BERMUDA COMMERCIAL BANK LIMITED

2006 Consolidated Financial Statements and Independent Auditors' Report

This document should be read in conjunction with the 2006 Letter to Shareholders. To obtain a copy of the letter please visit our website at www.bcb.bm and select the Information Menu, or contact us at enquiries@bcb.bm.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Bermuda Commercial Bank Limited

We have audited the consolidated balance sheet of Bermuda Commercial Bank Limited (the "Bank") as at September 30, 2006 and the consolidated statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these 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 September 30, 2006 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.

As discussed in Note 1, there have been recent significant activities involving the Bank and the Bank's major shareholder First Curacao International Bank N.V. that have affected the operations of the Bank.

Deloitte & Touche

August 10, 2007

BERMUDA COMMERCIAL BANK LIMITED
CONSOLIDATED BALANCE SHEET
as at September 30, 2006

	2006	2005
ASSETS		
Cash, money market and term deposits (Note 3)		
Due on demand	$ 16,966,252	$ 18,669,607
Money market funds	-	299,400,000
Term deposits	444,490,520	535,934,584
Total cash, money market and term deposits	461,456,772	854,004,191
Loans and advances, net of allowance for loan losses (Note 4)	223,722	1,413,542
Equipment, leasehold improvements and computer software (Note 5)	1,201,301	1,352,320
Interest receivable	430,715	1,106,563
Other assets	959,978	946,472
Total assets	$ 464,272,488	$ 858,823,088
LIABILITIES		
Deposits (Note 6)		
Demand deposits	$ 165,228,647	$ 203,078,626
Term deposits	234,511,718	599,996,491
Total deposits	399,740,365	803,075,117
Interest payable	491,170	329,479
Other liabilities	3,778,436	3,015,034
Proposed dividend	2,825,943	1,083,090
Total liabilities	406,835,914	807,502,720
SHAREHOLDERS' EQUITY		
Capital stock (Note 7)	10,434,252	10,397,666
Share premium (Note 7)	11,096,772	11,019,028
Retained earnings	35,905,550	29,903,674
Total shareholders' equity	57,436,574	51,320,368
Total liabilities and shareholders' equity	$ 464,272,488	$ 858,823,088

See accompanying notes to the consolidated financial statements

Signed on behalf of the Board:

Dr. Clarence R. Terceira JP
Chairman

E. John Sainsbury
President

BERMUDA COMMERCIAL BANK LIMITED
CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS
for the year ended September 30, 2006

	2006	2005
INCOME		
Interest income	$ 29,764,625	$ 16,923,208
Interest expense	18,162,866	8,692,860
Net interest income	11,601,759	8,230,348
Fees and commissions (Note 12)	6,374,718	4,871,530
Other operating income	218,751	257,545
Net exchange gains	654,652	778,080
Other income (Note 13)	689,805	-
Total income	19,539,685	14,137,503
EXPENSES		
Salaries and employee benefits (Note 11)	5,020,624	4,467,193
Amortization and write-offs	866,379	687,348
Other expenses	3,520,595	3,812,770
Total expenses	9,407,598	8,967,311
NET INCOME	10,132,087	5,170,192
RETAINED EARNINGS, BEGINNING OF YEAR	29,903,674	26,790,726
Dividends (Note 8)	(4,130,211)	(2,057,244)
RETAINED EARNINGS, END OF YEAR	$ 35,905,550	$ 29,903,674
Basic earnings per common share (Note 9)	$ 2.34	$ 1.19
Diluted earnings per common share (Note 9)	$ 2.02	$ 1.04

See accompanying notes to the consolidated financial statements

BERMUDA COMMERCIAL BANK LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended September 30, 2006

