

Griffon Bank Limited

Financial Statements

December 31, 2006

(expressed in United States dollars)

INDEPENDENT AUDITORS' REPORT

**To the Shareholders of
Griffon Bank Limited**

We have audited the accompanying financial statements of **Griffon Bank Limited**, (the "Company") which comprise the balance sheet as of December 31, 2006, the statement of income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The financial statements of the Company as of December 31, 2005 were audited by another auditor whose report dated January 31, 2006 expressed an unqualified opinion on these statements. We also audited the adjustments described in Note 18 that were applied to restate the 2005 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Griffon Bank Limited** as of December 31, 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.


Chartered Accountants
April 23, 2008
Bridgetown, Barbados

Griffon Bank Limited


Balance Sheet

As of December 31, 2006

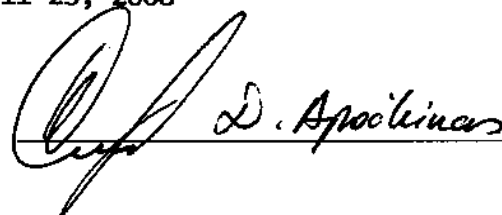
(expressed in United States dollars)

| | 2006 | (restated) 2005 |
|--|-------------------|--------------------|
| | \$ | \$ |
| Assets | | |
| Cash and short term funds (note 4) | 1,246,664 | 6,134,195 |
| Deposits to non bank financial institutions (note 5) | 22,310 | 8,371 |
| Financial assets designated at fair value (note 6) | 5,694,489 | 9,539,727 |
| Investment securities (note 6): | | |
| Available for sale | 3,089,353 | 1,530,466 |
| Loans and receivables | 519,019 | 201,841 |
| Loans and advances to customers | 6,149,826 | 659,610 |
| Other assets | 210,229 | 11,680 |
| Property, plant & equipment (note 7) | 90,603 | 119,920 |
| Total assets | 17,022,493 | 18,205,810 |
| Liabilities | | |
| Deposits (note 8) | 10,582,943 | 12,135,131 |
| Accounts payable and accrued liabilities | 17,612 | 36,389 |
| | 10,600,555 | 12,171,520 |
| Equity | | |
| Share capital (note 9) | 5,000,000 | 5,000,000 |
| Reserves | 535,553 | 337,261 |
| Retained earnings (note 10) | 886,385 | 697,029 |
| | 6,421,938 | 6,034,290 |
| Total liabilities and equity | 17,022,493 | 18,205,810 |

Approved on behalf of the Board of Directors on April 23, 2008



ANTHONY SCIMONE Director



D. Apollinaris Director

Griffon Bank Limited

Statement of Changes in Equity

For the year ended December 31, 2006

(expressed in United States dollars)

| | Share capital \$ | Revaluation reserves \$ | Statutory reserves \$ | Other reserves \$ | Retained earnings \$ | Total \$ |
|---|------------------------|-------------------------------|-----------------------------|-------------------------|----------------------------|------------------|
| Balance - December 31, 2004 | 1,261,453 | – | 128,583 | 8,733 | 219,056 | 1,617,825 |
| Net income for the year – as restated | – | – | – | – | 647,452 | 647,452 |
| Issuance of shares | 3,738,547 | – | – | – | – | 3,738,547 |
| Change in available-for-sale investments | – | 30,466 | – | – | – | 30,466 |
| Transfer to reserves (note 11) - as restated | – | – | 169,479 | – | (169,479) | – |
| Balance - December 31, 2005 as restated | 5,000,000 | 30,466 | 298,062 | 8,733 | 697,029 | 6,034,290 |
| Balance - January 1, 2006 as previously stated | 5,000,000 | – | 319,830 | 5,058 | 709,402 | 6,034,290 |
| Prior period adjustment (note 18) | – | 30,466 | (21,768) | 3,675 | (12,373) | – |
| Balance - January 1, 2006 as restated | 5,000,000 | 30,466 | 298,062 | 8,733 | 697,029 | 6,034,290 |
| Balance – January 1, 2006 as restated | 5,000,000 | 30,466 | 298,062 | 8,733 | 697,029 | 6,034,290 |
| Net income for the year | – | – | – | – | 252,475 | 252,475 |
| Net change in available for sale investments | – | 135,173 | – | – | – | 135,173 |
| Transfer to statutory reserve (note 10) | – | – | 63,119 | – | (63,119) | – |
| Balance - December 31, 2006 | 5,000,000 | 165,639 | 361,181 | 8,733 | 886,385 | 6,421,938 |

