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CAPITAL G Bank Limited

Corporate Profile

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 remains 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. Effective February 1, 2006, the Company purchased CAPITAL G Trust Limited from CAPITAL G Limited, with the intention of fully integrating trust services into its Select Private Banking group.

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.

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CAPITAL G Bank Limited
5 Year Financial Highlights

CAPITAL G BANK

(in $ thousands except per share data)	Year Ended January 31				
	2006	2005	2004	2003	2002
Net income	**8,083**	7,203	5,005	794	2,804
Net income per share	**$1.62**	$1.44	$1.00	$0.16	$0.56
At Year End					
Total Assets	**922,600**	882,974	749,948	653,193	570,049
Cash and deposits with banks	**68,426**	79,578	44,482	28,005	33,400
Securities	**184,297**	191,896	143,911	138,109	116,021
Loans, mortgages and credit card receivables	**628,165**	570,527	525,516	457,151	397,495
Customer deposits	**854,901**	815,308	686,565	596,016	515,404
Shareholder's equity	**53,650**	47,130	39,927	34,922	34,128
Net book value per share	**$10.73**	$9.43	$7.99	$6.98	$6.83
Number of shares issued (in thousands)	**5,000**	5,000	5,000	5,000	5,000
Number of employees	**111**	98	71	60	37
Financial ratios					
Return on assets	**0.90%**	0.88%	0.71%	0.13%	0.54%
Return on equity	**16.04%**	16.55%	13.37%	2.30%	8.47%
Total equity to total assets	**5.82%**	5.34%	5.32%	5.35%	5.99%
Total cash and deposits with banks and securities to customer deposits	**29.56%**	33.30%	27.44%	27.87%	28.99%

CAPITAL G Bank Limited

President & Chief Executive Officer's Report

I am very pleased to report that the Bank again achieved record earnings this year, with net income reaching $8.1 million. Our deposits grew to $855 million at year-end, up 5% from last year, while total assets reached $923 million, 4% higher than the previous year. This record performance was achieved during a year that saw considerably increased competition and pressure on interest rates, as well as our continued significant investment in building our businesses.

Our new branch at 19 Reid Street in Hamilton, opened in mid-2005, continues to draw new customers to all of our products and services, and with its large glass frontage allows us to provide attractive window displays, highlighting for the public many of our product offerings as well as several community projects throughout the year.

We again introduced several new CD products carrying special rates, including a 2 year "Trade-Up" CD and more recently the "5 for 50" CD, paying a 5% interest rate for 50 months. We offered another two tranches of our Stock Market CD, a 5 year fixed term deposit with a yield tied directly to the S&P 500 Index®, while our FedFunds accounts, introduced in 2004 and which pay interest linked to the overnight federal funds rate, continued to prove extremely attractive, growing by more than 240% over the year. In spite of an increasingly competitive environment, loans grew by over 10% with customers continuing to be drawn by our superior service, ability to provide customized solutions and fast turnaround time for approvals.

Towards the end of the year, we launched Select Private Banking, an exclusive division of the Bank that provides wealth management services to high net worth clients, providing tailored solutions for all of a client's banking, investment, insurance, trust and wealth management needs in a one-stop shopping environment staffed by highly skilled professionals and relationship managers. Our Select Private Banking Centre is located on a private floor within CAPITAL G Bank, where clients can be assured of receiving personal and customized service.

As part of the CAPITAL G group, the Bank is a strong supporter of local charities, youth education and community family events such as the Iron Kids Triathlon, as well sponsoring as a number of Bermuda's athletes.

On behalf of all of the Bank's management, I would like to thank our employees for continuing to deliver superior and highly professional services to our customers and helping our team to achieve record results once again.

Sarah Farrington
President & Chief Executive Officer

Management's Discussion and Analysis of Results of Operations and Financial Condition

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, 2006 compared with the year ended January 31, 2005.

We are again pleased to announce record earnings for the year, with net income reaching $8.1 million, a 12% increase over the $7.2 million recorded in 2005. The Bank's assets grew by 4% in 2006, reaching $923 million at year end, compared to $883 million at year end 2005, and customer deposits grew 5% to $855 million, from $815 million a year earlier.

Loan Portfolio

Our loan portfolio, comprising loans, mortgages and credit card receivables, net of allowances for credit losses, grew to $628 million at January 31, 2006, an increase of $57 million, or 10%, from $571 million at January 31, 2005. This year saw the growth rate in loans pick up slightly from 2005, despite heavy competition and we anticipate a steady demand for our loan products in the coming year.

