CAPITAL G Bank Limited
2005 Annual Report

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CAPITAL G Bank Limited (the "Bank") has its roots in the Bermuda of the 1930's, when it began providing savings accounts and loans as Gibbons Deposit Company, an arm of Gibbons Company, a long established retail operation which itself continues today as one of the best known businesses in the local community. Gibbons Deposit Company Limited (the "Company") was formally incorporated in 1974 with the enactment of deposit company legislation in Bermuda (the Deposit Companies Act 1974).

In the late 1980's the Company began a program of aggressive marketing in Bermuda, in conjunction with the introduction of several new Bermuda dollar savings products. The next ten years were characterized by rapid growth, with growth in deposits often exceeding over 100% year on year.

During the late 1990's the Company commenced offering U.S. dollar services in the form of U.S. dollar savings accounts, time deposits, cash and drafts.

The Company has always maintained a conservative approach to lending with the majority of loans being first mortgages on Bermuda real estate.

In 1999 the Company became a subsidiary of CAPITAL G Limited along with its sister companies which now go by the names of CAPITAL G Investments Limited, CAPITAL G BSX Services Limited and CAPITAL G Trust Limited. The CAPITAL G group has since added CAPITAL G Management Limited and acquired majority interests in First Atlantic Commerce Ltd. and Assante Asset Management (Bermuda) Limited (subsequently renamed CAPITAL G Asset Management Limited).

In October 2001 the Company applied for and was granted a full banking license under The Bank and Deposit Companies Act 1999. The Company was renamed CAPITAL G Bank Limited and remains privately held, indirectly owned 100% by the Gibbons family. The Bank is regulated by the Bermuda Monetary Authority and maintains capital ratios established in accordance with the Basle international principles.

CAPITAL G Bank Limited is a principal member of both MasterCard and Visa, having launched its first internationally accepted credit cards in January 2003 and its first debit card in January 2004. The Bank is also a full member of SWIFT and has established several key correspondent banking relationships, allowing it to offer wire payment transactions for customers in many different currencies.

The Bank is focused on building market share in Bermuda via innovative and competitively priced products, with the aim of providing a comprehensive package of banking services to its retail and corporate customers. To this end, the Bank has assembled a management team of seasoned bankers to develop and execute its strategic plans and continues to invest heavily in people and infrastructure.

Along with its sister companies in the CAPITAL G Group, the Bank is a strong supporter of the local community, both financially and through active employee involvement in many walks of life.

CAPITAL G BANK LIMITED
5 Year Financial Highlights

(in $ thousands except per share data)	Year Ended January 31				
	2005	2004	2003	2002	2001
Net income	**7,203**	5,005	794	2,804	6,106
Net income per share	**$1.44**	$1.00	$0.16	$0.56	$1.22
At Year End					
Total Assets	**882,974**	749,948	653,193	570,049	465,893
Cash and cash equivalents with banks	**79,578**	44,482	28,005	33,400	14,492
Investments	**191,896**	143,911	138,109	116,021	80,590
Loans, mortgages and credit card receivables	**570,527**	525,516	457,151	397,495	348,496
Customer deposits	**815,308**	686,565	596,016	515,404	418,460
Shareholder's equity	**47,130**	39,927	34,922	34,128	32,074
Net book value per share	**$9.43**	$7.99	$6.98	$6.83	$6.41
Number of shares issued (in thousands)	**5,000**	5,000	5,000	5,000	5,000
Financial ratios					
Return on assets	**0.88%**	0.71%	0.13%	0.54%	1.42%
Return on equity	**16.55%**	13.37%	2.30%	8.47%	21.04%
Total equity to total asset ratio	**5.34%**	5.32%	5.35%	5.99%	6.88%
Total cash, cash equivalents with banks and investments to customer deposits ratio	**33.30%**	27.44%	27.87%	28.99%	22.72%

CAPITAL G BANK LIMITED
President & Chief Executive Officer's Report

I am very pleased to report that the Bank achieved record earnings of $7.2 million in 2005, while assets continued to grow, reaching $883 million at year end, almost double the total from 4 years ago when we first obtained our banking license.

2005 saw the grand opening of our new Branch at 19 Reid Street, in the heart of Hamilton. The Honorable Paula Cox, Minister of Finance, was on hand to oversee the ribbon cutting ceremony, alongside Sir David Gibbons, K.B.E., J.P., and senior executives of the Bank. This beautiful new location with its soaring skylights has helped us attract more customers than ever before and has been a cornerstone of our sustained growth in 2005.

We continued our history of marketplace innovation by introducing several new CD products carrying special rates, such as our 17 and 30 month Select Banking CDs. We offered additional tranches of our very successful Stock Market CD, a 5 year fixed term deposit with a yield tied directly to the S&P 500 Index®, while deposits to our FedFunds accounts, introduced in 2004 and which pay interest linked to the overnight federal funds rate, grew more than 400%. For residential mortgage customers we introduced our Guard Mortgage product, combining our highly competitive interest rates with great homeowner's insurance coverage in a single payment.

Select Banking, our new private banking service has attracted significant numbers of new customers since its launch in early 2004. Well over 200 customers now enjoy customized services from Select Banking's location on the 3rd Floor of the new Branch. Select Banking manages both personal and business/corporate accounts through a team of highly trained financial services specialists.

The Bank also enhanced its ATM network in 2005 to provide more accessibility to our customers, adding outlets on both Queen and Church Streets in Hamilton.

Along with other members of the CAPITAL G Group, the Bank continued its community support in all walks of Bermuda life through a variety of sponsorships ranging from the arts to local sports teams, as well as active employee involvement.

On behalf of management, I would like to take this opportunity to thank all our employees for their tireless contributions during the year and support of the management team in achieving this year's record results.

Sarah Farrington
President & Chief Executive Officer

Management's discussion and analysis of results of operations and financial condition should be read in conjunction with the Bank's Consolidated Financial Statements, beginning on page 9, and the Notes to those financial statements, which begin on page 13. These statements and notes have been prepared in accordance with accounting principles generally accepted in Bermuda and Canada.

Results of operations for the year ended January 31, 2005 compared with the year ended January 31, 2004.

We are pleased to note that the Bank's assets continued to grow in 2005, reaching $883 million at year end, an 18% increase compared to $750 million at year end 2004, customer deposits grew 19% to $815 million, and net income jumped to $7.2 million for the year, a 44% increase over the $5.0 million recorded in 2004.

Assets

Loans and mortgages receivable, including credit cards, net of allowance for credit losses, totalled $571 million at January 31, 2005, increasing $45 million, or 9%, from $526 million at January 31, 2004. While the growth rate in loans has slowed somewhat from previous years amid new competitive pressures, demand continues to be strong particularly for residential mortgages, and we anticipate further expansion of our loan book in the coming year.