Griffon Bank Limited

Statement of Income

For the year ended December 31, 2006

(expressed in United States dollars)

| | 2006 \$ | (restated) 2005 \$ |
|---|----------------|--------------------------|
| Interest income (note 11) | 555,530 | 538,954 |
| Interest expense (note 11) | (312,340) | (157,861) |
| Net interest income | 243,190 | 381,093 |
| Fee and commission income (note 12) | 104,412 | 115,875 |
| Fee and commission expense (note 12) | (141,180) | (15,564) |
| | (36,768) | 100,311 |
| Other income (note 13) | 897,492 | 927,741 |
| Other operating expenses (note 14) | (851,439) | (761,693) |
| Operating profit and net income for the year | 252,475 | 647,452 |

Griffon Bank Limited

Statement of Cash Flows

For the year ended December 31, 2006

(expressed in United States dollars)

| | 2006 | (restated) 2005 |
|---|--------------------|--------------------|
| | \$ | \$ |
| Cash flows from operating activities | | |
| Net income for the year | 252,475 | 647,452 |
| Adjustment for: | | |
| Depreciation | 42,548 | 44,815 |
| (Gains)/less on sale/write off premises and equipment | - | 12,547 |
| Interest income | (555,530) | (538,954) |
| Interest expense | 312,340 | 157,861 |
| | <u>51,833</u> | <u>323,721</u> |
| Changes in operating assets and liabilities | | |
| (Increase)/decrease in loans and advances to customers | (5,490,214) | 2,101,359 |
| Increase in deposits to non-bank financial institutions | (22,310) | - |
| (Increase)/decrease in other assets | (198,549) | 350,223 |
| Decrease in trading securities | 3,845,238 | (2,955,931) |
| (Decrease)/increase in customers' deposits | (1,507,807) | 2,114,637 |
| (Decrease)/increase in accounts payable and other liabilities | (18,777) | 25,393 |
| Interest received | 230,482 | 381,090 |
| Interest paid | (356,721) | - |
| | <u>(3,466,825)</u> | <u>2,340,492</u> |
| Net cash from/(used in) operating activities | | |
| | <u>(3,466,825)</u> | <u>2,340,492</u> |
| Cash flows from investing activities | | |
| Purchase of fixed assets | (13,231) | (14,931) |
| Purchase of investment securities | (6,679,799) | (1,701,841) |
| Proceeds from sale of investments | 5,263,953 | - |
| | <u>(1,429,077)</u> | <u>(1,716,772)</u> |
| Net cash from/(used in) investment activities | | |
| | <u>(1,429,077)</u> | <u>(1,716,772)</u> |
| Cash flows from financing activities | | |
| Dividends paid | - | (163,525) |
| Issuance of ordinary shares | - | 3,738,547 |
| | <u>-</u> | <u>3,575,022</u> |
| Net cash from financing activities | | |
| | <u>-</u> | <u>3,575,022</u> |
| Net increase/(decrease) in cash and cash equivalents | (4,895,902) | 482,242 |
| Cash and cash equivalents - beginning of year | 6,142,566 | 5,660,324 |
| Cash and cash equivalents - end of year (note 4) | <u>1,246,664</u> | <u>6,142,566</u> |

Griffon Bank Limited

Notes to Financial Statements

December 31, 2006

(expressed in United States dollars)

1 Incorporation, ownership, principal activity and registered office

Griffon Bank Limited (the company or the Bank) is a privately owned bank incorporated in the Commonwealth of Dominica under the Offshore Banking Act, 1996.

The registered office and principal place of business of the company is located on the 3rd Floor Financial Center, Roseau, Dominica.

The company primarily engages in private and corporate banking services.

2 Significant accounting policies

a) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss and available-for-sale investments.

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and income and expenses during the reporting period. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

i) *Amendments to published standards and interpretations effective January 1, 2006*

The application of the amendments to and interpretations of IFRS listed below did not result in substantial changes to the company's accounting policies:

IAS 19 Amendment - Actuarial Gains and Losses, Group Plans and Disclosures;

IAS 21 Amendment - Net Investment in a Foreign Operation;

IAS 39 Amendment - Cash Flow Hedge Accounting of Forecast Intragroup Transactions;

IAS 39 and IFRS 4 Amendment - Financial Guarantee Contracts;

IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards, and

IFRS 6, Exploration for and Evaluation of Mineral Resources;

IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;

IFRIC 4, Determining whether an Arrangement contains a Lease;

IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and

IFRIC 6, Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment.

