Financial Overview

INCOME

Distribution of Total Income

53.9%	Net Interest Income
13.8%	Fees, Commissions & Service Charges
22.2%	Management, Brokerage, Foreign Exchange & Corporate Services Fees
8.4%	Trust & Executorship Fees
1.7%	Other Income

Total income for the Group, before discontinued operations, was $180.9 million for the year ended 30 June 2000, up $31.3 million, or 20.9%, from $149.6 million in 1999. Notably, net interest income, at $97.5 million, was up 40.2% on the previous year. This reflects the significant continued progress made in reducing the size of our non-accrual loans in respect of continuing operations. These have reduced from $29.6 million at 30 June 1999 to $11.0 million at 30 June 2000. In addition, we continue to see wider margins on our lending and investment portfolios as a result of the Group's asset and liability management strategies. In the third quarter of the fiscal year the Bank recognised a loss of $14.5 million from discontinued operations due to the portfolio of loans remaining from the discontinued business in the United Kingdom proving more difficult to collect than was originally anticipated.

Non-interest income grew to $83.4 million, up 4.1% from $80.1 million last year. This reflects the Group's continued efforts to increase non-interest related revenue, particularly in the areas of corporate services, trust and executorship fees. Foreign exchange earnings, at $13.1 million were up $1.1 million, or 9.6%, on 1999. Fees and commissions from Bermuda based banking related activities were down $2.0 million, or 11.2%, as a direct result of the Bank's decision to reduce personal lending fees.

Distribution of Net Income from Continuing Operations by Location

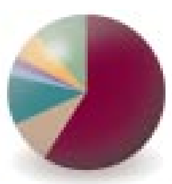
51.3%	Bermuda
38.9%	Cayman
5.3%	Guernsey
.8%	Hong Kong
3.7%	UK

Fee Income

For the year ended 30 June (In $ thousands)

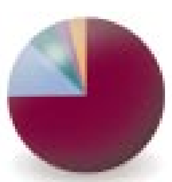
	2000	1999	% change
Fees, commissions and service charges	**25,028**	28,857	-13.3
Trust and executorship fees	**15,216**	12,850	18.4
Investment services revenue	**16,403**	14,023	17.0
Corporate administration and finance	**10,526**	9,136	15.2
Foreign exchange revenue	**13,133**	11,988	9.6
Other income	**3,062**	3,196	-4.2
Total Fee Income	**83,368**	80,050	4.1

Distribution of Total Expenses



- 60.0% Salaries & Other Staff Benefits
- 9.2% Property
- 10.3% System & Communications
- 1.5% Stationery & Supplies
- 1.6% Marketing
- 6.2% Taxes
- 11.2% Other Expenses

Distribution of Expenses by Location



- 74.8% Bermuda
- 12.2% Cayman
- 6.2% Guernsey
- 3.1% UK
- 3.7% Hong Kong

Changes in Net Interest Income

For the year ended 30 June 2000 (In $ thousands)

	2000			1999*		
	AVERAGE BALANCE	INTEREST	RATE	AVERAGE BALANCE	INTEREST	RATE
Assets						
Cash and deposits with banks	**1,327,551**	**78,821**	**5.9%**	1,709,174	100,670	5.9%
Investments	**1,813,237**	**111,598**	**6.2%**	1,491,306	81,584	5.5%
Loans	**1,278,355**	**108,671**	**8.5%**	1,169,336	81,870	7.0%
Earning assets	**4,419,143**	**299,090**	**6.8%**	4,369,816	264,124	6.0%
Other assets	**168,746**	**–**	**–**	149,414	–	–
Total Assets	**4,587,889**	**299,090**	**6.5%**	4,519,230	264,124	5.8%
Liabilities						
Demand and term deposits and repurchase agreements	**3,904,787**	**190,927**	**4.9%**	3,892,315	187,106	4.8%
Savings deposits	**357,758**	**10,676**	**3.0%**	309,034	7,491	2.4%
Earning liabilities	**4,262,545**	**201,603**	**4.7%**	4,201,349	194,597	4.6%
Other liabilities	**79,352**	**–**	**–**	88,476	–	–
Total Liabilities	**4,341,897**	**201,603**	**4.6%**	4,289,825	194,597	4.5%
Shareholders' Equity	**245,992**			229,405		
Total Liabilities and Shareholders' Equity	**4,587,889**			4,519,230		
Spread			**1.9%**			1.3%
Net Interest Margin			**2.2%**			1.6%

Note: Underlying assets and liabilities are comprised of various currencies.