Portfolio quality remains strong, with a majority of loans and mortgages secured by Bermuda residential real estate. Gross impaired loans were $3.5 million at year-end 2006, or 0.6% of the portfolio, down from $5.0 million, or 0.9%, a year earlier. Specific provisions of $1.5 million are held against these impaired loans. In addition, the Bank maintains a general allowance for losses against the portfolio of $1.1 million, taking into account historical loss experience, the current portfolio profile and management judgment. The total specific and general allowance at January 31, 2006 was $2.6 million, representing 0.4% of the total portfolio, compared to $3.3 million, or 0.6%, a year ago.

Customer Deposits

Customer deposits grew by $40 million, or 5% during the year, reaching $855 million at January 31, 2006, compared to $815 million a year ago. In an increasingly competitive interest rate environment, we have continued to maintain our share of total Bermuda dollar deposits at approximately 21% of the overall market.

Liquidity

Our deposit base is a combination of demand and term liabilities, payable in either Bermuda or United States dollars. To ensure we can repay depositors as their claims fall due and to meet regulatory requirements set by the Bermuda Monetary Authority, the Bank carries significant holdings of highly liquid assets (cash and deposits with other banks and debt securities) on its balance sheet. At January 31, 2006, these totaled $253 million, compared to $271 million a year ago. The ratio of cash and deposits with banks and securities to total customer deposits at January 31, 2006 was 29.6%, down from 33.3% in 2005.

Capital

The Bank continues to maintain capital ratios in excess of the minimum standards set by its regulator, the Bermuda Monetary Authority. Our Tier 1 capital ratio was 10.60% and the overall capital ratio 11.04% at January 31, 2006.

Shareholder's equity grew by $6.5 million, or 14%, representing earnings for the year of $8.1 million less dividends paid of $1.6 million.

Income

Net income for the year was $8.1 million, a new record and an increase of 12% over 2005 earnings. Both net interest income and other income increased from the previous year and we again recorded recoveries of prior year loan loss provisions.

Net interest income for the year, after recoveries of credit losses, was $25.8 million, an increase of $4.1 million, or 19%, over 2005, primarily driven by the continued growth in our loan portfolio. Other income rose by $0.4 million or 18% year over year, to $2.6 million from $2.2 million, resulting from higher fee income of $0.4 million, primarily from fees on credit and debit card transactions, and higher foreign exchange transaction revenue of $0.3 million due to increased demand for foreign currencies, partially offset by an increase of $0.3 million in realized and unrealized losses on securities and foreign exchange.

Expenses

Operating expenses were $21.0 million for the year, up $3.7 million, or 21%, from 2005. Salaries and benefits increased $2.0 million, or 25% from a year ago, as we continue to invest in building and maintaining a team of seasoned, professional staff to support our customers' needs. General, administrative and amortization expenses grew $1.7 million, or 19%, from a year ago, reflecting necessary enhancements to our technology infrastructure as well as increased transaction costs for credit and debit card processing.

The Bank had 111 employees at January 31, 2006, compared to 98 at January 31, 2005. Including staff shared with sister companies in the CAPITAL G Group, we employed a total of 136 people at January 31, 2006.

Performance Indicators

Return on shareholder's equity remained steady at 16.04%, compared to 16.55% a year ago, and the return on assets was 0.90%, up from 0.88% last year. Our operating efficiency ratio (non-interest expenses as a percentage of the sum of net interest income before recoveries of credit losses and other income) was 74% at the end of the year, compared to 72% in 2005, reflecting necessary investments to support our ongoing product and service innovation and expansion in response to customer demand.

Summary

We achieved record financial results for the second year in a row, in a difficult environment of increased competition and rising interest rates. The Bank continues to maintain a conservative lending stance and has driven loan and deposit growth through offering innovative products, highly competitive interest rates and superior service. We anticipate further investment in people and technology infrastructure to support our plans to continue to provide value added solutions and full service banking to our customers.

CAPITAL G Bank Limited

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
April 28, 2006

Ralph Kern
Executive Vice President & Chief Financial Officer
April 28, 2006

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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, 2006 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, 2006 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
April 28, 2006

CAPITAL G Bank Limited

Consolidated Balance Sheet
January 31, 2006

(Expressed in Bermuda Dollars)