Asset quality remains strong, with a majority of the loan portfolio secured by Bermuda residential real estate. Loans considered to be impaired totalled $5.0 million at year-end 2005, or 0.9% of the portfolio, compared to 0.6% a year earlier. The Bank has established specific provisions for possible credit losses of $1.7 million against these impaired loans, an increase of $0.3 million from year-end 2004. After an in-depth review of the loan portfolio, historical loss experience and other factors such as the strength of the economy, management has reduced the general allowance for credit losses by $1.0 million, to $1.6 million at January 31, 2005. The total allowance at year-end 2005 was therefore $3.3 million, or 0.6% of the loan portfolio, compared to $4.0 million, or 0.8%, a year earlier.

The total of our cash, cash equivalents with banks and investments grew by $83 million, or 44%, to $271 million at January 31, 2005.

Liabilities

Management is particularly pleased by the continued growth in customer deposits, reflecting increased business attracted by our new branch location, superior service and highly competitive products and rates. Total customer deposits were $815 million at January 31, 2005, up $129 million, or 19%, from January 31, 2004. Latest statistics available show that the Bank's share of total Bermuda dollar deposits has reached approximately 21% of the overall market.

Liquidity

The Bank's deposit base is a combination of demand and term liabilities, denominated in either Bermuda or United States dollars. To ensure it can repay depositors as their claims fall due and to meet regulatory requirements set by the Bermuda Monetary Authority, the Bank maintains holdings of highly liquid assets (cash and cash equivalents with other banks and investments) on its balance sheet. At January 31, 2005, liquid assets totaled $271 million, compared to $188 million a year ago. The ratio of cash and cash equivalents with other banks and investments to total customer deposits at January 31, 2005 was 33.3%, up from 27.4% in 2004.

Capital

The Bank maintains capital ratios in excess of the minimum standards set by its regulator, the Bermuda Monetary Authority. At December 31, 2004, the Bank's Tier 1 capital ratio was 9.72% and its overall capital ratio stood at 10.64%.

Income

Net income for the year was $7.2 million, up from $5.0 million a year ago, due to increases in both net interest income and other income, as well as reduced loan loss provisions, partially offset by increased operating expenses.

Net interest income for the year, before provisions for credit losses, rose to $21.7 million, an increase of $4.2 million, or 24%, from the prior year, reflecting growth in interest earning assets and a decline in average deposit costs as older, higher-yielding deposits matured, offset to some extent by recent increases in U.S. dollar interest rates.

As described earlier, the allowance for credit losses has been reduced this year, resulting in a net credit to income for the year of $0.6 million, compared to a charge to income of $1.1 million last year.

Non interest income grew 41% year over year, to $2.2 million from $1.5 million. Fee income increased by $0.2 million, mainly from growth in fees earned on credit and debit card transactions, foreign exchange income increased $0.1 million due to increased demand, while realized and unrealized losses on investments were reduced by $0.3 million from the prior year.

Expenses

Operating expenses for the year were up $4.4 million, or 34%, to $17.3 million from $12.9 million last year. Salaries and benefits increased $2.1 million, or 35% from a year ago, as the Bank further strengthened its management team and added new staff to several operating areas to support continued business growth. General and administrative expenses grew $2.7 million from a year ago, resulting mainly from costs of starting up and operating the new flagship branch, as well as increased transaction costs for our credit and debit card processing.

The Bank had 98 employees at January 31, 2005, compared to 71 at January 31, 2004. Including staff shared with sister companies in the CAPITAL G Group, we employed a total of 112 people at January 31, 2005.

Performance Indicators

Our financial strength and performance are reflected in certain key indicators. Return on shareholder's equity rose to 16.55%, from 13.37% a year ago, while return on assets was 0.88%, up from 0.71% last year. Our operating efficiency ratio (non-interest expenses as a percentage of the sum of net interest income before credit loss provisions and other income) stood at 72% at the end of 2005, compared to 68% a year ago, as year over year growth in operating expenses exceeded growth in operating revenues due to our continuing investment in people, premises and technology infrastructure to support the Bank's ongoing expansion.

Summary

The Bank achieved record financial results over the last year, during a time of increased competition in our prime marketplace of Bermuda, unsettled economic conditions and rising interest rates. Management intends to continue its measured approach to expansion, maintain a conservative approach in its lending and investment portfolios and to seek out new opportunities to enhance the Bank's competitive standing and bring value added solutions to our customers.

Management's Responsibility For Financial Reporting

Management of CAPITAL G Bank Limited (the "Bank") is responsible for the preparation and presentation of the accompanying consolidated financial statements. These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Bermuda and Canada, and where appropriate, are based on the best estimates and judgment of management.

Management maintains a system of financial reporting and internal controls designed to provide reasonable assurance that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use and proper records are maintained. These controls include careful selection and training of employees, well-defined areas of responsibility, effective segregation of duties, and the communication of policies and procedures throughout the Bank, including a corporate code of ethical conduct.

The system of internal controls is supported by a regular program of internal audits of all aspects of the Bank's operations. In addition, the Internal Auditor has full and free access to the Audit & Compliance Committee of the Board of Directors.

The Audit & Compliance Committee, composed entirely of directors who are not employees of the Bank, reviews the financial statements before such statements are approved by the Board of Directors and submitted to the Bank's shareholder.

Under the provisions of the Bermuda Monetary Authority Act of 1969, the Bermuda Monetary Authority is charged with the supervision of the Bank. Such supervision is consistent with international practices and combines a comprehensive system of statistical returns, including a detailed breakdown of the balance sheet and statement of income accounts of the Bank, and regular meetings with senior management of the Bank. Such regular reviews are intended to satisfy the Authority that the safety and interests of the depositors, creditors and the shareholder of the Bank are being duly observed and that the Bank is in sound financial condition.

KPMG, the shareholder's independent auditors, have examined the consolidated financial statements of the Bank in accordance with auditing standards generally accepted in Bermuda and Canada and expressed their opinion in their report to the shareholder. The independent auditors have full and unrestricted access to the Audit & Compliance Committee to discuss audit, financial reporting and other related matters.

