



Cayman National Corporation



Annual Report 2003

A Financial Services Group
www.caymannational.com

 **Cayman National Corporation**

Holding Company

 **Cayman National Bank**

 **Cayman National Property Holdings**

 **Cayman National Securities**

 **Cayman National Trust Co.**

 **Caymanx Trust Company**

 **Cayman National Investments**

 **Cayman National Insurance Brokers**

 **Cayman General Insurance**

 **Cayman National Insurance Managers**



Cayman National Corporation Ltd. is a publicly owned and traded company whose constitution provides that no single, or closely associated group of interests shall hold more than 10% of the Corporation. This has been endorsed by the Cayman Islands Government, who require control to remain in the Cayman Islands with a Caymanian majority on the Board of Directors.

As a Financial Services Group, its objectives are to provide a wide range of financial services to the Cayman domestic market and to the international client using the jurisdictions of either the Cayman Islands or the Isle of Man.

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President's REPORT

A brief synopsis about Cayman National

Cayman National was incorporated in 1973, and opened for business on January 28, 1974. We are therefore entering our 30th year in January 2004. **Strength, Stability and Service** are the pillars of our success, carrying us from a first year profit of CI\$600 to the more recent levels, which will carry the group forward to even greater heights. In order to attract a broadening of ownership and improved liquidity for shares, Cayman National has been granted an exemption (under The Local Companies Control Law) from the requirement that shareholding be held 60% in the hands of Caymanians. Currently there are 1,400 shareholders.

Cayman National

As a Financial Services Group, provides a wide range of financial services (banking, insurance, brokerage/investment and trust) to the Cayman domestic market and to the international client using the jurisdictions of either the Cayman Islands or the Isle of Man, where Trust and Corporate Administration services are provided.

Overview of the Group's performance, developments and activities.

Whilst the group companies are reported upon in greater individual detail, it is appropriate to review the overall highlights of the Group's operations.

Result: CI\$7.808m (US\$9.370m)

With interest rates currently at a 48-year low, the impact on interest income for the year has been a net reduction of some US\$2.5 million. In light of a continued low interest rate environment coupled with rising compliance demands, to have achieved a result of US\$9.370 million, only US\$370,000 less than the previous year's net profit figure, should hearten shareholders that the group has not only acknowledged, but taken action in respect of a number of issues which have arisen. Shareholders' Equity increased by 8% to CI\$79.4 million (US\$95.3 million) which included an increase in the unrealised appreciation on investments available-for-sale, all evidencing the growing capital base. The Bank remained the largest provider to the net profit figure, contributing CI\$4.9 million (US \$ 5.89 million) with Cayman General Insurance following at CI\$2.169 million (US\$



*Eric J. Crutchley, M.B.E., FCIB,
President and Chief Executive*

2.6 million). Underwriting income and other fees experienced a good uplift as a result of increased trading; the Trust Company showed increased fees as a result of the purchase of the Fiduciary Trust business; and Cayman General Insurance Co Ltd made a very creditable contribution to the net profit figure. The result is that the Group has performed well over the past year, notwithstanding the difficult conditions, with each group company operating profitably.

International

Ongoing international initiatives include the recent visit to the Cayman Islands by the International Monetary Fund. Initial indications are that the IMF's draft report is positive and recognises Cayman for its efforts. The European Union's Tax Savings initiative caused the Cayman Islands Government to take their own initiative to the Court of The First Instance in Luxembourg, and this matter continues to be under discussion between the Cayman



*Mr. Kevin Atkinson,
President IFS*

*Mr. Ormond Williams,
President CNB*



Mr. Michael Donnelly,
President CNIM

Mr. Roger Corbin,
President CNIB

Islands Government and that of the United Kingdom.

Human Resources

As an independent group, it is essential that we have the right people to run our business, because they are vital to our performance. 2003 has seen a number of changes within the organisation, and during the year we enlisted the expertise of professionals from a wide and varied international field. We formed the International Financial Services (IFS) unit, under the Presidency of Mr. Kevin Atkinson, an internationally experienced banker, under whose presidency the Trust, Securities and Premier Banking services were brought under one umbrella. The integration of the Fiduciary Trust and Cayman Islands Securities business purchased at the end of 2002 has progressed, and their performances are reflected in the results of the Trust and Securities companies respectively.

Turning to the Bank, the President, Mr. David McConney, left at the end of August to pursue a business venture, and Mr. Ormond Williams, Executive Vice President, assumed the responsibilities of President effective 1 September. Mr. Williams joined us from Barclays Bank plc, with whom he had been in the Caribbean for 21 years and he holds a certificate in Business Administration from the University of the West Indies. He is also an Associate of the (UK) Institute of Bankers, (ACIB). On the Insurance front, Mr. Michael Donnelly joined us from AON Insurance Managers (Cayman) Ltd where he was Vice President, Finance and Accounting, to run the Captive Insurance company, Absit Insurance Management Ltd, which was established in 1974, along with Cayman Insurance Brokers Ltd, which was incorporated in 1978. In pursuance of the Cayman National branding we took the opportunity to change the names of both companies to Cayman National Insurance Managers Ltd and Cayman National Insurance Brokers Ltd respectively. The latter company, under the Presidency of Mr. Roger Corbin, has now become a subsidiary of the Group's Holding Company, Cayman National Corporation Ltd.