		2006		2005
Assets				
Cash and deposits with banks (Notes 14 and 17)				
Interest earning	$	63,804,008	$	76,434,686
Non-interest earning		4,622,086		3,143,547
Securities – available for sale (Note 3)		184,297,129		180,880,509
Securities – trading (Note 3)		–		11,015,650
Accrued interest on cash, deposits with banks and securities		1,825,706		1,398,585
Loans, mortgages and credit card receivables, net (Notes 4, 5, 12 and 14)		628,164,652		570,527,206
Accrued interest on loans, mortgages and credit card receivables (Note 12)		5,026,765		4,253,796
Due from related parties (Note 12)		7,180,634		5,397,462
Accounts receivable and prepaid expenses		243,354		813,486
Capital assets (Note 6)		24,654,601		25,040,524
Foreclosed assets (Note 7)		2,781,495		4,068,679
Total assets	$	922,600,430	$	882,974,130
Liabilities				
Due to depositors (Notes 8, 9 and 12)	$	854,901,161	$	815,307,992
Accrued interest on deposits (Notes 8, 9 and 12)		12,660,608		19,037,119
Accounts payable and accrued liabilities		1,389,090		1,499,161
Total liabilities		868,950,859		835,844,272
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		38,649,572		32,129,859
Total shareholder's equity		53,649,571		47,129,858
Total liabilities and shareholder's equity	$	922,600,430	$	882,974,130

See accompanying notes to consolidated financial statements

Signed on behalf of the Board

____________________ Director

____________________ Director

CAPITAL G Bank Limited

Consolidated Statement of Income and Retained Earnings
Year Ended January 31, 2006

(Expressed in Bermuda Dollars)

	2006	2005
Net interest income		
Interest income from cash and deposits with banks and securities (Notes 3 and 17)	$ 8,708,463	$ 6,174,463
Interest income from loans, mortgages and credit card receivables (Notes 4 and 12)	42,997,438	38,964,227
Total interest income	51,705,901	45,138,690
Interest expense (Notes 8, 9 and 12)	25,891,645	23,431,993
Net interest income before recoveries of credit losses	25,814,256	21,706,697
Recoveries of credit losses (Notes 4 and 5)	(672,203)	(624,341)
Net interest income after recoveries of credit losses	26,486,459	22,331,038
Other income		
Fees	1,986,972	1,603,142
Commissions	696	6,398
Rent (Note 12)	495,793	483,938
Foreign exchange income	539,131	268,970
Realized losses on available for sale securities	(587,654)	(489,767)
Realized / unrealized (losses) gains on trading securities	(41,153)	299,425
Realized / unrealized gains on foreign exchange	165,748	–
Total other income	2,559,533	2,172,106
Net interest and other income	29,045,992	24,503,144
Non-interest expenses		
Salaries and other employee benefits (Notes 12 and 16)	9,865,249	7,886,220
General and administrative (Notes 12 and 15)	9,333,694	8,142,088
Foreclosed assets, net (Note 7)	143,860	197,685
Amortization of capital assets (Note 6)	1,620,159	1,074,234
Total non-interest expenses	20,962,962	17,300,227
Net income	8,083,030	7,202,917
Retained earnings at beginning of year	32,129,859	24,926,942
Dividends paid (Note 13)	(1,563,317)	–
Retained earnings at end of year	$ 38,649,572	$ 32,129,859

See accompanying notes to consolidated financial statements

CAPITAL G Bank Limited

Consolidated Statement of Cash Flows
Year Ended January 31, 2006

(Expressed in Bermuda Dollars)

	2006	2005
Cash flows from operating activities		
Net income	$ 8,083,030	$ 7,202,917
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of capital assets	1,620,159	1,074,234
Amortization of premiums / discounts on fixed income securities	1,695,060	2,058,384
Net deferred loan administration fees and costs	216,834	314,388
Realized losses on available for sale securities	587,654	489,767
Realized / unrealized losses (gains) on trading securities	41,153	(299,425)
Realized / unrealized gains on foreign exchange	(165,748)	–
Provision for losses on foreclosed assets	20,000	–
Recoveries of credit losses	(672,203)	(624,341)
Net changes in non-cash balances relating to operations:		
Accrued interest on cash, deposits with banks and securities	(427,121)	(235,939)
Accrued interest on loans, mortgages and credit card receivables	(772,969)	(333,735)
Due from related parties	(1,783,172)	474,227
Accounts receivable and prepaid expenses	570,132	85,289
Accrued interest on deposits	(6,376,511)	(2,231,180)
Accounts payable and accrued liabilities	(110,071)	(687,996)
Net cash provided by operating activities	2,526,227	7,286,590
Cash flows from investing activities		
Loans and mortgages, net	(57,182,077)	(44,963,787)
Net purchase of available for sale securities	(5,533,586)	(39,450,508)
Trading securities, net	10,974,497	(10,783,594)
Purchase of capital assets	(1,234,236)	(5,734,586)
Proceeds from disposal and other recoveries of foreclosed assets	1,267,184	–
Net cash used in investing activities	(51,708,218)	(100,932,475)
Cash flows from financing activities		
Net increase in due to depositors	39,593,169	128,742,537
Dividends paid	(1,563,317)	–
Net cash provided by financing activities	38,029,852	128,742,537
Net (decrease) increase in cash and deposits with banks	(11,152,139)	35,096,652
Cash and deposits with banks, beginning of year	79,578,233	44,481,581
Cash and deposits with banks, end of year	$ 68,426,094	$ 79,578,233