Sarah Farrington
President & Chief Executive Officer
May 6, 2005

Ralph Kern
Executive Vice President & Chief Financial Officer
May 6, 2005

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AUDITORS' REPORT TO THE SHAREHOLDER

We have audited the consolidated balance sheet of CAPITAL G Bank Limited as at January 31, 2005 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at January 31, 2005 and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

KPMG

Chartered Accountants
Hamilton, Bermuda
May 6, 2005

CAPITAL G BANK

CAPITAL G BANK LIMITED
Consolidated Balance Sheet
January 31, 2005

(Expressed in Bermuda Dollars)

		2005		2004
Assets				
Cash and cash equivalents with banks (Notes 14 and 17)	$	79,578,233	$	44,481,581
Investments – available for sale (Note 3)		180,880,509		143,910,783
Investments – trading (Note 3)		11,015,650		–
Accrued interest on cash and cash equivalents and investments		1,398,585		1,162,646
Loans, mortgages and credit card receivables, net (Notes 4, 5, 12 and 14)		570,527,206		525,516,220
Accrued interest on loans, mortgages and credit card receivables (Note 12)		4,253,796		3,920,061
Due from related parties (Note 12)		5,397,462		5,871,689
Accounts receivable and prepaid expenses		813,486		898,775
Capital assets (Note 6)		25,040,524		20,380,172
Foreclosed assets (Note 7)		4,068,679		3,805,925
Total assets	$	882,974,130	$	749,947,852
Liabilities				
Due to depositors (Notes 8, 9 and 12)	$	815,307,992	$	686,565,455
Accrued interest on deposits (Notes 8, 9 and 12)		19,037,119		21,268,299
Accounts payable and accrued liabilities		1,499,161		2,187,157
Total liabilities		835,844,272		710,020,911
Shareholder's equity				
Share capital				
Authorized, issued and fully paid 4,999,999 shares of $1 par value each		4,999,999		4,999,999
General reserve (Note 13)		10,000,000		10,000,000
Retained earnings		32,129,859		24,926,942
Total shareholder's equity		47,129,858		39,926,941
Total liabilities and shareholder's equity	$	882,974,130	$	749,947,852

See accompanying notes to consolidated financial statements

Signed on behalf of the Board

Director

Sarah Harrington Director

CAPITAL G BANK LIMITED
Consolidated Statement of Income and Retained Earnings
Year Ended January 31, 2005
(Expressed in Bermuda Dollars)

	2005	2004
Net interest income		
Interest income from cash and investments (Notes 3 and 17)	$ 6,174,463	$ 5,476,869
Interest income from loans, mortgages and credit card receivables (Notes 4 and 12)	38,964,227	35,529,682
Total interest income	45,138,690	41,006,551
Interest expense (Notes 8, 9 and 12)	23,431,993	23,533,198
Net interest income before provision for credit losses	21,706,697	17,473,353
Provision for credit losses (Notes 4 and 5)	(624,341)	1,131,391
Net interest income after provision for credit losses	22,331,038	16,341,962
Other income		
Fees	1,603,142	1,432,217
Commissions	6,398	45,012
Rent (Note 12)	483,938	473,080
Foreign exchange income	268,970	128,424
Realized losses on available for sale investments	(489,767)	(536,355)
Unrealized gains on trading investments	299,425	–
Total other income	2,172,106	1,542,378
Net interest and other income	24,503,144	17,884,340
Non-interest expenses		
Salaries and other employee benefits (Note 16)	7,886,220	5,829,201
General and administrative (Notes 12 and 15)	8,142,088	5,472,250
Foreclosed assets, net (Note 7)	197,685	600,381
Amortization of capital assets (Note 6)	1,074,234	977,188
Total non-interest expenses	17,300,227	12,879,020
Net income	7,202,917	5,005,320
Retained earnings at beginning of year	24,926,942	19,921,622
Retained earnings at end of year	$ 32,129,859	$ 24,926,942

See accompanying notes to consolidated financial statements

CAPITAL G BANK LIMITED
Consolidated Statement of Cash Flows
Year Ended January 31, 2005
(Expressed in Bermuda Dollars)

	2005	2004
Cash flows from operating activities		
Net income	$ 7,202,917	$ 5,005,320
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of capital assets	1,074,234	977,188
Amortization of premiums on fixed income securities	2,058,384	343,835
Net deferred loan administration fees and costs	314,388	478,495
Realized losses on available for sale investments	489,767	536,355
Unrealized gains on trading investments	(299,425)	–
Provision for losses on foreclosed assets	–	24,750
Gain on sale of foreclosed assets	–	(14,353)
Provision for credit losses	(624,341)	1,131,391
Net changes in non-cash balances relating to operations:		
Accrued interest on cash and cash equivalents and investments	(235,939)	(103,010)
Accrued interest on loans, mortgages and credit card receivables	(333,735)	(562,237)
Due from related parties	474,227	(1,349,159)
Accounts receivable and prepaid expenses	85,289	(19,519)
Accrued interest on deposits	(2,231,180)	2,143,096
Due to related parties	–	(249,423)
Accounts payable and accrued liabilities	(687,996)	(694,013)
Net cash provided by operating activities	7,286,590	7,648,716
Cash flows from investing activities		
Loans and mortgage originations and principal collections, net	(44,963,787)	(69,994,640)
Net purchase of available for sale investments	(39,450,508)	(6,681,923)
Net purchase of trading investments	(10,783,594)	–
Purchase of capital assets	(5,734,586)	(6,220,020)
Proceeds from disposal of foreclosed assets	–	1,174,357
Net cash used in investing activities	(100,932,475)	(81,722,226)
Cash flows from financing activities		
Net increase in due to depositors	128,742,537	90,549,610
Net cash provided by financing activities	128,742,537	90,549,610
Net increase in cash and cash equivalents with banks	35,096,652	16,476,100
Cash and cash equivalents with banks, beginning of year	44,481,581	28,005,481
Cash and cash equivalents with banks, end of year	$ 79,578,233	$ 44,481,581

See accompanying notes to consolidated financial statements

(Expressed in Bermuda Dollars)

	2005	2004
Represented by:		
Demand deposits	$ 75,919,268	$ 42,460,278
Short-term securities	2,642,841	996,921
Time deposits	1,016,124	1,024,382
	$ 79,578,233	44,481,581
Supplementary cash flow information:		
Interest paid	$ 25,663,173	$ 21,390,102

See also Note 7 for non-cash transactions related to foreclosed assets.

See accompanying notes to consolidated financial statements

1. **General**

CAPITAL G Bank Limited (the "Bank") is incorporated under the laws of Bermuda as a wholly owned subsidiary of CAPITAL G Limited. During the year ended January 31, 2002 the Bank received its banking license under the Bank and Deposit Companies Act, 1999 (the "Act"). The Bank is involved in community banking and provides retail and private banking services to individuals, and commercial banking services to some small to medium-sized businesses. The services offered include deposit-taking services, consumer, commercial and mortgage lending, credit cards, and letters of credit. The Bank operates out of one location in Bermuda. For management monitoring and reporting purposes, the operations of the Bank are considered one business segment.

2. **Summary of significant accounting policies**

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in Bermuda and Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. The following are the significant accounting policies adopted by the Bank:

(a) Basis of consolidation

The consolidated financial statements include the assets and liabilities and results of operations of the Bank and its wholly owned subsidiary, CAPITAL G Card Services Limited, a Bermuda-based credit card company. Inter-company transactions and balances are eliminated on consolidation.