Griffon Bank Limited

Notes to Financial Statements

December 31, 2006

(expressed in United States dollars)

2 Significant accounting policies ...continued

a) Basis of preparation ...continued

i) Amendments to published standards and interpretations effective January 1, 2006 ...continued

The application of the amendments to and interpretations of IFRS listed below did not result in a significant change to the company's accounting policies:

IAS 39 Amendment - The Fair Value Option

ii) Interpretations issued but not yet effective

The company has chosen not to early adopt the following standard and interpretations that were issued but not yet effective for accounting periods beginning on January 1, 2006:

- IAS 1 Amendment - Capital Disclosures (effective January 1, 2007);
- IFRS 7, Financial Instruments: Disclosures (effective January 1, 2007);
- IFRS 8, Operating Segments (effective January 1, 2009);
- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective March 1, 2006);
- IFRIC 8, Scope of IFRS 2 (effective May 1, 2006);
- IFRIC 9, Reassessment of embedded derivatives (effective June 1, 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective November 1, 2006);
- IFRIC 11, IFRS 2 - Group Treasury Share Transactions (effective March 1, 2007); and
- IFRIC 12, Service Concession Arrangements (effective January 1, 2009);
- IFRIC 13, Customer Loyalty Programmes (effective July 1, 2008);
- IFRIC 14, IAS 19 - The limit on a defined benefit asset minimum funding requirements and their interaction (effective January 1, 2008);
- IAS 23 (Amendment), Borrowing Costs (effective January 1, 2009).

The application of these new interpretations will not have a material impact on the company's financial statements in the period of initial application.

Griffon Bank Limited

Notes to Financial Statements

December 31, 2006

(expressed in United States dollars)

2 Significant accounting policies ...continued

b) Foreign currencies

i) *Functional and presentation currency*

The financial statements are presented in United States dollars which is the company's functional and presentation currency.

ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency gains and losses resulting from the settlement of such transactions and from translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income.

Translation differences on non-monetary items, such as available-for-sale investments are reported as part of the fair value gain or loss in equity.

c) Financial assets

Financial assets are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale investments. Management determines the appropriate classification of its investments at the time of purchase.

- Financial assets through profit or loss are either financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.
- Available-for-sale investments are investments which are to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Investments determined to be available-for-sale are stated at fair market value based on quoted market prices or management estimates based on internal valuation modules and any resultant differences between these values and costs, are included as a separate item in shareholder's equity, as investment revaluation reserve.
- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the bank upon initial recognition designate as available-for-sale.

Regular-way purchases and sales of financial assets at fair value through profit or loss, and available for sale are recognised on trade-date - the date on which the company commits to purchase or sell the asset.

Griffon Bank Limited

Notes to Financial Statements

December 31, 2006

(expressed in United States dollars)

2 Significant accounting policies ...continued

c) Foreign currencies ...continued

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished - that is, when the obligation is discharged, cancelled or expires. Gains or losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

The fair value of quoted investments in active markets are based on current bid prices.

d) Impairment of financial assets

A credit risk provision for loan impairment is established if there is objective evidence that the company will not be able to collect all amounts due according to the original contractual terms of loans and advances. The objective evidence of impairment includes:

- Significant financial difficulties of the borrower
- Delinquency in contractual payments of principal or interest
- Breach of loan covenants
- Deterioration of credit ratings assigned to the borrower
- Bankruptcy or reorganisation by the borrower

Management uses estimates based on historical loss experience and objective evidence of impairment when estimating its future cash flows of the loan or group of loans.

If there is objective evidence that an impairment loss on loans has been incurred, the amount of the allowance for impairment is measured as the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to impairment losses on loans and advances in the statement of income.

Griffon Bank Limited

Notes to Financial Statements

December 31, 2006

(expressed in United States dollars)

2 Significant accounting policies ...continued

d) Impairment of financial assets ...continued

The allowance which is made during the year, less amounts released and recoveries of bad debts previously written off, is included in the statement of income. When a loan is deemed uncollectible, it is written off against the related allowance for losses.

e) Sale and repurchase agreements

Securities purchased under agreements to resell are recorded as loans and advances to other Banks or customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repurchase agreements using the effective interest yield method.

f) Acceptances, guarantees, indemnities and letters of credit

The company's potential liability under acceptances, guarantees and letters of credit is reported as a contingent liability. The company has equal and offsetting claims against its customers in the event of a call on these commitments.

g) Revenue recognition

Interest income and expense

Interest income and interest expense are recognised in the statement of income for all interest bearing instruments on an accrual basis using the effective interest method. Interest income includes coupons earned on fixed income investments, loans and advances and accrued discounts on treasury bills and other discounted instruments.

