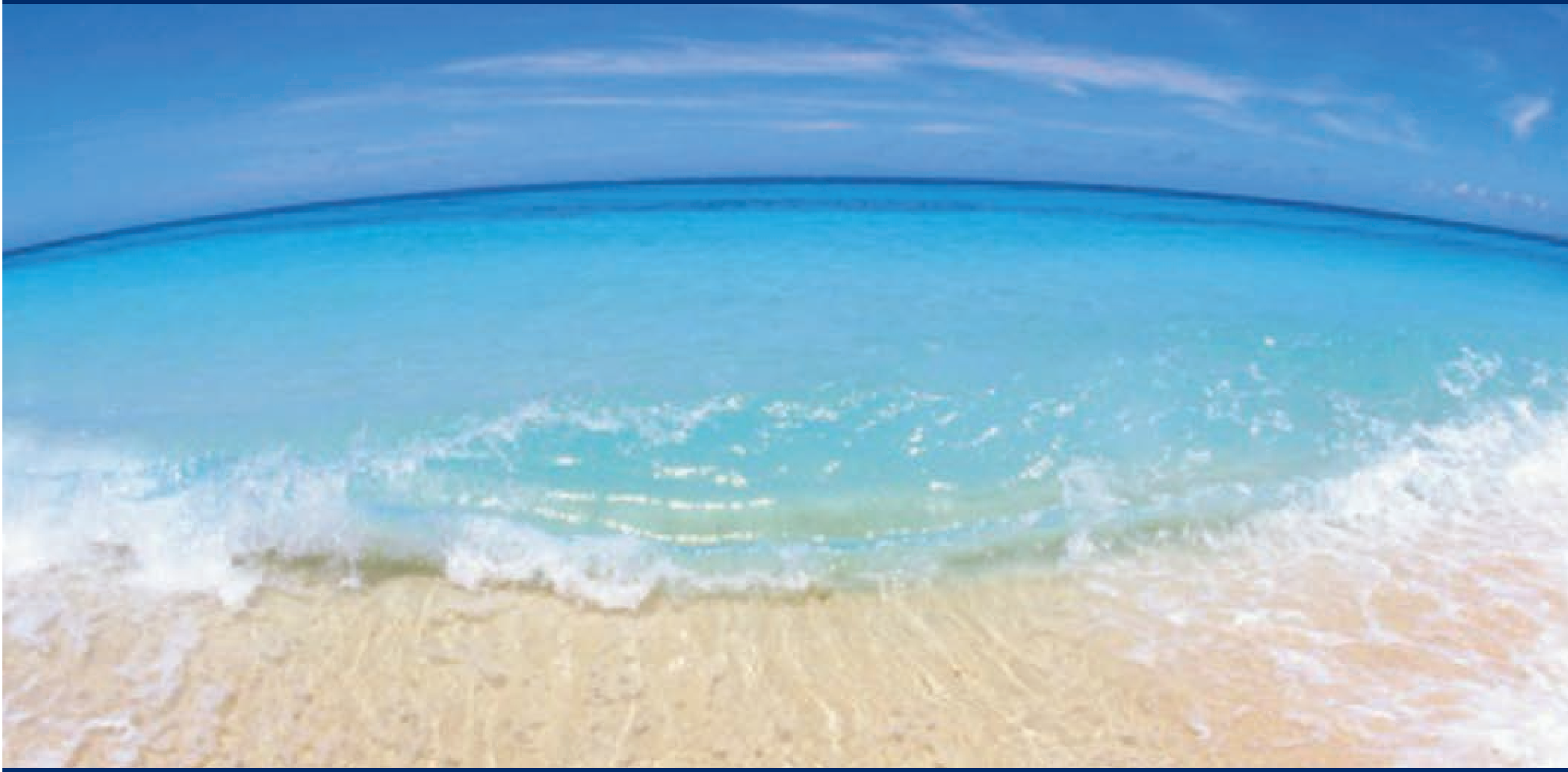
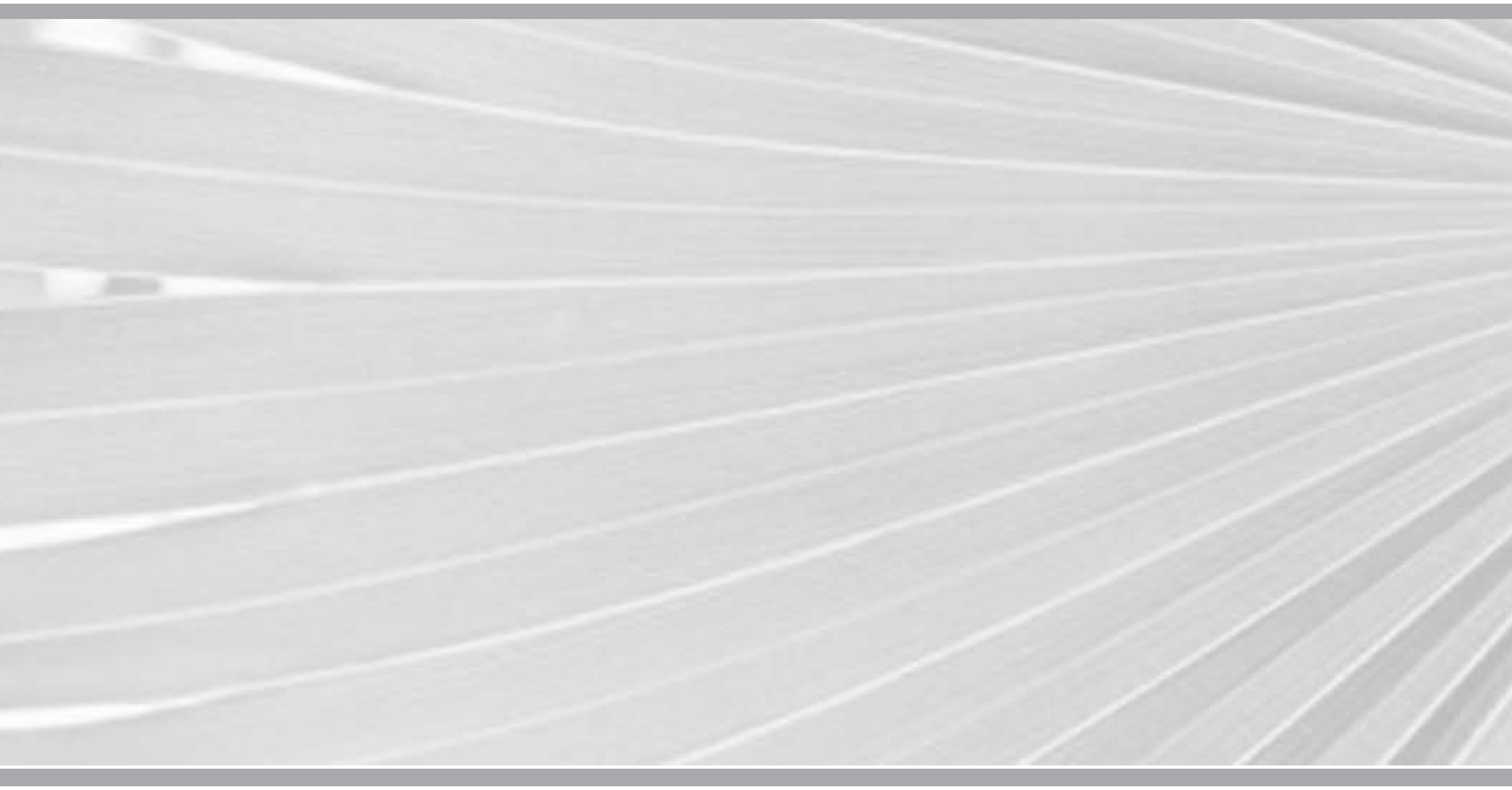
Capital G Bank Limited
2007 Annual Report