(b) Investments - available for sale

Investments available for sale are carried at cost or amortized cost. Where a decline in value of an investment available for sale is considered to be other than temporary, the cost of the investment is written down to its fair value which then becomes the new cost basis. Such investments are not subsequently written up for subsequent increases in fair value. Interest income is recognized on the accrual basis. Premiums and discounts on debt securities are amortized to interest income over the period to maturity using the effective interest method. Realized gains and losses on the sale of investments available for sale are recorded on the trade date and are determined using the average cost basis.

Investments - trading

Investments in the trading portfolio are intended to be held for a short period of time. They are carried at fair value and any changes in fair value of these investments are included in the consolidated statement of income and retained earnings. Interest income is recognized on the accrual basis. Premiums and discounts on debt securities are amortized to interest income over the period to maturity using the effective interest method. Realized gains and losses on the sale of investments held for trading are recorded on the trade date and are determined using the average cost basis.

2. **Summary of significant accounting policies** (continued)

(c) Loans and mortgages receivable

Loans and mortgages receivable are carried at the unpaid principal balance net of deferred administration fees and costs and net of an allowance for credit losses (Note 5). Interest income is accounted for on the accrual basis, except on loans and mortgages classified as impaired. In the opinion of management, a loan or mortgage is considered impaired when there has been a deterioration in credit quality to the extent that there is no longer reasonable assurance as to the timely collection of the full amount of principal and interest. Loans and mortgages where interest or principal is contractually past due 90 days or more are automatically classified as impaired, unless management determines that the loan or mortgage is fully secured, in the process of collection and the collection efforts are reasonably expected to result in repayment of the loan or mortgage and overdue interest in full. Any credit card balance that has a payment that is contractually 90 days in arrears is also considered impaired.

When a loan is classified as impaired, recognition of interest in accordance with the terms of the original loan agreement ceases. Subsequent payments (interest or principal) received on an impaired loan are recorded as a reduction of the recorded investment in the loan. Loans are generally returned to accrual status when the timely collection of both principal and interest is reasonably assured and all delinquent principal and interest payments are brought current.

(d) Allowance for credit losses

The adequacy of the allowance for credit losses on loans, mortgages and credit card receivables is regularly reviewed by management taking into consideration matters such as current economic conditions, past loss experience, and individual circumstances which may affect a borrower's future ability to pay. The allowance for credit losses is established by charges against income and a corresponding reduction of the related asset, based on management's assessment of the amount required to meet possible future losses arising on the portfolios of loans, mortgages and credit card receivables. The allowance for credit losses consists of specific and general provisions. The specific provision is the amount required to reduce the carrying value of an impaired loan to its estimated realizable amount. Generally, the estimated realizable amount is determined by discounting the expected future cash flows at the effective interest rate inherent in the loan at the date of the impairment. When the amounts and timing of future cash flows cannot be measured with reasonable reliability, the fair value of any security underlying the loan, net of any expected realization costs and any amounts legally required to be paid to the borrower, is used to measure the estimated realizable amount. The change in the present value attributable to the passage of time on the expected future cash flows is reported as a reduction of the provision for credit losses in the consolidated statement of income and retained earnings. Specific provisions for credit card loans are determined using a formula method based on historical experience.

General provisions are estimated to absorb probable credit losses on aggregate exposures for which losses are not yet specifically identified on an item-by-item basis. The general allowance is based upon analysis of past performance, the current portfolio profile and management's judgment.

The amount of the provision for credit losses that is charged to the consolidated statement of income and retained earnings is the actual net credit loss experience for the year. It is the amount that is required to establish a balance in the allowance for credit losses account that the Bank's management considers adequate to absorb all credit-related losses after charging amounts written off during the year, net of recoveries, to the allowance for credit losses account.

2. **Summary of significant accounting policies** (continued)

(e) Loans and mortgage administration fees and costs

Administration fees charged for the granting of mortgages and loans, net of related direct origination costs, are deferred and recognized over the contractual life of the mortgage or loan as an adjustment of yield using the interest method. Administration fees earned are included in fee income. The Bank has net unamortized deferred administration fees of $1,238,137 at January 31, 2005 (2004 - $1,084,862), which are included in loans and mortgages receivable. Commitment fees are treated on the same basis if there is reasonable expectation that the commitment will be called upon and will result in a loan; otherwise, the fees are deferred and recognized as other income over the term of the commitment.

(f) Foreclosed assets

Foreclosed assets are carried at the lower of the related loan balance or the appraised value of the asset acquired at the time of foreclosure, net of any expected disposal costs. Revenue and expenses from operations of foreclosed assets, changes in the valuation allowance, and any further gains or losses arising on disposal are included in net foreclosed assets expense in the consolidated statement of income and retained earnings as they occur.

(g) Capital assets and amortization

Capital assets are stated at cost less accumulated amortization. They are amortized on a straight-line basis over their estimated useful lives, which have been determined as 40 years for buildings, 5 years for furniture and fixtures, 3 to 5 years for computer systems and equipment, and the shorter of the term of the respective lease or estimated useful life for leasehold improvements. Artwork is not amortized. No amortization is recorded in the year of purchase.

(h) Interest expense

Interest expense is recognized on the accrual basis.

(i) Cash and cash equivalents

For purposes of the statement of cash flows, the Bank considers all time deposits with an original maturity of 90 days or less and short-term securities readily convertible to known amounts of cash as equivalent to cash.

(j) Swap contracts

The Bank enters into interest rate swap contracts as part of its interest rate risk management program. Interest rate swap contracts are financial transactions in which two counterparties exchange fixed or floating interest cash flows over a period of time based on rates applied to defined notional principal amounts. Their value is derived from the interest rates specified in the contracts.

The Bank also enters into equity swap contracts to hedge its equity index exposure under deposit products that pay returns based on the performance of an equity index. Equity swap contracts are financial transactions in which two counterparties exchange interest rate-based cash flows for cash flows based on the return of an equity index over a period of time applied to defined notional principal amounts. Their value is derived from the interest rate and equity index specified in the contracts.

The Bank enters into swap contracts in the ordinary course of business. The swap contracts are privately negotiated in the over-the-counter market with international investment banks, which act as counterparties to the contracts.

2. **Summary of significant accounting policies** (continued)

(j) Swap contracts (continued)

Swap contracts entered into for the purpose of managing the Bank's interest rate and equity index exposures that qualify as hedges (Note 9) are accounted for on the accrual basis. Interest income received and interest expense paid on swap contracts are accrued as adjustments to the yield of the specific deposit liabilities being hedged over the term of the swap contracts. Net accrued interest receivable and payable for these contracts are recorded in accrued interest on deposits. Realized gains and losses from the settlement or early termination of swap hedge contracts are deferred and amortized as a yield adjustment of the specific deposit liabilities that were being hedged over the remaining original life of the swap hedge contracts. Subsequent changes in the fair value of swap contracts originally identified as hedges, but which are no longer effective as hedges, are redesignated as income from trading and are reported in other income.