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 10,132,087	$ 5,170,192
Adjustment to reconcile net income to cash flows from operating activities:		
Amortization and write-offs	866,379	687,348
Reduction in provision for loan losses	(49,086)	(3,067)
Decrease (increase) in interest receivable	675,848	(719,954)
(Increase) decrease in other assets	(13,506)	180,042
Increase in interest payable	161,691	147,010
Increase in other liabilities	763,402	247,039
Cash flows from operating activities	12,536,815	5,708,610
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease in loans and advances	1,238,906	526,547
Net (increase) decrease in term deposits with banks having maturity greater than three months	(11,218,368)	10,631,521
Purchase of equipment, leasehold improvements and computer software	(715,360)	(239,874)
Cash flows from investing activities	(10,694,822)	10,918,194
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in customer deposits	(403,334,752)	268,791,319
Proceeds from exercise of warrants	114,330	32,505
Dividends paid	(2,387,358)	(1,947,960)
Cash flows from financing activities	(405,607,780)	266,875,864
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(403,765,787)	283,502,668
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	853,918,567	570,415,899
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 450,152,780	$ 853,918,567
CASH AND CASH EQUIVALENTS		
Cash, money market and term deposits	$ 461,456,772	$ 854,004,191
Less: term deposits with banks having maturity greater than three months	(11,303,992)	(85,624)
Cash and cash equivalents	$ 450,152,780	$ 853,918,567
SUPPLEMENTARY INFORMATION		
Interest paid	$ 18,001,175	$ 8,545,850

See accompanying notes to the consolidated financial statements

BERMUDA COMMERCIAL BANK LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2006

1. SIGNIFICANT EVENTS

Resignation by John Deuss, Timothy Ulrich and Tineke Deuss - On September 8, 2006 First Curacao International Bank N.V., (FCIB), a major shareholder of Bermuda Commercial Bank Limited (the Bank), announced that the legal authorities in Holland and Curacao were conducting an investigation at the offices of FCIB into alleged money laundering activities by some of FCIB's customers and into whether the activities of its Dutch service provider required a banking license. Subsequently John Deuss, Timothy Ulrich and Tineke Deuss, because they served as Directors of FCIB, advised the Board of the Bank of their intentions to temporarily step aside from their responsibilities as Officers and Directors of the Bank. On October 3, 2006 John Deuss, Timothy Ulrich and Tineke Deuss resigned from their positions as Chairman, President and Director respectively from the Bank's board of directors.

Appointment of Officers and Directors - In order to fill the vacant positions at the Bank, Dr. Clarence Terceira, Vice Chairman and John Sainsbury, a Director, were appointed Chairman and President respectively.

On December 8, 2006 three members of the Bank's management team, Paul Kneen, Greg Reid and Dominique Smith were appointed to the board. Mr. Kneen has since resigned his post with the company and as a Director.

Proposed sale of the Bank - During the year the board of directors had agreed that a merger or outright sale was desirable to further the Bank's growth. In October 2006, the Bank hired the financial advisory firm of Keefe, Bruyette & Woods, Inc. to assist the board in the sale process. Negotiations for the sale or merger of the Bank with another entity are ongoing.

Rating Agencies - On October 6, 2006 Fitch downgraded the Bank's short-term rating to 'F2' from `F1' and its Individual Rating to `C' from `B/C.' Fitch also placed both ratings on Rating Watch Negative.

Following the Bank's announcement that it is discussing a potential merger or alliance with other financial institutions, Fitch Ratings, through a press release dated October 20, 2006 revised the Rating Watch status for the Bank's short-term and individual ratings to Evolving from Negative, also affirming the Bank's support rating. In their credit update released in July 2007, Fitch Ratings have kept the Bank's rating outlook Evolving.

Moody's Investor Services, in a press release dated September 15, 2006, placed the Bank's ratings on review for downgrade. Subsequently, on September 29, 2006 Moody's downgraded the Bank's financial strength rating from C- to D+. The review for possible downgrade was extended by Moody's in its January 29, 2007 press release.

1. SIGNIFICANT EVENTS (cont'd)

Delay in issuance of audited financial statements - At the Annual General Meeting of Bermuda Commercial Bank Limited, held on December 20, 2006, the shareholders of the Bank agreed, in accordance with section 84(3) of the Companies Act 1981, to defer laying the audited financial statements before shareholders in general meeting for a period of 90 days. With the approval of the Bermuda Stock Exchange (BSX) this was further extended until July 31, 2007 and subsequently to August 31, 2007.