Fees and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred, together with related costs, and are recognised as an adjustment to the effective yield on the loan.

h) Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation. Historical costs include expenditure directly attributable to the acquisition of the item. Depreciation is provided on the straight-line method at rates to write-off the cost of the assets over the period of their estimated useful lives as follows:

| | |
|-------------------------------|------------------------------|
| Leasehold improvement | - over the life of the lease |
| Motor vehicles | - 33% |
| Furniture and fittings | - 10% |
| Computer and office equipment | - 20% |

Griffon Bank Limited

Notes to Financial Statements

December 31, 2006

(expressed in United States dollars)

2 Significant accounting policies ...continued

h) Property, plant and equipment ...continued

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to amortisation are reviewed for impairment whenever changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately if the carrying amount is greater than the estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in the income statement of income. Cost of repairs and renewals are charged to the statement of income when the expenditure is incurred.

i) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash and other eligible bills.

j) Impairment of non-financial assets

Assets that have an indefinite useful life but are not subject to amortisation are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised when the asset's carrying amount exceeds its recoverable amounts.

k) Leases

The leases entered into by the company are operating leases. The total payments under these operating leases are charged to the statement of income on a straight-line basis over the period of the lease. In the event that the lease is terminated before the lease period has expired, any payment by way of penalty is recognised as an expense in the period in which termination takes place.

l) Taxation

No tax is provided for pursuant to Sections 57 & 58 of the Offshore Banking Act, 1996.

m) Related party balances and transactions

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individual or corporate entities.

Griffon Bank Limited

Notes to Financial Statements

December 31, 2006

(expressed in United States dollars)

2 Significant accounting policies ...continued

n) Share capital

Shares issued for cash are accounted for at the issue price less any transaction costs of the issue.

o) Dividends

Dividends that are proposed and declared during the period are recognised as an appropriation of retained earnings in the statement of changes in equity.

Dividends that are proposed and declared after the balance sheet date are disclosed as a note to the financial statements.

p) Comparatives

Where necessary prior year amounts have been reclassified to comply with changes in presentation in the current year.

3 Critical accounting estimates, and judgements in applying accounting policies

The company makes estimates and assumptions that affect the reported amounts of assets and liabilities. The estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. At December 31, 2006 there were no estimates or assumptions affecting the reported amounts of assets and liabilities that are significant to the financial statement.

4 Cash

| | 2006 \$ | 2005 \$ |
|---|------------------|------------------|
| a) Cash and short term funds | | |
| Due from other Banks | <u>1,246,664</u> | <u>6,134,191</u> |
| b) Cash and cash equivalents | | |
| Cash and short term funds | 1,246,664 | 6,134,191 |
| Deposits with Non-Bank Financial Institutions | — | 8,371 |
| | <u>1,246,664</u> | <u>6,142,562</u> |

Griffon Bank Limited

Notes to Financial Statements

December 31, 2006

(expressed in United States dollars)

5 Deposits with non bank financial institutions

| | 2006 \$ | 2005 \$ |
|-------------------------------|---------------|--------------|
| Non interest bearing deposits | <u>22,310</u> | <u>8,371</u> |

6 Investments

Financial assets designated at fair value

| | 2006 \$ | 2005 \$ |
|--|------------------|------------------|
| Financial assets designated at fair value | | |
| Debt securities at fair value | 4,786,241 | 6,025,445 |
| Securities purchase under resale agreements | 212,985 | 178,004 |
| Money market account | 476,683 | 349,874 |
| Mutual fund | 218,580 | 2,986,404 |
| | <u>5,694,489</u> | <u>9,539,727</u> |

Securities available for sale

| | | |
|--|------------------|------------------|
| Debt securities at fair value | 2,446,101 | 1,225,204 |
| Equity securities at fair value - listed | 643,252 | 305,262 |
| | <u>3,089,353</u> | <u>1,530,466</u> |

Loans and receivables

| | | |
|-----------------|----------------|----------------|
| Debt securities | <u>519,019</u> | <u>201,841</u> |
|-----------------|----------------|----------------|

The movement in investment securities may be summarised as follows:

| | Available for sale \$ | Loans and receivables \$ | Total \$ |
|----------------------------------|-----------------------------|--------------------------------|------------------|
| At January 1, 2006 | 1,530,466 | 201,841 | 1,732,307 |
| Additions | 6,362,621 | 317,178 | 6,679,799 |
| Disposals (sales and redemption) | (4,938,907) | — | (4,938,907) |
| Gains from changes in fair value | 135,173 | — | 135,173 |
| | <u>3,089,353</u> | <u>519,019</u> | <u>3,608,372</u> |