(k) Translation of foreign currencies

Assets and liabilities arising from foreign currency transactions are translated into Bermuda dollars at the rates of exchange prevailing at the balance sheet date, while associated revenues and expenses are translated into Bermuda dollars at the actual rates of exchange prevailing at the date of the transaction. Resulting gains or losses are included as foreign exchange income or loss in the consolidated statement of income and retained earnings.

3. **Investments**

The amortized cost and fair values of investments available for sale as at January 31, 2005 are as follows:

	Amortized cost/ cost	Unrealized gains	Unrealized losses	Fair value
Foreign fixed income securities				
US government and agency	$ 98,783,155	$ 19,977	$ (1,020,795)	$ 97,782,337
Asset-backed securities	54,284,157	356,603	(277,263)	54,363,497
Corporate	10,591,474	38,553	(69,051)	10,560,976
Other government and international organizations	17,221,723	122,173	(71,582)	17,272,314
Total available for sale investments	$ 180,880,509	$ 537,306	$ (1,438,691)	$ 179,979,124

3. **Investments** (continued)

The amortized cost and fair values of investments available for sale as at January 31, 2004 are as follows:

	Amortized cost/ cost	Unrealized gains	Unrealized losses	Fair value
Bermuda quoted equity investments	$ 25,185	$ 36,061	$ –	$ 61,246
Foreign fixed income securities				
US government and agency	58,796,803	976,568	(43,086)	59,730,285
Asset-backed securities	57,761,696	1,206,200	(317,064)	58,650,832
Corporate	12,439,275	373,459	(5,510)	12,807,224
Other government and international organizations	14,887,824	730,948	–	15,618,772
Total available for sale investments	$ 143,910,783	$ 3,323,236	$ (365,660)	$ 146,868,359

No aggregate investment in securities of any one issuer, other than the US government and certain of its agencies, represents greater than 5% of total investments.

3. **Investments** (continued)

The market value of the Bank's investments may be affected by changes in the level of prevailing interest rates. The following table indicates the fair value, and terms to maturity of the Bank's foreign fixed income securities at January 31:

	2005				2004
	Maturing within 1 year	Maturing in 1 to 5 years	Maturing after 5 years	Total	Total
Investments - available for sale					
US government and agency	$ 34,305,277	$ 63,477,060	$ –	$ 97,782,337	$ 59,730,285
Asset-backed securities	2,304,464	12,295,803	39,763,230	54,363,497	58,650,832
Corporate	576,879	9,984,097	–	10,560,976	12,807,224
Other government and international organizations	8,988,069	8,284,245	–	17,272,314	15,618,772
Total	46,174,689	94,041,205	39,763,230	179,979,124	146,807,113
Investments - trading					
US government and agency	–	4,673,098	6,342,552	11,015,650	–
Total investments	$ 46,174,689	$ 98,714,303	$ 46,105,782	$ 190,994,774	$ 146,807,113
Yield	2.82%	3.52%	4.13%	3.49%	2.08%

Investments classified as available for sale are carried at amortized cost. Trading investments are carried at fair value. Actual maturities may differ from the stated maturities reflected above because certain investments may have call or prepayment features and asset-backed securities are shown at their legal final maturity and not their weighted average life.

Investments in securities include $176,179,390 (2004 - $135,674,401) of fixed rate investments and $14,815,384 (2004 - $11,132,712) of floating rate investments. The approximate yield on the fixed rate securities at January 31, 2005 was 3.48% (2004 - 2.14%), while the approximate yield on the floating rate securities was 3.61% (2004 - 1.37%).

All investments in foreign fixed income securities have a credit rating of "A" or better.

4. Loans, mortgages and credit card receivables

The Bank's loans, mortgages and credit card receivables, net of net unamortized deferred administration fees and the allowance for credit losses are as follows:

	January 31, 2005	January 31, 2004
Mortgages	$ 503,899,854	$ 454,473,770
Loans and chattel mortgages	61,224,847	66,962,289
Credit card receivables	8,706,102	8,086,827
	573,830,803	529,522,886
Allowance for credit losses on loans, mortgages and credit card receivables (Note 5)	(3,303,597)	(4,006,666)
	$ 570,527,206	$ 525,516,220

The Bank had the following investments in mortgages, loans and credit card receivables that are considered to be impaired:

	January 31, 2005			January 31, 2004 (Note 19)
	Gross loans	Specific allowance	Net	Net
Mortgages	$ 2,577,356	$ (432,329)	$ 2,145,027	$ 1,155,732
Loans and chattel mortgages	1,242,151	(476,682)	765,469	180,066
Credit card receivables	1,197,285	(819,496)	377,789	118,543
Total impaired loans	$ 5,016,792	$ (1,728,507)	$ 3,288,285	$ 1,454,341

The majority of mortgages are secured by Bermuda residential property. Mortgages receivable are repayable in monthly or periodic installments over periods not exceeding 31 years (2004 - 30 years). The weighted average time remaining to maturity for mortgages is 15 years (2004 - 16 years). Loans and chattel mortgages are repayable in monthly or periodic installments over terms not exceeding 30 years (2004 - 30 years), and may be amortized or may be payable in total at maturity with interest being paid monthly. The Bank holds deeds on properties and other assets in connection with certain loans. Other loans receivable are in the form of unsecured promissory notes. Credit card receivables bear interest at 14% to 14.5% (2004 - 14% to 14.5%) and are unsecured. The effective yield on total loans and mortgages receivable at January 31, 2005 is 7.05% (2004 - 7.10%).

An administration fee of up to 2% (2004 - 2%) may be levied at the inception of a loan or mortgage and is deferred and amortized to maturity of the related loan or mortgage using the interest method.

4. **Loans, mortgages and credit card receivables** (continued)

At January 31, 2005, loans, mortgages and credit card receivables included $1,743,681 (2004 - $924,336) receivable from directors, and $19,659,589 (2004 - $18,896,780 (Note 19)) receivable from employees of the Bank or employees of companies under common control with the Bank. Mortgages and loans receivable from directors and employees are part of the Bank's staff loan program, which offers reduced interest rates ranging from 1.79% to 10.0% (2004 - 1.66% to 10.0%), which are below those offered to unrelated parties. Administration fees are not charged on staff loans. All other terms of staff loans are the same as those granted to unrelated parties.