The Bank has kept the Bermuda Monetary Authority (BMA) and the Bermuda Stock Exchange (BSX) informed of the delays in the audit completion.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation - The consolidated financial statements have been prepared in accordance with accounting principles generally accepted ("GAAP") in Bermuda and Canada. The preparation of consolidated financial statements in conformity with Bermudian and Canadian GAAP requires management to make estimates and assumptions that affect assets and liabilities, income and other related information. The most significant assets and liabilities subject to estimates and assumptions by Management are operating expenses including amortization of equipment, premises and computer software, the allowance for credit losses and fair value of financial instruments. If actual results differ from these estimates, the impact is recognized in future periods.

Basis of Consolidation - The consolidated financial statements include the assets, liabilities, and results of operations of the Bank and its wholly owned subsidiaries, International Corporate Management of Bermuda Limited, BCB Trust Company Limited, BCB (Mauritius) Limited and Bercom Nominees Limited. Intercompany transactions are eliminated on consolidation.

Foreign Currency Translation - United States dollar balances and transactions are translated into Bermuda dollars at par. Monetary assets and liabilities in other currencies are translated into Bermuda dollars at the rates of exchange prevailing at the balance sheet date. Income and expense items in other currencies are translated into Bermuda dollars at the rates prevailing at the dates of the transactions. Differences arising on the translation of assets and liabilities are charged or credited directly to net exchange gains.

Cash and cash equivalents - Cash equivalents are limited to investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value and have original maturities of three months or less.

Loans and Advances - Loans and advances are stated net of any related allowance for loan losses.

A loan is classified as non-performing when, in the opinion of management, there is reasonable doubt as to the collectibility of interest or principal, or there are circumstances that indicate an account will be difficult to recover in full within a reasonable period. Loans for which collection is more than 90 days overdue are classified as non-performing. When a loan is classified as non-performing, accrued but uncollected interest is reversed against income. Thereafter, interest income is recognized on a cash basis only after specific provisions for losses have been recovered and provided there is no further doubt as to the collectibility of principal.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Non-performing loans may revert to performing status when all payments become fully up-to-date and, in the opinion of management, there is no reasonable doubt as to the ultimate collectibility of the principal or interest.

All non-performing loans are considered to be impaired. Impairment is measured as the difference between the recorded value of the loan and its estimated realizable amount, determined by discounting the expected future cash flows at the interest rate inherent in the loan at the date of impairment or the fair value of collateral for certain collateral dependent loans. If the estimated realizable amount of the loan is less than its recorded value, an allowance for loan losses is charged to other expenses.

The allowance for loan losses is based on management's assessment of an adequate provision to meet losses on existing loans and advances. The adequacy of the allowance for loan losses is continually reviewed by management, taking into consideration matters such as current economic conditions, past loss experience, individual circumstances affecting loan quality, and other relevant factors.

The allowance for loan losses consists of specific provisions against loan and advance exposures determined on an item-by-item basis, as well as a general provision. The general provision for loan losses is established to absorb losses attributable to the deterioration of loan quality and reflects management's best estimate of losses existing in the loan portfolio in respect of loans for which individual specific provisions cannot yet be determined.

The allowance is increased by provisions for loan losses charged to other expenses and reduced by write-offs net of recoveries. The provision is the amount required to bring the allowance to the level management determines is required to estimate losses. This evaluation is inherently subjective as it requires material estimates including the amount and timing of future cash flows expected to be received on impaired loans and advances that may be susceptible to significant change.

Derivative Financial Instruments - Derivatives are used to provide clients with the ability to manage their own market risk exposures. The most frequently used derivatives by clients are forward foreign exchange contracts. When the Bank enters into derivative contracts with clients, the client is required to settle the contract with the Bank in advance. The Bank will also simultaneously enter into a matching and offsetting derivative contract.

Equipment, Leasehold improvements and Computer Software - Equipment, leasehold improvements, and computer software are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the estimated useful lives of the related assets, which are up to seven years for equipment, three years for computer hardware**,** up to five years for computer software, and the term of the lease for leasehold improvements.