Griffon Bank Limited

Notes to Financial Statements

December 31, 2006

(expressed in United States dollars)

6 Investments ...continued

| | Available for sale \$ | Loans and receivables \$ | Total \$ |
|----------------------------------|-----------------------------|--------------------------------|-------------|
| At January 1, 2005 | — | — | — |
| Additions | 1,500,000 | 201,841 | 1,701,841 |
| Gains from changes in fair value | 30,466 | — | 30,466 |
| At December 31, 2005 | 1,530,466 | 201,841 | 1,723,307 |

7 Property, plant and equipment

| | Leasehold improvements \$ | Computer & office equipment \$ | Furniture and fittings \$ | Total 2006 \$ |
|---------------------------------|---------------------------------|---|---------------------------------|---------------------|
| 2006 | | | | |
| Cost | | | | |
| Balance - beginning of year | 39,340 | 180,398 | 53,596 | 273,334 |
| Purchases | — | 12,296 | 935 | 13,231 |
| Balance - end of year | 39,340 | 192,694 | 54,531 | 286,565 |
| Accumulated depreciation | | | | |
| Balance - beginning of year | 6,557 | 135,560 | 11,297 | 153,414 |
| Depreciation | 3,934 | 32,014 | 6,600 | 42,548 |
| Balance - end of year | 10,491 | 167,574 | 17,897 | 195,962 |
| Net book value | | | | |
| End of year | 28,849 | 25,120 | 36,634 | 90,603 |

Griffon Bank Limited

Notes to Financial Statements

December 31, 2006

(expressed in United States dollars)

7 Property, plant and equipment ...continued

| | Leasehold improvements \$ | Motor vehicle \$ | Computer & office equipment \$ | Furniture and fittings \$ | Total 2005 \$ |
|------------------------------------|---------------------------------|------------------------|---|------------------------------------|---------------------|
| 2005 | | | | | |
| Cost | | | | | |
| Balance, beginning of year | 39,340 | 28,340 | 176,852 | 54,317 | 298,849 |
| Purchases | — | 3,704 | 8,580 | 2,647 | 14,931 |
| Disposals and write-offs | — | (28,340) | (5,034) | (7,072) | (40,446) |
| Balance, end of year | 39,340 | 3,704 | 180,398 | 49,892 | 273,334 |
| Accumulated depreciation | | | | | |
| Balance, beginning of year | 2,623 | 18,421 | 104,233 | 11,221 | 136,498 |
| Depreciation | 3,934 | 2,076 | 35,406 | 3,399 | 44,815 |
| Disposals and write-off | — | (19,468) | (4,079) | (4,352) | (27,899) |
| Balance, end of year | 6,557 | 1,029 | 135,560 | 10,268 | 153,414 |
| Net book value, end of year | 32,783 | 2,675 | 44,838 | 39,624 | 119,920 |

8 Deposits

| | 2006 \$ | 2005 \$ |
|-----------------------------|-------------------|-------------------|
| Time deposits | 3,504,442 | 5,124,558 |
| Savings and demand deposits | 6,975,355 | 6,863,046 |
| | 10,479,797 | 11,987,604 |
| Accrued interest | 103,146 | 147,527 |
| | 10,582,943 | 12,135,131 |

The interest rates on deposits at December 31, 2006 ranges from 4.25% to 5.00% (2005 – 4.25% to 5%) on term deposits and 3.25% (2005 – 3.25%) on saving deposits.

Griffon Bank Limited

Notes to Financial Statements

December 31, 2006

(expressed in United States dollars)

9 Share capital

The company is authorised to issue a maximum of 5,000,000 ordinary shares. At December 31, 2006 and 2005 there were 5,000,000 issued share capital as follows:

| | 2006 | | 2005 | |
|-----------------------------|---------------|-----------|---------------|-----------|
| | No. of shares | \$ | No. of shares | \$ |
| Balance - beginning of year | 5,000,000 | 5,000,000 | 1,261,453 | 1,261,453 |
| Issued during the year | – | – | 3,738,547 | 3,738,547 |
| Balance - end of year | 5,000,000 | 5,000,000 | 5,000,000 | 5,000,000 |