*1999 comparative figures have been restated to conform to current period presentation.

EXPENSES

Operating expenses increased by $12.8 million, or 11.3%, to $126.0 million during the year under review, due mainly to a $7.6 million, or 11.1%, increase in employee salaries and benefits. This was primarily due to increased investment in personnel in Bermuda, Cayman and Guernsey to support business growth, coupled with increases in pay and performance related rewards. In addition, planned investment in the Bank's operating systems in Bermuda had a significant impact on the cost base, with an additional expenditure of $1 million spent on systems consultancy. However, such expenditure is deemed necessary in order to achieve information systems and operating efficiencies throughout our Bermuda based operations.

There was a significant increase in net income generated by our Bermuda based businesses, from $16.2 million in 1999 to a record $28.2 million this year. In particular, total revenues generated in Bermuda increased by 22.0% to $130.1 million, whilst total expenses increased by 12.7% to $102.0

In all our jurisdictions we experienced a successful rollover of our systems as we entered the year 2000

million. As a result, the efficiency ratio in Bermuda improved from 84.8% in 1999 to 78.3% this year. A disproportionate amount of the Group's expense base continues to be associated with our Bermuda based operations, but improvement is being made and these businesses now account for some 74.8% of the Group's costs (1999: 75.0%) and 68.0% of Group revenues (1999: 67.9%).

At the close of the financial year, we had 1,113 employees, compared to 1,125 last year. In Bermuda the headcount has reduced by 10 employees year on year. At our overseas operations there have been increases of 19 employees in Cayman and 15 in Guernsey, which have been offset by a reduction of 2 employees in Hong Kong and the loss of 34 employees of Davenham Group Plc, which was sold prior to year end. Group-wide, average earnings generated per employee, before losses from discontinued operations, increased by 50% from $32,000 in 1999 to $48,000 this year. The average profit per employee in 2000 was $37,000 in Bermuda and $72,000 in our overseas operations.

TAXES

In 2000, Group taxes totalled $7.8 million, up 12.0% from $7.0 million in 1999, reflecting increased taxable revenues in both our Guernsey and United Kingdom operations. The Group paid $1.1 million in corporation tax in the United Kingdom and $0.8 million in Guernsey. No corporation taxes were payable in Hong Kong.

CAPITAL AND LIQUIDITY

The Group maintains a strong capital base that allows us to take advantage of opportunities for growth. Retained earnings, after dividends declared of $13.7 million, were $26.6 million for the year, an increase of $2.4 million, or 9.8%, on 1999. Shareholders' equity, adjusted for the $10.0 million of purchases during the year by the Stock Option Trust, has increased by $9.2 million, or 3.8%.

At 30 June 2000, the Bank's risk-weighted total capital ratio was 13.2%, with Tier 1 capital at 9.6% and Tier 2 capital at 3.6%. This compares with last year's ratios of 13.0%, 9.5% and 3.5% respectively. The improvement in the Group's capital ratios reflects the increase in retained earnings whilst Weighted Risk Assets have remained at the same level as last year at $2.5 billion.

Our liquidity position remains strong, with high quality liquid assets now accounting for 69.8% of total assets. The loans-to-assets ratio remains low at 26.8%. Total assets have increased to $4.8 billion from $4.5 billion a year ago, reflecting the acquisition of the ANZ Bank (Guernsey) Limited in January 2000. This purchase increased the Group's customer deposits by some $350 million and doubled both the balance sheet size and customer base of the Guernsey operation. The Bank's core deposit base remains extremely stable and diversified.

Capital Composition (In $ thousands)

	2000	1999
Tier 1 Capital	**242,077**	240,430
Tier 2 Capital	**91,587**	88,879
Total Capital	**333,664**	329,309

Weighted Risk Assets (In $ thousands)

Cash and inter-bank placements	**309,258**	309,287
Investments	**774,174**	837,820
Loans	**996,649**	962,861
Other assets	**156,164**	161,658
Off-balance sheet items	**296,690**	266,069
Total Weighted Risk Assets	**2,532,935**	2,537,695

Capital Ratios

Tier 1	**9.6%**	9.5%
Tier 2	**3.6%**	3.5%
Total	**13.2%**	13.0%

SYSTEMS AND COMMUNICATIONS

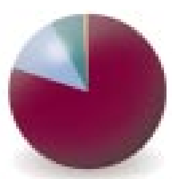
In all our jurisdictions we experienced a successful rollover of all our systems as we entered the year 2000. This was the result of careful planning and rigorous testing in the preceding years. Activities included upgrading the technical infrastructure, implementing and testing of Y2K compliant versions of vendor-supplied business systems and developing specific business continuity plans in the event of problems associated with the date change.