5. **Allowance for credit losses**

The allowance for credit losses on loans, mortgages and credit card receivables is deducted from loans and mortgages receivable in the balance sheet. Changes in the allowance for credit losses comprise the following:

	2005			2004
	Specific	General	Total	Total
Beginning balance	$ 1,440,904	$ 2,565,762	$ 4,006,666	$ 4,420,990
Foreclosed assets transferred to other assets (Note 7)	–	–	–	(510,195)
Net write offs	(78,728)	–	(78,728)	(1,035,520)
Provisions made during the year	366,331	(990,672)	(624,341)	1,131,391
Ending balance	$ 1,728,507	$ 1,575,090	$ 3,303,597	$ 4,006,666

6. **Capital assets**

	2005			2004
	Cost	Accumulated amortization	Net book value	Net book value
Buildings	$ 17,144,170	$ 1,591,800	$ 15,552,370	$ 15,837,410
Furniture and fixtures	3,643,255	2,089,077	1,554,178	924,566
Computer systems and equipment	2,953,394	1,061,459	1,891,935	1,477,882
Leasehold improvements	5,653,678	–	5,653,678	1,957,992
Artwork	388,363	–	388,363	182,322
	$ 29,782,860	$ 4,742,336	$ 25,040,524	$ 20,380,172

The cost and accumulated amortization of capital assets as at January 31, 2004 were $24,687,307 and $4,307,135, respectively.

7. **Foreclosed assets**

The Bank, during the ordinary course of operations, forecloses on certain assets pledged as collateral for impaired loans and mortgages. These assets are carried at the lower of the related mortgage/loan balance or an independently appraised value of the collateral at the time of the foreclosure, less any expected disposal costs. Foreclosed assets of $4,068,679 (2004 - $3,805,925) were outstanding as at January 31, 2005. During the year, assets on which the Bank foreclosed, valued at $262,754, representing a gross investment in impaired loans of the same amount, were transferred from loans, mortgages and credit card receivables to foreclosed assets.

Foreclosed assets are presented net of an allowance for losses. An analysis of the allowance for losses on foreclosed assets is as follows:

	2005	2004
Balance at beginning of year	$ 24,750	$ –
Provision for losses	–	24,750
Balance at end of year	$ 24,750	$ 24,750

Expenses applicable to foreclosed assets include the following:

	2005	2004
Gain on sale of real estate	$ –	$ (14,353)
Provision for losses	–	24,750
Operating expenses, net	197,685	589,984
Foreclosed assets expense, net	$ 197,685	$ 600,381

8. **Due to depositors**

Total deposits include $75,017,209 (2004 - $38,789,003) denominated in United States dollars. All deposits are originated in Bermuda.

The following is a summary of interest bearing deposits by time remaining to maturity as at January 31:

	2005		2004	
	Average effective interest rate	Amount	Average effective interest rate	Amount
Demand	1.73%	$ 289,751,341	2.04%	$ 214,363,673
Up to 3 months	2.71%	241,022,909	2.80%	187,618,836
3 - 6 months	3.22%	61,449,645	3.57%	52,035,100
6 - 12 months	4.35%	84,102,611	4.63%	69,125,054
1 - 5 years	4.15%	138,981,486	5.01%	150,686,458
No maturity date	–	–	6.78%	12,736,334
Total		$ 815,307,992		$ 686,565,455

9. **Swap contracts and risk management**

The Bank enters into interest rate and equity swap contracts to manage the risks associated with certain of its deposit products. The Bank hedges selected interest rate exposures through interest rate swap contracts, which are linked to and adjust the interest rate sensitivity of specific deposit liabilities. These are hedges which modify exposure to interest rate risk by converting fixed rate deposit liabilities to a floating rate. The Bank hedges its equity index exposure under deposit products that pay returns based on the performance of an equity index through equity swap contracts, which are linked to and adjust the equity index sensitivity of specific deposit liabilities. These are hedges which modify exposure to market risk by converting equity index-linked deposit liabilities to floating interest rate deposit liabilities.

Interest rate and market risks

Interest rate risk and market risk may be encountered when short-term changes in market interest rates and equity markets unfavorably decrease the fair value of these instruments or make them more onerous. These risks however are mitigated, to the extent that the hedge contracts are effective hedges on maturing deposit liabilities. Any decrease in the value of these contracts is offset by a reciprocal decrease in the fair value of the deposit obligations being hedged under an effective hedge.

Hedge accounting

A swap contract will qualify as a hedge if the hedge relationship is designated and the particular risk management objective and strategy for the hedge are formally documented at inception. In addition, changes in the fair value of the derivative must be highly effective in offsetting changes in the fair value of the hedged deposit liabilities. The effectiveness of these hedging relationships is continually evaluated using quantifiable measures. If a hedge relationship is found to be ineffective, the swap contract is redesignated as trading income and any further changes in fair value are reported in other income.

Interest rate swap contracts

The Bank is party to interest rate swap contracts. The purpose of these contracts is to manage the interest rate risk on certain deposit liabilities bearing fixed interest rates and maturing in 2 to 31 months (2004 - 1 to 34 months).

In general, the Bank pays the counterparty to the contracts a floating rate component while receiving a fixed rate based on the notional amount of the contracts. The notional amount is the amount to which the fixed or floating interest rate is applied to determine the exchange of cash flows. At January 31, 2005 the notional amount of interest rate swap contracts was $57,623,000 (2004 - $63,963,000), all of which expire in two months to three years (2004 - one month to three years). Payment and receipt of interest is settled net on a quarterly calendar basis. At January 31, 2005 the Bank has entered into interest rate swap agreements to receive a weighted average fixed rate of 2.80% (2004 - 3.03%) in return for paying floating rates, which at year-end had a weighted average of 2.47% (2004 - 1.16%) . At January 31, 2005, the net monetary exposure to the counterparty to these contracts, including fixed and floating interest receivable and payable and any mark-to-market repricing is $338,279 in favour of the counterparty (2004 - $810,058 in favour of the Bank). The fair value of interest rate swap contracts, as determined using the mark-to-market repricing, at January 31, 2005 is $390,586 in favour of the counterparty (2004 - $655,793 in favour of the Bank).

Equity swap contracts

The Bank is party to several equity swap contracts. The purpose of these contracts is to manage the equity market risk on certain deposit liabilities that will pay a return based on the performance of an equity index and mature in 3.9 to 4.7 years (2004 - 4.9 years).

9. **Swap contracts and risk management** (continued)

Equity swap contracts (continued)

The Bank pays the counterparty to the contracts a floating interest rate component and will receive an equity index-linked return based on the notional amount of the contracts. The notional amount is the amount to which the equity-linked return and the floating interest rate is applied to determine the exchange of cash flows. At January 31, 2005, the notional amount of equity swap contracts was $16,835,776 (2004 - $8,634,310), which expire in 3.9 to 4.7 years (2004 - 4.9 years). Payment of interest is made on a quarterly calendar basis while payment of the equity-linked return will occur only at expiration of the swap contract. The net monetary exposure to the counterparty at January 31, 2005, including interest payable and mark-to-market repricing is $256,638 in favour of the Bank (2004 - 231,608 in favour of the counterparty). The fair value of the contracts, as determined using the mark-to-market repricing, at January 31, 2005 is $306,383 in favour of the Bank (2004 - $218,343 in favour of the counterparty).