2007 Annual Report

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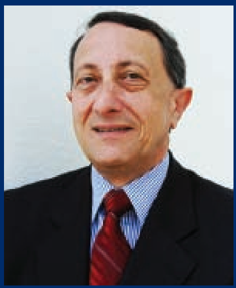
CAPITAL G BANK

James L. Gibbons
President & CEO



Ralph Kern
EVP & CFO

Richard Doughty
EVP & COO

Ian Truran
EVP & CRMO

Capital G Bank Limited

CORPORATE PROFILE

The evolution and growth of Capital G Bank Limited has been the natural genesis and transition of an organization that started as a savings company in the early 1930s. The Bank's commitment, focus and core positioning of superior products with superior service has changed little since its original inception more than 75 years ago.

Formerly known as Gibbons Deposit Company Limited, the Bank was incorporated in 1974 under the Deposit Companies Act, 1974 and received its full banking license in 2001 under the Bank and Deposit Companies Act, 1999. The Bank is regulated by the Bermuda Monetary Authority and is wholly owned by Capital G Limited, which is among the companies under the Gibbons Group of Companies umbrella.

One of our unique advantages is our ability to integrate and align ourselves with other sister companies in the Gibbons Group to offer comprehensive and integrated solutions to financial wealth management. Examples of this are partnerships and access to Investments, Trust, Wills and Estate Management, Insurance and e-Commerce solutions.

Our assets and deposits continue to grow and are close to one billion dollars. The management of the organisation continues to research, explore and observe Bermuda and international markets to ensure it maintains and introduces competitive and unique products and services intended to increase market share.

We are a principal member of both MasterCard and Visa and offer a wide range of both personal and business deposit and credit solutions, including our Select Private Banking service, designed to meet the demands of those with specialized wealth management needs. In addition to full SWIFT membership, we have correspondent relationships with a number of international banking institutions, allowing us to provide wire payment transactions, bank drafts and foreign currency services.

Our online banking service is the only e-banking portal that provides multi authentication security, email alerts and free local bank to bank transfers. CapGonline.com is simple and easy to use and offers customers the ability to pay bills online, wire payments internationally and even plan for the future, all securely from the comfort of your own home and at your convenience.

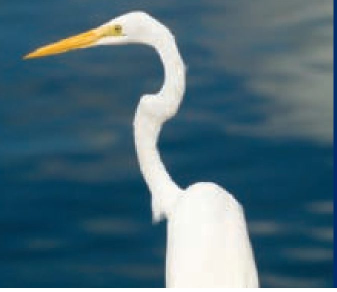
The Bank employs 120 people of diverse cultural groups, talents and specialties. We are committed to training and empowering our staff by providing the necessary tools, management disciplines and environment where individuals can excel and grow.

Capital G Bank Limited believes in offering fair, simple, convenient and straightforward solutions to banking and will continue to transition into an integrated and holistic financial and wealth management resource for Bermudians.

Capital G Bank Limited

5 YEAR FINANCIAL HIGHLIGHTS

(in $ thousands except per share data)	Year Ended January 31				
	2007	2006	2005	2004	2003
Net income	**6,790**	8,083	7,203	5,005	794
Net income per share	**$1.36**	$1.62	$1.44	$1.00	$0.16
At Year End					
Total assets	**947,679**	922,600	882,974	749,948	653,193
Cash and deposits with banks	**91,630**	68,426	79,578	44,482	28,005
Securities	**167,524**	184,297	191,896	143,911	138,109
Loans, mortgages and credit card receivables	**651,018**	628,165	570,527	525,516	457,151
Customer deposits	**871,277**	854,901	815,308	686,565	596,016
Shareholder's equity	**59,431**	53,650	47,130	39,927	34,922
Net book value per share	**$11.89**	$10.73	$9.43	$7.99	$6.98
Number of shares issued (in thousands)	**5,000**	5,000	5,000	5,000	5,000
Number of employees	**120**	111	98	71	60
Financial ratios					
Return on assets	**0.73%**	0.90%	0.88%	0.71%	0.13%
Return on equity	**12.01%**	16.04%	16.55%	13.37%	2.30%
Total equity to total assets	**6.27%**	5.82%	5.34%	5.32%	5.35%
Total cash, deposits with banks and securities to customer deposits	**29.74%**	29.56%	33.30%	27.44%	27.87%



PRESIDENT & CHIEF EXECUTIVE OFFICER'S REPORT

Capital G Bank continues to grow by continuing to invest substantially in technology, office expansion, human resources and other vital infrastructure projects which form the framework of our daily business.

