should be read in conjunction with our Consolidated Financial Statements, the notes to those financial statements, and the Chairman's Letter. This MD&A is provided to enable users to assess the Bank's results and performance for the year ended September 30, 2012. All references to BCB, or the Bank, refer to Bermuda Commercial Bank Limited and its subsidiaries on a consolidated basis.

FINANCIAL PERFORMANCE HIGHLIGHTS

- Capital position improved substantially to $104.76 million from $82.92 million in 2011
- Underlying profit for the year was $7.45 million, up from $2.60 million last year [1]
- Total assets increased by $40.03 million to $572.01 million ($531.98 million in 2011)
- Year-end total capital ratio of 23.34% (27.08% one year ago)
- Customer deposits at September 30, 2012 were $457.54 million compared to $443.19 million at the prior year end, an increase of $14.35 million or 3.2%
- Industry leading liquidity position - short-term cash representing almost 40% of total assets
- Successful acquisitions boosted fee income to $4.50 million from $2.70 million

[1] *The Bank recorded a one-time gain in 2011 of $10.01 million on its investment in West Hamilton Holdings Limited ("West Hamilton"), a Bermuda-based development firm traded on the Bermuda Stock Exchange. During 2011, the Bank purchased 40.8% of the ordinary equity of West Hamilton. As part of the acquisition process, the Bank performed a fair value assessment of its investment resulting in a large premium over cost of investment. The premium related primarily to the valuation of West Hamilton's land and property. We exclude this gain from our discussions on performance as the gain does not reflect any element of underlying operational performance.*

RESULTS OF OPERATIONS FOR THE YEAR ENDED SEPTEMBER 30, 2012

The Bank recorded a net profit of $7.45 million for the year. This compares to an underlying net profit of $2.60 million in 2011, an increase of $4.85 million. Basic and diluted earnings per share for the year ended September 30, 2012 were $1.06 and $1.02, respectively. Basic and diluted earnings per share for the year ended September 30, 2011 were $1.92 and $1.86, respectively ($0.40 and $0.38 on an underlying basis).

INTEREST INCOME

The Bank recorded interest income of $18.87 million for the year ended September 30, 2012, up from $11.40 million in 2011. This increase resulted from the strong performance in our financial investment portfolio. Over the last couple of years, the Bank has been diversifying its balance sheet from predominantly cash to a mixture of cash, financial investments, and to a lesser extent, customer loans. This transition process continued in 2012 and the Bank benefited from a higher yielding average asset mix in fiscal 2012. The Bank also recorded increased interest income on its small loan portfolio following an increase in year-on-year average loan levels. The Bank's interest income is earned across a diversified selection of industries, geographical locations and currencies, and is highly diversified at the counterparty level. As a result of this balance sheet transition, the Bank's profitability is now less influenced by changes in short-term interest rates, primarily United States Federal Reserve rates. US rates remain at historically low levels but the Bank has adapted and diversified its business plan and model to meet this challenge.

Interest from loans and advances to customers increased to $1.39 million from $0.93 million last year. The Bank provides loan facilities to customers that comply with the Bank's required risk profiles. While year-end loan balances of $34.16 million remained at similar levels to the prior year, average loan balances for the year increased substantially, leading to improved interest income.

Interest from money market funds showed a year-on-year decrease as money market funds currently make up a very limited component of the Bank's asset mix.

Interest expense increased to $3.65 million compared to $1.86 million a year earlier. This increase reflects the continued strong growth of our customer term deposit balances along with the competitive deposit interest rates being offered by the Bank. Term deposits greater than one month showed a year-on-year increase of 49%, while average term deposits increased by 75% over the prior year. While a more expensive form of funding, the stability provided by this deeper maturity profile allows for improved investment opportunities and lower deposit volatility.

NON-INTEREST INCOME

Net non-interest income was $7.21 million, up from $3.09 million in 2011. These figures reflect the developing nature of the business and include certain changes from the prior year as the Bank diversifies into new areas of business.

Fees and commissions increased to $4.50 million compared with $2.70 million in 2011 as the Bank targeted new business and broadened its product offerings. This increase resulted primarily from our newly acquired trust and corporate services companies, Paragon Trust Ltd ("Paragon") and Charter Corporate Services Ltd ("Charter"). Trust revenue was $1.35 million for the year, while corporate services revenue, which includes custody fees, was $2.30 million for the year. The revenue increase resulting from the acquisition of Paragon and Charter was somewhat offset by the reduction resulting from our exit from the fund administration business, which generated revenue of $0.66 million in 2011. Additionally, fees from the Bank's core banking services department reduced to $0.88 million from $0.99 million as more competitive fee rates offset the growth in overall customer numbers.

Dividend income of $1.06 million was recorded during the year compared to $0.47 million in 2011. The Bank's available-for-sale investment portfolio includes $27.20 million of dividend paying equities, up from $13.70 million at September 30, 2011. The Bank has materially reduced its equity portfolio subsequent to the year-end and a corresponding decrease is therefore projected for dividend income in 2013.

The Bank realised gains of $7.86 million following the sale and maturity of financial investments during the year. This compares to gains of $4.45 million in 2011. This year-on-year growth includes a one-off gain relating to the early call of a security within our investment portfolio. While welcome, it has served to inflate this line item over normalised levels. As part of BCB's interest income strategy, BCB has built up a diversified portfolio of bonds and other financial investments. The Bank's investments are purchased for their interest generating capabilities, but in a number of instances the Bank also recorded strong capital gains, particularly in the second half of the 2012 financial year. This capital appreciation resulted in a decreasing percentage yield from these securities compared to the remaining portfolio and relative to the Bank's risk models. A number of these investments were sold during the year resulting in realised gains. This income stream is heavily influenced by general market performance and is also somewhat offset by economic hedges put in place by the Bank to dampen risk. For these reasons, the Bank assesses performance both before and after the impact of these items.

The Bank incurred foreign exchange and derivative costs of $4.57 million primarily in relation to hedging our investment portfolio. This compares to a net cost of $2.42 million in 2011. These costs, primarily foreign exchange and equity index derivatives, reduce the risk associated with foreign currency and market price fluctuations. Any increase in costs should be measured in the context of our increased investment interest income, the gains on sale of investments, and the strong improvement in our unrealised investment position. In order to manage risk within the Bank's securities portfolio, BCB operates a strategy utilising equity indices put options. Due to the performance of the market in 2012, the Bank recorded corresponding losses of $3.84 million compared to $1.19 million in 2011 on these indices options. This loss partially offset the strong realised gains recorded on the Bank's investment portfolio.

As a risk mitigating tool, the Bank's portfolio is heavily diversified by geography, resulting in foreign currency exposure for the Bank. The Bank has implemented an active hedging programme to reduce these exposures. On average during 2012, prevailing interest rates in these foreign jurisdictions exceeded those of the Bank's functional currency, the US dollar. The result was foreign exchange forward hedging costs of approximately $1.20 million. The Bank also earns foreign exchange fee income by taking a small spread on each customer foreign currency transaction transacted by the Bank with no risk or positions being assumed by BCB. This income, which is dependent on the activity of our customers, remained at a similar level to the prior year.

The Bank recorded impairment losses of $2.06 million compared to $2.49 million in 2011 on the Bank's available-for-sale investment portfolio. This annual impairment loss level is consistent with the Bank's internal loss expectations based on historical loss data.

EXPENSES

Total expenses increased to $14.98 million from $10.03 million. This increase resulted both from an expanded cost base following the acquisitions of Paragon and Charter, along with increased head count costs following the expansion and strengthening of our professional employee base as our core banking business grows. Additionally, investment advisory fees increased following the growth of our investment portfolio.

Salaries and employee benefits increased to $8.02 million from $4.92 million in 2011. This increase reflected the growth in our employee head count from 49 at September 30, 2011 to 69 at September 30, 2012. Head count rose primarily from the consolidation of employees at Paragon and Charter. We also increased head count in the banking division due to increased business levels, new products and initiatives, and a general strengthening of employee depth.

Year-on-year amortisation costs increased from $0.11 million in 2011 to $0.44 million in 2012. This increase resulted primarily from a new $0.28 million annual amortisation charge associated with our purchase of Paragon and Charter.

Total general and administrative expenses increased from $4.87 million for the year ended September 30, 2011 to $6.23 million for 2012. This increase was the result of an expanded cost base particularly following the acquisition of Paragon and Charter, along with increased investment advisory fees. Following the growth and strong performance of our investment portfolio, along with increased management and reporting requirements, investment advisory fee costs increased to $1.02 million in 2012 from $0.49 million a year earlier. Additionally, the day-to-day requirements of servicing a larger, more complex organisation, resulted in increased premises, licences and professional fees costs.

Looking forward, we anticipate there will be a levelling off in the growth rate of our cost base as the first phase of our growth strategy has been largely implemented. Any future expenditure will be implemented in a controlled manner and will be managed as part of the Bank's overall strategic planning. We will continue to seek out value-adding opportunities and, where such opportunities present themselves, we will utilise the diverse range of financial and operational experience available to us.

OTHER COMPREHENSIVE GAIN

During the year ended September 30, 2012, the Bank recorded an unrealised gain of $15.73 million within other comprehensive income compared to a loss of $7.61 million for 2011. This gain resulted from a positive mark-to-market revaluation of the Bank's available-for-sale financial investment portfolio following a recovery of global markets over the course of the year. As a result of this gain, cumulative unrealised losses in the prior year have been entirely reversed and the portfolio now enjoys cumulative unrealised gains.

FINANCIAL CONDITION AS AT SEPTEMBER 30, 2012

The Bank continued to grow during 2012, recording a 7.52% yearly increase in total assets. The Bank has leveraged the resources of its major shareholder to positive effect, benefitting from a high level of financial, operational, and risk expertise and guidance.

Assets

Cash, money market funds and term deposits were $226.91 million at year-end compared to $273.29 million a year earlier following the reallocation of funds into longer term assets in line with the lengthening of our customer deposit maturity. At September 30, 2012, cash and cash equivalents represented 39.7% of total assets.

The Bank's financial investment portfolio increased to $256.76 million from $191.99 million one year ago. Over the course of the year we have grown our investment portfolio in line with the deepening maturity and development of our customer deposit base. Additionally, our portfolio also recorded a pleasing $15.73 million year-on-year increase in market valuations following a strong year for global bond markets.

In accordance with the Bank's investment remit and governance mandates, the professionally managed portfolio of securities provides a high level of asset diversification and generates a stable interest income stream for the Bank. The Bank also seeks to minimise the interest rate gap between our assets and liabilities thereby dampening the impact on profitability associated with any interest rate movements. This interest rate gap remained at similar levels to the prior year. All investments are governed by the Bank's strict liquidity and risk management policies. The Bank's Asset and Liability Committee oversees the investment process with investment advisory functions being performed by an experienced investment management company. BCB maintains a conservative risk asset leverage ratio of less than 4:1. This compares favourably to industry averages of more than 12:1. Risk assets include loans, mortgages and other investments, and banks with a higher ratio of these risk assets to capital are more vulnerable to movements in valuation.

