



Letter to Shareholders

We have pleasure in enclosing the Consolidated Financial Statements and Independent Auditors' Report for the year ended September 30, 2006.

In December 2006, we advised you of the performance of the Bank for the 2006 financial year, this was without the benefit of an independent audit. As you know, the audit was delayed as a result of the events surrounding the resignation of the Bank's Chairman and its President in October 2006. The audit commenced in June 2007 and it has now been completed. We are pleased to provide the audited financial statements together with a detailed analysis of the Bank's performance for the twelve months ending September 30, 2006. Also enclosed is Management's Discussion and Analysis report, five-year financial summaries and director and subsidiary information.

Financial Results

2006 was a very successful year for the Bank with strong revenue growth and record earnings. Net recurring income increased from \$5.17 million at September 30, 2005 to \$8.38 million at September 30, 2006, an increase of \$3.21 million or 62.1%.⁽¹⁾ Diluted earnings per share increased to \$1.67 per share compared to \$1.04 per share one year ago. Strict cost discipline across all departments resulted in the Bank's efficiency ratio improving considerably to 52.9%, from 63.4% at September 30, 2005.

The main driver of the Bank's profitability continues to be the consistent strength of BCB's deposit taking business. For the year ended September 30, 2006 net interest income increased by 40.9% to \$11.60 million from \$8.23 million at September 30, 2005.

Due to the Bank's strong income growth, performance ratios have improved considerably. Return on equity was 15.42% for the year compared to 10.38% for the prior year while return on assets increased to 1.27% from 0.72% (18.63% and 1.53% respectively for 2006 including non recurring income).

Developments

Since the summer of 2006 the Bank has sought potential purchasers both locally and internationally and 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 and we are hopeful that they will result in a conclusion within the near future.

We would like to take this opportunity to extend a special thank you to all our staff, shareholders and clients for their continued support.

Dr. Clarence R. Terceira JP
Chairman

E. John Sainsbury
President

August 2007

(1) To enhance the understanding of the Bank's results and to aid comparison with prior and future periods, figures reported in this letter exclude one-time, non recurring income of \$1.75 million. Net income, including this income, was \$10.13 million for the year ended September 30, 2006. Diluted earnings per share, including this income, was \$2.02 per share. The Bank's efficiency ratio, including this income, was 48.2%.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis should be read in conjunction with our Consolidated Financial Statements, the notes to those financial statements and the Letter to Shareholders. All references to BCB or the Bank refer to Bermuda Commercial Bank Limited and its subsidiaries on a consolidated basis.

RESULTS OF OPERATIONS FOR THE YEAR ENDED SEPTEMBER 30, 2006

Net income for 2006 was \$10.13 million, up 95.9% from \$5.17 million in 2005. 2006 net income includes one-time, non recurring income of \$1.75 million. To enhance the understanding of the Bank's results and to aid comparison with prior and future periods, figures reported in this analysis exclude this one-time, non recurring income of \$1.75 million. Net income, excluding this item, was \$8.38 million for the year ended September 30, 2006, a 62.1% increase over the prior year. This increase was driven by an increase in US interest rates along with the continued steady growth of our deposit base.

Basic and diluted earnings per share for the year ended September 30, 2006 are calculated at \$1.93 and \$1.67, respectively (\$2.34 and \$2.02 respectively including non recurring income). Basic and diluted earnings per share as at September 30, 2005 were \$1.19 and \$1.04, respectively.

Total income increased \$3.65 million, or 25.8%, to \$17.79 million (\$19.54 million including non recurring income) from \$14.14 million while total expenses were contained to a nominal increase of 4.9%, or \$440,000, to \$9.41 million from \$8.97 million a year ago.