During the fourth quarter, we signed a contract to purchase a new banking system for our Bermuda based operations. This will consolidate information now residing on several separate systems and improve the functionality, speed and efficiency of service.

In fiscal 2000, we expanded Business Continuity Planning which, integrated with Disaster Recovery Planning, protects the Group and its customers from business interruptions caused by unpredictable events. We introduced in Bermuda a standard desktop which can be centrally managed and we consolidated departmental servers into Bank-wide facilities. This has stabilised the systems environment, streamlined support requirements and lowered costs.

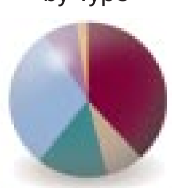
Risk management is the cornerstone of the Group's business

Lending by Location



80.91%	Bermuda
12.37%	Cayman
6.71%	Guernsey
.01%	Hong Kong

Bermuda Loans by Type



38.3%	Mortgages – Residential
7.7%	Mortgages – Commercial
14.6%	Personal
30.2%	Commercial Business
6.9%	Overdrafts
2.3%	Credit Cards

MANAGING RISK

Risk management is the cornerstone of the Group's business. Most of the routine activities undertaken daily involve risk, whether on behalf of customers or the Bank itself. Risk management involves controlling the risks inherent in the regular conduct of business. It also involves monitoring the external environment for factors such as economic, political and industry change.

The Board's Risk Policy Committee is the focal point for the coordinated review of risk. It ensures that Management achieves its aim of appropriately balancing risk and reward with attention to credit, market, liquidity and other risks.

Credit Risk

Credit risk encompasses all forms of counter party exposures. Counter parties may default on their obligations to the Group in relation to lending, trading, hedging, settlement and other financial activities.

Total loans at 30 June 2000, amounted to $1.28 billion, up from $1.22 billion a year ago. This reflects quality loan growth across the Group's core businesses. Loans now represent 26.8% of assets, slightly down from 27.1% last year. The loan portfolio remains well diversified. During the year, the Credit Risk Management team continued to reduce the Group's non-accrual loans from $52.1 million to $18.8 million, including $10.0 million of loans in respect of discontinued operations. Our prudent approach to loan provisioning continues. The general loan provision, at $16.6 million, is up from $13.9 million a year ago, and represents some 1.29% of the loan portfolio.

For all but the smallest loans, a clear separation exists between the officers recommending credit-related transactions and those who authorise them. Large credits are subject to review and authorisation by the Credit Committee, which applies the skill and experience of several executive officers.

Credit Risk Management and the Credit Committee, which is chaired by the President and CEO, have responsibility for the policies, mechanisms, organisation and procedures required to analyse, manage and control credit risk. The Group's Risk Policy Committee and Board of Directors receive regular reports on credit risk. The Credit Risk Management department continues to ensure that credit decisions are timely and efficient while protecting the Group's position regarding risk.

Loans in Bermuda remain the largest portion of the Group's overall lending portfolio, approximately 80.9%, compared to 79.6% in 1999. This portfolio consists primarily of personal lending, through domestic mortgages, consumer and education loans, with the remainder in local corporate lending. *(See note 4 to the Consolidated Financial Statements).*

Mortgage lending in Bermuda was $492.2 million, up 8.0% from $455.6 million in 1999. Lending by our businesses outside Bermuda was $245.1 million, down from $249.4 million the previous year. The reduction was due to the sale of Davenham Group Plc in June 2000, offset by increases in the loan portfolios in both Cayman and Guernsey, the latter due to the acquisition of ANZ Bank (Guernsey) Limited.

Market Risk

The Group's market risk is associated with price risk due to changes in interest rates, foreign exchange rates and related volatility. Market risk is also associated with liquidity risk. The Group manages market risk through appropriate centralised controls and reporting systems as well as direct involvement of experienced employees in all the jurisdictions where it operates. Front and back office duties are segregated and limits reviewed and approved.

The Group uses Value at Risk (VAR) methodology for management and daily monitoring of risks related to trading activities. The Group Asset and Liability Management Committee (GALCO) plays an integral role in identifying, reviewing and managing key financial strategic exposures. Its emphasis is on controlling risk while optimising the return on risk-adjusted capital and enhancing shareholder value. The Group's Risk Policy Committee receives regular reports on market and liquidity risk.