Notional amounts

The notional amounts given above are not recorded as assets or liabilities on the consolidated balance sheet. They represent the extent of the Bank's participation in the contracts and do not represent the potential gain or loss associated with market risk or credit risk of the swap contracts.

Fair values

The fair values given above are defined as the profit or loss associated with replacing the swap contracts at prevailing market rates. Swap contracts have no market value at inception. They obtain value, positive or negative, as relevant interest rates or indices change, such that the terms have become more or less favourable than what can be negotiated under current market conditions for contracts with the same remaining period to maturity. The potential for swap contracts to increase or decrease in value as a result of the foregoing factors is generally referred to as market risk. Market risk is managed within clearly defined parameters as prescribed by senior management of the Bank.

Credit risk

The Bank encounters credit risk to the extent that the counterparties may fail to fulfill their obligations under swap contracts. The credit risk associated with swap contracts is normally a small fraction of the notional amounts. Swap contracts expose the Bank to credit loss only if changes in market rates affect a counterparty's position unfavourably and the counterparty defaults on payment. Accordingly, the credit risk of swap contracts is represented by their replacement value. In response to this the Bank manages credit risk by dealing with large, reputable international banking institutions that it believes are creditworthy and by entering into master netting arrangements with counterparties. Such agreements provide for the simultaneous close out and netting of all transactions with counterparties in an event of default.

10. Fair value of financial instruments

The following table shows the fair value of the Bank's financial instruments:

		Carrying Value		Fair Value		Favourable (unfavourable)
Assets						
Cash and cash equivalents with banks	$	79,578,233	$	79,578,233	$	–
Investments – available for sale		180,880,509		179,979,124		(901,385)
Investments – trading		11,015,650		11,015,650		–
Loans, mortgages and credit card receivables, net		570,527,206		570,522,880		(4,326)
Accrued interest		5,652,381		5,652,381		–
Other		6,210,948		6,210,948		–
Liabilities						
Due to depositors	$	815,307,992	$	817,714,649	$	(2,406,657)
Accrued interest on deposits		19,037,119		19,037,119		–
Other		1,499,161		1,499,161		–
Derivatives						
Interest rate swaps	$	–	$	(390,586)	$	(390,586)
Equity-linked swaps		–		306,383		306,383

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. Some of the Bank's financial instruments lack an available trading market. Therefore, these instruments have been valued using present value or other valuation techniques and may not necessarily be indicative of the amount realizable in an immediate settlement of the instruments. In addition, the calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

The book value of financial assets and financial liabilities held for purposes other than trading may exceed their fair value due primarily to changes in interest rates. In such instances, the Bank does not reduce the book value of these financial assets and financial liabilities to their fair values as it is the Bank's intention to hold them for the long term.

The following methods and assumptions were used in the determination of the fair value of financial instruments:

Cash and cash equivalents with banks

The fair values of cash and cash equivalents with banks approximate their carrying value as they are short-term in nature.

Investments

The fair values of investments are based upon quoted market prices where available, as provided in Note 3.

10. **Fair value of financial instruments** (continued)

Loans, mortgages and credit card receivables, net

Fair value has been estimated by performing a discounted cash flow calculation using market rates for similar loans made at the balance sheet date. Other pertinent information relating to the principal characteristics of loans, mortgages and credit card receivables can be found in Note 4.

Accrued interest

The carrying values of accrued interest receivable and payable are assumed to approximate their fair values given their short-term nature.

Deposits

The fair value of fixed rate deposits has been estimated by discounting the contractual cash flows, using market interest rates offered at the balance sheet date for deposits of similar terms. The fair value of deposits with no stated maturity date is considered equal to carrying value as the Bank can choose to call these deposits at any time.

Swap contracts

The fair value of over-the-counter swap contracts is calculated as the net present value of contractual cash flows using prevailing market rates.

Other

The fair values of other financial assets and liabilities approximate their carrying amounts as they are generally due on demand or otherwise earn interest at market interest rates.

The aggregate of the estimated fair value amounts presented does not represent management's estimate of the underlying value of the Bank in part because the fair values disclosed exclude premises and equipment, foreclosed assets and certain other assets and liabilities as these are not financial instruments.

11. Interest rate risk

The following table sets out the assets, liabilities and off-balance sheet instruments on the date of the earlier of contractual maturity or repricing date. Use of this table to derive information about the Bank's interest rate risk position is limited by the fact that customers may choose to terminate their financial instruments at a date earlier than contractual maturity or repricing date. Examples of this include fixed rate loans, which are shown at contractual maturity but which may pre-pay earlier, and certain term deposits, which are shown at contractual maturity but which may be withdrawn before their contractual maturity and certain investments which have call or pre-payment features.

	Within 3 mths	After 3 mths but within 6 mths	After 6 mths but within 1 year	After 1 year but within 5 years	After 5 years	Non Interest bearing funds	Total
Assets							
Cash and cash equivalents with banks	$ 79,578,233	$ –	$ –	$ –	$ –	$ –	$ 79,578,233
Investments – available for sale	3,499,563	15,263,361	28,100,158	94,278,154	39,739,273	–	180,880,509
Investments – trading	–	–	–	4,673,098	6,342,552	–	11,015,650
Loans	527,212,289	8,049,878	25,581,653	8,040,771	1,642,615	–	570,527,206
Other assets	–	–	–	–	–	15,932,008	15,932,008
Capital assets	–	–	–	–	–	25,040,524	25,040,524
Total assets	610,290,085	23,313,239	53,681,811	106,992,023	47,724,440	40,972,532	882,974,130
Due to depositors	530,774,250	61,449,645	84,102,611	138,981,486	–	–	815,307,992
Other liabilities	–	–	–	–	–	20,536,280	20,536,280
Shareholder's equity	–	–	–	–	–	47,129,858	47,129,858
Total liabilities and shareholder's equity	530,774,250	61,449,645	84,102,611	138,981,486	–	67,666,138	882,974,130
Off balance sheet items	(65,588,776)	–	18,543,000	47,045,776	–	–	–
Interest sensitivity gap	$ 13,927,059	$ (38,136,406)	$ (11,877,800)	$ 15,056,313	$ 47,724,440	$ (26,693,606)	$ –
Cumulative interest rate sensitivity gap	$ 13,927,059	$ (24,209,347)	$ (36,087,147)	$ (21,030,834)	$ 26,693,606	$ –	$ –

12. **Related party transactions and balances**

All related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Amounts listed in the balance sheet as due from related parties have no stated maturity or repayment terms, and are interest free.