See accompanying notes to consolidated financial statements

(Expressed in Bermuda Dollars)

	2006	2005
Represented by:		
Demand deposits	$ 42,542,981	$ 75,919,268
Inter-bank loans	10,000,000	–
Short-term securities	14,855,956	2,642,841
Time deposits	1,027,157	1,016,124
	$ 68,426,094	$ 79,578,233
Supplementary cash flow information:		
Interest paid	$ 32,268,156	$ 25,663,173

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 and has a 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 small and medium-sized businesses. The services offered include deposit-taking services, consumer, commercial and mortgage lending, credit and debit 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 to be 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. All inter-company transactions and balances are eliminated on consolidation.

(b) *Securities - available for sale*

Securities classified as available for sale are carried at amortized cost. Where a decline in value of a security classified as available for sale is considered to be other than temporary, the cost of the security is written down to its fair value which then becomes the new cost basis. Such securities are not 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 securities available for sale are recorded on the trade date and are calculated on an average cost basis.

Securities - trading

Securities in the trading portfolio are intended to be held for a short period of time. They are carried at fair value and all changes in fair value of these securities are included in the consolidated statement of income and retained earnings as they arise. 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 securities held for trading are recorded on the trade date and are calculated on an average cost basis.

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

(c) Loans, mortgages and credit card receivables

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. 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. For credit card receivables, specific provisions are made when a payment is contractually 210 days in arrears.

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 receivables are established for all balances that are 210 days in arrears.

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 effective interest method. Administration fees earned are included in fee income. The Bank has net unamortized deferred administration fees of $1,266,516 at January 31, 2006 (2005 - $1,238,137), which are included in loans and mortgages receivable.

(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 deposits with banks*

For purposes of the statement of cash flows, the Bank considers all time deposits and inter-bank loans 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) *Derivative financial instruments*

The Bank enters into various derivative contracts in the ordinary course of business, including swaps and foreign exchange forward contracts. The derivative contracts are privately negotiated in the over-the-counter market with international investment banks, which act as counterparties to the 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.

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

(j) Derivative financial instruments (continued)

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 foreign exchange forward contracts as part of its asset and liability management program and to manage the exchange rate risks on certain securities denominated in foreign currencies. Their value is derived from the exchange rates specified in the contracts.

Swap contracts entered into for the purpose of managing the Bank's interest rate and equity index exposures that qualify as hedges for accounting purposes 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 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 activities and are reported in other income.

Foreign exchange translation gains and losses on foreign exchange forward contracts are recognized in other income, consistent with the accounting treatment for foreign exchange related gains and losses on securities denominated in foreign currencies.

(k) Translation of foreign currencies

Assets and liabilities denominated in foreign currencies 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 in the consolidated statement of income and retained earnings.

(l) Future changes in accounting policy

The Bank will adopt new accounting requirements that will impact its accounting policies for investment securities, derivative contracts and loans beginning February 1, 2007. The new standard will require the Bank to classify its investment securities and derivative contracts as held-for-trading, held-to-maturity or available-for-sale and its loans as loans and receivables. Held-for-trading securities will be measured at fair value with gains and losses immediately recognized in net income. Held-to-maturity securities will be recorded at amortized cost with premiums or discounts and losses due to impairment included in the determination of net income. Available-for-sale securities will be measured at fair value with gains and losses recorded in a new section of shareholder's equity entitled other comprehensive income. Loans and receivables will be recorded at amortized cost using the effective interest method.

Management expects to continue to classify the Bank's investment securities as available-for-sale. The impact of re-measuring any available-for-sale securities at fair value on February 1, 2007 will be recognized in opening retained earnings. Results for prior periods will not be restated. The Bank cannot currently determine the impact that this change in accounting policy will have on the consolidated financial statements once adopted, as this will be dependent on the fair values of available-for-sale securities at the time of adopting the new requirements.

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

(l) Future changes in accounting policy (continued)

Management expects to continue to classify the Bank's derivative contracts such as foreign exchange spot and forward contracts as held-for-trading. The Bank is currently recording its derivative contracts at fair value and no impact on the consolidated financial statements is expected at the time of adopting the new requirements.

Management expects to continue to classify the Bank's loans as loans and receivables. The Bank is currently recording its loans at amortized cost using the effective interest method and no impact on the consolidated financial statements is expected at the time of adopting the new requirements.

The Bank will also adopt new accounting requirements that will change its accounting treatment for hedging strategies beginning on February 1, 2007. The new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed for each of the permitted hedge strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation.