Again this year, Standard & Poor's, the pre-eminent credit rating agency, monitored and rated the Bank's debt securities portfolios with regard to their credit and price volatility characteristics. All portfolio ratings have been maintained throughout the year. *(See table on page 3).*

Interest and Exchange Rate Risk

One of the objectives of asset and liability management is to manage and control the sensitivity of the Group's net interest revenue to changes in market interest rates. Balance sheet modelling and scenario analysis are used to manage 'structural' interest rate risk, using gap analysis. The Group's policy is to stabilise the sensitivity of net interest income against the impact of adverse interest rate movements. Hedging strategies, using both cash and swap instruments, have been used. In the area of interest rate risk arising from trading activities, the Group's appetite has traditionally been very

Extensive use is made of direct-dealing capabilities with international brokers

conservative. We have primarily sought to capitalise on traditional customer flows for the generation of treasury earnings. The dealers operate on modest mismatch gap limits and foreign exchange open positions, with positions monitored using VAR methodology. Off-balance-sheet instruments are principally used for hedging, including interest rate swaps, forward rate agreements, forward foreign exchange contracts and financial futures.

Exposure to exchange rate movements in trading portfolios is also subject to VAR analysis. Exchange rate risks from lending activities are limited because the Group's operating units are decentralised and are required to hedge the currencies in which their assets and liabilities are denominated. Any short or long positions are monitored to ensure compliance with limits established by GALCO. Transaction exposure is managed as part of daily trading positions under foreign exchange limits unless a special situation exists for which GALCO would determine strategy. As the Group's balance sheet and earnings are primarily in Bermuda or US Dollars, there are minimal structural currency exposures.

Proprietary foreign exchange trading activities are largely concentrated in the major trading currencies and in the spot markets, with minimal trading in the forward market. Extensive use is made of direct-dealing capabilities with international brokers in New York, London and Hong Kong, as well as Reuters Dealing and Electronic Broker Service systems for the execution of trades. Treasury uses a full range of financial market information providers. The Chief Financial Officer overviews the Group's interest and foreign exchange rate risk positions and reports to GALCO and the Risk Policy Committee.

Liquidity Risk

Liquidity risk arises from fluctuations in the Group's cash flows. The Group is responsible for ensuring it is capable of absorbing these fluctuations while meeting all of its obligations as they fall due. The Group manages liquidity conservatively, at all times, in accordance with established policies for both the asset and liability sides of the balance sheet. This includes carefully measuring and forecasting cash commitments, continuing to build a stable base of deposits, ensuring that large pools of liquid assets are immediately available and maintaining a credit rating that enables the Group to borrow funds cost effectively and at short notice. Executives review current positions daily and recommend appropriate actions. Contingency plans are maintained to address potential liquidity crises. The Group maintains large holdings of highly liquid assets. Liquidity is managed on a Group basis by Treasury, overseen by the Chief Financial Officer and reviewed both by GALCO and the Risk Policy Committee.

Derivative Products

Derivative products are financial contracts the value of which is derived from the price level of an underlying asset or liability, linked to interest rates, exchange rates or indices. Swaps, forwards and options are all types of derivatives. Derivatives are a risk management tool for the Group and its customers and are subject to the same risks as their underlying financial instruments, namely credit, liquidity, market and operating risk. *(See note 11 to the Consolidated Financial Statements for discussion of Derivative Financial Instruments)*.

The Group employs VAR methodology and inter-day evaluation of limits. Unit managers and local treasurers monitor positions daily and reports are forwarded on a daily basis to the Group's Head of Treasury and the Chief Financial Officer. Treasury risk control includes separate front, middle, and back office reporting lines and responsibilities.

Legal Risk

Legal risk arises from the uncertainties about the legal enforceability of the obligations of the Group's customers and counterparties, as well as the possibility that legal or regulatory changes may adversely affect the Group's position. The Group seeks to mitigate legal risk through the use of industry standard legal agreements, as well as consultation with internal and external counsel in the jurisdictions where it does business.

Operating Risk

Operating risk is the risk of loss caused by internal or external events, such as procedural failures, errors or fraud that affect the Group's systems, controls and management processes. Procedures and systems are designed to ensure a high degree of separation of duties and built-in controls. A key feature of the Group's organisation is the independence of its internal audit function, which reports directly to the President & Chief Executive Officer, and which has open and regular access to the Audit Committee of the Board of Directors.

Technology Risk

The use of automated systems is increasingly central to transaction processing, management information and the application of internal controls, thereby reducing the risk of error. The Bank is making significant ongoing investments in both front and back office systems, to improve the efficiency and the security of these processes.