Branding

Cayman National Corporation Ltd by its title, does not describe the business we undertake, but by progression,

Cayman National

A Financial Services Group

does provide the identity by which we shall promote the group.

Directorship changes

After almost 30 years as director of Cayman National, Mr. Norberg Thompson OBE said his goodbyes to his fellow Board Members, Management and Staff of Cayman National in March 2003 when he retired from his post. Mr. David McConney also departed at the end of August to be with his family in the US, where he will also pursue new business interest. On the non-executive side we were very pleased to announce and welcome a third new director, Mr. Richard Hew, who, as Executive Vice President and Chief Operating Officer of Cayman Utilities Company Ltd, brings a wealth of experience to the Board of Directors as described by his brief resume within this report.

For my part, this will be the last President's report I shall have the privilege of writing, as I reach Director retirement age in March 2004, with my 10-year contract finishing shortly thereafter.

Historical Celebrations



2003 was the Quincentennial Year celebrating the sighting of the Cayman Islands 500 years ago by Christopher Columbus. Cayman National supported a number of events and projects, the most important of which being the Wall of History, pictured within this report.

Cayman National Bank was also named "The Official Bank of the Quincentennial Celebrations".

His Royal Highness, Prince Edward & Mr. Eric Crutchley celebrate the official unveiling of the Quincentennial Wall of History sponsored solely by Cayman National.



Personnel restructuring and cost cutting

2003 was a year of consolidation for the group with the focus on controlling expenditure, notably in the personnel sector, and becoming more cost effective in running all sectors of the business. We have been successful in reducing group staff numbers over the year from 299 to 284 as at September 30, and at the time of writing the figure stands at 263. Direct personnel costs have been contained, although within the figure of CI\$16.2m, an amount of CI\$263,000 is included for restructuring costs in relation to departing staff. At the reduced staffing levels, notwithstanding essential engagements which will occur, we expect to see the benefits of the cost cutting exercise reflecting in the full 2003/4 figures.

Jurisdictional Strengths

Cayman National resides in a jurisdiction which is the third largest financial centre in the Western Hemisphere and the fifth largest in the world. As such we command both credibility and respect. The success of the jurisdiction is due not only to the close liaison between the private sector and the Government of the Cayman Islands, but also because of the compatibility between the service providers within the financial sector. We have in Cayman the top four international auditing firms, leading firms of attorneys, international banks and trust companies, together with all the other components to provide a 'one stop shop' facility in a top regulated environment.

Group Strengths

Cayman National, through its banking, trust, mutual fund, pension fund, securities brokerage, and insurance services, can provide access to all the services a client requires, either directly or through the services of well recognised international correspondents.

Technological Advancement

Cayman National is able to deliver a first class service through a multi channel network, which includes 16 ATMs, including



Mr. Eric Crutchley presents Christine Saunders, CI Cancer Society Office Manager, with a cheque from the funds raised during Cayman National's Wall of Remembrance Month.



Lisa Franklin, President of the Sunrise Caring Association and Customer Sales & Service Officer at Cayman National joins Mr. Eric Crutchley to present the Sunrise Adult Training Centre a school van.

one on Cayman Brac, online banking via the Internet (Cayman Global), debit card transactions and telephone banking (Cayman In-Touch). The take up on the telephone banking facility (implemented in April 2002) was successful, but one of the biggest requests coming from customers was the need for Internet banking. This was implemented six months later in October 2002. The diversion rates to telephone, Internet banking and ATM usage has provided us with more time to better focus upon customer relationships. Currently, over 4,500 customers are utilising Internet banking services, which, after two years, is encouraging, more so in terms of local competition.

Specifically this year we have made available to health insurance clients a desk vault health record service and we are developing an innovative claim verification system, which will introduce a fully automated health claims settlement system. It was hoped to have had this operative before the end of 2003, but the complexity of the system has caused unforeseen delays in implementation.

2003 Review

As a community bank we are proud to put back into the community and this year has been no exception with the Quincentennial celebrations. Our biggest commitment has been to the Wall of History (500 years), which stands proudly at the Quincentennial Square in the heart of George Town.

The ongoing commitment of both the Cayman National Group and its staff are unquantifiable, particularly in respect of individual and group staff efforts, support being given to many deserving projects, but mainly:

- ◆ The Pines Retirement Home & the Lions Eye Clinic: from the Cayman National Invitational Golf Tournament.
- ◆ In conjunction with Visa, Cayman National helped the Cayman Islands Amateur Swimming Association's



Cayman National Bank won first place for best booth display at the Quincentennial's Technology Expo in April of 2003.

(CIASA) senior team in their quest to attend the 2004 Olympics in Greece. Contributions were linked to our customers' debit card usage, whereby ten-cents from every transaction was donated to CIASA.

