

Bermuda Commercial Bank Limited
Pillar III Disclosures
June 30, 2009

Background

The disclosure and analysis provided in this document are for the Bermuda Commercial Bank Limited which is incorporated in the island of Bermuda as a limited liability company.

These disclosures are solely in the context of the local regulatory requirements and guidelines outlined by the Bermuda Monetary Authority under Pillar 3 “Market Discipline of New Capital Adequacy Framework (commonly referred to as Basel II, Pillar 3). The Pillar 3 disclosures have been designed to complement the minimum capital requirements in Pillar 1 as well as the Supervisory Review and Evaluation Process in Pillar II. The accepted aim of Pillar III is to promote market discipline by allowing market participants access to information of risk exposures and risk management policies and process adopted by the Bermuda Commercial Bank Limited.

The Bermuda Commercial Bank’s story begins more than 40 years ago, when a group of Bermudian entrepreneurs conceived of forming a local savings and loan institution in Bermuda. The bank has evolved to become the only Bermudian Bank focused on servicing the local and international corporate and commercial business communities as well as high net worth clients. The bank has mastered the art of banking providing the highest standards of service to clients worldwide. The Bermuda Commercial Bank has been guided by a corporate philosophy centered on the provision of innovative, quality service with minimal risk tailored to the specific needs of its clients.

The management of risk is an important criterion to all users of financial services. The Bank has established a policy of minimizing its own corporate risk by following an extremely conservative policy in balance sheet management. The Bank does not take risk positions on its own accounts and runs a matched book policy with its deposits and follows other principles and policies on risk management which is aligned to local Bermuda Monetary Authority regulations wherever required.

Scope of application

The new capital adequacy framework applies to the Bermuda Commercial Bank Limited which is incorporated in the island of Bermuda with limited liability. The Bermuda Commercial Bank Limited has four wholly-owned and controlled subsidiaries; International Corporate Management of Bermuda which provides fund administration and global custody services, BCB Trust Company Limited, Bercom Nominees Limited and BCB (Mauritius) Limited. These subsidiaries are subject to consolidation requirements under the generally accepted accounting principles (GAAP) or under the capital adequacy framework.

Capital structure

The capital structure of the bank comprises of (a) Tier 1 capital which includes Share Capital, Retained Earnings and Share Premium and (b) Tier 2 general provisions/ general loan-loss reserves.

Composition of Capital

as at June 30 2009

Tier 1 Regulatory Capital

Ordinary shares/common stock (issued and paid up)	14,766,449
Share premium account	19,302,690
Disclosed prior years reserves etc	39,278,433
Total Tier 1 Capital	<u>73,347,572</u>

Tier 2 Regulatory Capital

General provisions (eligible for inclusion)	20,000
Total Tier 2 Capital	<u>20,000</u>

Total Tier 1 & 2 Capital

73,367,572

Total Capital Deductions

0

Total Eligible Capital Base

73,367,572

Capital adequacy

Sufficient capital must be in place to support business activities, according to both the Bank's internal assessment and the requirements of the Bermuda Monetary Authority. The key to capital adequacy management is to ensure the compliance with the minimum regulatory capital requirements and targeted capital ratios.

Bermuda Commercial Bank's goal is to maintain sound and optimum capital ratios at all times and therefore not only constantly reviews the present situation but also any projected developments in both its capital base and capital requirements. The main source of the Bank's supply is shareholder investment and retained earnings.

The capital management process is based on the following steps:

- The monitoring of the regulatory capital and ensuring that the minimum regulatory requirements and the established internal targets are met.
- The estimation of the capital requirements based on ongoing forecasting and strategic planning
- The reporting of the regulatory capital situation to both the Senior Management Group and the Bermuda Monetary Authority.

The responsibility for performing these steps is vested in the Asset and Liability Committee (ALCO).

The Chief Operating Officer, the Chief Financial Officer together with the General Manager of Banking form the members of ALCO. Internal Audit serves in an advisory capacity to ensure that all parties are keep up to date on the Basel II changes.

Risk Management and Control Framework Overview

Risk Management and Control Principles

There are five key principles that govern the Bermuda Commercial Bank's risk management and control framework.

1. Each Manager of the various business units are accountable for operational risk within their unit
2. There is an independent review and reporting of risk through the Internal Audit function
3. There is adequate disclosure of risk
4. Protection of earnings, capital, and deposits is key
5. Protection of the Banks reputation is key

Risk Management and control responsibilities

The key entities concerned with risk and control are ALCO, the Risk Committee, Compliance, and Internal Audit.

The Asset and Liability Committee (ALCO) is tasked with determining Bermuda Commercial Bank's fundamental approach to market, credit, interest rate, and liquidity risk. ALCO also has a strategic and supervisory function within the organization when it comes to management and control of such risk at the Bank. ALCO is also responsible for Balance sheet management.

The Internal Audit function provides an independent review, testing, and reporting function for all types of risk. This function reports to the Audit Committee of the Board of Directors.

It is important to note that the head of each business division is accountable for the financial results and risk for their division as well as ensuring that the Bank's policies and procedures related to risk are maintained.