The following summary provides information on related party transactions and balances not presented elsewhere in these financial statements.

Statement of Income and Retained Earnings	2005	2004 (Note 19)
Interest income from loans and mortgages	$ 1,501,348	$ 1,071,728
Interest expense	$ 1,113,487	$ 1,061,002
Rent income	$ 308,775	$ 307,175
General and administrative expenses	$ 617,772	$ 654,788

Included in general and administrative expenses are $190,228 (2004 - $267,850) and $427,544 (2004 - $352,365) in expenses paid to Gibbons Management Services Limited and CAPITAL G Limited, respectively, for group-allocated administrative overheads.

During the year ended January 31, 2005, the Bank recharged $272,100 to CAPITAL G Limited and companies under common control, representing portions of certain Bank employees' salaries, for services provided by the Bank. This amount has not been included in salaries and other employee benefits in the consolidated statement of income and retained earnings.

Similarly, during the year the Bank was charged $1,262,904 by CAPITAL G Limited and companies under common control representing portions of certain of their employees' salaries provided to the Bank. This amount has been included in salaries and other employee benefits in the consolidated statement of income and retained earnings.

Balance Sheet	2005	2004 (Note 19)
Included in loans and mortgages receivable:		
Loan to CAPITAL G Limited	$ 4,600,927	$ 6,367,228
Loan and mortgage receivable from Gibbons Management Services Limited	$ 8,478,518	$ 3,597,616
Long term loan to Edmund Gibbons Limited	$ 2,164,000	$ 2,368,000
Mortgage receivable from CAPITAL G Investments Limited	$ 911,335	$ 1,250,081
Loans and mortgages receivable from other companies under common control	$ 488,157	$ 566,527
Loans and mortgages receivable from other related parties	$ 10,587,929	$ 9,592,487
Accrued interest on loans and mortgages receivable from all related parties	$ 423,993	$ 593,846

12. **Related party transactions and balances** (continued)

Balance Sheet (continued)		2005		2004 (Note 19)
Included in liabilities:				
Due to depositors	$	25,873,274	$	24,743,366
Accrued interest on deposits	$	2,827,265	$	2,178,700

The loan to CAPITAL G Limited is secured by a guarantee from Edmund Gibbons Limited for the full amount of the loan. The loan bears interest at 7.00% (2004 - 7.00%) annually and is for a term of five years.

The loan and mortgage receivable from Gibbons Management Services Limited is secured by a $6,750,000 (2004 - $6,750,000) deposit of deeds over property. This loan bears interest at a rate of 7.50% (2004 - 8.50%) annually.

The long-term loan to Edmund Gibbons Limited is secured by real estate, interest free and repayable on demand, but no later than April 1, 2015.

The mortgage receivable from CAPITAL G Investments Limited is secured by the assets of its subsidiary, CAPITAL G Asset Management Limited. The interest rate on the mortgage is floating and at January 31, 2005 the mortgage carried an interest rate of 3.81% (2004 - 2.62%). Principal payments are $340,000 each year until the mortgage matures on May 16, 2007.

The deposits are part of the Bank's ordinary course of business and offer the same terms as deposits held for unrelated parties.

13. **General reserve**

A general reserve of $1,000,000 was established by the directors at January 31, 1995. Over time, this reserve was increased to $10,000,000 through transfers from retained earnings. Transfers back to retained earnings from the general reserve can be made at the discretion of the Board of Directors.

14. **Concentrations of credit risk**

A substantial portion of the loans and mortgages receivable are due from residents of Bermuda and are secured by residential property in Bermuda. The Bermuda economy is largely dependent upon tourism and international business services and the health of those sectors depends to a large extent upon the strength of US and European economies. Generally the Bank protects against credit losses by securing underlying assets as collateral for the mortgages and loans issued.

Cash in the form of demand deposits amounting to $47,425,490 (2004 - $25,056,567) is held with one international bank.

15. **General and administrative expenses**

General and administrative expenses consist of the following:

	2005	2004
Advertising	$ 371,176	$ 269,210
Computer expense	1,505,137	985,272
Credit and debit card expense	867,155	768,071
Directors' fees and expenses	38,032	62,645
Foreign exchange fees	–	70,222
Investment expenses and bank charges	748,442	426,260
License and insurance	484,878	472,376
Office expense	1,837,710	1,184,903
Professional fees	637,468	328,711
Rent	728,735	199,117
Miscellaneous	923,355	705,463
Total general and administrative expenses	$ 8,142,088	$ 5,472,250

16. **Pension expense**

The Bank's employees participate in a defined contribution pension plan sponsored by a company under common control. During the year ended January 31, 2005 contributions of $232,948 (2004 - $157,615) equating to the service cost for the year were made to the plan by the Bank, on behalf of its employees.

17. **Cash and restricted cash**

Cash and cash equivalents with banks include a term deposit for US$1,016,124 (2004 - US$1,024,382) which is pledged to another bank that has issued a standby letter of credit in favour of the Bank expiring on August 22, 2005.

The average effective interest rate earned on cash and cash equivalents as at January 31, 2005 is 1.64% (2004 -0.42%).

18. **Commitments and guarantees**

The Bank's commitment for undrawn mortgages and loans amounted to $50,328,453 at January 31, 2005 (2004 - $37,903,935).

18. **Commitments and guarantees** (continued)

As at January 31, 2005 the Bank has contractually committed to incur capital costs of $16,170 (2004 - $3,750,588) for leasehold improvements relating to the lease of a building. The lease is an operating lease and it expires on January 31, 2023. Future minimum lease payments under the lease are as follows:

Fiscal Year		
2006	$	600,000
2007		600,000
2008		600,000
2009		600,000
2010		600,000
Thereafter		7,800,000
	$	10,800,000

The Bank is contingently liable for letters of credit and guarantees amounting to $1,200,000 as at January 31, 2005 (2004 - $1,108,000 (Note 19)). Of this amount $400,000 has been provided to a company under common control. The terms of these guarantees and letters of credit do not exceed one year.

Letters of credit and guarantees are issued at the request of a Bank customer in order to secure the customer's payment or performance obligations to a third party. These guarantees represent an irrecoverable obligation of the Bank to pay the third party beneficiary upon presentation of the guarantee and satisfaction of the documentary requirements stipulated therein, without investigation as to the validity of the beneficiary's claim against the customer.

The carrying value of all the commitments and guarantees discussed above on the January 31, 2005 consolidated balance sheet is $nil.

19. **Comparative figures**

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

20. **Litigation**

The Bank is involved in certain litigation matters in the ordinary course of business, all of which management intends to contest vigorously. Management, considering recent legal advice, does not believe that any such litigation will have a material effect on the Bank's future results from operations or its financial condition.

CAPITAL G BANK ®