- ◆ The Special Olympics.
- ◆ Flower's Sea Swim.
- ◆ The Cancer Society: The annual Wall of Remembrance, and 2003 West Indies Cricket Festival.
- ◆ Junior Achievement programme.
- ◆ Sunrise Adult Education Centre: Staff supported this most worthwhile project, which involved the relocation of the Centre. Staff single handedly, although with supplies donated, painted the Centre. The Minister of Health, who gave appropriate acknowledgment to the significant contribution by the staff, and to the provision of a bus by the Corporation to assist with the dire transportation needs of the Centre, opened the facility in October. Support has also been provided to the Cayman National Trust, The CI National Gallery, CI Against Substance Abuse, The Cadet Corps, and many others.

In order to further our commitment to meeting the community's banking needs, Cayman National opened up a customer service centre in West Bay on November 17, 2003.

Looking Ahead

As a result of my stepping down as a Director (and consequently as Chief Executive), I would commend you to the future success of the group and my successor, Mr. Stuart Dack, who has been with the group for twelve years. There is a strong Executive Management Team and a vibrant non-executive Board of Directors, who have embraced a succession-planning programme, supported by the recent appointment of three new highly competent directors.

On the international front, we have made a number of focused efforts with the International Financial Services (IFS) unit focusing on selective Central and South American countries. Currently

we have exciting developments on the insurance side of our business, both with the integration opportunities between the bank and insurance brokerage and internationally.

Domestically, the Group has, with the support of staff, committed itself to an exciting programme of **Putting People First**. The primary objective is to recognise the importance and relationship between fellow workers and customers alike. The initial seminars held yielded significant success upon which we shall build in the New Year. Commercially, the Bank and the insurance group have the opportunity to take a premier position in the market.

President's Acknowledgement

Now in my tenth year with the group, I would wish to say thank you to the directors and shareholders who have provided such good support and guidance throughout the period. When I took over from Mr. Peter Tomkins MBE, the group's founder and first Chief Executive, I found the group in good shape and undertook to grow it and pass it on to whomever would be my successor in better shape than I received it, rather as one would do in a relay race; each person carrying the baton forward at a faster pace. I have just run the second leg, and when I hand over to my successor at the end of February 2004, Stuart Dack, he will have the opportunity to improve upon what is already solid ground.

To the staff, what can I say? In a competitive service industry, without their support, Cayman National could not have advanced to its present high level of competence. To each of the staff, past and present, I thank every one of you for your untiring efforts in making Cayman National the fine organisation it is today and with the theme of tomorrow.... **Strength, Stability and Service**, it is in our hands to make Cayman National an even better one.

I wish all the stakeholders, shareholders, customers and staff alike every success for the future and I am confident that they will provide my successor with the same invaluable support they have graciously given me.

Thank you.



Eric J Crutchley, MBE, FCIB
President and Chief Executive
Cayman National Corporation



Centennial Towers staff, (L-R) Quintin Mendez, Julie Hunter - Branch Manager, and Patricia Ebanks, eagerly invite customers into their new home, CNB's West Bay Service Centre.

Board of Directors



Benson Obadia Ebanks, Jr., OBE, JP, Chairman

aged 68. A former member of the Cayman Islands Legislative Assembly, Mr. Ebanks is a member of the Cayman Islands Pension Board and a Charter Member of the Rotary Club of Grand Cayman. He is also a Founding Director of Cayman National.



Truman Murray Bodden, OBE, JP, Deputy Chairman

aged 58, is an Attorney-at-Law, as well as a former Member of the Cayman Islands Legislative Assembly from 1976-2000 and former Leader of Government Business and acting Attorney General. Mr. Bodden is an ACIB, LL.B (Hons.) London, FICM., FFA., MCMI, ACIARB, and Barrister of Law. He has served on the Education Council, Civil Aviation Authority and Water Authority and is a member of the Cayman Law Society and Bar Association. He is also a former Director of Barclays Private Bank and Trust Cayman Ltd., and a Founding Director of Cayman National and Senior Partner of the law firm of Truman Bodden and Company.



Eric J. Crutchley, M.B.E., FCIB, President and CEO

aged 64, is President and Chief Executive of Cayman National Corporation. Prior to joining Cayman National, Mr. Crutchley was an overseas career banker with Barclays Bank working in many countries, including The British Virgin Islands and Vanuatu. He was President of the Cayman Islands Bankers Association (CIBA) from 1989 - 1990 when the Association formalised and introduced its original Code of Conduct. He re-joined the Executive of CIBA and was President for 2000/1, remaining for a further year as Immediate Past President. Mr. Crutchley was awarded the M.B.E. (Member of the Most Excellent Order of the British Empire) in 1992 in recognition of services rendered towards the development of the financial services Industry in the Cayman Islands and services to the community.



Stuart Dack, ACIB, MBA, Executive Vice President - CNC

aged 51, entered banking in 1971, and obtained the ACIB qualification with distinction. Mr. Dack worked for the Midland Bank Group in the UK for 22 years where he held a number of managerial roles at branch banking, area and regional levels. He joined Cayman National as Internal Auditor in 1992 and in 1998 was promoted to Executive Vice President of Cayman National Corporation. In 2001, he was awarded an MBA with Merit from Southampton University.