Fair Value of Financial Instruments - The estimated fair values of financial instruments approximate their carrying values. Management estimates fair value on the basis of quoted market prices and financial rates, net present values of expected future cash flows, and such other methods as management considers appropriate in light of all existing information. Because management's methodologies necessarily involve assumptions about future events, the estimates are subject to considerable uncertainty.

3. CASH, MONEY MARKET AND TERM DEPOSITS

Cash, money market and term deposits include amounts due on demand, term deposits with banks, and money market funds. The maturities are as follows:

	Within 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	Total
United States Dollar	$ 334,855,941	$ -	$ 10,000,000	$ -	$ 344,855,941
British Pound	44,607,109	1,868,200	-	1,214,330	47,689,639
Euro	40,809,975	-	-	-	40,809,975
Canadian Dollar	14,120,436	1,075,944	-	89,662	15,286,042
Bermuda Dollar	1,201,726	-	-	-	1,201,726
Other	10,975,541	637,908	-	-	11,613,449
2006 Total	$ 446,570,728	$ 3,582,052	$ 10,000,000	$ 1,303,992	$ 461,456,772

	Within 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	Total
United States Dollar	$ 711,139,223	$ 30,000,000	$ -	$ -	$ 741,139,223
British Pound	35,575,017	883,650	-	-	36,458,667
Euro	51,787,757	-	-	-	51,787,757
Canadian Dollar	6,765,057	1,177,330	-	85,624	8,028,011
Bermuda Dollar	1,281,845	-	-	-	1,281,845
Other	15,308,688	-	-	-	15,308,688
2005 Total	$ 821,857,587	$ 32,060,980	$ -	$ 85,624	$ 854,004,191

The average effective yields earned are as follows:

	2006	2005
Term deposits	4.29%	2.80%
Money market funds	4.53%	2.70%
Demand deposits with other banks	3.69%	1.10%

4. LOANS AND ADVANCES

Loans and advances and the allowance for loan losses at September 30 are as follows:

	2006			2005		
	Gross	Allowance	Net	Gross	Allowance	Net
Mortgage loans	$ 356,510	$ 148,567	$ 207,943	$ 1,586,229	$ 197,653	$ 1,388,576
Other	15,779	-	15,779	24,966	-	24,966
Total	$ 372,289	$ 148,567	$ 223,722	$ 1,611,195	$ 197,653	$ 1,413,542

Mortgage loans consist primarily of first mortgages on Bermuda properties held by the Bank. These mortgages are generally repayable over periods not exceeding 15 years and are callable on 90 days notice.

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

	Within 1 Year	1 – 5 Years	More than 10 Years	Impaired	Total	Average Effective Yield
Mortgage loans	$ -	$ 39,333	$ 160,399	$ 156,778	$ 356,510	6.05%
Other	14,966	813	-	-	15,779	0.00%
2006 Total	$ 14,966	$ 40,146	$ 160,399	$ 156,778	$ 372,289	

	Within 1 Year	1 – 5 Years	More than 10 Years	Impaired	Total	Average Effective Yield
Mortgage loans	$ 1,000,000	$ 214,473	$ 166,852	$ 204,904	$ 1,586,229	5.59%
Other	3,303	21,663	-	-	24,966	1.95%
2005 Total	$ 1,003,303	$ 236,136	$ 166,852	$ 204,904	$ 1,611,195	

The following is an analysis of the allowance for loan losses at September 30:

	2006			2005		
	Specific	General	Total	Specific	General	Total
Balance at beginning of year	$ 132,653	$ 65,000	$ 197,653	$ 135,720	$ 65,000	$ 200,720
Released	(5,000)	(45,000)	(50,000)	(5,000)	-	(5,000)
Increases and new provisions	914	-	914	1,933	-	1,933
Balance at end of year	$ 128,567	$ 20,000	$ 148,567	$ 132,653	$ 65,000	$ 197,653

5. EQUIPMENT, LEASEHOLD IMPROVEMENTS AND COMPUTER SOFTWARE

	Cost	Accumulated Amortization	Net Book Value 2006
Equipment	$ 995,852	$ 689,378	$ 306,474
Leasehold improvements	392,690	5,982	386,708
Computer software	2,224,234	1,716,115	508,119
Total	$ 3,612,776	$ 2,411,475	$ 1,201,301