10 Retained earnings and reserves

| | 2006 | (restated) 2005 |
|---|------------------|--------------------|
| | \$ | \$ |
| Revaluation reserves - available for-sale-investments | 165,639 | 30,466 |
| Statutory reserves | 361,181 | 298,062 |
| Other reserves | 8,733 | 8,733 |
| Retained earnings | 886,385 | 697,029 |
| | <u>1,421,938</u> | <u>1,034,290</u> |

| | 2006 | (restated) 2005 |
|---|----------------|--------------------|
| | \$ | \$ |
| Revaluation reserve - available-for-sale investments | | |
| Balance, beginning of year – as restated | 30,466 | – |
| Net change in fair value gains during the year | 135,173 | 30,466 |
| | <u>165,639</u> | <u>30,466</u> |

Griffon Bank Limited

Notes to Financial Statements

December 31, 2006

(expressed in United States dollars)

10 Retained earnings and reserves ...continued

| | 2006 \$ | (restated) 2005 \$ |
|--|------------|--------------------------|
| Statutory reserves | | |
| Balance – beginning of year as previously stated | 319,830 | 128,583 |
| Prior period adjustment | (21,768) | – |
| | <hr/> | <hr/> |
| Balance, beginning of year - as restated | 298,062 | 128,583 |
| Transfer from retained earnings | 63,119 | 169,479 |
| | <hr/> | <hr/> |
| | 361,181 | 298,062 |
| | <hr/> | <hr/> |

Section 15 of the Offshore Banking Act of the Commonwealth of Dominica requires that a minimum of 25% of annual net income be appropriated to reserve fund until the balance of such funds equals the stated capital of the company.

| | 2006 \$ | (restated) 2005 \$ |
|---|------------|--------------------------|
| Other reserves | | |
| Balance, beginning and end of year | 8,733 | 8,733 |
| | <hr/> | <hr/> |
| | 2006 \$ | 2005 \$ |
| Retained earnings | | |
| Retained earnings – as previously reported | 709,402 | 219,056 |
| Prior period adjustment | (12,373) | – |
| | <hr/> | <hr/> |
| Retained earnings - beginning of year – as restated | 697,029 | 219,056 |
| Net income for the year– as restated (note 18) | 252,475 | 647,452 |
| Transfer to reserve | (63,119) | (169,479) |
| | <hr/> | <hr/> |
| Retained earnings - end of year | 886,385 | 697,029 |
| | <hr/> | <hr/> |

Griffon Bank Limited

Notes to Financial Statements

December 31, 2006

(expressed in United States dollars)

11 Net interest income

| | 2006 \$ | 2005 \$ |
|---|----------------|----------------|
| Interest income | | |
| Loans and short term advances | 132,006 | 53,382 |
| Treasury bills and investment securities interest | 110,864 | 148,636 |
| Deposits with banks | 312,660 | 336,936 |
| | <u>555,530</u> | <u>538,954</u> |
| Interest expense | | |
| Time and savings deposits | 312,340 | 157,861 |
| | <u>312,340</u> | <u>157,861</u> |
| Net interest income | <u>243,190</u> | <u>381,093</u> |

12 Fee and commission income, net

| | 2006 \$ | 2005 \$ |
|---|-----------------|----------------|
| Credit related fees and commissions | 104,412 | 115,875 |
| Asset management fees | (141,180) | (15,564) |
| | <u>(36,768)</u> | <u>100,311</u> |
| Net fees and commissions (expense)/income | <u>(36,768)</u> | <u>100,311</u> |

13 Other income

| | 2006 \$ | 2005 \$ |
|--|----------------|----------------|
| (Losses)/gains from financial assets through profit and loss | (228,789) | 960,951 |
| Realized gains on available-for-sale investments | 354,897 | 15,561 |
| Exchange gains from foreign currency transactions | 630,088 | 27,497 |
| Foreign exchange gains/(losses) from translation | 141,296 | (83,395) |
| Claims and settlements | - | 7,127 |
| | <u>897,492</u> | <u>927,741</u> |

Griffon Bank Limited

Notes to Financial Statements

December 31, 2006

(expressed in United States dollars)

14 Operating costs

| | 2006 \$ | 2005 \$ |
|----------------|----------------|----------------|
| Staff costs | 141,952 | 162,424 |
| Depreciation | 42,520 | 47,536 |
| Other expenses | 666,967 | 548,058 |
| | <u>851,439</u> | <u>758,018</u> |

15 Staff costs

| | 2006 \$ | 2005 \$ |
|--------------------|----------------|----------------|
| Wages and salaries | 119,922 | 133,758 |
| Other staff costs | 22,030 | 28,666 |
| | <u>141,952</u> | <u>162,424</u> |

Griffon Bank Limited

Notes to Financial Statements

December 31, 2006

(expressed in United States dollars)

16 Financial instruments

Fair values

The methods and assumptions used to estimate the fair value of each class of financial instruments for which it is practical to estimate a value are as follows:

i) Short-term financial assets and liabilities

The carrying value of these assets and liabilities is a reasonable estimate of their fair value because of the short maturity of these instruments. Short-term financial assets comprise cash and cash equivalents, term deposits, deposits to non bank financial institutions, loans receivable and accounts receivable. Short-term financial liabilities comprise accounts payable and customer deposits.

ii) Investments

Financial assets designated at fair value and available for sale investments are carried at fair value based on quoted bid prices.