John C. Bierley, BA, JD USA

aged 67, is a Florida Bar Board Certified international lawyer based in Tampa where he has practised for 39 years. He is a member of the Council on Foreign Relations, a Director of the InterAmerican Bar Association, the Society of International Business Fellows and the University of Florida Foundation. He is also Director of the Florida Business BancGroup Inc. and Bay Cities Bank. Mr. Bierley is also a Founding Director of Cayman National.

Board of Directors



Clarence Flowers Jr.

aged 48, is the Managing Director of Orchid Development Ltd., and a Director of the Flowers Group and Cayman Water Company. He is a well-respected member of Cayman's business community and has spearheaded several projects in the Cayman Islands, including the construction and management of the Century Yard Building at Cricket Square on Elgin Avenue.



Sherri Bodden-Cowan, LL.B

aged 40, was educated in the Cayman Islands and the United Kingdom, and gained an LL.B. Hons from Bristol University, England. She was subsequently called to the Bar of England & Wales in 1986 and the Cayman Islands in 1987. Mrs. Bodden-Cowan has worked for the Cayman Islands Government, the law firm Hunter & Hunter, and was an Associate and Partner in the firm of Boxalls. Mrs. Bodden-Cowan owns her own law firm, Bodden & Bodden and is a Director of Bodden Corporate Services.

Mrs. Bodden-Cowan has served and continues to serve in numerous capacities as Chairman or Director of Cayman Islands statutory boards and authorities.



David W. Trimble, MA (Hons), Cambridge

aged 64, was a merchant banker in London 1963-68, and the Bahamas 1968-73, a Director of Mercantile Bank & Trust Co (Cayman) Ltd 1969-73 and became a director of Cayman National in 1984. In 1974 he was a founder and subsequently Chairman of a quoted UK financial services company, PlanInvest Group plc. In 1987 he became Chairman of London Stockbrokers, Robert Wigram & Co and from 1979 to 2003 was a Registered Insurance Broker. He is presently Chairman of Jacob Cowen & Sons Ltd, manufacturers of cotton wool, wadding and pollution control equipment; Chairman of H&H Group plc, with subsidiary companies in livestock auctioneering, auto finance, land and estate agency, insurance broking and fine art auctioneering; and a director of Cumbrian Newspapers Group.



Peter Adye Tomkins, M.B.E

aged 72, Founder of Cayman National Corporation Ltd. and Subsidiaries began his working life in the Merchant Marine. He entered commercial banking with Barclays Bank International Ltd. in 1951 and took up the position of Executive Vice-President with Mercantile Bank & Trust Co. (Cayman), Ltd in 1969. From 1973 to 1994 he held the positions of Founder, President and Chief Executive Officer of Cayman National Corporation Ltd. and Subsidiaries. Now retired, Mr. Tomkins remains on the Board of Directors of Cayman National.

Mr. Tomkins has been a Member of the Financial Secretary's Private Sector Consultative Committee, President of the Cayman Islands Bankers Association, a Member of the Housing Development Board, Treasurer for Triple C School, President of the Employees Assistance Programme, Director of the Cayman Islands Monetary Authority and a Member of the Vision 2008 Team.



J.F. Richard Hew

aged 38, is the Executive Vice President, Chief Operating Officer and Director at Caribbean Utilities Company, Ltd. (CUC). In 1988 Mr. Hew graduated with a Bachelor of Science in Electrical Engineering from the University of Florida, and since then has risen through the ranks at CUC. In 1997 he obtained the degree of Master of Business Administration at Wilfrid Laurier University, Ontario, Canada.

Richard is a registered Professional Engineer in the State of Florida and is presently a member of the Board of Governors of the Community College of the Cayman Islands.

During the financial year ended September 30, 2003, the financial results of the Group were impacted by the continuing overall slow down in economic growth, the reduction in the prime lending rate to its lowest level for 48 years, increased costs resulting from rising compliance demands and the continuing policy for taking additional provisioning to conservatively reserve for any potential loan losses.

Financial Details

The Group's Net Income for the twelve-month period ended September 30, 2003, was CI\$7,808,119 resulting in Earnings per Share of CI\$0.19, Return on Assets of 1.26%, Return on Equity of 9.83% and Price earnings ratio of 13.16 times, whilst Book Value per Share of CI\$1.97 increased by 8% and Dividend Yield per Share of 4.80% improved by 20% over last year. Equity also improved by 8%, or CI\$6,112,570, of which CI\$529,586 represents an increase in the net unrealised appreciation on investments available-for-sale, which, prior to 2002, would have reflected in a commensurate increase in the profit figure.

Significant Accounting Policies

In consultation with the newly appointed auditors, PricewaterhouseCoopers, it was agreed there were no changes to Accounting Policies for the year under review.