Management expects to classify its hedging strategies as fair value hedges. In a fair value hedging relationship, the carrying value of the hedged item is adjusted by gains and losses attributed to the hedged risk and recognized in the consolidated statement of income and retained earnings or in other comprehensive income. The change in fair value of the hedged item, to the extent that the hedging relationship is effective, is offset by changes in fair value of the derivative. Any ineffectiveness will be immediately recognized in net income. The impact of re-measuring hedging strategies at fair value on February 1, 2007 will be recognized in opening retained earnings. Results for prior periods will not be restated. The Bank cannot currently determine the impact that these changes in accounting policy will have on the consolidated financial statements once adopted, as this will be dependent on the fair value of hedging strategies at the time of adopting the new requirements.

3. **Securities**

The amortized cost and fair values of securities available for sale as at January 31, 2006 are as follows:

	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Foreign fixed income securities				
US government and agency	$ 79,306,607	$ 2,347	$ (1,153,362)	$ 78,155,592
Asset-backed securities	63,491,481	73,000	(712,175)	62,852,306
Corporate	21,517,971	16,634	(362,915)	21,171,690
Other government and international organizations	19,981,070	210,829	(174,248)	20,017,651
Total available for sale securities	$ 184,297,129	$ 302,810	$ (2,402,700)	$ 182,197,239

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

	Amortized 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 securities	$ 180,880,509	$ 537,306	$ (1,438,691)	$ 179,979,124

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 securities.

At January 31, 2006, 97% of the fair value of the asset-backed securities (2005 - 91% (Note 19)) and 58% of the fair value of the corporate securities (2005 - 78% (Note 19)) were invested in US issuers.

3. **Securities** (continued)

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

	2006				2005
	Maturing within 1 year	Maturing in 1 to 5 years	Maturing after 5 years	Total	Total (Note19)
Securities - available for sale					
US government and agency	$ 33,801,136	$ 43,774,109	$ 580,347	$ 78,155,592	$ 97,782,337
Asset-backed securities	987,982	6,373,884	55,490,440	62,852,306	54,363,497
Corporate	3,003,726	18,167,964	–	21,171,690	10,560,976
Other government and international organizations	9,796,388	10,221,263	–	20,017,651	17,272,314
Total available for sale	$ 47,589,232	$ 78,537,220	$ 56,070,787	$ 182,197,239	$ 179,979,124
Yield	4.59%	4.22%	4.93%	4.54%	3.43%

Actual maturities may differ from the stated maturities reflected above because certain securities may have call or prepayment features. Asset-backed securities are shown at their legal final maturity and not their weighted average life.

Total securities, at fair value, include $166,632,438 (2005 - $176,179,390) of fixed rate securities and $15,564,801 (2005 - $14,815,384) of floating rate securities. The approximate yield on the fixed rate securities at January 31, 2006 was 4.57% (2005 - 3.48%), while the approximate yield on the floating rate securities was 4.11% (2005 - 3.61%).

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:

	2006	2005
Mortgages	$ 559,360,656	$ 503,899,854
Loans and chattel mortgages	62,148,320	61,224,847
Credit card receivables	9,290,950	8,706,102
	630,799,926	573,830,803
Allowance for credit losses on loans, mortgages and credit card receivables (Note 5)	(2,635,274)	(3,303,597)
	$ 628,164,652	$ 570,527,206

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

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

	2006			2005
	Gross loans	Specific allowance	Net	Net
Mortgages	$ 1,379,358	$ –	$ 1,379,358	$ 2,145,027
Loans and chattel mortgages	1,194,294	(651,026)	543,268	765,469
Credit card receivables	911,860	(911,860)	–	377,789
Total impaired loans	$ 3,485,512	$ (1,562,886)	$ 1,922,626	$ 3,288,285

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 (2005 - 31 years). The weighted average time remaining to maturity for mortgages is 17 years (2005 - 15 years). Loans and chattel mortgages are repayable in monthly or periodic installments over terms not exceeding 29 years (2005 - 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% (2005 - 14% to 14.5%) and are unsecured. The effective yield on total loans and mortgages receivable at January 31, 2006 is 7.31% (2005 - 7.05%).

An administration fee of up to 2% (2005 - 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.