Loans and receivables are not significantly different from current rates and as such approximate fair value.

iii) Loans and advances to customers

Loans and advances are stated net of specific provision for impairment. These assets result from transactions conducted under typical market conditions and their values are not adversely affected by unusual terms. The estimated fair value of loans and advances represents the amount of estimated future cash flows expected to be received.

iv) Customer deposits

The fair values of items with no stated maturity are assumed to equal their carrying value. Deposits with fixed rates characteristics are at rates which are not significantly different from current rates and have discounted cash flows which approximates carrying values.

Credit risk

The company is subject to credit risk relating to its cash and short term funds, term deposits, investments and loans and advances to customers. Management believes that risk is mitigated by the quality of its investments and the financial strength of the debtors. Cash and cash equivalents are held with substantial financial institutions.

Griffon Bank Limited

Notes to Financial Statements

December 31, 2006

(expressed in United States dollars)

16 Financial instruments ...continued

Fair values ...continued

Interest rate risk

The company is subject to interest rate risk to the extent that interest yields generated by cash and cash equivalents, its investments and loans receivable are less than that charged on its interest-bearing liabilities. This risk is mitigated by the close monitoring of interest rates earned on cash and cash equivalents, its investments and loans receivable and matching the interest terms of these assets with that of the deposit portfolio.

Liquidity risk

The company is exposed to daily calls on its available cash resources from credit accounts, maturing deposits and from margin accounts. The table below analyses assets and liabilities of the company in relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

Griffon Bank Limited

Notes to Financial Statements

December 31, 2006

(expressed in United States dollars)

16 Financial instruments ...continued

Maturities of assets and liabilities

| | Up to 3 months \$ | 3 months to 1 year \$ | 1 to 5 years \$ | Total \$ |
|--|---------------------------|-----------------------------|-------------------------|-------------------------|
| As at December 31, 2006 | | | | |
| Assets | | | | |
| Cash and short term funds | 1,246,664 | — | — | 1,246,664 |
| Deposits to non-bank financial institutions | — | 16,159 | 6,151 | 22,310 |
| Financial assets at fair value | — | 689,668 | 5,004,821 | 5,694,489 |
| Available-for-sale investments | — | 2,600,851 | 498,502 | 3,099,353 |
| Loans and receivables | — | 201,841 | 317,178 | 519,019 |
| Originated loans - loans and advances to customers | — | 3,091,378 | 3,058,448 | 6,149,826 |
| Other assets | — | 11,727 | 198,502 | 210,229 |
| | <u>1,246,664</u> | <u>6,611,624</u> | <u>9,083,602</u> | <u>16,941,890</u> |
| Liabilities | | | | |
| Deposits | 7,092,460 | 2,421,304 | 1,069,179 | 10,582,943 |
| Accounts payable and other liabilities | 17,611 | — | — | 17,611 |
| | <u>7,110,071</u> | <u>2,421,304</u> | <u>1,069,179</u> | <u>10,600,554</u> |
| Net liquidity surplus | <u>(5,863,407)</u> | <u>4,190,320</u> | <u>8,014,423</u> | <u>6,341,336</u> |
| As at December 31, 2005 | | | | |
| Total financial assets | 6,560,032 | 3,015,104 | 8,510,754 | 18,085,890 |
| Total financial liabilities | 7,070,510 | 4,765,427 | 335,583 | 12,171,520 |
| Net liquidity surplus | <u>(510,478)</u> | <u>(1,750,323)</u> | <u>8,175,171</u> | <u>5,914,370</u> |

Currency risk

The company take on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on their financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the company's exposure to foreign currency exchange rate risk at December 31.