	Cost	Accumulated Amortization	Net Book Value 2005
Equipment	$ 867,744	$ 584,734	$ 283,010
Leasehold improvements	1,309,765	785,748	524,017
Computer software	2,053,190	1,507,897	545,293
Total	$ 4,230,699	$ 2,878,379	$ 1,352,320

6. DEPOSITS

Deposits include both demand and term deposits. Deposits payable on demand are interest and non-interest bearing deposits. Deposits payable on a fixed date are interest-bearing deposits that mature on a specified date. The maturities are as follows:

	Demand Deposits	Within 1 Month	1-3 Months	3-6 Months	6 - 12 Months	Total Term Deposits	Total Deposits
United States Dollar	$122,500,621	$ 144,180,221	$ 5,673,945	$ 4,889,847	$ 946,382	$ 155,690,395	$278,191,016
British Pound	20,108,370	24,655,798	1,503,514	-	1,232,375	27,391,687	47,500,057
Euro	8,130,698	32,633,789	-	-	-	32,633,789	40,764,487
Canadian Dollar	6,785,610	7,238,239	1,015,445	79,148	153,194	8,486,026	15,271,636
Bermuda Dollar	3,336,666	2,999,368	57,429	103,842	-	3,160,639	6,497,305
Other	4,366,682	6,483,449	665,733	-	-	7,149,182	11,515,864
2006 Total	$165,228,647	$ 218,190,864	$ 8,916,066	$ 5,072,837	$ 2,331,951	$ 234,511,718	$ 399,740,365

6. DEPOSITS (Cont'd)

	Demand Deposits	Within 1 Month	1-3 Months	3-6 Months	6 - 12 Months	Total Term Deposits	Total Deposits
United States Dollar	$146,326,103	$ 524,675,330	$10,881,504	$ 156,467	$ 918,446	$536,631,747	$ 682,957,850
British Pound	13,886,521	21,475,885	861,318	-	23,035	22,360,238	36,246,759
Euro	27,877,704	23,910,365	-	-	-	23,910,365	51,788,069
Canadian Dollar	3,039,400	3,572,670	1,195,723	74,517	143,179	4,986,089	8,025,489
Bermuda Dollar	5,910,524	2,845,373	45,758	2,358	-	2,893,489	8,804,013
Other	6,038,374	8,180,962	1,033,601	-	-	9,214,563	15,252,937
2005 Total	$ 203,078,626	$ 584,660,585	$14,017,904	$ 233,342	$ 1,084,660	$599,996,491	$ 803,075,117

The average effective interest rates paid were:

	2006	2005
Term deposits based on book values and contractual interest rates	3.96%	2.31%
Demand deposits	0.06%	0.05%

7. CAPITAL STOCK

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

	Authorized Shares	Par Value	Issued & Fully Paid Shares	Par Value	Share Premium
Balance at September 30, 2006	10,000,000	$ 24,000,000	4,347,605	$ 10,434,252	$ 11,096,772
Balance at September 30, 2005	10,000,000	$ 24,000,000	4,332,361	$ 10,397,666	$ 11,019,028

As part of a Rights Offering in June 1995, the Bank issued 1,625,036 warrants which were convertible to common shares at $7.50 between May 1997 and May 2001. In May 2001, December 2001 and December 2002, the expiry dates of the warrants were extended to May 31, 2002, 2003 and 2005, respectively. In December 2004, the expiry date of the warrants was further extended to May 30, 2008. Of these warrants, 805,576 (2005: 805,576) are held by the Bank's controlling shareholder. As of September 30, 2006, 1,552,539 (2005: 1,567,783) warrants remain outstanding.

During the year, 15,244 (2005: 4,334) warrants were exercised resulting in an issuance of the same number of common shares, with a par value of $36,586 (2005: $10,401) and share premium of $77,744 (2005: $22,104).