For the year ended September 30, 2006, interest income was \$11.60 million compared to \$8.23 million at September 30, 2005, an increase of \$3.37 million or 40.9%. This increase, can be attributed to an approximately 11% annual increase in our average interest earning assets. Additionally, the US Federal Reserve Board increased interest rates six times during the reporting period resulting in an effective interest rate for the period of 4.64% compared to 2.68% in 2005. The Bank's deposit portfolio includes demand deposits and also term deposits with fixed income margins. As a result, the overall increase in interest expense for the deposit portfolio outpaced the increase in interest income. Term deposit products feature fixed interest margins so that the benefits of increases in market rates were passed directly to our fixed deposit customers. Interest income increased 75.9% to \$29.76 million from \$16.92 million while interest expense increased by 109.0% to \$18.16 million from \$8.69 million.

Total fees and commissions increased by \$1.50 million, or 30.8%, from the previous year. This figure includes one-time, non recurring service fee income of \$1.06 million resulting 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 level of these net assets. Excluding this item fees and commission increased by 9.0% to \$5.31 million from \$4.87 million.

The Corporate Services business segment includes trust, company management, fund management, corporate registrar, financial and custodial services. This segment also contributes to the performance of Banking Services, as many of its clients maintain significant cash balances.

Fees and commissions associated with custodial services decreased by \$80,000, or 5.8%, due to the previously announced loss of a large custody client. The Bank has serviced this client for over 10 years, and the quality of service was not a determining factor in the client's decision. Rather, a comprehensive review of all its service providers and the consolidation of its stable of vendors led to this event.

International Corporate Management of Bermuda Limited (ICMOB), the Bank's wholly owned fund and corporate secretarial administration subsidiary recorded strong results for the year with fees and commissions increasing by 40%. However, this increase resulted primarily from an increase in revenues from one large client and subsequent to year end the Bank terminated this client relationship. The net result is that we expect 2007 revenues in ICMOB to be very similar to those recorded for 2005. ICMOB continues its focus of offering a packaged service encapsulating Corporate Services, Net Asset Value calculation and Share Registration elements to both new and existing mutual fund companies

BCB Trust Company Limited, the Bank's wholly owned trust subsidiary continues to play a limited role in the Bank's overall strategy. Fees in this segment remained static in 2006.

Transaction fees in our Banking Services segment decreased by \$120,000, or 6.9% primarily due to a reduction in the number of wire payments processed.

Other operating income, primarily recoveries from clients of pass-through charges, decreased by \$40,000. This decrease reverses an equal increase in the prior year. Last year's increase resulted from a once-off increase in the level of expenses incurred by the Bank on behalf of specific clients and resulted in a similar increase in the level of recoveries from those clients.

Net foreign exchange gains decreased by \$130,000, or 16.7% compared to the prior year, mainly as a consequence of reduced turbulence in the international currency markets and the resultant decrease in client foreign exchange activity. BCB does not assume any foreign exchange risk by taking unmatched positions, as it is against Bank policy to take speculative positions in the foreign exchange markets. Instead foreign exchange gains are derived from the small margin spread on foreign currency conversion transactions.

2006 other income consists of a one-time, non recurring income item of \$690,000 (2005: \$nil) resulting from the release of litigation provisions initially accrued in 2001 that the Bank no longer believes are required.

Total expenses for the year ended September 30, 2006 were \$9.41 million compared to \$8.97 million at September 30, 2005, an increase of 4.9%. Salaries and employee benefits was the largest contributor to this increase - the Bank remains committed to investing in its workforce and 2006 saw the strengthening of the Bank's marketing and compliance departments.

Amortization and write-off costs also increased following additional amortization costs associated with the Bank's change of premises in September 2006. This was a once-off increase and amortization costs will reduce to more historic levels in 2007. During 2005 BCB incurred costs of \$480,000 in settlement of a legal claim against the Bank. This case was fully resolved in 2005 with no associated costs incurred in 2006. Partially offsetting this item, the Bank's business development costs increased due to an increased marketing drive both locally and overseas. Overall there was a decrease in year on year other expenses from \$3.81 million in 2005 to \$3.52 million for the year ended September 30, 2006.

FINANCIAL CONDITION AS AT SEPTEMBER 30, 2006

BCB's low risk philosophy results in a balance sheet where customer deposits are fully matched by cash and cash equivalents. This policy served the Bank well at the tail end of the 2006 financial year when a large number of customers temporarily withdrew funds following the announcement of the events surrounding the resignation of the Bank's Chairman and President. More recently, and also on account of its low risk balance sheet approach, the Bank remains unscathed by the financial volatility surrounding the US subprime mortgage market.