We remain committed to providing the very best in customer service and maintaining and introducing quality, fair, unique, and innovative products and services.

In the past year, we committed to the evolution of the Bank by securing additional specialised talent and introducing our new online banking system. This vital venture allowed us to compete more aggressively with the other major banks and respond directly to the needs of our customers.

While net income decreased from last year, this was due mostly to an increase in salaries and benefits, the effects of substantial investment for future growth. We remain positive in the long-term outlook and continue to experience positive growth in deposits and assets. Total assets at year end reached $948 million, a 3% increase over last year, with total deposits increasing by 2% to $871 million.

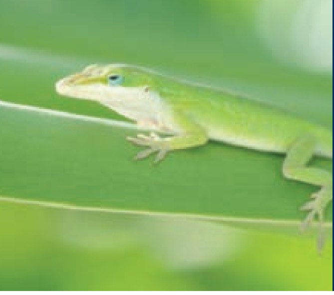
In November 2006, the Bank launched its new brand marketing campaign which resulted in a significant increase in unaided awareness. The launch was immediately followed by the introduction of our new online banking service which to date has generated more than 2,600 enrollments. This simple to use, 24-hour secure banking service offers bill payments, email and cell phone reminders and is the only no fee local bank to bank money transfer solution. We invite you to experience it for yourself at CapGonline.com. To enroll, visit us at 19 Reid Street and one of our friendly and efficient Welcome Desk Representatives will assist you in getting you up and running quickly.

During the year, we continued to expand our product range by adding 2, 3 and 4 year terms to both our U.S. and Bermuda dollar CDs, 1 and 3 year terms to our Accumulator Savings accounts, and we began offering call and term deposits in Sterling, Canadian dollars and Euros. Despite increasingly aggressive competition for mortgages, our total loans grew by 4% with customers continuing to be drawn by our superior customer service and ability to provide personalised lending solutions.

The Bank is a passionate supporter of various charities, associations and sports athletes in Bermuda and gives generously every year to countless organisations. We will continue to do so in the future in order to fully participate and contribute to our community.

Our success is a result of our hardworking team that is committed to fulfilling our mission of providing the best in customer service and a quality and enjoyable banking experience. On behalf of the Management of Capital G Bank, I would like to say thank you to both our staff and our loyal customers and I look forward to a successful future based on the substantial investments made in this past year that will continue in 2007/08.

James L. Gibbons
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 14. 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, 2007 compared with the year ended January 31, 2006.

Our net earnings for the year were $6.8 million compared with the $8.1 million recorded last year. While revenues before loan loss provisions grew by 6%, in the current year we recorded a small increase in loan loss provisions compared to a recovery of $0.7 million last year, and operating expenses rose by 12%, reflecting our continuing investment in people and infrastructure. Total assets grew by 3% to $948 million, from $923 million a year ago, while deposits increased by 2%, to $871 million from $855 million last year.

Loan Portfolio

Our loan portfolio, which includes loans, mortgages and credit card receivables, net of allowances for loan losses, increased this year by $23 million, or 4%, to $651 million from $628 million at January 31, 2006. Although we saw lower growth than in the past 3 years, our share of the Bermuda dollar loan market remains strong at approximately 16%.

The majority of our portfolio is secured by Bermuda residential real estate and overall portfolio quality remains strong. Impaired loans dropped to $3.2 million from $3.5 million at year-end 2006 and represent 0.5% of the total portfolio, down from 0.6% a year earlier. Specific allowances of $1.6 million are held against these impaired loans. The Bank also maintains a general loss allowance of $1.1 million against the portfolio, based on historical loss experience, the current portfolio profile and management judgment. The total specific and general allowance at year-end was $2.7 million, representing 0.4% of the total loan portfolio, up slightly from the $2.6 million recorded at January 31, 2006, which also represented 0.4% of the portfolio.

Customer Deposits

Customer deposits increased by $16 million, or 2%, to $871 million at January 31, 2007, from $855 million a year earlier. Competition continues to be extremely strong and we are pleased to have kept our market share of Bermuda dollar deposits at approximately 20%.

Liquidity

Our deposit base includes demand and term deposits from customers, payable in Bermuda dollars, United States dollars and other foreign currencies. To ensure we can repay depositors as their claims fall due and to meet regulatory requirements set by the Bermuda Monetary Authority, we keep significant holdings of highly liquid assets (cash and deposits with banks and securities) on our balance sheet. At January 31, 2007 these totaled $259 million compared to $253 million a year earlier. The ratio of these liquid assets to total customer deposits was 30% at January 31, 2007, the same as at the previous year-end.

Capital

The Bank maintains capital ratios well above the minimum standards set by its regulator, the Bermuda Monetary Authority. Our Tier 1 capital ratio was 11.91% at year-end, compared to 10.60% last year, and the total capital ratio was 12.08%, compared to 11.04% at January 31, 2006.

Shareholder's equity grew by $5.8 million to $59.4 million at January 31, 2007, representing earnings for the year of $6.8 million and a capital contribution of $0.5 million from the Bank's shareholder, less dividends paid of $1.5 million.

Income

Net income for the year was $6.8 million, down from our record earnings of $8.1 million last year. Net interest income increased by $1.3 million and other income by $0.5 million from the previous year, we recorded a small loan loss provision compared to a recovery of $0.7 million last year, and operating expenses increased by $2.4 million from 2006.

Net interest income for the year, before loan loss provisions, was $27.2 million, an increase of 5%, or $1.3 million from 2006, primarily driven by the increased size of our loan portfolio as well an improvement in net interest margin. Other income increased by $0.5 million, or 20%, to $3.1 million from $2.6 million, resulting from higher fee income of $0.4 million, primarily from credit and debit card transaction fees.