Dividend and Share Details

The Board of Directors has recommended a final dividend of CI\$0.06 (six cents) per share to shareholders of record as of December 31, 2003, for a total dividend of CI\$0.12 (2002: CI\$0.12) for the financial year. Subject to shareholder approval, this will be paid immediately following the February 26, 2004 AGM.

During the financial year, the Corporation purchased an additional 0.18% of Cayman General Insurance (CGI) shares from minority shareholders by issuing three CNC shares for each CGI share; this brought the total ownership in CGI to 99.24% with a remaining minority shareholding of 0.76%.

Whilst the CNC share price was CI\$2.85 as at December 2002 and declined to CI\$2.50 through the financial year due to a slow demand as noted in the President's report, a total of 2,441,600 shares were nevertheless traded during the year.

Looking Ahead

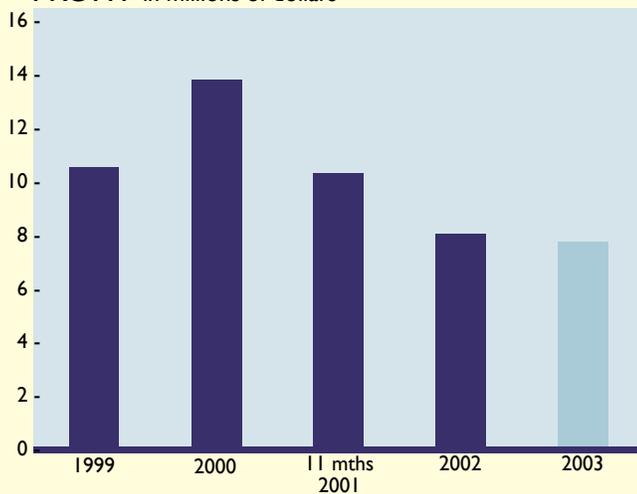
The Group has come through a demanding year, but looking ahead to 2004 and beyond, with a strong asset base, efficient services through technologically advanced computerised systems, and committed management, our position as the leading financial services group in the Cayman Islands will be maintained. There are opportunities to further develop our International Financial Services unit by focusing on areas in Central and South America and on the Insurance side there are integration opportunities as well as the development of an electronic health settlement system.



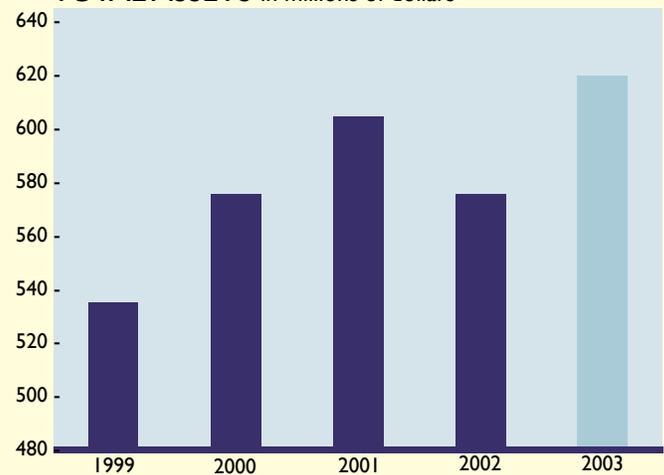
Summarised Financial Details

	2003	US Dollar Equivalent 2003	2002	Change
Net Income	7,808,119	9,369,743	8,117,934	-4%
TOTAL INCOME	36,326,970	43,592,364	36,865,916	-1%
TOTAL ASSETS	619,081,196	742,897,435	575,550,691	8%
Total Deposits	515,278,892	618,334,670	473,827,736	9%
Equity	79,427,078	95,312,494	73,314,508	8%
Fixed Assets	22,462,651	26,955,181	23,741,702	-5%
	2003		2002	
Earnings Per Share	\$0.19	\$0.23	\$0.20	
Book Value Per Share	\$1.97	\$2.36	\$1.82	
Return on Assets	1.26%		1.41%	
Return on Equity	9.83%		11.07%	
Price Earnings Ratio	13.16		15.00	
Dividend Yield Per Share	4.80%		4.00%	