Total customer deposits at September 30, 2006 were \$399.74 million compared to \$803.08 million at September 30, 2005, a drop of 50.2% or \$403.34 million. The reasons for this significant decrease are twofold. Firstly, is the trend seen over many years where some of our clients invest large amounts at month and quarter ends, thus reflecting the impact of client activity on balance sheet changes over time. The fluctuations caused by the activities of these few large depositors may be seen more clearly by a review of the attached five year summary of BCB's balance sheet. Secondly, there was the impact of the events surrounding the investigation at BCB's major shareholder, First Curacao International Bank (FCIB) into alleged money laundering activities by some of FCIB's customers. BCB was in no way connected to this investigation. However, we did witness significant deposit withdrawals in the period following the breaking of this story in mid September 2006. We are pleased to report that the Bank suffered minimum account closures during this period. We are also pleased to report that in the period since September 2006 balances have started to return to more historic levels and at March 31, 2007 total customer deposits were \$518.77 million.

BCB continues to pair customer deposits with highly rated counterparties with essentially matching maturities in either the interbank market or in money market funds. As a result of the large decrease in customer deposits, total cash, money market and term deposits also decreased significantly to \$461.46 million from \$854.00 million, a decrease of \$392.54 million or 46.0%. The decrease in cash and cash equivalents is slightly less than the decrease in customer deposits, primarily due to the Bank's reinvestment of retained earnings.

The Bank's mortgage book is in run off and net loans and advances continue to decrease, due to regular and principal repayments. Net loans at September 30, 2006 were just \$220,000. The value of equipment, leasehold improvements and computer software decreased by 11.1% or \$150,000 to \$1.20 million from \$1.35 million at September 30, 2005. This decrease results from the amortization of the Bank's leasehold improvements at BCB's old premises prior to the change in premises in September 2006. Interest receivable is a function of the maturity schedules of assets and at September 30, 2006 the Bank had no funds (2005: \$299.40 million) invested in longer maturing money market funds. Other assets, primarily receivables, work in process and prepayments, remained in line with the prior year.

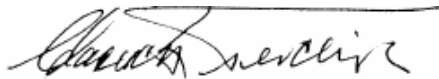
Other liabilities increased to \$3.78 million from \$3.02 million at September 30, 2005, an increase of \$760,000, or 25.2%, primarily due to customer activity - Bermuda dollar drafts issued to customers were \$610,000 greater than at September 30, 2005, which is solely a timing difference based on when customers purchase the drafts and present them for payment.

Shareholders' Equity has increased to \$57.44 million from \$51.32 million, an increase of \$6.12 million as a result of the effect of net income and the proceeds from the exercise of 15,244 warrants during the year, offset by annual dividends due to shareholders.

PERFORMANCE MEASURES

Due to the strengthening interest rate environment many of BCB's ratios have improved considerably. Capital ratios have increased due to the significant reduction in year end asset levels. The following performance ratios highlight BCB's strong year on year performance. 2006 data includes non recurring income of \$1.75 million.

	<i>Per Share Information</i>			<i>Financial Ratios</i>	
	2006	2005		2006	2005
Cash dividends	\$ 0.950	\$ 0.475	Return on equity	18.63%	10.38%
Net book value	\$ 13.21	\$ 11.87	Return on assets	1.53%	0.72%
Market value at year-end	\$ 7.80	\$ 8.50	Efficiency ratio	48.15%	63.43%
Net income - basic	\$ 2.34	\$ 1.19	Dividend payout ratio	40.77%	39.92%
Net income – diluted	\$ 2.02	\$ 1.04	Dividend to share price ratio	12.18%	5.59%
	<i>Capital Ratios</i>		Cash, money market and term		
Tier 1 capital ratio	54.07%	27.66%	deposits / total assets	99.40%	99.44%
Tier 2 capital ratio	0.02%	0.04%			
Risk weighted capital ratio	54.09%	27.70%			