The Bank's financial investment portfolio consists primarily of corporate debt securities and debt securities issued by banks, along with a lesser percentage of asset-backed securities and equities. Within each portfolio, securities are heavily diversified across industry, currency and jurisdiction. Over the course of the year, we have sought to build up our corporate debt and asset-backed securities positions, while keeping our bank issued debt portfolio stable. The year-end asset mix, while providing a slightly lower yield, provides superior risk adjusted returns for the Bank. The Bank also increased its portfolio of dividend paying equities over the course of the year. However, subsequent to year-end, the Bank has reduced its exposure to strategic equities, and going forward, it is anticipated this portfolio exposure will form only a small component of the Bank's investment programme. The Bank's strategy continues to encompass a low-risk balance sheet with any future increase in the level of financial investments predicated on an increase in long-term customer deposits.

The Bank's loans and advances portfolio was $34.16 million at September 30, 2012, down slightly from $35.34 million in 2011. The Bank is not yet active in the credit market, but we have provided a small number of loan and overdraft facilities.

Property and equipment increased to $3.43 million from $0.41 million primarily following the purchase of the Trinity Hall building on Cedar Avenue, which houses our expanding private wealth division.

Goodwill and other intangible assets increased to $10.01 million from $2.16 million due primarily to the purchase of intangible customer relationships as part of our acquisition of Paragon and Charter.

Other assets increased from September 30, 2011 on account of receivables relating to the sale of investment securities. These receivables are short-term in nature.

Liabilities

Total deposits at September 30, 2012 were $457.54 million compared to $443.19 a year earlier, an increase of 3.2%. The Bank recorded gains on all its key deposit metrics with absolute balances, customer numbers, customer concentration, and deposit maturity all improving. Management continues to prioritise improvements in the weighted average maturity of our deposit base and, over the course of the year, the Bank saw a steady transition of customer funds out of demand deposits into more stable long-term deposits. Total term deposits increased from $183.88 million last year to $250.51 million at September 30, 2012. The Bank attributes this growth to a strong product offering, targeted marketing, competitive deposit interest rates and a renewed focus on acquiring and retaining customers.

CAPITAL POSITION AS AT SEPTEMBER 30, 2012

The Bank's capital position improved strongly to $104.76 from $82.92 million one year ago. This increase resulted from the following items:

- A net increase in available-for-sale and held-to-maturity investment reserves of $15.73 million due to unrealised mark to market gains on the Bank's investment portfolios. These gains mirrored the strong performance in global markets over the last twelve months.
- Retained earnings for the year increased by $6.06 million.

The Bank's regulatory capital ratio remained at an industry leading level of 23.34% at September 30, 2012 compared with 27.08% one year ago. The Bank's risk weighted assets were $339.16 million at year-end, increasing from $282.90 million in 2011.

STRATEGY AND OPERATIONS

BCB offers bespoke financial solutions to corporate and private wealth clients, and our goal is to be the undisputed leader in customer service in the markets that we serve. This clear, strategic vision allows us to build highly defined, focused, and purposeful operations throughout our group of companies, and shapes the way in which the Bank conducts its business. We value the long-term relationships that we have with our clients and work hard to earn their trust.

Over the last twelve months the Bank has completed a number of important steps in its growth strategy:

- Amalgamated the Bank's trust and corporate services businesses with those of Paragon and Charter.

- Acquired the Trinity Hall building on Cedar Avenue, which has become the centre for private wealth; encompassing trust, corporate services, private banking, asset management, and wealth management divisions. These business lines continue to show growth as a result of the service levels provided by the Bank's experienced professional staff.

- Asset management and investment services are now available through BCB Asset Management Limited. This division provides discretionary investment management services with a focus on preserving and enhancing clients' assets over the long-term. Unlike many of our industry peers, BCB Asset Management Limited is not tied to any specific investment product or investment manager; rather, it carefully selects a suite of products and sub-advisory relationships with highly regarded global investment managers.

- In March 2012, BCB announced the launch of the BCB Bond Fund, which is an actively managed diversified portfolio of predominantly investment grade global bonds with a targeted yield in excess of 5%.

- BCB prides itself on being responsive to client requests, and as a result, officially launched the BCB Visa Platinum and BCB Visa Gold Business credit cards in January 2012. The addition of these credit cards broadens our product offerings, and further develops our competitive position.

The Bank's strategy going forward will focus on those areas in which the Bank excels. We will adhere to our low-risk culture while diversifying our balance sheet where opportunities arise. Our expanding trust and corporate services segments complement our existing banking and custody products, and tie in well with our asset management services. We offer an expanding range of products and tailored financial solutions, and take pride in delivering a superior level of service to our clients.

RISK MANAGEMENT

The management of risk is a key function of any bank and BCB adopts an extremely active approach to this area. The Bank operates within strict risk guidelines for its investment and asset management programmes as well as its operational risk programme. As the activity of the Bank has grown, management has sought to update the risk practices of the Bank to keep pace with the development of new products and processes. This work includes continued refinement of the Bank's consolidated risk register, improved reporting and tracking of liquidity, asset portfolio analysis, and upgraded stress and scenario testing.

Details of the Bank's risk structure are outlined in note 21 of the financial statements.

As in previous years, the Bank has maintained a Capital Adequacy Ratio well in excess of the minimums required by the Bermuda Monetary Authority ("BMA"). In accordance with the BMA, and the 2004 Basel II Accord, the Bank established a working committee to oversee the Bank's capital assessment review process. Under Basel II, and in agreement with the BMA, the Bank is required to maintain higher Tier 1 capital ratios than previously required under Basel I. Our September 30, 2012 Tier 1 ratio of 26.4% comfortably exceeds these limits. The Board has set a target capital rate of 20% which, while lower than current levels, is still higher than the standard required by the BMA and significantly higher than international industry levels. The Bank has implemented the Basel II, Pillar III disclosure requirements (Market Discipline of the New Capital Adequacy Framework) and has published on its website key elements of its risk exposure and risk mitigation regime.

BASEL III

The Basel Committee's new standards for capital and liquidity, commonly referred to as "Basel III", establish minimum requirements for common equity, increased capital requirements for counterparty credit exposures, a new global leverage ratio and measures to promote the buildup of capital. The Basel III minimum capital requirements include a 4.5% common equity ratio, a 6.0% Tier 1 capital ratio, and an 8.0% total capital ratio. In addition, a capital conservation buffer of 2.5% will also be required. While a bank can draw down on the 2.5% capital conservation buffer to absorb losses during periods of financial or economic stress, restrictions on earnings distributions would be required.

BCB continues to be extremely well capitalised by global standards. We believe that based on our current strong capital position and our ability to generate capital from our business lines in the coming years, we are well positioned to fully meet the Basel III capital adequacy requirements. As such, we do not anticipate a need to make significant changes to our business operations or raise additional capital to meet the Basel III requirements.

While the Basel III liquidity standards have not been finalised, we continue to measure our liquidity position and make process and reporting adjustments that we believe are appropriate in anticipation of the Basel Committee's implementation schedule. The guidelines for liquidity risk include two new regulatory measures, the Liquidity Coverage Ratio and Net Stable Funding Ratio, scheduled for implementation in 2015 and 2018 respectively. We monitor both these ratios internally and are currently compliant with both sets of requirements. The Bank maintains a liquidity profile that is appropriate for the execution of our strategy.

PERFORMANCE MEASURES

The Bank uses the performance measures below to measure our year-on-year performance. The performance measures below highlight the Bank's improved year-on-year performance. These performance measures exclude the 2011 gain on our investment in West Hamilton, as this gain does not reflect any element of underlying performance.

Per Share Information	2012	2011
Net book value – basic	$ 14.96	$ 11.76
Net book value – diluted	$ 14.34	$ 11.36
Market value at year-end	$ 12.00	$ 10.75
Net income – basic*	$ 1.06	$ 0.40
Net income – diluted*	$ 1.02	$ 0.38
Capital Ratios		
Tier 1 capital ratio	26.42%	31.92%
Risk weighted capital ratio	23.34%	27.08%

Financial Ratios	2012	2011
Return on equity	7.94%	3.30%
Return on assets	1.35%	0.55%
Efficiency ratio	66.77%	79.39%
Cash, money market, and term deposits / total assets	39.67%	51.37%

* Based on underlying profit of $2.60 million in 2011.

ERNST & YOUNG

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Report of Independent Auditors

The Shareholders 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, 2012, and the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and 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.

Auditors' 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 auditors' 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 auditors consider 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.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at September 30, 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

December 21, 2012

Ernst & Young Ltd.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at September 30, 2012 (expressed in United States dollars)

Assets	2012	2011
Cash, money market funds and term deposits (Note 3):		
Due on demand	$ 36,791,170	$ 22,737,778
Money market funds	–	5,000,000
Term deposits	190,122,887	245,555,491
Total cash, money market funds and term deposits	226,914,057	273,293,269
Receivable from a related party (Note 7)	7,973,737	–
Interest receivable	4,206,083	3,071,867
Other assets (Note 10)	4,784,024	1,197,270
Loans and advances to customers (Note 6)	34,158,768	35,336,520
Available-for-sale financial investments (Note 5)	145,642,958	88,025,434
Held-to-maturity financial investments (Note 5)	111,120,089	103,961,339
Derivative financial instruments (Note 4)	5,442,168	6,732,339
Property and equipment (Note 8)	3,433,039	406,123
Goodwill and other intangible assets (Note 9)	10,006,104	2,158,760
Investment in an associate (Note 7)	18,327,628	17,800,454
Total assets	$ 572,008,655	$ 531,983,375
Liabilities		
Deposits (Note 11):		
Demand deposits	$ 207,025,252	$ 259,307,638
Term deposits	250,510,105	183,882,061
Total deposits	457,535,357	443,189,699
Customer drafts payable	591,887	3,536,815
Derivative financial instruments (Note 4)	4,541,914	–
Other liabilities (Note 12)	2,169,723	1,385,937
Interest payable	2,413,707	954,474
Total liabilities	$ 467,252,588	$ 449,066,925
Equity		
Capital stock (Note 13)	$ 16,807,963	$ 16,926,449
Share premium (Note 13)	22,131,188	22,487,690
Treasury stock (Note 13)	–	(526,517)
Reserve for available-for-sale	7,501,776	(8,475,789)
Reserve for held-to-maturity (Note 5)	835,986	1,083,088
Retained earnings	57,479,154	51,421,529
Total equity	104,756,067	82,916,450
Total liabilities and equity	$ 572,008,655	$ 531,983,375

SIGNED ON BEHALF OF THE BOARD:

See accompanying notes

J. MICHAEL COLLIER, JP
CHAIRMAN

WARREN MCLELAND
DEPUTY CHAIRMAN

CONSOLIDATED STATEMENT OF INCOME

For the year ended September 30, 2012 (expressed in United States dollars)