Expenses

Operating expenses grew by 12%, or $2.4 million, to $23.4 million in 2007, from $21.0 million a year earlier. Salaries and benefits increased by $1.5 million, or 15%, reflecting our continuing investment in qualified, professional staff to support new initiatives such as our Internet Banking platform and the introduction of a fully operative customer call centre. General and administrative expenses grew by only 3%, or $0.3 million, to $9.6 million, as increases in technology, disaster recovery and marketing expenses were offset to some extent by reductions in professional services fees and costs associated with operating our Visa card rewards program. Amortisation expense increased by $0.5 million over 2006, to $2.2 million, primarily due to accelerated depreciation charges on certain obsolete computer systems.

The Bank had 120 employees as at January 31, 2007 compared to 111 a year earlier. Together with our sister companies in the Capital G Group, we employed a total of 159 people at January 31, 2007.

Performance Indicators

Return on Shareholder's equity for the year was 12.01%, compared to 16.04% last year, reflecting the decline in net income discussed earlier. Similarly, the return on assets was 0.73%, down from 0.90% a year earlier. Our operating efficiency ratio (non-interest expenses as a percentage of the sum of net interest income before provisions for loan losses and other income) was 77% at the end of the year, compared to 74% in 2006, reflecting our ongoing significant investment in people and infrastructure.

Summary

2007 was a difficult year, characterised by slowing growth in both customer deposits and loans, while we continued to bring new products and services to market, to invest in and build on our talented pool of people and at the same time begin work on major upgrades to our technology infrastructure. Management believes the Bank is well positioned to take advantage of these investments in the coming year, and we will continually strive to provide innovative and quality financial solutions to meet our customers' needs.

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 authorised and recorded, assets are safeguarded against unauthorised 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 programme of internal audits of all aspects of the Bank's operations. In addition, the Internal Auditor has full and free access to the Audit Committee of the Board of Directors.

The Audit 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 Committee to discuss audit, financial reporting and other related matters.

James L. Gibbons
President & Chief Executive Officer
April 18, 2007

Ralph Kern
Executive Vice President & Chief Financial Officer
April 18, 2007

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Internet www.kpmg.bm

AUDITORS' REPORT TO THE SHAREHOLDER

We have audited the consolidated balance sheet of CAPITAL G Bank Limited as at January 31, 2007 and the consolidated statements of income, changes in shareholder's equity 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, 2007 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 18, 2007

Capital G Bank Limited

Consolidated Balance Sheet
January 31, 2007
(Expressed in Bermuda Dollars)

		2007		2006
Assets				
Cash and deposits with banks (Notes 14 and 17)				
Interest earning	$	88,011,168	$	63,804,008
Non-interest earning		3,618,904		4,622,086
Securities – available for sale (Note 3)		167,523,515		184,297,129
Accrued interest on cash, deposits with banks and securities		1,795,900		1,825,706
Loans, mortgages and credit card receivables, net (Notes 4, 5, 12 and 14)		651,018,236		628,164,652
Accrued interest on loans, mortgages and credit card receivables (Note 12)		6,063,081		5,026,765
Due from related parties (Note 12)		–		7,180,634
Accounts receivable and prepaid expenses		1,079,552		243,354
Capital assets (Note 6)		23,626,064		24,654,601
Foreclosed assets (Note 7)		4,942,209		2,781,495
Total assets	$	947,678,629	$	922,600,430
Liabilities				
Due to depositors (Notes 8, 9 and 12)	$	871,277,212	$	854,901,161
Accrued interest on deposits (Notes 8, 9 and 12)		15,246,175		12,660,608
Due to related parties (Note 12)		441,277		–
Accounts payable and accrued liabilities		1,146,075		1,389,090
Deferred income		136,425		–
Total liabilities		888,247,164		868,950,859
Shareholder's equity				
Share capital				
Authorised, issued and fully paid 4,999,999 shares of $1 par value each		4,999,999		4,999,999
Contributed surplus (Note 13)		500,000		–
General reserve (Note 13)		10,000,000		10,000,000
Retained earnings		43,931,466		38,649,572
Total shareholder's equity		59,431,465		53,649,571
Total liabilities and shareholder's equity	$	947,678,629	$	922,600,430

See accompanying notes to consolidated financial statements

Signed on behalf of the Board

Director

Director

Consolidated Statement of Income
Year Ended January 31, 2007
(Expressed in Bermuda Dollars)

	2007	2006
Net interest income		
Interest income from cash and deposits with banks and securities (Notes 3 and 17)	$ 11,666,791	$ 8,708,463
Interest income from loans, mortgages and credit card receivables (Notes 4 and 12)	49,305,849	42,997,438
Total interest income	60,972,640	51,705,901
Interest expense (Notes 8, 9 and 12)	33,821,960	25,891,645
Net interest income before provisions for (recoveries of) credit losses	27,150,680	25,814,256
Provisions for (recoveries of) credit losses (Notes 4 and 5)	42,343	(672,203)
Net interest income after provision for (recoveries of) credit losses	27,108,337	26,486,459
Other income		
Fees	2,428,725	1,987,668
Rent (Note 12)	440,555	495,793
Foreign exchange income	398,762	539,131
Realised losses on available for sale securities	(497,824)	(587,654)
Realised/unrealised losses on trading securities	–	(41,153)
Realised/unrealised (losses) gains on foreign exchange	(103,194)	165,748
Other (Note 12)	391,449	–
Total other income	3,058,473	2,559,533
Net interest and other income	30,166,810	29,045,992
Non-interest expenses		
Salaries and other employee benefits (Notes 12 and 16)	11,392,338	9,865,249
General and administrative (Notes 12 and 15)	9,639,366	9,333,694
Foreclosed assets, net (Note 7)	178,793	143,860
Amortisation of capital assets (Note 6)	2,166,419	1,620,159
Total non-interest expenses	23,376,916	20,962,962
Net income	$ 6,789,894	$ 8,083,030

See accompanying notes to consolidated financial statements

Capital G Bank Limited

Consolidated Statement of Changes in Shareholder's Equity
Year Ended January 31, 2007
(Expressed in Bermuda Dollars)