7. CAPITAL STOCK (Cont'd)

Options to acquire common shares have been issued to the Bank's controlling shareholder as follows:

Issue Date	Number of options	Exercise Price	Exercise Period
December 2000	500,000	$5.6972	January 1, 2003 through December 31, 2012
December 1999	400,000	$7.05	January 1, 2002 through December 31, 2011
December 1998	300,000	$5	January 1, 2001 through December 31, 2010
December 1997	200,000	$5.125	January 1, 2000 through December 31, 2009
December 1996	200,000	$5	January 1, 1999 through December 31, 2008
December 1995	200,000	$5	January 1, 1998 through December 31, 2008

In December 2001, the exercise date of the options originally issued in December 1995 was extended from December 31, 2002 to December 31, 2003. In December 2002, the exercise date of each lot of options was extended by two years. In December 2004, the exercise date of each lot of options was extended by a further three years.

8. DIVIDENDS

	2006	2005
Declared and Paid: Half Year (2006: 30.0 cents per common share; 2005: 22.5 cents)	$ 1,304,268	$ 974,154
Declared: Year End (2006: 65.0 cents per common share; 2005: 25.0 cents)	2,825,943	1,083,090
Total for year	$ 4,130,211	$ 2,057,244

9. EARNINGS PER SHARE

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

The following table presents the computation of basic and diluted earnings per share:

	Net Earnings	Weighted Average Shares	Earnings per Share
2006			
<u>Basic Earnings Per Share</u>			
Net income	$ 10,132,087	4,338,719	$ 2.34
Add: Incremental shares from assumed			
Exercise of stock options (Note 7)		554,246	
Conversion of warrants (Note 7)		130,268	
Adjusted weighted average shares outstanding		5,023,233	
<u>Diluted Earnings Per Share</u>			
Net income	$ 10,132,087	5,023,233	$ 2.02
2005			
<u>Basic Earnings Per Share</u>			
Net income	$ 5,170,192	4,328,856	$ 1.19
Add: Incremental shares from assumed			
Exercise of stock options (Note 7)		529,410	
Conversion of warrants (Note 7)		102,380	
Adjusted weighted average shares outstanding		4,960,646	
<u>Diluted Earnings Per Share</u>			
Net income	$ 5,170,192	4,960,646	$ 1.04

10. RELATED PARTY CONSIDERATIONS

The Bank is the appointed manager and custodian on a number of money market funds. As at September 30, 2006 the Bank had $nil (2005: $199,400,000) invested in these money market funds. The Bank charged fees of $45,090 on these funds for the year ended September 30, 2006 (2005: $52,713).

At September 30, 2006 First Curacao International Bank N.V. ("FCIB"), which is incorporated in the Netherlands Antilles, owns 47.29% (2005: 47.46%) of the Bank's issued shares.

The Bank and FCIB were parties to a Service and Management Agreement where the latter provided managerial services and advice to the Bank in consideration of which the Bank was charged an annual management fee based on net income. The management fee, which was incurred in the normal course of operations, had traditionally been waived by FCIB. The Service and Management Agreement expired during the 2003 financial year and was not renewed. FCIB continued to provide managerial services and advice to the Bank up until September 2006 for which it is not seeking any claim for reimbursement. Managerial services and advice have not been provided since this time. The Bank has no liability to FCIB for the services provided. Management estimates the value of those services to approximate $100,000 for the year ended September 30, 2006 (2005: $217,000).

The Bank provides banking services to FCIB and other related parties under the same terms as an unrelated party would receive. The Bank earned interest and fees on these services of approximately $460,000 during the year ended September 30, 2006 (2005: $195,000).

The Bank and FCIB entered into a Software License and Support Agreement for an Internet Banking System effective October 1, 2003 providing for an initial license fee of $80,000 together with an annual support and maintenance fee equal to 15% of the license fee. During the 2004 financial year, the Internet Banking System underwent final user acceptance and testing in addition to implementation of robust upgrades, enhancements, and additional functions requested by the Bank. In consideration of these factors, the initial agreed upon license fee and the annual support and maintenance fees did not become due and payable until the fiscal year commencing October 1, 2004. In the interest of expedience the Bank performs all routine support and maintenance itself using in-house technical expertise. The Internet Banking System has operated continuously since 2004, and, while this agreement remains in force, the Bank has no reliance on FCIB for routine support.