Income		**2012**		**2011**
Interest income:				
Cash and term deposits	$	418,739	$	549,038
Money market funds		60,486		335,954
Loans and advances to customers		1,392,875		925,784
Available-for-sale financial investments		6,780,131		8,887,869
Held-to-maturity financial investments		10,216,562		699,045
Total interest income		18,868,793		11,397,690
Interest expense		(3,648,669)		(1,862,457)
Net interest income		15,220,124		9,535,233
Fees and commissions (Note 16)		4,501,070		2,703,158
Net exchange losses		(816,254)		(1,373,652)
Losses on derivative financial instruments		(3,752,725)		(1,050,230)
Dividend income		1,059,885		469,447
Gain from sale of available-for-sale financial investments		6,915,451		4,448,574
Gain from sale of held-to-maturity financial investments		942,639		–
Gain on investment in an associate (Note 7)		–		10,012,940
Credit loss recovery income (Note 6)		–		211,445
Impairment losses on available-for-sale financial investments (Note 5)		(2,063,291)		(2,489,900)
Share of profit of an associate (Note 7)		289,361		45,656
Other operating income		134,275		129,328
Total income		22,430,535		22,641,999
Expenses				
Salaries and employee benefits (Note 19)		8,021,225		4,922,460
Depreciation (Note 8)		280,605		124,847
Amortisation (Note 9)		441,246		110,910
General and administrative expenses (Note 17)		6,234,419		4,867,406
Total expenses		14,977,495		10,025,623
Net income	$	7,453,040	$	12,616,376
Basic earnings per common share (Note 14)	$	1.06	$	1.92
Diluted earnings per common share (Note 14)	$	1.02	$	1.86

See accompanying notes

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended September 30, 2012 (expressed in United States dollars)

Income	2012	2011
Net income for the year	$ 7,453,040	$ 12,616,376
Other comprehensive income (loss):		
Net gain (loss) on available-for-sale financial investments	23,758,442	(3,065,918)
Net loss on held-to-maturity financial investments (Note 5)	(247,102)	(99,005)
Reclassification of gains realised in income	(7,858,090)	(4,448,574)
Share of other comprehensive income of an associate	77,213	–
Other comprehensive income (loss)	15,730,463	(7,613,497)
Total comprehensive income	$ 23,183,503	$ 5,002,879

See accompanying notes

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended September 30, 2012 (expressed in United States dollars)

	CAPITAL STOCK	SHARE PREMIUM	TREASURY STOCK	RESERVE FOR AVAILABLE-FOR-SALE	RESERVE FOR HELD-TO-MATURITY	RETAINED EARNINGS	TOTAL
Balance at October 1, 2010	$ 15,246,449	$ 19,847,690	$ (443,687)	$ 220,796	$ –	$ 40,083,570	$ 74,954,818
Total comprehensive income	–	–	–	(7,514,492)	(99,005)	12,616,376	5,002,879
Reclassification to held-to-maturity reserve (Note 5)	–	–	–	(1,182,093)	1,182,093	–	–
Cash dividends (Note 15)	–	–	–	–	–	(1,278,417)	(1,278,417)
Exercise of options (Note 13)	1,680,000	2,640,000	–	–	–	–	4,320,000
Net purchase of treasury stock (Note 13)	–	–	(82,830)	–	–	–	(82,830)
Balance at September 30, 2011	16,926,449	22,487,690	(526,517)	(8,475,789)	1,083,088	51,421,529	82,916,450
Total comprehensive income	–	–	–	15,977,565	(247,102)	7,453,040	23,183,503
Cash dividends (Note 15)	–	–	–	–	–	(1,395,415)	(1,395,415)
Net sale of treasury stock (Note 13)	–	–	51,529	–	–	–	51,529
Cancellation of treasury stock (Note 13)	(118,486)	(356,502)	474,988	–	–	–	–
Balance at September 30, 2012	$ 16,807,963	$ 22,131,188	$ –	$ 7,501,776	$ 835,986	$ 57,479,154	$ 104,756,067

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended September 30, 2012 (expressed in United States dollars)

Operating Activities		**2012**		**2011**
Net income	$	7,453,040	$	12,616,376
Adjustments to reconcile net income to cash flows used in operating activities:				
Depreciation		280,605		124,847
Amortisation		441,246		110,910
Gain on investment in an associate		–		(10,012,940)
Share of profit of an associate		(289,361)		(45,656)
Gain on sale of available-for-sale financial investments		(6,915,451)		(4,448,574)
Decrease in term deposits maturing 3-12 months		–		791,639
Increase in receivable from a related party		(7,973,737)		–
Increase in interest receivable		(1,134,216)		(1,758,479)
(Increase) decrease in other assets		(3,586,754)		11,478,506
Decrease (increase) in derivative financial instruments		5,832,085		(6,021,940)
Decrease in customer drafts payable		(2,944,928)		(1,647,466)
Increase (decrease) in other liabilities		783,786		(3,151,599)
Increase in interest payable		1,459,233		902,345
Net cash used in operating activities	$	(6,594,452)	$	(1,062,031)
Investing activities				
Net decrease (increase) in loans and advances to customers		1,177,752		(25,489,620)
Proceeds from sale of available-for-sale financial investments		84,570,923		47,421,660
Proceeds from sale of held-to-maturity financial investments		22,783,327		–
Purchases of available-for-sale financial investments		(119,372,644)		(103,145,460)
Purchases of held-to-maturity financial investments		(30,189,179)		(57,013,401)
Purchases of property and equipment		(3,307,521)		(170,095)
Purchases of goodwill and other intangible assets		(8,288,590)		(1,290,252)
Net cash used in acquisition of an associate		(160,600)		(7,741,858)
Net cash used in investing activities	$	(52,786,532)	$	(147,429,026)
Financing activities				
Net increase in deposits	$	14,345,658	$	119,581,719
Proceeds from exercise of options		–		4,320,000
Net sale (purchase) of treasury stock		51,529		(82,830)
Dividends paid		(1,395,415)		(1,278,417)
Net cash provided by financing activities		13,001,772		122,540,472
Net decrease in cash and cash equivalents		(46,379,212)		(25,950,585)
Cash and cash equivalents, beginning of year		273,293,269		299,243,854
Cash and cash equivalents, end of year	$	226,914,057	$	273,293,269
Operational cash flows from interest and dividends				
Interest paid	$	2,189,436	$	960,112
Interest received	$	17,734,577	$	9,639,211
Dividends received	$	1,059,885	$	469,447

See accompanying notes

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012 (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 ("BMA"). BCB, together with its subsidiaries (collectively "the Bank"), provides banking, custody, asset management, corporate and trustee services. BCB's registered office is at Bermuda Commercial Bank Building, 19 Par-la-Ville Road, Hamilton HM 110, Bermuda.

As at September 30, 2012, an investor group (the "Investor Group"), consisting of the following significant shareholders, held in aggregate, 81.52% (2011: 80.95%) of BCB's common shares:

- Utilico Investments Limited ("Utilico") (35.19%, 2011: 34.94%) – a Bermuda exempted limited liability company listed on the London Stock Exchange;

- Permanent Investments Limited ("Permanent") (32.63%, 2011: 31.62%) – a Bermuda exempted limited liability investment holding company;

- Resimac Limited ("Resimac") (9.97%, 2011: 14.39%) – a limited liability company incorporated in Australia and regulated by the Australian Securities & Investment Commission; and

- ICM Limited ("ICM") (3.73%, 2011: nil%) – a Bermuda based fund manager and corporate finance advisor. ICM is the investment advisor to Utilico and BCB.

During the year ended September 30, 2011, Permanent, the controlling shareholder of BCB at the time, transferred a portion of its shareholding to three of its shareholders, Utilico, Resimac, and Eclectic Investment Company PLC ("Eclectic") (a limited liability company incorporated in the United Kingdom and listed on the Alternative Investment Market of the London Stock Exchange), which became significant shareholders of BCB in their own right. Eclectic subsequently transferred its shareholding to Utilico.

Acquisitions and Amalgamations

During the year, the Bank acquired new subsidiaries and amalgamated with existing subsidiaries. Refer to Note 24 for further details.

On January 11, 2012, BCB Asset Management Limited amalgamated with BCB Fund Services Limited, both wholly owned subsidiaries, bearing the name BCB Asset Management Limited, which now holds the licenses to provide both investment management services and fund administration services in Bermuda.

The consolidated financial statements for the year ended September 30, 2012, were authorised for issue in accordance with a resolution of the directors on December 21, 2012.

2. 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 that have been measured at fair value, and held-to-maturity financial investments that have been measured at amortised cost. 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").

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 transferred to the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity 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 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 21. Certain reclassifications have been made to the 2011 comparative financial information in order to conform to the current year presentation.

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 18.

Investment in an Associate
The Bank's investment in its associate is 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 is 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 is included as income in the determination of the Bank's share of the associate's profit or loss in the period in which the investment is acquired.

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 every reporting year ending December 31, but the associate prepares, for the use of the Bank, financial statements as of September 30. 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 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 associate and its carrying value and recognises the amount in the share of profit 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 upon loss of the significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

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

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

Fair Value of Financial Instruments
Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data 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 23.

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 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 provision should be made due to 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 to the effect of concentrations of risks and economic data (including country risk and the performance of different individual 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 consolidated statement of financial position date and more frequently when conditions warrant an impairment assessment. This requires similar judgment as 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 the 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 and duration and extent to which the fair value of an investment is less than its cost.

Foreign Currency Translation
The consolidated financial statements are presented in United States dollars. The Bank and each of its subsidiaries determine 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 in the consolidated statement of cash flows consist of cash and term deposits which are readily convertible to known amounts of cash, and are subject to an insignificant risk of changes in value, and have original maturities of three months or less. Cash and cash equivalents also include money market funds, which have daily liquidity and 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, i.e., 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 marketplace.

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 at 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 at fair value through profit or loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in the consolidated statement of income.

Financial Assets or Liabilities Held for Trading

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

Derivatives Recorded at Fair Value through Profit or Loss

Derivatives include foreign exchange forward contracts and index and equity option contracts. 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 on financial instruments, such as warrants and conversion options 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 in the trading portfolio.

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

Held-to-Maturity Financial Investments

Held-to-maturity financial investments are those which carry fixed or determinable payments, have fixed maturities and which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the EIR method, less 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 credit loss expense in the consolidated statement of income.

If the Bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

Available-for-Sale Financial Investments

Available-for-sale financial investments include equity investments, debt securities and a portfolio fund. 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 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 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.

The investment in a portfolio fund is initially recorded at cost and then carried at its net asset value ("NAV") per unit at the consolidated financial position date, which represents the fair value of the investment. In addition, investment in a portfolio fund is not subject to any lock-up period.

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 rights to receive cash flows from the asset have expired

- The Bank has transferred substantially all the risks and rewards of the asset

Financial Liabilities

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

Determination of Fair Value

The fair value for financial instruments traded in active markets at the consolidated statement of financial position date is determined based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deductions for transaction costs. For all other financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques.

An analysis of fair values of financial instruments and further details as to how they are measured is provided in Note 23.

Impairment of Financial Assets

The Bank assesses at each consolidated statement of financial position 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, asset's 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, loans and advances to customers and held-to-maturity investments), 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 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 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 consolidated statement of financial position 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 measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised, 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 interest rate 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 the loans and advances or the held-to-maturity classifications. Reclassification to loans and advances 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. Reclassification to held-to-maturity is permitted only when the entity has the ability and intention to hold the financial investment 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.