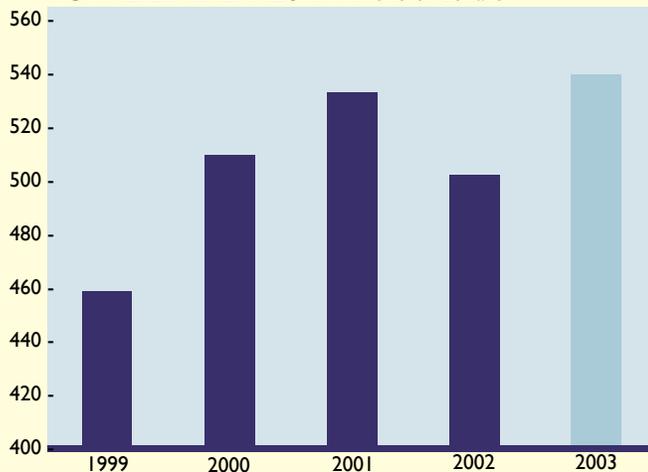
PROFIT in millions of dollars



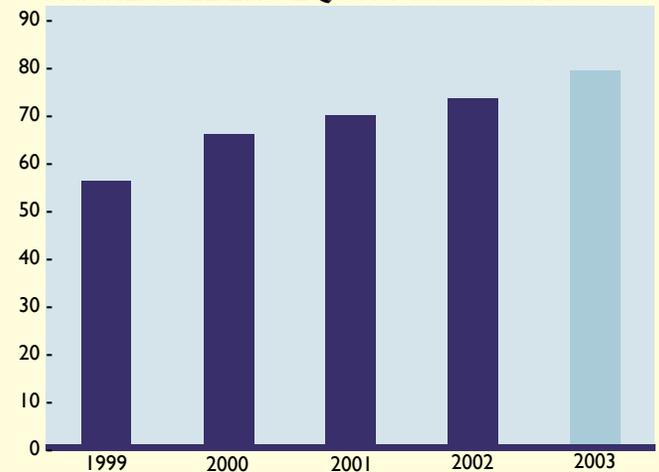
TOTAL ASSETS in millions of dollars



TOTAL LIABILITIES in millions of dollars



SHAREHOLDERS' EQUITY in millions of dollars



Banking SERVICES



Mr. Ormond Williams,
President CNB

In an era when size and scale seem critical to survival, Cayman National Bank (CNB) may be smaller than competitors, but is nevertheless able to provide excellent levels of customer service, higher standards, innovative products and services and reasonable returns to its stakeholders. Our size keeps us agile, enables us to be first to market, has strengthened our responsiveness to clients' concerns and inspired business creativity. We must continue to seize

opportunities to further our strategic objectives: to become the premier financial services company in the Cayman Islands and beyond.

Centering our commitment on our clients, we believe that easy, convenient and secure access to bank accounts is paramount. Hence, we offer electronic banking services:

- ♦ VISA-branded debit cards
- ♦ MasterCard-branded credit cards
- ♦ 16 ATMs (the largest fleet on the Cayman Islands)
- ♦ Telephone banking (Cayman-In-Touch)
- ♦ Internet banking (Cayman Global)
- ♦ 2 self-service centres

However, electronic banking cannot replace the personal touch delivered by staff. Therefore, to supplement technology, we continue to offer all our services from five customer service centres. We are the only financial services organisation based in all three Cayman Islands.

Customer Service Highlights

- ♦ Our ATM services were enhanced by offering additional denominations.
- ♦ We worked closely with local merchants to promote the use of our debit and credit cards and to stimulate local spending.
- ♦ We challenged the nation's youth to save by re-introducing the Student Savers Programme.
- ♦ As a reward to credit cardholders with excellent payment records, we automatically increased lines of credit.
- ♦ To make for easier payment of bills online, we upgraded our Internet banking solution.

Mr. Ormond Williams joins Ms. Laurice Frasier, President of CIASA and DOT staff, Mrs. Lania Rittenhouse and Mr. Warren Solomon in presenting much needed equipment to young CIASA swimmers.

Governance

Adherence to a proper governance structure continues to be a key objective for the Bank. As a financial services organisation, we continue to be cognisant of the need for risk awareness and have taken steps to ensure that senior management and all staff uphold the highest ethical standards and discharge their responsibilities in a prudent manner. There are monthly meetings between the local Board of Directors and executive management, and the President of the Bank reviews the operation of the business to the entire Board quarterly.

As part of our good governance approach, we continue to focus on the effective management of Credit Risk, Liquidity & Market Risk and Operational Risk. During the year, we established our Credit Risk Management Department and carefully monitored our Assets and Liabilities in accordance with the Board-approved Investment Policy. Retrospective due diligence is fully underway and all our staff have received regular training that addresses anti-money laundering and suspicious activities, in addition to technical and management training.

Financial Review

Against a difficult economic background, CNB produced a strong performance during 2003.

Interest income constitutes the Bank's major source of revenue. Cayman's economy is directly linked to other major economies, particularly the US, and, as a direct result of the downturn in international economies, Cayman's economy has undergone its own slow-down. US interest rates continue to be the lowest in over 40 years, noticeably impacting our bank placements and investment portfolio revenues. With a recession, there is a need to exercise even greater prudence with lending decisions. As such, our ability to book high quality overdrafts and loans was influenced by a more robust approach to lending, and lower available deposit balances due to the low interest rates regime. Nonetheless, we spared no efforts to maintain our interest spreads.

Non-interest income performed well during this year, a reflection of tariff increases made in 2002. We have reviewed many areas of our operation to avert any revenue leakage.



With income-generation under pressure, we focused on cost-reduction. We are pleased with results so far but expect that some of the more significant measures, including the reduction of personnel, will have a greater impact in 2004. Quality of our customer service is however always a top priority.

The negative movement on cost income for 2003 is a result of the reduction in revenues for that period. Most areas of personnel and operating costs witnessed reductions during the year; however, these gains were offset by the 10.5 % decline in net interest income.