At January 31, 2006, loans, mortgages and credit card receivables included $1,670,316 (2005 - $1,743,681) receivable from directors, and $38,441,340 (2005 - $25,522,514 (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 7.25% (2005 - 1.79% 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, mortgages and credit card receivables in the balance sheet. Changes in the allowance for credit losses comprise of the following:

	2006			2005
	Specific	General	Total	Total
Beginning balance	$ 1,728,507	$ 1,575,090	$ 3,303,597	$ 4,006,666
Net recoveries (write offs)	3,880	–	3,880	(78,728)
Recoveries made during the year	(169,501)	(502,702)	(672,203)	(624,341)
Ending balance	$ 1,562,886	$ 1,072,388	$ 2,635,274	$ 3,303,597

6. **Capital assets**

	2006			2005
	Cost	Accumulated amortization	Net book value	Net book value
Buildings	$ 17,195,040	$ 2,019,578	$ 15,175,462	$ 15,552,370
Furniture and fixtures	3,648,588	2,505,166	1,143,422	1,554,178
Computer systems and equipment	3,949,581	1,549,669	2,399,912	1,891,935
Leasehold improvements	5,830,126	282,684	5,547,442	5,653,678
Artwork	388,363	–	388,363	388,363
	$ 31,011,698	$ 6,357,097	$ 24,654,601	$ 25,040,524

The cost and accumulated amortization of capital assets as at January 31, 2005 were $29,782,860 and $4,742,336, 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 foreclosure, less any expected disposal costs. Foreclosed assets of $2,781,495 (2005 - $4,068,679) were outstanding as at January 31, 2006. During the year, assets recorded at $262,754, representing a gross investment in impaired loans of the same amount, were sold and other collateral totaling $1,004,430 was liquidated and applied to reduce the carrying value of foreclosed assets.

7. **Foreclosed assets** (continued)

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

	2006	2005
Balance at beginning of year	$ 24,750	$ 24,750
Provision for losses	20,000	–
Balance at end of year	$ 44,750	$ 24,750

Expenses applicable to foreclosed assets include the following:

	2006	2005
Provision for losses	$ 20,000	–
Operating expenses, net	123,860	197,685
Foreclosed assets expense, net	$ 143,860	$ 197,685

8. **Due to depositors**

Total deposits include $153,822,607 (2005 - $75,017,209) 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:

	2006		2005	
	Average effective interest rate	Amount	Average effective interest rate	Amount
Demand	2.98%	$ 329,053,455	1.73%	$ 289,751,341
Up to 3 months	3.25%	188,766,335	2.71%	241,022,909
3 - 6 months	3.33%	73,684,292	3.22%	61,449,645
6 - 12 months	3.90%	56,491,025	4.35%	84,102,611
1 - 5 years	3.97%	206,906,054	4.15%	138,981,486
Total		$ 854,901,161		$ 815,307,992

9. **Derivative financial instruments 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.

In addition, the Bank enters into foreign exchange spot and forward contracts for asset and liability management purposes and to manage its exposure to changes in exchange rates on certain securities denominated in foreign currencies.

Interest rate and market risks

Interest rate risk and market risk may be encountered when short-term changes in market interest and exchange 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, while any decrease in the value of foreign exchange forward contracts is mitigated by an increase in the fair value of securities denominated in foreign currencies.

Hedge accounting

A swap contract will qualify as a hedge for accounting purposes 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 throughout the term of the hedging relationship. At inception, the Bank has determined that the critical terms of all of its swap contracts and deposit liabilities they are hedging are the same, and has therefore concluded that changes in fair value attributable to the risks being hedged are expected to offset completely throughout the term of the hedging relationship. Therefore, under the "no ineffectiveness" assumption, management is not required to continually assess the effectiveness of the hedging relationship.

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 1 to 33 months (2005 - 2 to 31 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, 2006 the notional amount of interest rate swap contracts was $55,508,000 (2005 - $57,623,000), all of which expire in 1 to 33 months (2005 - 2 to 31 months). Payment and receipt of interest is settled net on a quarterly basis. At January 31, 2006 the Bank has entered into interest rate swap agreements to receive a weighted average fixed rate of 3.53% (2005 - 2.80%) in return for paying floating rates, which at year-end had a weighted average of 4.52% (2005 - 2.47%). At January 31, 2006, 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 $607,470 in favour of the counterparty (2005 - $338,279). The fair value of interest rate swap contracts as at January 31, 2006, as determined using the mark-to-market repricing, is $577,843 in favour of the counterparty (2005 - $390,586).

9. **Derivative financial instruments and risk management** (continued)

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 2.9 to 4.7 years (2005 - 3.9 to 4.7 years).

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, 2006, the notional amount of equity swap contracts was $19,536,778 (2005 - $16,835,776), which expire in 2.9 to 4.7 years (2005 - 3.9 to 4.7 years). Payment of interest is made on a quarterly 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, 2006, including interest payable and mark-to-market repricing, is $1,210,652 in favour of the Bank (2005 - 256,638). The fair value of the contracts as at January 31, 2006, as determined using the mark-to-market repricing, is $1,309,312 in favour of the Bank (2005 - $306,383).

Foreign exchange forward contracts

The Bank is party to several foreign exchange forward contracts. The purpose of these contracts is to manage the exchange rate risk on certain securities denominated in foreign currencies and maturing within 3 to 50 months (2005 - nil).