See Note 5 for details of reclassification of financial investments.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses will not be offset in the consolidated statement of income unless required or permitted by 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. 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 exposure to credit or market risks.

Derivatives are carried at fair value and shown in the consolidated statement of financial position at gross value. These include exchange traded options, warrants and 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 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 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 items. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets, which are up to forty years for building, seven years for equipment, three to five years for computer hardware, and the term of the lease for leasehold improvements.

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

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. 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 as at the acquisition date. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) 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.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. 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 in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

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 is the fair value as 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 5 years
Customer relationships	Up to 15 years

Customer Drafts Payable

Customer drafts payable consists of the balance of un-cashed customer drafts at the consolidated statement of financial position 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 an accrual basis, using the effective interest rate method.

Fees and Commissions
Fees and commissions include fees and commissions earned from banking and custodial services, fund administration, trust, company management, financial, and corporate registrar.

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 an accrual basis. Interest expense is calculated using the effective interest rate method.

Leases
Operating lease payments are recognised as an expense on a straight-line basis over the lease term and are included in other expenses in the consolidated statement of income.

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.

Earnings Per Share
Basic earnings per share ("EPS") is calculated by dividing net income attributable to shareholders by the weighted average number of common shares outstanding during the year. The diluted EPS calculation assumes that stock options are only exercised and converted when the exercise price is below the average market price of the shares. It also assumes that the Bank will use any proceeds to purchase its common shares at their average market price during the year. Consequently, there is no imputed income on the proceeds and weighted average shares are only increased by the difference between the number of options exercised and the number of shares purchased by the Bank.

Treasury Stock
The Bank's own equity acquired by BCB or by any of its subsidiaries (treasury stock) is recognised at cost and deducted from equity. Consideration paid or received on the purchase, sale, issue or cancellation of the Bank's own equity instruments is recognised directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of its own equity instruments.

When the Bank holds its own equity instruments on behalf of its clients, those holdings are not included in the Bank's consolidated statement of financial position.

Income Taxes

BCB and its subsidiaries domiciled in Bermuda are not subject to income tax on the profit or loss for the year in Bermuda. BCB's subsidiaries domiciled in Luxembourg and Mauritius are subject to the tax laws of those jurisdictions. The Bank records income taxes based on the tax rates applicable in the relevant jurisdictions and income taxes of $4,053 (2011: $nil) were recorded in the consolidated financial statements.

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event and 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 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.

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

The accounting policies adopted are consistent with those of the previous financial year. Standards issued, but not yet effective, up to the date of issuance of the Bank's consolidated financial statements 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 intends to adopt these standards when they become effective.

IAS 1	Financial Statement Presentation – Presentation of Items of Other Comprehensive Income
IAS 28	Investments in Associates and Joint Ventures (as revised in 2011)
IAS 32	Financial Instruments – Presentation
IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7
IFRS 9	Financial Instruments – Classification and Measurement
IFRS 10	Consolidated Financial Statements
IFRS 12	Disclosure of Involvement with Other Entities
IFRS 13	Fair Value Measurement

Standards Expected to Have a Significant Effect on the Consolidated Financial Statements

In November 2009, the IASB issued IFRS 9 Financial Instruments which introduced new requirements for the classification and measurement of financial assets. IFRS 9 is the IASB's planned replacement of IAS 39 Financial Instruments: Recognition and Measurement with a less complex and improved standard for financial instruments. The standard is effective for annual periods beginning on or after January 1, 2015. IFRS 9 is subject to European Union endorsement, the timing of which is uncertain. The impact of IFRS 9 may also change as a consequence of further developments resulting from the IASB's project to replace IAS 39. The Bank continues to monitor developments relating to IFRS 9 but in the absence of a finalised standard it is not practical to quantify the impact of IFRS 9 on the Bank's consolidated financial statements.

Early Adoption

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

3. Cash, Money Market Funds and Term Deposits

Cash, money market funds and term deposits include:

	2012	2011
Cash and demand deposits	$ 36,791,170	$ 22,737,778
Money market funds	–	5,000,000
Term deposits:		
Deposits maturing within 1 month	190,122,887	245,422,917
Deposits maturing 1-3 months	–	132,574
Total term deposits	190,122,887	245,555,491
Total	$ 226,914,057	$ 273,293,269

The average effective yields earned were as follows:

	2012	2011
Cash and demand deposits with other banks	0.70%	0.24%
Money market funds	0.23%	0.27%
Term deposits	0.17%	0.32%

4. Derivative Financial Instruments

Derivatives often involve at their inception only a mutual exchange of promises 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 profit or loss 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 21).

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.

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 the Bank 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 (2011: equity options).

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 indicative of neither the market risk nor the credit risk.

	2012			2011		
	ASSETS	LIABILITIES	NOTIONAL AMOUNT	ASSETS	LIABILITIES	NOTIONAL AMOUNT
Foreign exchange forward contracts	$ –	$ 4,541,914	$ 165,105,176	$ 4,863,529	$ –	$ 148,978,442
Index option contracts	4,251,000	–	54,250,000	–	–	–
Equity option contracts	424,245	–	6,666,531	1,868,810	–	10,263,378
Warrants	766,923	–	–	–	–	–
Total	$ 5,442,168	$ 4,541,914	$ 226,021,707	$ 6,732,339	$ –	$ 159,241,820

At September 30, 2012, the net cost of the derivatives amounted to $8,203,343 (2011: $1,776,144).

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:

	2012	2011
Corporate debt securities	$ 42,515,821	$ 43,210,211
Debt securities issued by banks	32,773,279	23,666,122
Asset-backed securities	32,621,588	7,452,583
Equities	27,195,270	13,696,518
Portfolio funds	10,537,000	–
	$ 145,642,958	$ 88,025,434

At September 30, 2012, the cost of available-for-sale financial investments amounted to $137,987,333 (2011: $97,910,500).

Held-to-Maturity Financial Investments

The amortised cost of held-to-maturity financial investments by major classifications of financial investments at September 30 were as follows:

	2012	2011
Corporate debt securities	$ 56,702,008	$ 51,123,762
Debt securities issued by banks	34,937,091	42,830,359
Asset-backed securities	16,105,857	6,541,425
Government debt securities	3,375,133	3,465,793
	$ 111,120,089	$ 103,961,339

At September 30, 2012, the fair value of held-to-maturity financial investments amounted to $110,234,807 (2011: $90,339,801).

During the year, the Bank sold held-to-maturity financial investments with an amortised cost of $5,539,104 (2011: $nil). Of this amount, $3,259,008 was sold to a related party, BCB Bond Fund Limited (refer to Note 18) and the remaining $2,280,096 was sold to a third party. Management believes that the sale of such held-to-maturity financial investments did not result in the tainting of the portfolio, as the sale was not more than insignificant and within the criteria prescribed by IAS 39, allowing the sale of such investments.

Reclassification of Financial Investments

In the prior year, the Bank reclassified available-for-sale financial investments with a fair value of $49,440,480 (cost: $48,258,387) and unrealised gain of $1,182,093 to the held-to-maturity category as of April 1, 2011, as permitted by IAS 39 and explained in Note 2. As of September 30, 2012, the unamortised portion of the unrealised gain amounting to $835,986 (2011: $1,083,088) was recorded as reserve for available-for-sale reclassified to held-to-maturity in the consolidated statement of financial position. The amortised portion of the unrealised gain amounting to $247,102 (2011: $99,005) was recorded as net loss on held-to-maturity financial investments in the consolidated statement of comprehensive income.

This reclassification was made to better align the accounting with the business intent and model of holding these securities for the foreseeable future for the express purpose of obtaining their contractual cash flows of principal, and interest on principal, rather than realise their fair value change from sale prior to their contractual maturity.

Impairment Losses on Financial Investments

During the year, the Bank recognised impairment losses as follows:

	2012	2011
Available-for-sale financial investments		
Equities	$ 2,063,291	$ –
Debt securities issued by banks	–	2,489,900
	$ 2,063,291	$ 2,489,900

6. Loans and Advances to Customers

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

	2012			2011		
	GROSS	ALLOWANCE	NET	GROSS	ALLOWANCE	NET
Commercial overdrafts	$ 18,355,735	$ –	$ 18,355,735	$ 10,579,864	$ –	$ 10,579,864
Commercial loans	15,320,258	–	15,320,258	24,332,065	–	24,332,065
Consumer mortgage loans	388,925	50,000	338,925	379,429	50,000	329,429
Credit cards	118,470	–	118,470	76,775	–	76,775
Others	25,380	–	25,380	18,387	–	18,387
Total	$ 34,208,768	$ 50,000	$ 34,158,768	$ 35,386,520	$ 50,000	$ 35,336,520

Allowance for loan losses consists of:

	2012	2011
Balance at beginning of year	$ 50,000	$ 148,757
Credit loss during the year	–	30,000
Credit loss recovery during the year	–	(128,757)
	$ 50,000	$ 50,000

In the prior year, the Bank also recovered $112,688 from previously written off interest on loans and advances to customers, which was recorded under credit loss recovery income in the consolidated statement of income.

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

2012	WITHIN 1 YEAR	1-5 YEARS	5-10 YEARS	MORE THAN 10 YEARS	IMPAIRED	TOTAL
Commercial overdrafts	$ 18,355,735	$ –	$ –	$ –	$ –	$ 18,355,735
Commercial loans	797,062	5,673,879	8,849,317	–	–	15,320,258
Consumer mortgage loans	–	237,114	151,811	–	–	388,925
Credit cards	118,470	–	–	–	–	118,470
Others	11,420	13,960	–	–	–	25,380
Total	$ 19,282,687	$ 5,924,953	$ 9,001,128	$ –	$ –	$ 34,208,768

2011	WITHIN 1 YEAR	1-5 YEARS	5-10 YEARS	MORE THAN 10 YEARS	IMPAIRED	TOTAL
Commercial overdrafts	$ 10,579,864	$ –	$ –	$ –	$ –	$ 10,579,864
Commercial loans	–	10,264,089	14,067,976	–	–	24,332,065
Consumer mortgage loans	–	237,879	141,550	–	–	379,429
Credit cards	76,775	–	–	–	–	76,775
Others	9,551	8,836	–	–	–	18,387
Total	$ 10,666,190	$ 10,510,804	$ 14,209,526	$ –	$ –	$ 35,386,520

The average effective yields earned were as follows:

	2012	2011
Commercial loans	3.45%	9.66%
Commercial overdrafts	5.28%	4.30%
Credit cards:		
Executive level	12.00%	–
Client level	14.50%	–

Yields are not provided for consumer mortgage loans as these products are in run-off. No comparative yields are available for credit cards as these products were introduced in 2012.

7. Investments in Associates

In August 2012, as a result of an increase in ownership and its significant influence, the Bank reclassified its interest in Westhouse Holdings PLC ("Westhouse"), an integrated corporate finance and broking house based in London, from available-for-sale financial investments to investment in an associate. In September, the Bank disposed of this investment to a related company, Bermuda National Limited ("BNL"), for a consideration of $7,973,737, which remained receivable at year-end. This disposal price is equal to the original cost of the investment to the Bank.