11. EMPLOYEE BENEFITS

The Bank meets the minimum requirements of the Bermuda National Pension Scheme (Occupational Pensions) Act 1998, related amendments and regulations. Under this legislation, the Bank contributes to its employees' pension requirements using a defined contribution plan at the following rates, following any probationary period for new staff:

5% of gross salary if service does not exceed 15 years; and
10% of gross salary if service exceeds 15 years.

11. EMPLOYEE BENEFITS (Cont'd)

As permitted under the legislation, staff members are required to contribute annually 5% based on the employees' pensionable earnings. Staff members with greater than 15 years of service are not required to make contributions.

The scheme is administered by an independent party, and all such funds are segregated from the assets and liabilities of the Bank. Pension expense incurred during 2006 amounted to $143,088 (2005: $148,569).

Following the uncertainty surrounding the investigation into FCIB and John Duess, the Bank implemented an employee compensation plan to aid in the retention of employees. This plan guarantees the salary and certain other compensation benefits of the majority of the Bank's employees. This plan expires on December 31, 2007.

12. FEES AND COMMISSIONS

2006 fees and commissions include one-time, non recurring service fee income of $1,058,750 (2005: $nil) in the Bank's corporate services segment. This fee income resulted from a significant upward revaluation of a client's net assets following a change in the client's accounting policies and the subsequent renegotiation of prior period fees which were based on the levels of these net assets. Subsequent to year end the Bank ceased to provide services to this client.

13. OTHER INCOME

2006 other income is one-time, non recurring income of $689,805 (2005: $nil) resulting from the release of litigation provisions initially accrued in 2001 that the Bank no longer believes are required

14. COMMITMENTS AND CONTINGENT LIABILITIES

In September 2006, the Bank moved premises and entered into a five-year lease, which contains two options to renew the lease for five additional years, for a total of fifteen years.

Payments due for premises rented under long-term leases at September 30, 2006 are:

2007	$ 603,700
2008	$ 603,700
2009	$ 603,700
2010	$ 642,531
2011	$ 655,475

The Bank is contingently liable for letters of credit, which are fully matched by offsetting customer deposits in the amount of $1,580,000(2005: $1,753,000). The Bank has issued a confirmed letter of credit in its own name in the amount of $300,000 (2005: $300,000) that is supported by a term deposit.

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15. INTEREST RATE SENSITIVITY

Interest rate risk arises from maturity mismatches. The following is an analysis of the maturity of assets and liabilities:

2006	Within 1 Month	1-3 Months	3-12 Months	Over 12 Months	Non-Interest Sensitive	Total
ASSETS						
Cash	$ 16,966,252	$ -	$ -	$ -	$ -	$ 16,966,252
Term deposits	429,604,476	3,582,052	11,303,992	-	-	444,490,520
Loans	1,106	581	13,280	208,755	-	223,722
Other assets	-	-	-	-	2,591,994	2,591,994
Total assets	$ 446,571,834	$ 3,582,633	$ 11,317,272	$ 208,755	$ 2,591,994	$ 464,272,488
LIABILITIES AND SHAREHOLDERS' EQUITY						
Deposits	$ 383,419,511	$ 8,916,066	$ 7,404,788	$ -	$ -	$ 399,740,365
Other liabilities	-	-	-	-	7,095,549	7,095,549
Shareholders' equity	-	-	-	-	57,436,574	57,436,574
Total liabilities and shareholders' equity	383,419,511	8,916,066	7,404,788	-	64,532,123	464,272,488
Net surplus (deficit)	63,152,323	(5,333,433)	3,912,484	208,755	(61,940,129)	-
Cumulative net surplus	$ 63,152,323	$ 57,818,890	$ 61,731,374	$ 61,940,129	$ -	$ -

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15. INTEREST RATE SENSITIVITY (Cont'd)