Griffon Bank Limited

Notes to Financial Statements

December 31, 2006

(expressed in United States dollars)

16 Financial instruments ...continued

Concentrations of assets and liabilities:

| | US \$ | EUR | GBP | EC \$ | Other \$ | Total \$ |
|--|------------------|------------------|----------------|----------------|----------------|-------------------|
| December 31, 2006 | | | | | | |
| Assets | | | | | | |
| Cash and short term funds | 413,056 | 31,881 | 139,969 | 32,157 | 629,601 | 1,246,664 |
| Deposits to non bank financial institutions | – | 22,310 | – | – | – | 22,310 |
| Financial assets designated at fair value | 5,076,207 | 528,929 | 89,353 | – | – | 5,694,489 |
| Investment securities | | | | | | |
| Available-for-sale | 3,089,353 | – | – | – | – | 3,089,353 |
| Loans and receivables | 519,019 | | | | | 519,019 |
| Loans and advances to customers | 710,688 | 5,439,138 | – | – | – | 6,149,826 |
| Other assets | | | | 198,501 | | 210,229 |
| Property, plant and equipment | 11,728 | – | – | 90,603 | – | 90,603 |
| Total assets | 9,820,051 | 6,022,258 | 229,322 | 321,261 | 629,601 | 17,022,493 |
| Liabilities | | | | | | |
| Customer deposits | 5,327,641 | 4,869,500 | 118,833 | – | 266,969 | 10,582,943 |
| Accounts payable and accrued liabilities | 17,612 | – | – | – | – | 17,612 |
| Total liabilities | 5,345,253 | 4,869,500 | 118,833 | – | 266,969 | 10,600,555 |
| Net on balance sheet position | 4,474,798 | 1,152,758 | 110,489 | 321,261 | 362,632 | 6,421,938 |
| As at December 31, 2005 | | | | | | |
| Total assets | 9,802,404 | 7,273,140 | 137,656 | 22,668 | 969,942 | 18,205,810 |
| Total liabilities | (6,072,153) | (5,298,309) | (72,643) | (15,435) | (712,980) | (12,171,520) |
| Net balance sheet position | 3,730,251 | 1,974,831 | 65,013 | 7,233 | 256,962 | 6,034,290 |
| Credit commitments | – | – | – | – | – | – |

Griffon Bank Limited

Notes to Financial Statements

December 31, 2006

(expressed in United States dollars)

17 Related party transactions and balances

A number of banking transactions are entered into with related parties in the normal course of business. These include loans and deposits and are as follows:

| | Directors, companies managed by Directors and other key management personnel | | Affiliated companies | |
|----------------------------------|--|------------|----------------------|-------------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| Loans outstanding at January 1 | – | – | 600,000 | – |
| Loans issued during the year | – | – | 9,665,342 | 9,012,911 |
| Loan repayments during the year | – | – | (7,467,987) | (8,412,911) |
| Loans outstanding at December 31 | – | – | 2,797,355 | 600,000 |
| Cash and short term funds | – | – | 1,000,709 | 6,111,522 |
| Interest income earned | – | – | 312,666 | 200,519 |

Loans bear interest at rates ranging from 4% to 9.5% (2005 - 6% to 11%) per annum.

No provisions have been recognised in respect of loans given to related parties.

| | Directors, companies managed by Directors and other key management personnel | | Affiliated companies | |
|--|--|------------|----------------------|------------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| Deposits outstanding at January 1 | – | – | 1,641,632 | – |
| Deposits placed during the year | – | – | 1,749,761 | 1,641,632 |
| Deposits repaid during the year | – | – | (3,391,393) | – |
| Deposits outstanding at December 31 | – | – | – | 1,641,632 |
| Interest expense on deposits | – | – | 96,033 | 34,422 |
| Foreign exchange gains | – | – | 630,088 | 27,497 |

Griffon Bank Limited

Notes to Financial Statements

December 31, 2006

(expressed in United States dollars)

17 Related party transactions and balances ...continued

Key management compensation

| | 2006 | 2005 |
|---|--------|--------|
| | \$ | \$ |
| Salaries and other short term employee benefits | 63,163 | 70,020 |

18 Prior period adjustments

Effective January 1, 2005 the company reclassified certain investments as financial assets through profit and loss from available-for-sale. As a result of this change, financial assets through profit and loss increased by \$9,539,727 with a corresponding decrease in investments available-for-sale at December 31, 2005. Retained earnings at December 31, 2005 has been decreased by \$30,466 and a corresponding increase in reserves reflecting the unrealised gain on available-for-sale investments at that date.

In addition, investments of \$201,841 were reclassified from available-for-sale to loans and receivables to comply with the definition in IAS39. The above reclassifications did not result in any change to total assets and liabilities.

In the prior year translation adjustments of \$83,395 previously reported as a prior period adjustment to retained earnings was transferred to income in 2005. This adjustment had no impact on the ending retained earnings at December 31, 2006. In the prior year an adjustment of \$3,675 to reserve was written off to the statement of income resulting in a decrease in net income as previously reported and an offsetting increase in reserves.