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, in which space is generally let under short to long-term commercial leases and leases parking spaces on a short-term basis in a multi-story parking facility on Pitts Bay Road.

In 2011, as a result of the increase in ownership and its significant influence, the Bank reclassified its interest in West Hamilton from available-for-sale financial investments to investment in an associate, and accounted for this investment using the equity method. Upon acquisition of the investment, $10,012,940, representing the excess of the Bank's share of the net fair value of the associate's identifiable assets and liabilities of $17,754,798 over the cost of the total investment of $7,741,858, was reported under gain on investment in an associate in the consolidated statement of income.

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

	2012	2011
Balance at beginning of year	1,179,020	–
Purchases during the year	25,400	143,740
Exercise of rights during the year	–	1,035,280
Sales during the year	–	–
Balance at end of year	1,204,420	1,179,020

At September 30, 2012, the Bank had a 41.71% (2011: 40.83%) interest in West Hamilton.

The following table illustrates the summarised financial information of the Bank's investment in West Hamilton as of September 30:

		2012		2011
Associate's consolidated statement of financial position:				
Current assets	$	2,488,132	$	9,526,008
Non-current assets*		51,809,531		52,472,785
Current liabilities		(210,340)		(343,343)
Non-current liabilities		(10,368,846)		(17,486,588)
Equity	$	43,718,477	$	44,168,862
Associate's consolidated profit:				
Revenue	$	2,052,707	$	1,586,491
Expenses		(1,271,735)		(1,287,425)
Net profit	$	780,972	$	299,066
Carrying amount of the investment	$	18,327,628	$	17,800,454

*This amount includes $49.19 million (2011: $49.19 million) representing the fair value of the commercial properties and multi-storey parking facility. In 2011, management's estimate of fair value was based on a 2011 external valuation report taking into consideration a discount for market illiquidity, foreign ownership restrictions and other downside risks. In 2012, in addition to the 2011 external valuation report, management's estimate of fair value was also based on its own assessment of West Hamilton's 2012 tenancy and accommodation information.

8. Property and Equipment

2012

		EQUIPMENT		LEASEHOLD IMPROVEMENTS		LAND		BUILDING		TOTAL
Cost										
Beginning of year	$	833,891	$	485,888	$	–	$	–	$	1,319,779
Additions		430,206		79,540		993,300		1,806,700		3,309,746
Disposals		–		(2,225)		–		–		(2,225)
End of year		1,264,097		563,203		993,300		1,806,700		4,627,300
Accumulated depreciation										
Beginning of year		503,493		410,163		–		–		913,656
Disposals		–		–		–		–		–
Depreciation charge for the year		223,004		12,434		–		45,167		280,605
End of year		726,497		422,597		–		45,167		1,194,261
Net book value at end of year	$	537,600	$	140,606	$	993,300	$	1,761,533	$	3,433,039

8. Property and Equipment (continued)

2011	EQUIPMENT	LEASEHOLD IMPROVEMENTS	LAND	BUILDING	TOTAL
Cost					
Beginning of year	$ 1,146,085	$ 422,368	$ –	$ –	$ 1,568,453
Additions	106,575	63,520	–	–	170,095
Disposals	(418,769)	–	–	–	(418,769)
End of year	833,891	485,888	–	–	1,319,779
Accumulated depreciation					
Beginning of year	800,155	407,423	–	–	1,207,578
Disposals	(418,769)	–	–	–	(418,769)
Depreciation charge for the year	122,107	2,740	–	–	124,847
End of year	503,493	410,163	–	–	913,656
Net book value at end of year	$ 330,398	$ 75,725	$ –	$ –	$ 406,123

9. Goodwill and Other Intangible Assets

2012	COMPUTER SOFTWARE	CUSTOMER RELATIONSHIPS	GOODWILL	TOTAL
Cost				
Beginning of year	$ 4,080,361	$ –	$ –	$ 4,080,361
Additions	1,456,522	4,154,402	2,723,371	8,334,295
Disposals	(45,705)	–	–	(45,705)
End of year	5,491,178	4,154,402	2,723,371	12,368,951
Accumulated amortisation				
Beginning of year	1,921,601	–	–	1,921,601
Disposals	–	–	–	–
Amortisation charge for the year	164,442	276,804	–	441,246
End of year	2,086,043	276,804	–	2,362,847
Net book value at end of year	$ 3,405,135	$ 3,877,598	$ 2,723,371	$ 10,006,104

2011	COMPUTER SOFTWARE	CUSTOMER RELATIONSHIPS	GOODWILL	TOTAL
Cost				
Beginning of year	$ 2,836,585	$ –	$ –	$ 2,836,585
Additions	1,290,252	–	–	1,290,252
Disposals	(46,476)	–	–	(46,476)
End of year	4,080,361	–	–	4,080,361
Accumulated amortisation				
Beginning of year	1,857,167	–	–	1,857,167
Disposals	(46,476)	–	–	(46,476)
Amortisation charge for the year	110,910	–	–	110,910
End of year	1,921,601	–	–	1,921,601
Net book value at end of year	$ 2,158,760	$ –	$ –	$ 2,158,760

Customer relationships are initially recorded at the net present value of the 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 Paragon Trust Ltd ("Paragon") and Charter Corporate Services Ltd ("Charter") in October 2011. This amount is amortised on a straight-line basis over the expected life span of positive net cash flows.

The Bank also recognised $2,723,371 in goodwill from the acquisition of Paragon and Charter in October 2011 (refer to Note 24 for further details). 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. Based on the assessment performed as of September 30, 2012, management determined that no impairment write-down was necessary.

10. Other Assets

		2012		2011
Receivables for investments sold pending settlement	$	2,516,690	$	261,493
Accrued income		1,494,941		404,206
Prepayments		772,393		531,571
Total	$	4,784,024	$	1,197,270

11. Deposits

		2012		2011
Demand deposits	$	207,025,252	$	259,307,638
Term deposits:				
Deposits maturing within 1 month		106,981,836		87,588,745
Deposits maturing – 1-3 months		52,874,340		20,353,300
Deposits maturing – 3-12 months		26,473,287		16,393,659
Deposits maturing – 1-5 years		64,180,642		59,546,357
		250,510,105		183,882,061
Total	$	457,535,357	$	443,189,699

The average effective rates paid were as follows:

	2012	2011
Term deposits based on book values and contractual interest rates	1.43%	1.24%
Demand deposits	0.04%	0.03%

12. Other Liabilities

		2012		2011
Payables for financial investments purchased	$	92,640	$	208,852
Accounts payable		249,136		204,947
Accrued liabilities		1,827,947		972,138
Total	$	2,169,723	$	1,385,937

13. Equity

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

	AUTHORISED SHARES		PAR VALUE	ISSUED & FULLY PAID SHARES		PAR VALUE		SHARE PREMIUM
Balance at October 1, 2010	10,000,000	$	24,000,000	6,352,687	$	15,246,449	$	19,847,690
Exercise of 700,000 options	–		–	700,000		1,680,000		2,640,000
Balance at September 30, 2011	10,000,000		24,000,000	7,052,687		16,926,449		22,487,690
Cancellation of treasury stock	–		–	(49,369)		(118,486)		(356,502)
Balance at September 30, 2012	10,000,000	$	24,000,000	7,003,318	$	16,807,963	$	22,131,188

Options to acquire common shares were purchased by the Bank's controlling shareholder group in 2010. The options outstanding as at September 30, 2012 and 2011 were as follows:

ISSUE DATE	NUMBER OF OPTIONS		EXERCISE PRICE	EXERCISE PERIOD
December 2000	500,000	$	5.6972	January 1, 2003 through December 31, 2012

During the year ended September 30, 2012, no options (2011: 700,000 options) were exercised.

Treasury Stock

	2012			2011		
	NUMBER OF SHARES		AMOUNT	NUMBER OF SHARES		AMOUNT
Balance at beginning of year	53,457	$	526,517	44,873	$	443,687
Purchase of treasury stock	2,111		23,471	23,000		230,650
Sale of treasury stock	(6,199)		(75,000)	(14,416)		(147,820)
Cancellation of treasury stock	(49,369)		(474,988)	–		–
Balance at end of year	–	$	–	53,457	$	526,517

Regulatory Capital

The BMA adopts the Basel II Accord which calls for additional and more detailed disclosures and risk management. Under Basel II, and in agreement with the BMA, all banks in Bermuda are required to maintain higher Tier 1 and total regulatory capital ratios than previously required under Basel I. The BMA assesses the risk of each 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, 2012, the Bank's Tier 1 and total regulatory capital ratios of 26.42% (2011: 31.92%) and 23.34% (2011: 27.08%) respectively, exceeded the prescribed limits.

Capital Management

The Bank maintains 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.

14. Earnings Per Share

The following tables present the computation of basic and diluted earnings per share:

2012					
		NET EARNINGS	WEIGHTED AVERAGE SHARES		EARNINGS PER SHARE
Basic earnings per share					
Net income	$	7,453,040	7,051,877	$	1.06
Add: Incremental shares from assumed exercise of stock options (Note 13)			245,783		
Adjusted weighted average shares outstanding			7,297,660		
Diluted earnings per share					
Net income	$	7,453,040	7,297,660	$	1.02

2011					
		NET EARNINGS	WEIGHTED AVERAGE SHARES		EARNINGS PER SHARE
Basic earnings per share					
Net income	$	12,616,376	6,580,085	$	1.92
Add: Incremental shares from assumed exercise of stock options (Note 13)			209,342		
Adjusted weighted average shares outstanding			6,789,427		
Diluted earnings per share					
Net income	$	12,616,376	6,789,427	$	1.86

15. Dividends

		2012		2011
Dividends on Common Shares:				
Declared and paid: November 2011 (2012: $0.10 per common share; 2011 - $0.10 per common share)	$	694,972	$	623,411
Declared and paid: March 2012 (2012: $0.10 per common share; 2011 - $0.10 per common share)		700,443		655,006
Total	$	1,395,415	$	1,278,417

16. Fees and Commissions

		2012		2011
Corporate services	$	2,267,095	$	1,363,070
Trust		1,350,761		250,311
Banking services		883,214		985,635
Underwriting (Note 18)		–		104,142
Total	$	4,501,070	$	2,703,158

17. General and Administrative Expenses

		2012		2011
Rent and premises	$	982,145	$	867,577
Advertising and marketing		516,328		571,615
Professional fees		440,526		379,542
Information technology and systems		690,727		634,287
Banking services and license		812,167		714,903
Investment advisory fees		1,018,073		492,466
Board costs (Note 18)		205,416		207,029
Administrative		1,569,037		999,987
	$	6,234,419	$	4,867,406

18. Related-Party Disclosures

As at September 30, 2012, the Investor Group held in aggregate, 81.52% (2011: 80.95%) of the Bank's common shares. Details of the Investor Group are disclosed in Note 1.

Investment Advisor Agreement

In 2010, the Bank entered into an investment advisor agreement with a related party, ICM Limited, which remains in force until terminated by the Bank's Asset and Liability Committee (the "Bank's ALCO") or the Investment Advisor upon giving the other party not less than three months written notice of termination or such lesser period of notice as the Bank's ALCO and the Investment Advisor 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 Advisor by the Bank's ALCO.