DR. CLARENCE R. TERCEIRA JP
Chairman



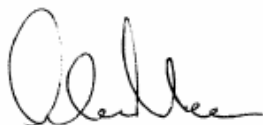
E. JOHN SAINSBURY
President



DOMINIQUE SMITH
Chief Operating Officer



MICHAEL CRANFIELD
General Manager, Information Technology



ALAN MOORE
*General Manager, International Corporate
Management of Bermuda Limited*



P. GLENDALL PHILLIPS
*General Manager, Banking & Custodial
Services*



GREG REID
General Manager, Accounting & Administration



HORST FINKBEINER
Chief Compliance Officer

Consolidated Five Year Summary

BALANCE SHEET

	2006	2005	2004	2003	2002
ASSETS					
Cash, money market and term deposits	\$ 461,456,772	\$ 854,004,191	\$ 581,133,044	\$ 830,591,565	\$ 574,644,610
Loans and advances, net	223,722	1,413,542	1,937,022	3,106,390	4,084,164
Equipment, leasehold improvements and computer software	1,201,301	1,352,320	1,799,794	1,613,983	1,935,531
Interest receivable and other assets	1,390,693	2,053,035	1,513,123	1,417,985	2,076,455
Total assets	\$ 464,272,488	\$ 858,823,088	\$ 586,382,983	\$ 836,729,923	\$ 582,740,760
LIABILITIES					
Total deposits	\$ 399,740,365	\$ 803,075,117	\$ 534,283,798	\$ 785,939,005	\$ 533,230,822
Interest payable and other liabilities	7,095,549	4,427,603	3,924,270	3,789,322	3,226,009
Total liabilities	406,835,914	807,502,720	538,208,068	789,728,327	536,456,831
SHAREHOLDERS' EQUITY					
Capital stock	10,434,252	10,397,666	10,387,265	10,271,690	10,271,690
Share premium	11,096,772	11,019,028	10,996,924	10,751,329	10,751,329
Retained earnings	35,905,550	29,903,674	26,790,726	25,978,577	25,260,910
Total shareholders' equity	57,436,574	51,320,368	48,174,915	47,001,596	46,283,929
Total liabilities and shareholders' equity	\$ 464,272,488	\$ 858,823,088	\$ 586,382,983	\$ 836,729,923	\$ 582,740,760

ASSETS UNDER TRUST AND CUSTODY

Securities and properties, other than demand or term deposits with the Bank, held in a trust or a custodial capacity for customers, are not included in the consolidated balance sheet as such assets are not the property of the Bank or its subsidiaries. The value of assets under trust and custody as at September 30, 2006 are estimated to be \$1.95 billion (2005: \$1.58 billion).

Consolidated Five Year Summary (CONT'D)

STATEMENT OF OPERATIONS AND RETAINED EARNINGS

	2006	2005	2004	2003	2002
INCOME					
Interest income	\$ 29,764,625	\$ 16,923,208	\$ 8,903,817	\$ 8,664,825	\$ 11,813,708
Interest expense	18,162,866	8,692,860	4,269,515	3,905,726	6,437,350
Net interest income	11,601,759	8,230,348	4,634,302	4,759,099	5,376,358
Fees and commissions	6,374,718	4,871,530	4,839,906	4,602,380	3,521,925
Other operating income	218,751	257,545	218,048	126,402	85,465
Net exchange gains	654,652	778,080	725,842	699,029	497,985
Other income	689,805	-	-	-	-
Total income	19,539,685	14,137,503	10,418,098	10,186,910	9,481,733
EXPENSES					
Salaries and employee benefits	5,020,624	4,467,193	4,190,219	3,774,140	3,663,115
Amortizations and write-offs	866,379	687,348	479,342	595,359	710,457
Other	3,520,595	3,812,770	2,989,917	3,173,802	3,062,173
Total expenses	9,407,598	8,967,311	7,659,478	7,543,301	7,435,745
OPERATING INCOME	10,132,087	5,170,192	2,758,620	2,643,609	2,045,988
Unusual Items	-	-	-	-	2,379,778
Discontinued Operations	-	-	-	-	856,967
NET INCOME	10,132,087	5,170,192	2,758,620	2,643,609	5,282,733
RETAINED EARNINGS ¹	29,903,674	26,790,726	25,978,577	25,260,910	21,904,119
Dividends	(4,130,211)	(2,057,244)	(1,946,471)	(1,925,942)	(1,925,942)
RETAINED EARNINGS ²	\$ 35,905,550	\$ 29,903,674	\$ 26,790,726	\$ 25,978,577	\$ 25,260,910
Basic earnings per share	\$ 2.34	\$ 1.19	\$ 0.64	\$ 0.62	\$ 1.23