The Risk Committee is primarily concerned with operational risk which encompasses operational controls, data systems integrity, and incident management. The members of the Risk Committee include the Chief Operating Officer, Chief Information Officer, and the Compliance Manager. This committee reports to the Board of Directors through the Chief Operating Officer.

The Compliance function manages the development, implementation, and maintenance of policy and procedure for the relevant regulatory and legislative controls, including Anti-Money Laundering and Know Your Client (KYC) requirements.

The Chief Operating Officer and the Chief Financial Officer are responsible for the overall development and implementation of appropriate control frameworks with support from the business divisions.

The Chief Operating Officer and the Chief Financial Officer are responsible for ensuring that all financial data concerning the performance of the various divisions and subsidiaries are disclosed in a clear and transparent way and that the methodology for reporting adheres to the established regulatory requirements and corporate governance standards as required by the laws and practices of Bermuda. They are also further responsible for the implementation of the Bank's agreed risk management and control framework in the areas of capital management, liquidity funding and tax if applicable.

Risk Management and control framework

Bermuda Commercial Bank's risk management and control objectives are implemented within the organization based on a risk management & control framework using policies and quantitative components. This framework is dynamic and is continuously enhanced and adapted as both the banks business and the market and general banking environment evolves.

There are five established key elements in the banks independent risk control framework.

1. Risk policies and procedures
2. Risk identification
3. Risk evaluation
4. Risk control and mitigation
5. Risk and incident reporting

Credit Risk

The Bank does not currently offer loans or other such credit facilities to clients.

The Bank offers a Letter of Credit product that is fully cash collateralized and is processed through the Bank's correspondent relationship with Deutsche Bank New York.

Securitization

The Bank has not undertaken any securitization deals during this current period.

Market Risk in Trading Book

Market risk is the risk of loss from changes in the trading market that reduce the value of the Banks investments. The traditional four areas of market risk are Equity Risk (adverse price movement in equity holdings), Interest Rate Risk (adverse movement in interest rates), Currency Risk (adverse movements in foreign exchange rates), and Commodity Risk (adverse changes in commodities holdings).

Currency Risk: The Bank holds no foreign exchange positions on its own behalf, and matches the currency of deposits and capital with corresponding holdings with other banks.

Commodities Risk: The Bank holds no commodities on its own behalf.

Equity Risk: The Bank holds a limited position in Bermuda Government guaranteed securities. The total value of these at June 30, 2009 is \$10,800,000.

Interest Rate Risk: Like many banks, the Bank is exposed to interest rate risk in its deposits with other banks and money market fund holdings. These cash and cash-equivalent holdings generate interest income for the Bank which is impacted by downward changes in the Federal Reserve (FED) rate and the London Interbank Offered Rate (LIBOR).

Because the Bank operates a matched book policy for deposits it has minimal risk exposure to mismatch with client deposits.

As of this writing the FED and LIBOR rates are at historic lows and this has had an impact on the Banks earnings. Compared to nine months ended June 2008 the decrease in net interest income has been 39.6% or \$2.82 million

Stress Testing

The purpose of stress testing is to quantify exposure to extreme and unusual market movements. The Bank's objectives in stress testing are to review a number of possible outcomes, and to provide a control framework that is not only comprehensive but transparent and responsive to the rapidly changing market conditions that it operates in. The Bank performs stress testing on a quarterly basis.

Operational risk

Operational risk is deemed as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external causes, whether deliberate, accidental or natural." Operational risk by its nature cannot be entirely eliminated but it can be managed and mitigated to levels that are deemed acceptable by management.

Operational risk is the responsibility of the Risk Committee and includes business process controls, data systems, and compliance (anti-money laundering). The Committee meets at least quarterly or more frequently as needed to review controls, incidents, and work underway to manage risk. Incident management team meetings are held as and when needed.

The Bank also utilizes automated systems to mitigate risk associated with criminal activity. These systems include application risk scoring systems for new business uptake, real-time wire activity scrubbing against official watch-lists, and by the end of Q4 2009 the Bank's automated activity monitoring systems will be operational. The Bank also utilizes automated network intrusion detection and centralized security management for data systems.

The Bank's control environment includes non-automated risk management such as a program of continuous audit review and risk-based in depth client review. A series of daily reporting is delivered electronically to senior and executive management to ensure that the team is informed and take action if needed on operational and financial status.

Basel II

Bermuda has implemented the Basel II framework for capital assessment, of which this disclosure forms a part. Bermuda Commercial Bank has adopted the Basic Indicator Approach as being most appropriate for the scale and scope of the Bank's operations. Accordingly the Bank has agreed its Capital Adequacy and Risk Profile (CARP) document with the Bermuda

Monetary Authority and currently operates with a minimum Capital Adequacy Ratio requirement of 19%.

The Bank's Capital Adequacy Ratio at June 30, 2009 was 28.8%.

Table of Key Figures as at June 30, 2009

Tier 1 Capital	\$73 million
Client liabilities (deposits)	\$350 million
Assets under Custody	\$783 million
Credit Exposure	\$0
FX Exposure	\$0
Commodities held	\$0
Securities held	\$10,800,000
Minimal regulatory capital adequacy ratio	19.0%
Actual regulatory capital adequacy ratio	28.8%