In addition, under the terms of the agreement, the Investment Advisor, having regard to the Bank's investment objective, provides investment advisory services to the Bank, for which ICM Limited shall have no entitlement to fees. However, depending upon the performance of the portfolio, the Bank's ALCO may, in its sole discretion, determine that the Investment Advisor ought to receive a payment on account of the services provided. The Investment Advisor 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 (including amount) to the Bank's ALCO.

In February 2012, the Bank and the Investment Advisor entered into a Variation Agreement whereby the Bank agreed to pay the Investment Advisor 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, 2012, such fees amounted to $918,073 (2011: $382,466) of which $40,000 remained payable at year-end (2011: $132,000). In addition, pursuant to a consultancy agreement, a fee of $100,000 (2011: $110,000) was paid to the Investment Advisor for its consultancy services.

Related-Party Transactions with the Investor Group and the Investor Group's Related Parties

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

For the year ended September 30, 2012, the Bank earned interest and fees of approximately $1,188,168 (2011: $822,592) for banking services provided to such related parties.

At September 30, 2012, total loans and advances given to such related parties amounted to $26,383,699 (2011: $11,802,562), of which $18,159,381 (2011: $11,802,562) was unsecured and $8,224,318 (2011: $nil) was secured by the related parties' cash and portfolio assets managed/custodied by the Bank. There have been no guarantees provided or received for the unsecured related party transactions. For the years ended September 30, 2012 and 2011, the Bank has not made any provision for doubtful debts relating to amounts owed by such related parties.

At September 30, 2012, deposit balances of such related parties with the Bank amounted to $5,222,952 (2011: $693,554).

At September 30, 2012, the Bank had investments in asset-backed securities in Resimac Triomphe Trust, a standalone residential mortgage backed entity managed, but not controlled, by Resimac totaling $12,715,500 (2011: $6,541,425). These asset-backed securities were recorded in the consolidated statement of financial position within held-to-maturity financial investments.

During the year ended September 30, 2010, the Bank entered into a call option deed with the Investor Group, whereby, in consideration for an option fee paid by The Investor Group in the amount of $1 and upon exercise of the call option by The Investor Group, the Bank agreed to sell to the Investor Group its investment in corporate debt securities for a price equivalent to cost plus an annualized rate of 10%. The option period expired on December 30, 2011. This investment in corporate debt securities was recorded in the consolidated statement of financial position within available-for-sale financial investments at fair value and cost of $nil (2011: $5,000,000).

During the year, the Bank made an investment in an investment portfolio fund that is related to the Bank by way of a common investment advisor, ICM Limited. This investment was recorded in the Bank's consolidated statement of financial position within available-for-sale financial investments at fair value of $10,537,000 (2011: $nil). During the year, the Bank sold securities to this fund at their fair value of $7,135,854 (2011: $nil).

As disclosed in Note 7, during the year, the Bank disposed of its investment in Westhouse to BNL I Limited. Details of BNL I Limited are disclosed in Note 25.

During the prior year, the Bank was engaged by West Hamilton to underwrite West Hamilton's rights offering and received underwriting fees of $104,142 from West Hamilton for this service.

Transactions with Directors

Total directors' fees for the year ended September 30, 2012, amounted to $205,416 (2011: $207,029). The Bank provides banking services to directors under the same terms as an unrelated party would receive. At September 30, 2012, directors and parties associated with directors had deposit balances with the Bank of $1,366,287 (2011: $956,102). At September 30, 2012, total loans and advances given to directors amounted to $77,183 (2011: $nil).

Compensation of Key Management Personnel of the Bank

The Bank classifies the directors of the Bank as the key management personnel. For the year ended September 30, 2012, total compensation of key management personnel amounted to $575,587 (2011: $429,422), excluding the directors' fees.

Principal Subsidiary Undertakings

NAME	LOCATION
BCB Charter Corporate Services Limited	Bermuda
BCB Nominee Services Limited*	Bermuda
BCB Paragon Trust Company Limited	Bermuda
BCB (Mauritius) Limited	Mauritius
BCB Paragon Holdings Limited*	Bermuda
Trinity Property Holdings, Ltd*	Bermuda
Paragon Holdings (Cayman) Ltd*	Cayman Islands
BCB Luxembourg	Luxembourg
BCB Asset Management Limited	Bermuda
BCB Property Holdings Limited	Bermuda
Bermuda Commercial Bank Charitable Foundation Limited	Bermuda
BCB Resource Fund Limited	Bermuda
BCB Management Limited	Bermuda
BCB Management Services Limited	Bermuda
Bercom Nominees Limited	Bermuda
VT Strategies Limited	Bermuda

*Wholly owned subsidiary of the Bank through indirect investment. Refer to Note 24 for further information.

As at September 30, 2012 and 2011, all subsidiaries were wholly owned by BCB. All of the above subsidiaries are included in the Bank's consolidated financial statements.

19. 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 any probationary period 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 2012 amounted to $310,356 (2011: $206,080).

20. Commitments and Contingent Liabilities

In September 2006, the Bank moved premises and entered into a premises lease. The lease expires on September 30, 2014.

Future minimum rental payables under the operating lease as at September 30 were as follows:

	2012	2011
Within one year	$ 526,456	$ 585,978
After one year but not more than five years	526,456	–
More than five years	–	–
	$ 1,052,912	$ 585,978

The Bank is contingently liable for letters of credit, which are fully matched by offsetting customer deposits in the amount of $3,340,000 (2011: $880,000).

21. 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, market risk and liquidity risk. The Bank manages risk through a set of formal processes that includes controls, policies, reporting and review.

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability or unwillingness to fulfill its payment obligations. Credit risk may arise directly from claims against an issuer of securities, or indirectly from claims against a guarantor of credit obligations.

Market Risk

Investments in securities are exposed to market risk, which is the risk of a financial loss resulting from unfavourable changes in equity prices, commodity prices and market volatility.

Liquidity Risk

Liquidity risk is the risk that the Bank may be unable to generate or obtain sufficient funds in a timely and cost-effective manner to meet its commitments as they come due.

Risk Management

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 overall risk management and sets the level of risk tolerance through policy. It delegates authority for implementing risk control activities to board and management committees.

Business Risk, Asset & Liability Committee ("BRALCO")

BRALCO is a committee of the Board that oversees the work of the management committees, provides policy level direction and assesses performance of the risk management framework. BRALCO also reviews the overall performance of the investment portfolio and evaluates investment advisors and agreements.

Management Asset & Liability Committee ("MALCO")

MALCO is a management committee focused on fiscal risk matters; in particular, it reviews investment management activities closely. Liquidity and concentration risk issues, as well as setting margin targets, are also handled by MALCO. This committee also manages the fiscal risk elements of the Bank's Capital Adequacy & Risk Profile ("CARP") and Basel II submissions to the BMA. The Bank's transition to Basel III is being managed by MALCO.

Audit Committee
The Audit Committee is a committee of the Board and is chaired by a senior independent director. It provides oversight and direction for internal audit functions and manages the relationship with the Bank's external auditors. It reviews the results of both audit programmes and the progress of work undertaken to correct risk issues. It agrees with the annual financial report, and also acts as the point of contact for whistleblowers.

Operational Risk Committee ("ORC")
The ORC is focused on operational risk matters; systems, processes, controls, and procedures. It maintains the operational risk register, reviews risk incidents, and manages work to address or mitigate risk incidents.

Credit Committee
The Credit Committee reviews all requests for lending and may approve, decline, or return request packages for further review. The Credit Committee looks at the entire loan request package and evaluates the credit risk, compliance matters, and the entirety of the client relationship as a whole.

Related-Party & Conflicts Committee
In order to manage the risks of conflicts of interest, transactions with related parties are reviewed by the Related-Party and Conflicts Committee. The role of this Board committee is to ensure that transactions with related parties, where a conflict of interest may arise, are handled on commercial terms and at an arm's length. It is chaired by an independent director.

Human Resources, Compensation & Conduct Committee
This Board committee reviews and approves compensation as a whole for all staff, and specifically for senior executives.

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 Credit Committee and approved by MALCO. The maximum amount that may be deposited with any single bank or money market fund is governed by a number of controlling variables including the Standard and Poor's, Moody's and Fitch rating 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 placing deposits or investments. These limits are reviewed periodically and will be adjusted as the capital of the Bank changes or the rating of a counterparty bank or money market fund goes below the rating levels identified above.

The limits within which MALCO operates are set by the Board and reviewed by the BMA. The BMA has set large exposure limits for managing counterparty risk. As at September 30, 2012, the Bank's current counterparty exposure limits are $35 million for approved banks (those rated higher than A-/A3, and that possess a Tier 1 capital ratio of 9% or greater) and 20% (2011: 25%) of the Bank's capital for money market funds.

Liquidity Risk and Funding Management
Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis.

The Bank maintains significant balances of short maturing interbank deposits along with a portfolio of highly marketable and diverse assets assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank's liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and 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. 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.

	2012					
	WITHIN 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	TOTAL
Assets						
Cash, money market funds and term deposits						
Cash and due on demand	$ 36,791,170	$ –	$ –	$ –	$ –	$ 36,791,170
Money market funds	–	–	–	–	–	–
Term deposits	190,122,887	–	–	–	–	190,122,887
Receivable from a related party	–	7,973,737	–	–	–	7,973,737
Interest receivable	841,217	1,472,129	1,892,737	–	–	4,206,083
Other assets	2,516,690	1,574,207	693,127	–	–	4,784,024
Loans and advances to customers	18,478,066	801,897	2,723	6,549,952	8,326,130	34,158,768
Available-for-sale financial investments	27,195,270	13,554,748	2,000,000	21,576,235	81,316,705	145,642,958
Held-to-maturity financial investments	2,076,000	–	9,892,172	43,913,023	55,238,894	111,120,089
Derivative financial instruments	–	–	–	5,180,415	261,753	5,442,168
Property and equipment	–	–	–	614,926	2,818,113	3,433,039
Goodwill and other intangible assets	–	–	–	3,405,135	6,600,969	10,006,104
Investment in an associate	–	–	–	–	18,327,628	18,327,628
	$ 278,021,300	$ 25,376,718	$ 14,480,759	$ 81,239,686	$ 172,890,192	$ 572,008,655
Liabilities						
Deposits						
Demand deposits	$ 207,025,251	$ –	$ –	$ –	$ –	$ 207,025,251
Term deposits	106,981,836	52,874,340	26,473,287	64,180,643	–	250,510,106
Customer drafts payable	591,887	–	–	–	–	591,887
Derivative financial instruments	3,619,693	922,221	–	–	–	4,541,914
Other liabilities	1,915,623	254,100	–	–	–	2,169,723
Interest payable	724,112	482,741	1,206,854	–	–	2,413,707
	320,858,402	54,533,402	27,680,141	64,180,643	–	467,252,588
Net assets (liabilities)	$ (42,837,102)	$ (29,156,684)	$ (13,199,382)	$ 17,059,043	$ 172,890,192	$ 104,756,067