¹ Beginning of year

² End of year

Board of Directors as at September 30, 2006

Dr. Clarence R. Terceira JP
ACTING CHAIRMAN AND VICE PRESIDENT
Founding Director, Former President
Retired Dental Surgeon

E. John Sainsbury
ACTING PRESIDENT
Former CEO, Argus Insurance Co. Ltd.

C. Jerome Dill
Partner, Appleby

Arnold A. Francis CBE, QC, JP¹
Founding Director, Former President
Consultant, Francis & Forrest

R. Anthony Jones MA
Managing Director, Washington Properties
(Bermuda) Limited

Delaey Robinson
Innkeeper

On September 7, 2006 John Deuss, Timothy Ulrich and Tineke Deuss advised the Board of BCB 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 BCB's board of directors.

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.

¹On February 21, 2007 Mr. Arnold Francis retired from the Board of BCB after 38 years of service.

Subsidiaries as at September 30, 2006

INTERNATIONAL CORPORATE
MANAGEMENT OF BERMUDA LIMITED
Telephone: (441) 295-5678 Fax: (441) 292-5898
Incorporated in Bermuda on December 21, 1992. Provides corporate and partnership management and corporate registrar and financial services.

BCB TRUST COMPANY LIMITED
Telephone: (441) 295-5678 Fax: (441) 292-6128
Incorporated in Bermuda on February 24, 1970. Provides trust and financial services to individuals and companies.

BERCOM NOMINEES LIMITED
Telephone: (441) 295-5678 Fax: (441) 295-8091
Incorporated in Bermuda on July 8, 1987 as a nominee company.

The registered address for above companies is:

Bermuda Commercial Bank Building
19 Par-la-Ville Road
Hamilton HM 11 Bermuda

Bermuda is the principal country of operations for the above companies.

BCB (MAURITIUS) LIMITED
c/o B.C.M. (Trustees Limited), Fourth Floor, TM Building,
Pope Hennessy Street, Port Louis, Mauritius
Telephone: (230) 212-6004 Fax: (230) 208-8037
Incorporated in Mauritius on November 2, 1994. Provides custodial services for BCB in Mauritius.

FCIB is a material shareholder of the Bank and is wholly-owned by Mr. John Chr. M.A.M. Deuss. The Bank's related party transactions with FCIB are discussed in Footnote #10 of the Consolidated Financial Statements.

As at September 30, 2006, the total interest of all Directors, Statutory Officers, and Executive Officers amounted to 2,233,146 (51.36%) in common shares and 2,637,404 (78.67%) in warrants and options.

There are no service contracts with directors.



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.

CONTACT INFORMATION

Registered Address:

19 Par-la-Ville Road, Hamilton HM 11, Bermuda

Mailing Address:

P.O. Box HM 1748, Hamilton HM GX, Bermuda

Telephone: (441) 295-5678

Facsimile: (441) 295-8091

Website: www.bcb.bm

Email: enquiries@bcb.bm

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.