2005 ASSETS	Within 1 Month	1-3 Months	3-12 Months	Over 12 Months	Non-Interest Sensitive	Total
Cash	$ 18,669,607	$ -	$ -	$ -	$ -	$ 18,669,607
Money market funds	299,400,000	-	-	-	-	299,400,000
Term deposits	503,787,980	32,060,980	85,624	-	-	535,934,584
Loans	-	-	1,003,303	410,239	-	1,413,542
Other assets	-	-	-	-	3,405,355	3,405,355
Total assets	$ 821,857,587	$ 32,060,980	$ 1,088,927	$ 410,239	$ 3,405,355	$858,823,088
LIABILITIES AND SHAREHOLDERS' EQUITY						
Deposits	$ 787,739,211	$ 14,017,904	$ 1,318,002	$ -	$	$803,075,117
Other liabilities	-	-	-	-	4,427,603	4,427,603
Shareholders' equity	-	-	-	-	51,320,368	51,320,368
Total liabilities and shareholders' equity	787,739,211	14,017,904	1,318,002	-	55,747,971	858,823,088
Net surplus (deficit)	34,118,376	18,043,076	(229,075)	410,239	(52,342,616)	-
Cumulative net surplus	$ 34,118,376	$ 52,161,452	$ 51,932,377	$ 52,342,616	$ -	$ -

16. BUSINESS SEGMENTS

The Bank's reportable business segments are strategic operating units that offer substantially different products and services. The Bank has three reportable business segments: Banking Services, Corporate Trust, and Mortgage Lending.

Banking Services - The Banking Services segment is responsible for monitoring and managing the risks associated with the majority of the Bank's financial assets and liabilities, including interest rate, foreign exchange, and credit risks. Results of the Bank's eBanking initiative are included within the Banking Services segment due to the correlation of activity.

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

Mortgage Lending - The Mortgage Lending segment operated as follows prior to February 11, 1997:

i. advance and lend money on mortgage or otherwise upon the security of real property;
ii. advance and lend money on ordinary and personal loans; and,
iii. receive money on deposit, paying interest thereon.

On February 11, 1997, the Board of Directors approved a resolution to terminate active lending and to run-off the mortgage book. This segment no longer accepts new deposits and is not offering new lending.

The segment accounting policies are the same as those described in Note 2. Each segment is allocated a portion of head office costs. The net interest income earned on the deposits of customers acquired by segments other than Banking Services is not allocated to those acquiring segments. The following tables set forth information about segment net income and segment assets.

16. BUSINESS SEGMENTS (cont'd)

2006	Banking Services	Corporate Services	Mortgage Lending	Elimination of inter-segment amounts	Totals
Net interest income from external customers	$ 11,550,252	$ -	$ 51,507	-	$ 11,601,759
Fees and other income from external customers	3,103,362	4,834,564	-	-	7,937,926
Inter-segment fees and other income	-	130,146	-	(130,146)	-
Total income	14,653,614	4,964,710	51,507	(130,146)	19,539,685
Operating expenses	(3,296,645)	(2,053,529)	-	87,763	(5,262,411)
Net income before head office allocation	11,365,969	2,911,181	51,507	(42,383)	14,277,274
Head office allocation	(2,559,392)	(1,628,178)	-	42,383	(4,145,187)
Net income	$ 8,797,577	$ 1,283,003	$ 51,507	-	$ 10,132,087
Segment assets	$ 463,373,588	$ 2,417,989	$ 216,403	(1,735,492)	$ 464,272,488

2005	Banking Services	Corporate Services	Mortgage Lending	Elimination of inter-segment amounts	Totals
Net interest income from external customers	$ 8,135,852	$ -	$ 94,496	-	$ 8,230,348
Fees and other income from external customers	2,694,010	3,210,643	2,502	-	5,907,155
Inter-segment fees and other income	-	148,386	-	(148,386)	-
Total income	10,829,862	3,359,029	96,998	(148,386)	14,137,503
Operating expenses	(2,978,361)	(2,774,603)	(141,057)	99,112	(5,794,909)
Net income before head office allocation	7,851,501	584,426	(44,059)	(49,274)	8,342,594
Head office allocation	(1,599,426)	(1,467,152)	(155,098)	49,274	(3,172,402)
Net income	$ 6,252,075	$ (882,726)	$ (199,157)	-	$ 5,170,192
Segment assets	$ 856,753,677	$ 1,113,968	$ 1,398,281	(442,838)	$ 858,823,088

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