2011	WITHIN 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	TOTAL
Assets						
Cash, money market funds and term deposits						
Cash and due on demand	$ 22,737,778	$ –	$ –	$ –	$ –	$ 22,737,778
Money market funds	–	–	5,000,000	–	–	5,000,000
Term deposits	245,422,917	132,574	–	–	–	245,555,491
Interest receivable	671,919	1,049,977	1,349,971	–	–	3,071,867
Other assets	815,164	153,995	228,111	–	–	1,197,270
Available-for-sale financial investments	13,696,518	1,384,099	–	28,670,141	44,274,676	88,025,434
Loans and advances to customers	10,656,862	343	8,985	10,460,804	14,209,526	35,336,520
Held-to-maturity financial investments	–	–	1,683,155	40,151,784	62,126,400	103,961,339
Derivative financial instruments	4,733,749	129,780	–	1,709,014	159,796	6,732,339
Property and equipment	–	–	–	332,623	73,500	406,123
Goodwill and other intangible assets	–	–	–	2,158,760	–	2,158,760
Investment in an associate	–	–	–	–	17,800,454	17,800,454
	$ 298,734,907	$ 2,850,768	$ 8,270,222	$ 83,483,126	$ 138,644,352	$ 531,983,375
Liabilities						
Deposits						
Demand deposits	$ 259,307,638	$ –	$ –	$ –	$ –	$ 259,307,638
Term deposits	87,588,745	20,353,300	16,393,659	59,546,357	–	183,882,061
Customer drafts payable	3,536,815	–	–	–	–	3,536,815
Other liabilities	1,344,580	36,974	4,383	–	–	1,385,937
Interest payable	286,342	190,895	477,237	–	–	954,474
	352,064,120	20,581,169	16,875,279	59,546,357	–	449,066,925
Net assets (liabilities)	$ (53,329,213)	$ (17,730,401)	$ (8,605,057)	$ 23,936,769	$ 138,644,352	$ 82,916,450

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. The Bank has adopted a predominantly matched book approach with its asset and liability management which significantly reduces the Bank's interest rate risk. The Board has established limits on interest rate gaps over different time horizons and positions are monitored on a daily basis.

Interest rate movements cause changes in interest income and interest expense and, although these changes move in the same direction, their relative magnitude will favourably or unfavourably 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 low interest rate environment and the current 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 profit and loss and on the amount of equity. At September 30, 2012 and 2011, the US Federal Funds rate, a key driver of the Bank's interest income ranged between 0 – 0.25%. 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 reasonable 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 the profit or loss for the year, based on the floating rate financial assets and financial liabilities held at September 30.

	2012		2011	
25-basis-point increase in interest rates				
Impact on profit (for the next 12 months)	$	398,933	$	398,691
Impact on equity (for the next 12 months)	$	(983,944)	$	(764,557)
25-basis-point decrease in interest rates				
Impact on profit (for the next 12 months)	$	(94,175)	$	(110,446)
Impact on equity (for the next 12 months)	$	1,288,701	$	1,052,801

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, 2012, would have increased profit and equity by $506,009 (2011: $937,804). An equivalent decrease 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, 2012, would have increased equity by $2,719,527 (2011: $1,369,652). An equivalent decrease would have resulted in an equivalent but opposite impact.

22. Segment Information

For management purposes, the Bank is organised into five business segments:

Banking Services

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

Investment Management

Customer funds deposited with the Bank are invested in a diversified portfolio of financial investments to obtain the maximum possible returns for the minimum necessary risk.

Corporate Services

The Corporate Services segment provides company management, asset management, corporate registrar, financial, and custody services to third parties as well as to the Bank's other segments.

Trust

The Trust segment provides trust administration services to third parties.

General and Administrative

Operating expenses including finance and other central functions that are not directly attributable to other business segments 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 profit or loss.

The Bank operates in a single jurisdiction, Bermuda, and therefore no geographical information is presented. The Bank has subsidiaries in Luxembourg, Cayman Islands and Mauritius, but does not offer banking or other services in these jurisdictions. The assets, liabilities and results of these entities are incorporated into the segment information. No single customer accounted for 10% or more of the Bank's revenues in 2012 or 2011.

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

2012	BANKING SERVICES	INVESTMENT MANAGEMENT	CORPORATE SERVICES	TRUST	GENERAL & ADMINISTRATIVE	ELIMINATION OF INTER-SEGMENT AMOUNTS	TOTALS
Net interest income from external customers	$ (1,157,253)	$ 16,376,524	$ 853	$ –	$ –	$ –	$ 15,220,124
Fees and other income from external customers	987,351	532,991	2,297,234	1,350,761	–	–	5,168,337
Losses on derivative financial instruments	–	(3,752,725)	–	–	–	–	(3,752,725)
Gain on sale of available-for-sale financial investments	–	7,858,090	–	–	–	–	7,858,090
Impairment losses	–	(2,063,291)	–	–	–	–	(2,063,291)
Inter-segment fees and other income	–	–	60,103	–	–	(60,103)	–
Total income	(169,902)	18,951,589	2,358,190	1,350,761	–	(60,103)	22,430,535
Depreciation	(107,249)	–	(13,000)	–	(160,356)	–	(280,605)
Amortisation	–	–	(138,402)	(138,402)	(164,442)	–	(441,246)
Operating expenses	(5,171,843)	(1,293,092)	(2,316,971)	(1,319,716)	(4,214,125)	60,103	(14,255,644)
Net income	$ (5,448,994)	$ 17,658,497	$ (110,183)	$ (107,357)	$ (4,538,923)	$ –	$ 7,453,040
Segment assets	$ 261,003,282	$ 304,126,558	$ 4,742,514	$ 7,139,733	$ 6,476,520	$ (11,479,952)	$ 572,008,655
Segment liabilities	$ 468,984,998	$ 4,634,554	$ 490,517	$ 236,418	$ 2,949,109	$ (10,043,008)	$ 467,252,588

2011	BANKING SERVICES	INVESTMENT MANAGEMENT	CORPORATE SERVICES	TRUST	GENERAL & ADMINISTRATIVE	ELIMINATION OF INTER-SEGMENT AMOUNTS	TOTALS
Net interest income from external customers	$ 262,317	$ 9,272,916	$ –	$ –	$ –	$ –	$ 9,535,233
Fees and other income from external customers	1,297,651	(754,407)	1,391,827	250,311	–	–	2,185,382
Losses on derivative financial instruments	–	(1,050,230)	–	–	–	–	(1,050,230)
Gain on sale of available-for-sale financial investments	–	4,448,574	–	–	–	–	4,448,574
Gain on investment in an associate	–	10,012,940	–	–	–	–	10,012,940
Impairment losses	–	(2,489,900)	–	–	–	–	(2,489,900)
Inter-segment fees and other income	–	–	69,074	–	–	(69,074)	–
Total income	1,559,968	19,439,893	1,460,901	250,311	–	(69,074)	22,641,999
Depreciation	(57,918)	–	(7,583)	–	(59,346)	–	(124,847)
Amortisation	–	–	–	–	(110,910)	–	(110,910)
Operating expenses	(3,781,128)	(688,879)	(1,526,196)	(267,825)	(3,594,912)	69,074	(9,789,866)
Net income	$ (2,279,078)	$ 18,751,014	$ (72,878)	$ (17,514)	$ (3,765,168)	$ –	$ 12,616,376
Segment assets	$ 309,494,672	$ 219,780,974	$ 475,631	$ 384,795	$ 2,241,274	$ (393,971)	$ 531,983,375
Segment liabilities	$ 457,212,208	$ 208,852	$ 83,263	$ 62,963	$ 28,351	$ (8,528,712)	$ 449,066,925

23. Financial Instruments

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

Level 1: quoted (unadjusted) prices in active markets for identical financial instruments;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Financial Instruments Recorded at Fair Value

Derivative Financial Instruments

The Bank's derivative financial instruments 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 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 binomial model for options. The model incorporates various unobservable assumptions that include the market rate volatilities.

Available-for-Sale Financial Investments

Available-for-sale financial assets 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 assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

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

2012	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets				
Derivative financial instruments				
Forward foreign exchange contracts	$ –	$ –	$ –	$ –
Exchange-traded index option contracts	4,251,000	–	–	4,251,000
Equity option contracts	–	–	424,245	424,245
Warrants	–	–	766,923	766,923
	4,251,000	–	1,191,168	5,442,168
Available-for-sale financial investments				
Corporate debt securities	28,718,238	3,588,729	10,208,854	42,515,821
Debt securities issued by banks	20,382,331	12,390,948	–	32,773,279
Asset-backed securities	–	5,961,997	26,659,590	32,621,587
Equity	23,945,271	–	3,250,000	27,195,271
Portfolio funds	–	10,537,000	–	10,537,000
	73,045,840	32,478,674	40,118,444	145,642,958
	$ 77,296,840	$ 32,478,674	$ 41,309,612	$ 151,085,126
Financial liabilities				
Derivative financial instruments				
Forward foreign exchange contracts	$ –	$ 4,541,914	$ –	$ 4,541,914
	$ –	$ 4,541,914	$ –	$ 4,541,914

2011	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets				
Derivative financial instruments				
Forward foreign exchange contracts	$ –	$ 4,863,529	$ –	$ 4,863,529
Equity option contracts	–	–	1,868,810	1,868,810
	–	4,863,529	1,868,810	6,732,339
Available-for-sale financial investments				
Corporate debt securities	26,079,521	11,253,950	5,876,740	43,210,211
Debt securities issued by banks	22,282,023	1,384,099	–	23,666,122
Asset-backed securities	–	7,452,583	–	7,452,583
Equity	13,196,518	–	500,000	13,696,518
	61,558,062	20,090,632	6,376,740	88,025,434
	$ 61,558,062	$ 24,954,161	$ 8,245,550	$ 94,757,773

Movement in Level 3 financial instruments measured at fair value:

	CORPORATE DEBT SECURITIES	ASSET-BACKED SECURITIES	EQUITIES	EQUITY PLAN CONTRACTS	WARRANTS	TOTAL
At October 1, 2010	$ 7,227,593	$ 4,020,520	$ –	$ 780,207	$ –	$ 12,028,320
Total gains (loss) recorded in profit or loss	(77,611)	–	–	122,226	–	44,615
Total gains recorded in equity	283,682	–	–	–	–	283,682
Purchases	2,000,000	–	500,000	966,377	–	3,466,377
Sales	(1,338,424)	–	–	–	–	(1,338,424)
Transfer to Level 1	(2,218,500)	–	–	–	–	(2,218,500)
Reclassification to held-to-maturity	–	(4,020,520)	–	–	–	(4,020,520)
At September 30, 2011	$ 5,876,740	$ –	$ 500,000	$ 1,868,810	$ –	$ 8,245,550
Total gains (loss) recorded in profit or loss	–	–	–	(654,210)	766,923	112,713
Total gains recorded in equity	1,250,658	3,292,457	–	–	–	4,543,115
Purchases	375,892	17,464,966	2,750,000	–	–	20,590,858
Sales	–	–	–	(790,355)	–	(790,355)
Transfer to Level 1	(3,876,740)	–	–	–	–	(3,876,740)
Transfer from Level 2	6,582,304	5,902,167	–	–	–	12,484,471
At September 30, 2012	$ 10,208,854	$ 26,659,590	$ 3,250,000	$ 424,245	$ 766,923	$ 41,309,612

There were no Level 3 financial liabilities during the years ended September 30, 2012 and 2011.

