



President & Chief Executive Officer's Report

All the Group's objectives established for the financial year ended on 30 June 2000 were met or surpassed. Most importantly, the transition to the new millennium was achieved without incident, and service to customers throughout the Group continued without interruption. Income from core businesses was strong, with the result that the Group, for the second consecutive year, recorded the highest level of net profit in its long history. Return on equity at 16.4%, was the highest since 1987.

Towards the end of the financial year we were successful in our efforts to sell Davenham Group Plc, an asset finance, property lending and trade finance company in Manchester, England, which the Group acquired in 1996. Although the company was profitable, there was no strategic fit with the main business of the Group, and we judged the loan book to carry a higher risk than the rest of our continuing loan book. The company was sold to management at book value plus a small premium. We wish the new owners well in their future endeavours.

During the year, there was further success in reducing non-performing loans and in cleaning up the book of discontinued loans remaining from the former London operations closed down in 1997 and early 1998. This portfolio now totals \$10 million and is no longer of a size to have any detrimental effect on the performance of the Bank. During the year, the General Provision for loan losses was further increased and we believe that the Group is very well provisioned. All potential losses identified have been provided for in the form of Specific Provisions. The General Provision has been established to provide for losses, as yet unidentified, that may become apparent in the future.

In Bermuda, the success of our Y2K initiatives enabled us to move quickly to implement a new banking system, selected earlier through a rigorous process. We anticipate completion of installation and staff training in mid-2001 and we expect to derive substantial efficiencies and improvements to customer service.

In the Cayman Islands, our wholly owned subsidiary offers an extensive range of community and commercial banking services to private and corporate customers, which we regard as a core activity. Our business in Cayman is soundly based and, once again, produced record results.



Our operations in Guernsey, which offer specialised financial services, also produced record results. Our successful acquisition during the year of ANZ Bank (Guernsey) Limited increased our customer base and the significance to the Group of our Guernsey business.

In Hong Kong, our operations are small but, in addition to the local business handled, they produce referral business to other members of the Group. The Hong Kong business is now modestly profitable and, during the year, acquired important connections we believe will enhance profitability in the future.

It will not have escaped the attention of shareholders that financial services in offshore jurisdictions have been under scrutiny by several international organisations. We are following events closely and playing what part we can to demonstrate that the Group has long been highly selective in the acquisition of customers and business in an effort to ensure that we deal only with legitimate customers with legitimate business needs. While it is a matter of concern that high tax jurisdictions may confuse the business we conduct in tax efficient jurisdictions with illegitimate business conducted by rogue offshore centres, I am comforted by the fact that much of the business of the Group is the provision of domestic banking services to local residents. While any significant downturn in the business of offshore financial services would require management of your Group to make substantial adjustments in response to changing circumstances, I believe that we are capable of doing so and that the outlook for the Group continues to be very positive.

Our objective continues to be to deliver performance that will drive the valuation of the Group to levels that reflect the quality and strength of the Group and its inherent potential.

A handwritten signature in red ink, appearing to read 'M. Johnston', with a large, stylized flourish above the name.

M. Calum Johnston, FICB

President & Chief Executive Officer