In general, the Bank contracts to pay to the counterparty on a fixed date a specified amount of foreign currency in exchange for a specified U.S. dollar amount. At January 31, 2006 the principal amount of unsettled foreign exchange forward contracts is U.S. $10,172,549 (2005 - nil), all of which mature in 2 weeks to 3 months. At January 31, 2006 the net monetary exposure to the counterparty to these contracts on a mark-to-market repricing basis is $74,111 in favour of the counterparty (2005 - nil). Foreign exchange forward contracts are marked to market, with realized and unrealized gains and losses recorded in other income, consistent with the accounting treatment for foreign exchange related gains and losses on securities.

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 and foreign exchange forward contracts.

Fair values

The fair values given above are defined as the profit or loss associated with settling the swap and foreign exchange forward contracts at prevailing market rates. Swap and foreign exchange forward contracts have no market value at inception. They obtain value, positive or negative, as relevant interest rates, indices or foreign currency exchange rates change, such that the terms have become more or less favourable than can/could be negotiated under current market conditions for contracts with the same remaining period to maturity. The potential for swap and foreign exchange forward 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.

9. **Derivative financial instruments and risk management** (continued)

Credit risk

The Bank encounters credit risk to the extent that the counterparties may fail to fulfill their obligations under swap and foreign exchange forward contracts. The credit risk associated with swap contracts is normally a small fraction of the notional amounts. Swap and foreign exchange forward 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 and foreign exchange forward contracts is represented by their fair 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 deposits with banks	$ 68,426,094	$ 68,426,094	$ –
Securities – available for sale	184,297,129	182,197,239	(2,099,890)
Loans, mortgages and credit card receivables, net	628,164,652	627,312,429	(852,223)
Accrued interest	6,852,471	6,852,471	–
Other	7,423,988	7,423,988	–
Liabilities			
Due to depositors	$ 854,901,161	$ 851,304,788	$ 3,596,373
Accrued interest on deposits	12,660,608	12,660,608	–
Other	1,389,090	1,389,090	–
Derivatives			
Interest rate swaps	$ –	$ (577,843)	$ (577,843)
Equity-linked swaps	–	1,309,312	1,309,312
Foreign exchange forward contracts	(74,111)	(74,111)	–

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.

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

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 deposits with banks

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

Securities

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

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 Notes 4 and 5.

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 customer can choose to call these deposits at any time.

Derivative financial instruments

The fair value of over-the-counter swap and foreign exchange forward contracts is calculated as the net present value of contractual cash flows using prevailing market rates or quoted market price, if one exists.

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 and other counterparties may choose to terminate their financial instruments at a date earlier than contractual maturity or repricing date. Examples of this include 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 securities 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 deposits with banks	$ 68,426,094	$ –	$ –	$ –	$ –	$ –	$ 68,426,094
Securities – available for sale	8,395,790	23,779,990	15,572,117	79,765,505	56,783,727	–	184,297,129
Loans	598,554,746	6,117,476	23,492,430	–	–	–	628,164,652
Other assets	–	–	–	–	–	17,057,954	17,057,954
Capital assets	–	–	–	–	–	24,654,601	24,654,601
Total assets	675,376,630	29,897,466	39,064,547	79,765,505	56,783,727	41,712,555	922,600,430
Due to depositors	517,819,790	73,684,292	56,491,025	206,906,054	–	–	854,901,161
Other liabilities	–	–	–	–	–	14,049,698	14,049,698
Shareholder's equity	–	–	–	–	–	53,649,571	53,649,571
Total liabilities and shareholder's equity	517,819,790	73,684,292	56,491,025	206,906,054	–	67,699,269	922,600,430
Off balance sheet items	(62,114,778)	–	6,380,000	55,734,778	–	–	–
Interest sensitivity gap	$ 95,442,062	$ (43,786,826)	$ (11,046,478)	$ (71,405,771)	$ 56,783,727	$ (25,986,714)	$ –
Cumulative interest rate sensitivity gap	$ 95,442,062	$ 51,655,236	$ 40,608,758	$ (30,797,013)	$ 25,986,714	$ –	$ –

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.

		2006		2005 (Note 19)
Statement of Income and Retained Earnings				
Interest income from loans, mortgages and credit card receivables	$	1,867,498	$	1,501,348
Interest expense	$	958,953	$	1,113,487
Rent income	$	358,733	$	357,757
General and administrative expenses	$	581,562	$	617,772

Included in general and administrative expenses are $202,602 (2005 - $190,228) and $378,960 (2005 - $427,544) in expenses paid to Gibbons Management Services Limited and CAPITAL G Limited, respectively, for group-allocated administrative overheads.