When comparing 2003 to 2002, the CI\$851,000 decline in profitability is in part attributed to the CI\$2.12m reduction in total operating income, and the gain of CI\$310,000 on operating costs due to improved business efficiency. Additionally, we reduced bad debts provisions in 2003 to CI\$1.6m compared to CI\$2.5m in 2002.

Overall, we are reassured that despite the reduction in profit for 2003, we have taken the correct business decisions to sustain the business in the long-term. We are confident that the anticipated turnaround in world economic performance during 2004, renewed business development drives, restructuring of the organisation, improvement in customer service levels and the cost-optimisation strategies that we have implemented, will be the catalysts to propel our organisation into a future of growth and strength.

key members of staff who joined us from Fiduciary Trust.

As anticipated, we were able to substantially complete the retrospective due diligence exercise for existing clients by the September 2003 CIMA deadline. The completion of this exercise after three years will now free staff to develop other areas of our business.

During the year, business development and marketing trips have been made to North and South America, with particular emphasis on Brazil and Argentina.

Many of our clients have been re-assured by the recent rises in world stock markets. This, notwithstanding increasing our fee level from present business, should create more interest in our products from new customers. Of particular note has been the strength of our mutual fund administration service, where not only have new funds been added, but existing funds have grown noticeably.

Of local interest has been the steady increase in the value of the Cayman National Pension fund due to appropriate investment management during the year.

During 2003 we have established a solid platform for future growth of the existing business, from which we will be able to enhance our services by the proposed launch of in-house mutual fund products in early 2004.

Fiduciary SERVICES



Mr. Kevin Atkinson,
President IFS

Trust Services

For the year ended September 30, 2003 Cayman National Trust Co. Ltd. achieved an annual income of CI\$3,095,968 which represented an increase of 19.81% over the previous year. Whilst trading profit totaled CI\$711,717, extraordinary costs associated with the take over of Fiduciary Trust resulted in a net profit of CI\$497,361 some 34%

down on the previous year.

The acquisition of Fiduciary Trust was completed during 2003 and has led to the expansion of the client base by accounts and also provided a platform for future business growth. Cayman National Trust Co. Ltd. was pleased to welcome new

Securities Services

2003 was a mixed year for the world stock markets. The year opened with a continuation of the downward trend of the market seen over the past two years, reaching its lowest point in March 2003. Since March, the stock markets worldwide have improved along with forecasts of better company results. Indeed, the Dow Jones is 32% higher since its 12 month low on March 12, 2003. The fixed income markets have seen declining yields and capital appreciation in the last 12 months as interest rates on the major world currencies were reduced. Dollar, Sterling, and Euro rates had fallen to historic lows at the end of September 2003.

Stock markets value changes over the last 12 months have been reflected in the results of Cayman National Securities Ltd. However, the company's capacity to adapt to difficult circumstances by trimming costs and looking for increased non-transactional income has meant that once the markets improved in the second half of the year, it was possible to produce an excellent set of results.

Total income for 2003 was CI\$1,519,168, an increase of 5% over that of 2002 and net profits were CI\$488,552 which represented an increase of 13% over that of fiscal 2002, reflecting the success of the strategy of improving fee based revenue streams from mutual fund trailing fees, portfolio management fees and income processing fees.

As required by Cayman Islands legislation, Cayman National Securities completed its retrospective due diligence exercise of clients by September 2003, and we would like to thank both staff and customers alike for their efforts in bringing this task to a successful conclusion.

Continued marketing efforts at home and abroad mean that with the expansion of the size of assets which Cayman National Securities looks after on behalf of clients income streams should remain steady for future years.

Caymanx (Isle of Man)



*Mr. Eammon Harkin,
Managing Director Caymanx Trust*

The team at Caymanx Trust has continued to attract new clients and interesting business opportunities during the financial year. In addition, the Isle of Man has received a very positive endorsement from the recently published International Monetary Fund review and this has served to boost the financial services sector.

However, a combination of low interest rates and the effect of the increasing international focus on offshore finance centres have resulted in a general slowdown in growth of new business and a level of consolidation of offshore interests by international clients.

Caymanx Trust has not been immune to the impact of these issues, which have resulted in a reduction in profit compared with the previous year's figure. However, the board of directors and management of the company see positive opportunities emerging from the significant restructuring presently underway among offshore financial service providers. Caymanx Trust is currently undergoing an internal review process aimed at strengthening the company's position as a quality provider of financial services to the international private and corporate client.

The company's banking operations remain relatively small and principally exist to add additional services to the trust and corporate administration and management side of the business. Total income for the year stood at £550,103, being 11% below the previous year's figure. Total expenditure was marginally below the figure for the previous year.