	2007	2006
Share capital		
Balance, beginning of year	$ 4,999,999	$ 4,999,999
Balance, end of year	$ 4,999,999	$ 4,999,999
General reserve		
Balance, beginning of year	$ 10,000,000	$ 10,000,000
Balance, end of year	$ 10,000,000	$ 10,000,000
Contributed surplus		
Balance, beginning of year	$ –	$ –
Capital contribution from parent company (Note 13)	500,000	–
Balance, end of year	$ 500,000	$ –
Retained earnings		
Balance, beginning of year	$ 38,649,572	$ 32,129,859
Net income	6,789,894	8,083,030
Dividends paid (Note 13)	(1,508,000)	(1,563,317)
Balance, end of year	$ 43,931,466	$ 38,649,572

See accompanying notes to consolidated financial statements

Consolidated Statement of Cash Flows
Year Ended January 31, 2007
(Expressed in Bermuda Dollars)

	2007	2006
Cash flows from operating activities		
Net income	$ 6,789,894	$ 8,083,030
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortisation of capital assets	2,166,419	1,620,159
Amortisation of premiums/discounts on fixed income securities	609,650	1,695,060
Net deferred loan administration fees and costs	360,769	216,834
Realised losses on available for sale securities	497,824	587,654
Realised/unrealised losses on trading securities	–	41,153
Realised/unrealised losses (gains) on foreign exchange	103,194	(165,748)
Provision for losses on foreclosed assets	–	20,000
Provisions for (recoveries of) credit losses	42,343	(672,203)
Net changes in non-cash balances relating to operations:		
Accrued interest on cash, deposits with banks and securities	29,806	(427,121)
Accrued interest on loans, mortgages and credit card receivables	(1,036,316)	(772,969)
Due from/to related parties, net	7,621,911	(1,783,172)
Accounts receivable and prepaid expenses	(836,198)	570,132
Accrued interest on deposits	2,585,567	(6,376,511)
Accounts payable and accrued liabilities	(243,015)	(110,071)
Deferred income	136,425	–
Net cash provided by operating activities	18,828,273	2,526,227
Cash flows from investing activities		
Initiation of loans and mortgages, net	(25,437,410)	(57,182,077)
Proceeds from net disposal of (net purchase of) available for sale securities	15,562,946	(5,533,586)
Proceeds from disposal of trading securities	–	10,974,497
Purchase of capital assets, net	(1,137,882)	(1,234,236)
Proceeds from disposal and other recoveries of foreclosed assets	20,000	1,267,184
Net cash used in investing activities	(10,992,346)	(51,708,218)
Cash flows from financing activities		
Net increase in due to depositors	16,376,051	39,593,169
Dividends paid	(1,508,000)	(1,563,317)
Capital contribution from parent company	500,000	–
Net cash provided by financing activities	15,368,051	38,029,852
Net increase (decrease) in cash and deposits with banks	23,203,978	(11,152,139)
Cash and deposits with banks, beginning of year	68,426,094	79,578,233
Cash and deposits with banks, end of year	$ 91,630,072	$ 68,426,094

See accompanying notes to consolidated financial statements

Capital G Bank Limited

Consolidated Statement of Cash Flows (continued)
Year Ended January 31, 2007
(Expressed in Bermuda Dollars)

	2007	2006
Represented by:		
Demand deposits	$ 43,885,931	$ 42,542,981
Inter-bank loans	33,350,553	10,000,000
Short-term securities	14,393,588	14,855,956
Time deposits	–	1,027,157
	$ 91,630,072	$ 68,426,094
Supplementary cash flow information:		
Interest paid	$ 31,236,393	$ 32,268,156

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 ("CGL") 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 demand and term deposits, 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.

Effective February 1, 2006, the Bank purchased all of the common shares of its sister company, Capital G Trust Limited ("CGTL") from its mutual parent, CGL, for book value of $319,527.

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 subsidiaries, CAPITAL G Card Services Limited, a Bermuda-based credit card company and CGTL, a Bermuda-based trust company. All inter-company transactions and balances are eliminated on consolidation. The assets and liabilities and results of operations of CGTL have been included in the Bank's consolidated financial statements from February 1, 2006, the date of acquisition.

(b) Securities - available for sale

Securities classified as available for sale are carried at amortised 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 recognised on the accrual basis. Premiums and discounts on debt securities are amortised to interest income over the period to maturity using the effective interest method. Realised 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.

(c) Fee income

Trustee fees are receivable annually in advance. Fees billed in advance are deferred until earned. Fee income is recognised on the accrual basis.

(d) Customer funds

Assets held in a trust, agency or fiduciary capacity for customers are not included in the balance sheet as they are not the property of the Bank.

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

(e) Loans, mortgages and credit card receivables

Loans and mortgages receivables 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 180 days (2006 – 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.

(f) 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 realisable amount. Generally, the estimated realisable 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 realisation costs and any amounts legally required to be paid to the borrower, is used to measure the estimated realisable 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.

General provisions are estimated to absorb probable credit losses on loans 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 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)

(g) 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 recognised 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 unamortised deferred administration fees of $1,318,149 at January 31, 2007 (2006 - $1,266,516), which are included in loans and mortgages receivable.

(h) 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 as they occur.

(i) Capital assets and amortisation

Capital assets are stated at cost less accumulated amortisation. They are amortised 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 amortised. No amortisation is recorded in the year of purchase.

(j) Interest income and expense

Interest income and expense are recognised on the accrual basis.

(k) 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.

(l) Derivative financial instruments

The Bank enters into various derivative contracts in the ordinary course of business, including swaps and foreign exchange forward contracts. These 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 programme. 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)

(l) Derivative financial instruments (continued)

The Bank also enters into equity swap contracts to hedge its equity index exposure arising from 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 contract s as part of its asset and liability management programme 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.

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

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. Realised gains and losses from the settlement or early termination of swap hedge contracts are deferred and amortised 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 in the consolidated statement of income.

(m) 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.

(n) 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. Under the new requirements, the Bank will 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 recognised in net income. Held-to-maturity securities will be recorded at amortised cost using the effective interest method with premiums or discounts and any losses due to other than temporary 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 Accumulated Other Comprehensive Income. Loans and receivables will be recorded at amortised cost using the effective interest method.