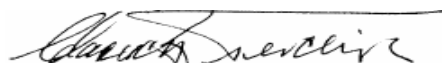
August 10, 2007

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
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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
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Total assets	\$ 464,272,488	\$ 858,823,088
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LIABILITIES		
Deposits (Note 6)		
Demand deposits	\$ 165,228,647	\$ 203,078,626
Term deposits	234,511,718	599,996,491
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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
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Total liabilities	406,835,914	807,502,720
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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
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Total shareholders' equity	57,436,574	51,320,368
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Total liabilities and shareholders' equity	\$ 464,272,488	\$ 858,823,088
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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
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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	-
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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
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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)
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RETAINED EARNINGS, END OF YEAR	\$ 35,905,550	\$ 29,903,674
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Basic earnings per common share (Note 9)	\$ 2.34	\$ 1.19
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Diluted earnings per common share (Note 9)	\$ 2.02	\$ 1.04
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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
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Cash flows from operating activities	12,536,815	5,708,610
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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)
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Cash flows from investing activities	(10,694,822)	10,918,194
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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)
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Cash flows from financing activities	(405,607,780)	266,875,864
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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
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CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 450,152,780	\$ 853,918,567
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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)
	<hr/>	<hr/>
Cash and cash equivalents	\$ 450,152,780	\$ 853,918,567
	<hr/>	<hr/>
SUPPLEMENTARY INFORMATION		
Interest paid	\$ 18,001,175	\$ 8,545,850
	<hr/>	<hr/>

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.

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

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.

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

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.

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

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	<u>\$ 446,570,728</u>	<u>\$ 3,582,052</u>	<u>\$ 10,000,000</u>	<u>\$ 1,303,992</u>	<u>\$ 461,456,772</u>

	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	<u>\$ 821,857,587</u>	<u>\$ 32,060,980</u>	<u>\$ -</u>	<u>\$ 85,624</u>	<u>\$ 854,004,191</u>

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%

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

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	<u>\$ 372,289</u>	<u>\$ 148,567</u>	<u>\$ 223,722</u>	<u>\$ 1,611,195</u>	<u>\$ 197,653</u>	<u>\$ 1,413,542</u>

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:

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

						Total	Average Effective Yield
	Within 1 Year	1 – 5 Years	More than 10 Years	Impaired			
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	<u>\$ 1,003,303</u>	<u>\$ 236,136</u>	<u>\$ 166,852</u>	<u>\$ 204,904</u>	<u>\$ 1,611,195</u>		

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	<u>\$ 128,567</u>	<u>\$ 20,000</u>	<u>\$ 148,567</u>	<u>\$ 132,653</u>	<u>\$ 65,000</u>	<u>\$ 197,653</u>

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

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
	<u> </u>	<u> </u>	<u> </u>
Total	\$ 3,612,776	\$ 2,411,475	\$ 1,201,301
	<u> </u>	<u> </u>	<u> </u>

	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
	<u> </u>	<u> </u>	<u> </u>
Total	\$ 4,230,699	\$ 2,878,379	\$ 1,352,320
	<u> </u>	<u> </u>	<u> </u>

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
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
2006 Total	\$165,228,647	\$ 218,190,864	\$ 8,916,066	\$ 5,072,837	\$ 2,331,951	\$ 234,511,718	\$ 399,740,365
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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

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	<u>\$ 203,078,626</u>	<u>\$ 584,660,585</u>	<u>\$14,017,904</u>	<u>\$ 233,342</u>	<u>\$ 1,084,660</u>	<u>\$599,996,491</u>	<u>\$ 803,075,117</u>

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).

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

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	<u>\$ 4,130,211</u>	<u>\$ 2,057,244</u>

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

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	
		<hr/>	
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	
		<hr/>	
Adjusted weighted average shares outstanding		4,960,646	
<u>Diluted Earnings Per Share</u>			
Net income	\$ 5,170,192	4,960,646	\$ 1.04

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

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.

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

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 Dues, 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.

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

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	1-3	3-12	Over 12	Non-Interest	Total
ASSETS	Month	Months	Months	Months	Sensitive	
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	\$ -	\$ -

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

15. INTEREST RATE SENSITIVITY (Cont'd)

2005	Within 1	1-3	3-12	Over 12	Non-Interest	Total
ASSETS	Month	Months	Months	Months	Sensitive	
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	\$ -	\$ -

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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.

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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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