During the year ended January 31, 2006, the Bank recharged $474,510 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 been deducted from salaries and other employee benefits in the consolidated statement of income and retained earnings.

Similarly, during the year the Bank was charged $2,237,871 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.

		2006		2005
Balance Sheet				
Included in loans, mortgages and credit card receivables:				
Loan to CAPITAL G Limited	$	1,087,637	$	4,600,927
Loan to Edmund Gibbons Limited	$	2,289,680	$	–
Mortgage receivable from Edmund Gibbons Limited	$	1,960,000	$	2,164,000
Loan and mortgage receivable from Gibbons Management Services Limited	$	12,313,655	$	8,478,518
Mortgage receivable from CAPITAL G Investments Limited	$	577,448	$	911,335
Loans and mortgages receivable from other companies under common control	$	410,975	$	488,157
Loans, mortgages and credit card receivables from other related parties	$	10,269,940	$	10,587,929

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

		2006		2005
Balance Sheet (continued)				
Accrued interest on loans, mortgages and credit card receivables from all related parties	$	257,023	$	423,993
Included in liabilities:				
Due to depositors	$	38,512,597	$	25,873,274
Accrued interest on deposits	$	144,808	$	2,827,265

The loan to CAPITAL G Limited is secured by a guarantee from Edmund Gibbons Limited ("EGL") for the full amount of the loan. The loan bears interest at 7.00% (2005 - 7.00%) annually and is for a term of five years.

The loan to EGL is secured by the deposit of EGL's shareholding in Jardine Gibbons Properties Limited. The loan bears interest at 7.00% (2005 - 7.00%) annually and matures on June 1, 2008.

The mortgage receivable from EGL is secured by real estate, interest free and repayable on demand, but no later than April 1, 2015.

The loan and mortgage receivable from Gibbons Management Services Limited is secured by a $6,750,000 (2005 - $6,750,000) deposit of deeds over property. This loan bears interest at a rate of 7.50% (2005 - 7.50%) annually.

The mortgage receivable from CAPITAL G Investments Limited is secured by a guarantee from CAPITAL G Limited for $1,800,000. The interest rate on the mortgage is floating and at January 31, 2006 the mortgage bore an interest rate of 5.87% (2005 - 3.81%). Principal payments are $340,000 each year until the mortgage matures on May 16, 2007.

Subsequent to year-end, the loans and mortgages receivable from CAPITAL G Limited, Edmund Gibbons Limited, and CAPITAL G Investments Limited were assumed by a related company and repaid in full.

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 and retained earnings**

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.

On June 3, 2005, the Board of Directors declared a dividend of $1,563,317 be paid to the Bank's sole shareholder.

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 $19,826,384 (2005 - $44,800,627 (Note 19)) is held with one international bank.

15. **General and administrative expenses**

General and administrative expenses consist of the following:

		2006		2005
Advertising	$	311,816	$	371,176
Computer expense		2,297,990		1,505,137
Credit and debit card expense		1,248,719		867,155
Directors' fees and expenses		47,343		38,032
Investment expenses and bank charges		633,581		748,442
License and insurance		572,940		484,878
Office expense		1,489,901		1,837,710
Professional fees		754,805		637,468
Rent		714,704		728,735
Miscellaneous		1,261,895		923,355
Total general and administrative expenses	$	9,333,694	$	8,142,088

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, 2006 contributions of $292,834 (2005 - $232,948) 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 deposits with banks include a term deposit for US$1,027,157 (2005 - US$1,016,124) which is pledged to another bank that has issued a standby letter of credit in favour of the Bank expiring on August 22, 2006.

The average effective interest rate earned on cash and deposits with banks as at January 31, 2006 is 3.04% (2005 - 1.64%).

18. **Commitments and guarantees**

The Bank's commitment for undrawn mortgages and loans amounted to $67,091,294 at January 31, 2006 (2005 - $50,328,453).

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

As at January 31, 2006 the Bank has contractually committed to incur capital costs of $16,170 (2005 - $16,170) 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		
2007	$	600,000
2008		600,000
2009		600,000
2010		600,000
2011		600,000
Thereafter		7,200,000
	$	10,200,000

The Bank is contingently liable for letters of credit and guarantees amounting to $2,410,000 as at January 31, 2006 (2005 - $1,200,000). 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 irrevocable obligation of the Bank to pay the third party beneficiary upon presentation of the guarantee and satisfaction of the documentary requirements stipulated therein.

The carrying value of all the commitments and guarantees discussed above on the January 31, 2006 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 and subsequent events**

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.

Effective February 1, 2006, the Bank purchased all of the common shares of its sister company, CAPITAL G Trust Limited, from its mutual parent, CAPITAL G Limited.