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

(n) Future changes in accounting policy (continued)

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 recognised in opening retained earnings. Results for prior periods will not be restated. The Bank estimates that the impact of this change in accounting policy on the consolidated financial statements, once adopted, will be a decrease in the carrying value of securities, total assets and retained earnings as at February 1, 2007 of $1,265,465.

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 amortised 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 requirements specify 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 recognised in the consolidated statement of income 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 recognised in net income. The impact of re-measuring hedging strategies at fair value on February 1, 2007 will be recognised in opening retained earnings. Results for prior periods will not be restated. The Bank has not determined the impact that these changes in accounting policy will have on the consolidated financial statements once adopted.

3. **Securities**

The amortised cost and fair values of securities classified as available for sale as at January 31, 2007 are as follows:

	Amortised cost	Unrealised gains	Unrealised losses	Fair value
Foreign fixed income securities				
US government and agency	$ 59,291,350	$ 70,481	$ (654,804)	$ 58,707,027
Asset-backed securities	67,911,073	34,003	(589,527)	67,355,549
Corporate	23,342,871	86,259	(307,344)	23,121,786
Other government and international organisations	16,978,221	320,560	(225,093)	17,073,688
Total available for sale securities	$ 167,523,515	$ 511,303	$ (1,776,768)	$ 166,258,050

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

	Amortised cost	Unrealised gains	Unrealised 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 organisations	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

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, 2007, 98% of the fair value of the asset-backed securities (2006 - 97%) and 49% of the fair value of the corporate securities (2006 - 58%) 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:

	2007				2006
	Maturing within 1 year	Maturing in 1 to 5 years	Maturing after 5 years	Total	Total
Securities - available for sale					
US government and agency	$ 14,974,987	$ 39,654,530	$ 4,077,510	$ 58,707,027	$ 78,155,592
Asset-backed securities	–	2,974,080	64,381,469	67,355,549	62,852,306
Corporate	6,643,160	16,478,626	–	23,121,786	21,171,690
Other government and international organisations	3,366,813	13,706,875	–	17,073,688	20,017,651
Total available for sale	$ 24,984,960	$ 72,814,111	$ 68,458,979	$ 166,258,050	$ 182,197,239
Yield	4.64%	4.56%	5.29%	4.86%	4.54%

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 $151,508,907 (2006 - $166,632,438) of fixed rate securities and $14,749,143 (2006 - $15,564,801) of floating rate securities. The approximate yield on the fixed rate securities at January 31, 2007 was 4.79% (2006 - 4.57%), while the approximate yield on the floating rate securities was 5.65% (2006 - 4.11%).

4. **Loans, mortgages and credit card receivables**

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

	2007	2006
Mortgages	$ 588,104,810	$ 559,360,656
Loans and chattel mortgages	56,221,641	62,148,320
Credit card receivables	9,387,465	9,290,950
	653,713,916	630,799,926
Allowance for credit losses on loans, mortgages and credit card receivables (Note 5)	(2,695,680)	(2,635,274)
	$ 651,018,236	$ 628,164,652

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

	2007			2006
	Gross loans	Specific allowance	Net	Net
Mortgages	$ 1,379,733	$ –	$ 1,379,733	$ 1,379,358
Loans and chattel mortgages	871,422	618,567	252,855	543,268
Credit card receivables	962,358	962,358	–	–
Total impaired loans	$ 3,213,513	$ 1,580,925	$ 1,632,588	$ 1,922,626

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 (2006 - 31 years). The weighted average time remaining to maturity for mortgages is 18 years (2006 - 17 years). Loans and chattel mortgages are repayable in monthly or periodic installments over terms not exceeding 30 years (2006 - 29 years), and may be amortised or may be payable in total at maturity with interest being paid monthly. The Bank holds deeds on properties, guarantees and other assets in connection with certain loans. Other loans receivable are in the form of unsecured promissory notes. Credit card receivables (other than staff) bear interest at 14% to 14.5% (2006 - 14% to 14.5%) and are unsecured. The effective yield on total loans and mortgages receivable at January 31, 2007 is 7.85% (2006 - 7.31%).

An administration fee of up to 2% (2006 - 2%) may be levied at the inception of a loan or mortgage and is deferred and amortised to maturity of the related loan or mortgage using the effective interest method.

At January 31, 2007, loans, mortgages and credit card receivables included $11,899 (2006 - $1,670,316) receivable from directors, and $49,566,261 (2006 - $38,441,340) 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 programme, which offers reduced interest rates ranging from 4% to 13.25% (2006 - 1.79% to 7.25%), 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 is deducted from loans, mortgages and credit card receivables in the balance sheet. Changes in the allowance for credit losses are comprised of the following:

	2007			2006
	Specific	General	Total	Total
Balance, beginning of year	$ 1,562,886	$ 1,072,388	$ 2,635,274	$ 3,303,597
Net recoveries	18,063	–	18,063	3,880
Provisions (recoveries) made during the year	(24)	42,367	42,343	(672,203)
Balance, end of year	$ 1,580,925	$ 1,114,755	$ 2,695,680	$ 2,635,274

6. **Capital assets**

	2007			2006
	Cost	Accumulated amortisation	Net book value	Net book value
Buildings	$ 17,196,436	$ 2,459,319	$ 14,737,117	$ 15,175,462
Furniture and fixtures	3,655,837	2,846,507	809,330	1,143,422
Computer systems and equipment	4,899,887	2,636,818	2,263,069	2,399,912
Leasehold improvements	6,002,375	574,190	5,428,185	5,547,442
Artwork	388,363	–	388,363	388,363
	$ 32,142,898	$ 8,516,834	$ 23,626,064	$ 24,654,601

The cost and accumulated amortisation of capital assets as at January 31, 2006 were $31,011,698 and $6,357,097, respectively. During the year, the Bank transferred and took delivery of office furniture to/from a company under common control. The net transferred cost and accumulated amortisation were $36,681 and $10,629, 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 loan/mortgage balance or an independently appraised value of the collateral at the time of foreclosure, less any expected disposal costs. Foreclosed assets of $4,942,209 (2006 - $2,781,495) were outstanding as at January 31, 2007.