24. Business Combinations

Acquisitions

Effective October 4, 2011, BCB acquired the entire interests in Paragon Trust Ltd and Charter Corporate Services Ltd, including their offices at Trinity Hall. Paragon Trust Ltd's wholly owned subsidiaries namely, BCB Paragon Holdings Limited (formerly Paragon Holdings (Bermuda) Limited), Trinity Property Holdings Ltd, and Paragon Holdings (Cayman) Ltd, and Charter Corporate Services Ltd's wholly owned subsidiary, BCB Nominee Services Limited (formerly Charter Holdings Limited), became indirect wholly owned subsidiaries of BCB.

BCB acquired the companies and the Trinity Hall property to create a new Private Wealth Centre that offers asset management and private banking in addition to estates, trust, and corporate services, and also provides BCB with a more diverse revenue and cash flow base, while at the same time provides cross-selling opportunities with the new client base. Total cash consideration was $10,000,000.

On the same date, Paragon Trust Ltd was amalgamated with BCB Fiduciary I Limited, continuing under the name BCB Paragon Trust Limited while Charter Corporate Services Ltd was amalgamated with BCB Fiduciary II Limited, continuing under the name BCB Charter Corporate Services Limited.

On December 15, 2011, BCB Paragon Trust Limited amalgamated with BCB Trust Company Limited, both wholly owned subsidiaries of the Bank, continuing under the name BCB Paragon Trust Limited, which resulted in the Bank combining its entire trust services operation within this one entity.

BCB Paragon Trust Limited's results are reported within the Trust Services segment and BCB Charter Corporate Services Limited's results are reported within the Corporate Services segment.

Assets Acquired and Liabilities Assumed

The fair values of the identifiable assets and liabilities of Paragon Trust Ltd and Charter Corporate Services Ltd as at the date of acquisition were:

		FAIR VALUE RECOGNISED ON ACQUISITION
Assets		
Cash, money market funds and term deposits	$	2,256,042
Trade receivables		626,480
Prepayments and other assets		6,732
Property and equipment (Note 8)		2,919,304
Customer relationships (Note 9)		4,154,402
		9,962,960
Liabilities		
Trade payables		(2,686,331)
Total identifiable net assets at fair value		7,276,629
Goodwill arising on acquisition (Note 9)		2,723,371
Purchase consideration transferred	$	10,000,000

The fair value of the trade receivables was $626,480. The gross amount of trade receivables was $690,475. It is expected that the full amount of the fair value can be collected.

As described earlier, immediately after the acquisition of Paragon Trust Ltd and Charter Corporate Services Ltd, they were amalgamated with other subsidiaries of the Bank. As the Bank's pre-existing trust services and corporate services were combined into the new entities, it is not practical to determine the revenues and net profit contributed by the acquired entities.

The goodwill of $2,723,371 comprises the value of expected synergies arising from the acquisition. Goodwill was allocated to Corporate Services and Trust segments of the Bank.

25. Subsequent Events

Restructuring

Effective October 1, 2012, BCB merged with BNL I Limited, a wholly owned subsidiary of BNL, resulting in BCB becoming a wholly owned subsidiary of BNL. BCB delisted from the Bermuda Stock Exchange and its shareholders were offered one share of BNL for each share of BCB held. There was no dilution in their percentage ownership. BNL became the listed entity on the Bermuda Stock Exchange.

Each right to purchase a BCB share that was outstanding and exercisable as of October 1, 2012, whether or not vested, was assumed in full by BNL by converting such right into an option to purchase an equal number of BNL shares upon the same terms and conditions as were in effect immediately prior to October 1, 2012, including the vesting schedule and terms of exercise.

SUBSIDIARIES

As at September 30, 2012

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 asset management, listing sponsorship and fund administration services. BSX trading member.

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 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 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.

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.

BCB PROPERTY HOLDINGS LIMITED

Incorporated in Bermuda on December 15, 2010.
Dormant property holding company.

BERMUDA COMMERCIAL BANK CHARITABLE FOUNDATION LIMITED

Incorporated in Bermuda on October 1, 2010.
Dormant charitable foundation.

VT STRATEGIES LIMITED

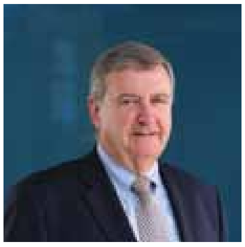
Incorporated in Bermuda on September 17, 2011.
Dormant special purpose company.

The registered address for the above companies 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.

BOARD OF DIRECTORS
As at September 30, 2012

*Denotes non-Bermudian director.



J. MICHAEL COLLIER, JP I CHAIRMAN
CHAIRMAN, WEST HAMILTON HOLDINGS LTD.
(RETIRED 1996)
Mr. Collier is a past President & CEO of Butterfield Bank and former Chairman of the Ascendant Group.

WARREN MCLELAND* I DEPUTY CHAIRMAN
CHIEF EXECUTIVE OFFICER, RESIMAC LIMITED
Mr. McLeland is the CEO of Resimac Australia. He was formally with the Reserve Bank of Australia and was a senior executive at Chase Manhattan Bank in New York, Asia and Europe.

JONATHAN C. CLIPPER
CHIEF EXECUTIVE OFFICER
Mr. Clipper received his MBA from Oxford University as Bermuda's Rhodes Scholar. He spent thirteen years at Chase Manhattan and twelve years at Citibank respectively, serving Financial Institutions as his primary client base. Mr. Clipper is Managing Director of Headland Management Ltd., and numerous offshore funds and companies. He is a Fellow of the Institute of Chartered Secretaries and Administrators.

HORST E. FINKBEINER II, CDir
DIRECTOR AND CHIEF OPERATING OFFICER
Mr. Finkbeiner is the Chief Operating Officer of BCB. He is a member of the International Compliance Association and the Institute of Directors.

GAVIN ARTON

FORMER SENIOR EXECUTIVE, XL CAPITAL LIMITED

Mr. Arton is the Chairman of BF&M Limited, and a former senior executive with XL Capital Ltd. He previously served as an executive of American International Group Inc., and CIGNA Corporation.

JON L. BRUNSON, JP

EXECUTIVE DIRECTOR, SCARS (SAVING CHILDREN AND REVEALING SECRETS)

Mr. Brunson currently serves as a Director of the BCB Bond Fund Limited, Colonial International Group Limited and Take Five Limited. In addition, he serves as a Director on various Philanthropic Boards that are designed to address social issues in Bermuda. He formerly worked for Orbis Investment Management Limited for 13 years. Mr. Brunson is a former Director of Orbis Founders Philanthropies – Scholar Programme and a former Member of Parliament in Bermuda.

GREG REID, CA*

DIRECTOR AND CHIEF FINANCIAL OFFICER

Mr. Reid is a Chartered Accountant and the Chief Financial Officer of BCB.

CHRISTOPHER SWAN, BA, LLB, JP

SENIOR PARTNER, CHRISTOPHER E. SWAN & CO., BARRISTERS-AT-LAW

Mr. Swan is the Senior Partner of Christopher E. Swan & Co. He is a member of Gray's Inn, the Law Society and the Bermuda Bar.

MANAGEMENT & STAFF

JONATHAN C. CLIPPER
Chief Executive Officer

HORST E. FINKBEINER II
Chief Operating Officer

GREG REID
Chief Financial Officer

LUCIANO AICARDI
Managing Director,
BCB Paragon Trust Limited
BCB Charter Corporate Services Limited

NEIL DE STE CROIX
General Manager,
BCB Paragon Trust Company Limited
BCB Charter Corporate Services Limited

MICHAEL CRANFIELD
Chief Information Officer

EDWINA LAMBERT
Head of Banking

SARA SCHROTER ROSS
Legal Counsel

ROBIN DYER
Head of Compliance

USHA NANAN
Internal Auditor

BRIAN FRANCOEUR
Senior Financial Officer

PAUL BLACKBOURN
Financial Controller

DANE COMMISSIONG
Treasury Manager

ANGELIQUE DOWLING
Human Resources Generalist

REBECCA DUNSTAN
Manager, Trust & Corporate
Operations / MLRO

S. RANDY MORRIS
Custody & Corporate Services Manager

CARRIE THATCHER
Marketing & Communications Manager

EUGENA WAINWRIGHT
Manager, Operations

KAREN BLANKENDAL
Assistant Manager,
Banking Operations & Support Services

SHANALETTE DESILVA
Assistant Manager,
Head of Custodial Services

ANN ROBINSON
Assistant Manager,
Investigations & Reconciliations

SOPHIA MING
Assistant Manager,
Data Processing & Cash Management

LOLA MYSHKETA
Senior Wealth Advisor

TASHA JONES
Private Banker

CHRISTOPHER DYE
Corporate Legal Counsel

HEATHER HAILS
Senior Trust Officer

ROVONNE ROBERTS
Senior Corporate Administrator

NATHAN SAMUELS
Trust, Legal Counsel

SHERLENE TROTT
Corporate Team Leader

KIM ARMSTRONG
Corporate Secretary Specialist

JANET FIELD
Corporate Secretary

DERWIN ADAMS
NATASCIA BERTOLI-BADOLI
ALAN BIRD
SHUNEE BURT
COLLEEN BUTTERFIELD
SHALAMAR CODDINGTON
MIA DANIELS
CHEYENNE DARRELL
MILTON DARRELL
SUSAN DAVIS
RAQUEL EMERY
DAWNI FRANCIS
JUANITA GITHINJI
ANDREW HARTE
AUDREY HOLLIS
MICHELLE JOHNSTON
CINDY LAMBE
DARLENE LAMBERT
DEZANE LATHAN
TAMARA LEWIS
CHIOKE LODGE
LINDSAY MOURA
MAREK NOHA
MELANIE O'BRIEN
STEPHEN OUTERBRIDGE
CHARMETTE PHILLIP
HEATHER ROQUE
CHRISTINA SCOTT
DONNETTE SIMONS
JILL SMITH
MELISSA SMITH
GEORGETTE TROTT
TAISHA TROTT
L'TANYA TUCKER
RUBY WALKER
KHAMLA WHITE
RENEE WILSON
MARC ZINSMEISTER

EXECUTIVE PHOTO - LEFT TO RIGHT

Michael Cranfield, Chief Information Officer, Bermuda Commercial Bank Limited
Edwina Lambert, Head of Banking, Bermuda Commercial Bank Limited
Jonathan C. Clipper, Chief Executive Officer, Bermuda Commercial Bank Limited
Neil de ste Croix, General Manager BCB Paragon Trust Limited and BCB Charter Corporate Services Limited
Luciano “Channel” Aicardi, Managing Director BCB Paragon Trust Limited and BCB Charter Corporate Services Limited
Horst E. Finkbeiner II, Chief Operating Officer, Bermuda Commercial Bank Limited

NOTES

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

REGISTERED ADDRESS

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BERMUDA

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