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:

		2007		2006
Balance, beginning of year	$	44,750	$	24,750
(Recovery of) provision for losses		(20,000)		20,000
Balance, end of year	$	24,750	$	44,750

Expenses applicable to foreclosed assets include the following:

		2007		2006
(Recovery of) provision for losses	$	(20,000)	$	20,000
Operating expenses, net		198,793		123,860
Foreclosed assets expense, net	$	178,793	$	143,860

8. **Due to depositors**

Total deposits include $174,011,148 (2006 - $153,822,607) 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:

	2007			2006		
	Average effective interest rate		Amount	Average effective interest rate		Amount
Demand	3.57%	$	330,751,276	2.98%	$	329,053,455
Up to 3 months	4.05%		163,003,235	3.25%		188,766,335
3 - 6 months	4.23%		77,545,149	3.33%		73,684,292
6 - 12 months	4.60%		134,717,128	3.90%		56,491,025
1 - 5 years	4.57%		165,260,424	3.97%		206,906,054
Total		$	871,277,212		$	854,901,161

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 arising from 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 unfavourably 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 mitigated by a 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 being hedged 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 6 to 21 months (2006 - 1 to 33 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, 2007, the notional amount of interest rate swap contracts was $36,198,000 (2006 - $55,508,000), all of which expire in 6 to 21 months (2006 - 1 to 33 months). Payment and receipt of interest is settled net on a quarterly basis. At January 31, 2007, the Bank has entered into interest rate swap agreements to receive a weighted average fixed rate of 4.10% (2006 - 3.53%) in return for paying floating rates, which at year-end had a weighted average of 5.37% (2006 - 4.52%). At January 31, 2007, 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 $413,230 in favour of the counterparty (2006 - $607,470). The fair value of interest rate swap contracts as at January 31, 2007, as determined using the mark-to-market repricing, is $341,669 in favour of the counterparty (2006 - $577,843).

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 1.9 to 3.7 years (2006 - 2.9 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, 2007, the notional amount of equity swap contracts was $19,536,778 (2006 - $19,536,778), which expire in 1.9 to 3.7 years (2006 - 2.9 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, 2007, including interest payable and mark-to-market repricing, is $3,288,574 in favour of the Bank (2006 - $1,210,652). The fair value of the contracts as at January 31, 2007, as determined using the mark-to-market repricing, is $3,405,999 in favour of the Bank (2006 - $1,309,312).

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 8 to 56 months (2006 - 3 to 50 months).

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 US dollar amount. At January 31, 2007, the principal amount of unsettled foreign exchange forward contracts is US $10,608,223 (2006 - $10,172,549), all of which mature in 2 to 3 months (2006 - 2 weeks to 3 months). At January 31, 2007, the net monetary exposure to the counterparty to these contracts on a mark-to-market repricing basis is $21,708 in favour of the Bank (2006 - $74,111 in favour of the counterparty). Foreign exchange forward contracts are marked to market, with realised and unrealised 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 in 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. 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	$ 91,630,072	$ 91,630,072	$ –
Securities – available for sale	167,523,515	166,258,050	(1,265,465)
Loans, mortgages and credit card receivables, net	651,018,236	650,575,599	(442,637)
Accrued interest	7,858,981	7,858,981	–
Other	1,079,552	1,079,552	–
Liabilities			
Due to depositors	$ 871,277,212	$ 868,381,485	$ 2,895,727
Accrued interest on deposits	15,246,175	15,246,175	–
Other	1,587,352	1,587,352	–
Derivatives			
Interest rate swap contracts	$ –	$ (341,669)	$ (341,669)
Equity swap contracts	–	3,405,999	3,405,999
Foreign exchange forward contracts	21,708	21,708	–

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, the fair values of these instruments have been estimated using present value or other valuation techniques and may not necessarily be indicative of the amount realisable 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 carrying 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 carrying 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
Cash and deposits with banks	$ 88,011,168	$ –	$ –	$ –	$ –	$ 3,618,904	$ 91,630,072
Securities – available for sale	11,143,621	5,919,046	7,951,455	73,535,702	68,973,691	–	167,523,515
Loans	623,927,229	5,241,116	21,849,891	–	–	–	651,018,236
Other assets	–	–	–	–	–	13,880,742	13,880,742
Capital assets	–	–	–	–	–	23,626,064	23,626,064
Total assets	723,082,018	11,160,162	29,801,346	73,535,702	68,973,691	41,125,710	947,678,629
Due to depositors	493,754,511	77,545,149	134,717,128	165,260,424	–	–	871,277,212
Other liabilities	–	–	–	–	–	16,969,952	16,969,952
Shareholder's equity	–	–	–	–	–	59,431,465	59,431,465
Total liabilities and shareholder's equity	493,754,511	77,545,149	134,717,128	165,260,424	–	76,401,417	947,678,629
Off balance sheet items	(55,734,778)	–	18,713,000	37,021,778	–	–	–
Interest sensitivity gap	$ 173,592,729	$ (66,384,987)	$ (86,202,782)	$ (54,702,944)	$ 68,973,691	$ (35,275,707)	$ –
Cumulative interest rate sensitivity gap	$ 173,592,729	$ 107,207,742	$ 21,004,960	$ (33,697,984)	$ 35,275,707	$ –	$ –

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/to related parties have no stated maturity date or repayment terms and carry interest at rates from 0% to 7.5% (2006 - 0%).

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

		2007		2006
Statement of Income				
Interest income from loans, mortgages and credit card receivables	$	1,833,789	$	1,867,498
Interest expense	$	1,398,531	$	958,953
Rent income	$	312,412	$	358,733
Other income	$	391,449	$	–
General and administrative expenses	$	920,714	$	581,562

Included in general and administrative expenses are $264,495 (2006 - $202,602), $606,219 (2006 - $378,960) and $50,000 (2006 - $nil) paid to Gibbons Management Services Limited, CGL and another related party, respectively, for group-allocated administrative overheads.

During the year ended January 31, 2007, the Bank recharged $561,414 (2006 - $474,510) to CGL 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.

Similarly, during the year the Bank was charged $2,367,449 (2006 - $2,237,871) by CGL 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.

CGL has compensated the Bank for the net losses of CGTL for the year ended January 31, 2007, which amounted to $391,449.

Balance Sheet

Included in loans, mortgages and credit card receivables:

		2007		2006
Loan to Edmund Gibbons Limited	$	5,693,221	$	2,289,680
Mortgage receivable from Edmund Gibbons Limited	$	–	$	1,960,000
Loan to CAPITAL G Limited	$	–	$	1,087,637
Loan and mortgage receivable from Gibbons Management Services Limited	$	–	$	12,313,655
Mortgage receivable from CAPITAL G Investments Limited	$	–	$	577,448
Loans and mortgages receivable from other companies under common control	$	63,676	$	410,975
Loans, mortgages and credit card receivables from other related parties	$	15,929,534	$	10,269,940

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

		2007		2006
Balance Sheet (continued)				
Accrued interest on loans, mortgages and credit card receivables from all related parties	$	367,597	$	257,023
Included in liabilities:				
Due to depositors	$	32,210,853	$	38,512,597
Accrued interest on deposits	$	93,998	$	144,808

The loan to Edmund Gibbons Limited ("EGL") is secured by the deposit of EGL's shareholding in Jardine Gibbons Properties Limited. The loan bears interest at 7.75% (2006 - 7.50%) annually and matures on June 1, 2011.

During the year, the loans and mortgages receivable from CGL and CAPITAL G Investments Limited and the mortgage receivable from EGL 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, retained earnings and contributed surplus**

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.

During the year, a cash capital contribution of $500,000 was made by the Bank's sole shareholder.

During the year, quarterly dividends of $377,000 (total of $1,508,000) were declared and paid to the Bank's sole shareholder.

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 is due from residents of Bermuda and is secured by residential property in Bermuda. The Bermuda economy is largely dependant upon tourism and international business services and the health of these 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 and inter-bank loans amounting to $32,386,316 (2006 - $19,826,384) is held with one international bank.

15. General and administrative expenses

General and administrative expenses consist of the following:

	2007	2006
Advertising	$ 1,021,192	$ 311,816
Information technology expense	2,742,264	2,297,990
Credit and debit card expense	942,149	1,248,719
Directors' fees and expenses	46,829	47,343
Investment expenses and bank charges	626,186	633,581
License and insurance	600,341	572,940
Office expense	1,374,740	1,489,901
Professional fees	635,521	754,805
Rent	737,728	714,704
Miscellaneous	912,416	1,261,895
Total general and administrative expenses	$ 9,639,366	$ 9,333,694

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, 2007 contributions of $411,404 (2006 - $339,797) 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

In 2006, cash and deposits with banks included a term deposit for US $1,027,157, which was pledged to another bank that had issued a standby letter of credit in favour of the Bank. This letter of credit expired on August 22, 2006 and was not renewed.

The average effective interest rate earned on cash and deposits with banks for the year ended January 31, 2007 is 4.88% (2006 - 3.04%).

18. Commitments and guarantees

The Bank's commitment for undrawn mortgages and loans amounted to $68,465,177 at January 31, 2007 (2006 - $67,091,294).

As at January 31, 2007, the Bank has contractually committed to incur capital costs of $nil (2006 - $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	
2008	$ 600,000
2009	600,000
2010	600,000
2011	600,000
2012	600,000
Thereafter	6,600,000
	$ 9,600,000

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

The Bank is contingently liable for letters of credit and guarantees amounting to $1,500,000 as at January 31, 2007 (2006 - $1,410,000 (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 irrevocable obligation of the Bank to pay the third party beneficiary upon presentation of the guarantee and satisfaction of the documentary requirements stipulated therein.

As at February 1, 2007, the Bank has contractually committed to incur capital costs of $3,642,000 for the purchase of a new computer system.

The carrying value of all the commitments and guarantees discussed above on the January 31, 2007 consolidated balance sheet is $nil (2006 - $nil).

19. **Comparative figures**

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

Capital G Bank Limited
Board of Directors

The Hon. Sir J. David Gibbons, KBE, JP
James L. Gibbons
J. David Gibbons, OBE

Peter J. Hardy, M.A., FCIS, MICA, OBE
Secretary to the Board

Management

James L. Gibbons
President and Chief Executive Officer

Richard Doughty
Executive Vice President
Chief Operating Officer

Ralph Kern
Executive Vice President
Chief Financial Officer

Ian Truran
Executive Vice President
Chief Relationship Management Officer

Joel Schaefer
Chief Investment Officer

Edward Benevides
Senior Vice President
Head of Card Services

Richard Jackson
Senior Vice President
Financial Controller

Walter Krzos
Senior Vice President
Head of Credit Risk Management

Tessa Robins
Senior Vice President
Head of Internal Audit & Compliance

Nir Sadeh
Senior Vice President
Select Private Banking

John Whale
Senior Vice President
Treasurer

Capital G Limited
Board of Directors

The Hon. Sir J. David Gibbons, KBE, JP
Chairman

James L. Gibbons
President and CEO

Mansfield (Jimmy) Brock Jr., CBE
Chief Administrative Officer
Colonial Insurance Group
Member, Audit Committee

Duncan Cornell Card, B.A., LL.B., LL.M.
Bermuda Bar; Ontario, Canada Bar,
Senior Partner Bennett Jones LLP
Chairman, Compensation Committee

Jozef C. Hendriks
Managing Director
Harbour International Trust Company
Limited Chairman, Investment Committee

Annarita Marion JP, CA
Member, Audit Committee

Andrew D. Parsons, M.B.A., CA
Senior Vice President, Corporate Services
and Treasurer Bermuda Electric Light
Company Limited
Chairman, Audit Committee

Principal Offices and Subsidiaries

Capital G Bank Limited

Registered Office
21 Reid Street
Hamilton HM EX

Main Branch
19 Reid Street
Hamilton HM EX

Capital G Trust Limited
25 Reid Street
Hamilton HM EX

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