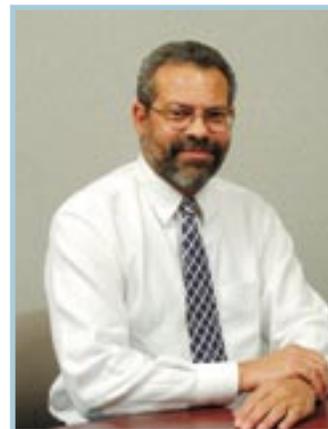
As we enter 2004, the company is preparing for the implementation of the European Union's Savings Directive which forms part of a broader EU tax package aimed at ensuring either the application of a withholding tax at source or the disclosure of relevant information to the domestic tax authorities of EU resident individuals with assets outside their home jurisdiction.

The Isle of Man, as a UK Crown Dependency, has elected for the application of a withholding tax at source in respect of payments to such individuals, which fall within the scope of the tax package.

In addition, the company expects to submit an application to the Isle of Man Financial Supervision Commission for a Trust Service Provider licence during the course of 2004.

Notwithstanding the increasing demands, both in terms of management time and direct cost, placed on the company by local and international regulatory and compliance issues, the board of directors are confident that the company's well-established reputation and experienced management team combined with the Isle of Man's status as an international financial services centre will ensure future growth and profitability.

Insurance SERVICES



*Mr. Danny Scott,
President CGI*

The group was formerly comprised of an underwriting company, a brokerage company and a management (captive) insurance company. It was the view of the group that, whilst there was no legal impediment to the underwriting company owning a brokerage company, its function would be better served by it becoming a subsidiary of the holding company. The respective boards agreed this, with the transfer of ownership becoming effective April 1,

2003. The Cayman General group is therefore currently comprised of the underwriting company, Cayman General Insurance Co Ltd., and its wholly owned subsidiary, Cayman National Insurance Managers Ltd. (previously Absit Insurance Management Ltd.).

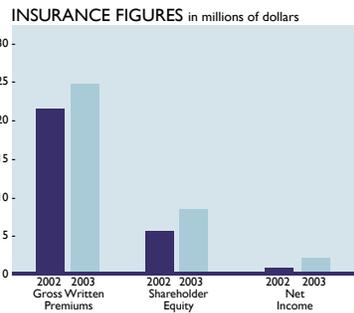
Consolidated income for the insurance group for the year ending September 30, 2003 was CI\$2,169,360, by far the group's best performance to date. Leading this record performance was our underwriting company, Cayman General, with a net income of CI\$2,177,284. This result did not include investment income, as these gains go through a separate equity account as a result of the 2002 accounting policy change.

During the year we made some significant changes to the insurance group, the broking division was transferred to the holding company and the name changed to Cayman National Insurance Brokers Ltd to reflect the Cayman National Branding

g and to create the independence needed. Not to be left out, the name of the captive management company was changed to Cayman National Insurance Managers Ltd.

Cayman General Insurance Co Ltd

- ◆ Gross written premiums CI\$24,061,282, up from CI\$21,339,600 the previous year.
- ◆ Shareholders equity CI\$8,240,924, up from CI\$5,636,982 the previous year.
- ◆ Net income CI\$2,177,284 up from CI\$1,161,604 recorded the previous year.



Property Insurance

Gross written premiums were down against both plan and the previous year, ending the year at CI\$12,368,152. Net underwriting income was ahead of both plan and the previous year mainly due to a reduction in losses. Property rates remained high during 2003 and present market conditions would suggest that the global insurance and re-insurance markets will remain hard for next year and rates will remain at their present levels.

The global insurance industry has struggled during 2003; fortunately, there were no significant catastrophes to add to an already tough year. Stalwarts of the industry saw their rating levels decline, including the largest re-insurance companies in the world, the Munich Re-insurance Company and the Swiss Re-insurance Company reducing from AAA down to A+. Others either lost their A category ratings or are no longer in business. Against this background, local and regional insurers must ensure that the re-insurers used to provide support locally would retain their rating levels during the year to come.

Motor Insurance

Over the past two years we have been going through a process of re-underwriting our motor portfolio. We are happy to report to shareholders that our book has produced a profit for the second consecutive year. Gross written premiums were down against the previous year as we continue to tighten our underwriting process; net income was however down against last year as a result of a slight increase in losses incurred.

The local motor insurance market generates premiums of under CI\$12M annually, for the 11 companies underwriting business locally. Attritional losses all but exhaust the written premiums on an annual basis, and with the extremely high level of volatility inherent in the motor insurance business, it is extremely difficult to maintain a profitable portfolio.

Re-insurers have once again advised that they will no longer be able to provide unlimited liability cover to our market because this is impractical and unrealistic. Shareholders of insurance and re-insurance companies also expect better management of their companies. The

reasons offered by re-insurers are therefore sound.

Our Government has responded very quickly to avert the potential problem of local insurers not able to secure the re-insurance support to comply with the law, and we should see a limit established in our motor insurance law for 2004.

Miscellaneous Accident

As with our motor portfolio, we have been tightening up on our underwriting in these classes of business; the result has been another profitable year. Gross written premiums were down by 10% against last year while losses were up by the same percentage. Net underwriting income was down by 15% against last year but significantly ahead of plan.

Because of the relatively small market size (smaller than motor) and the high degree of volatility, we remain very vigilant in our underwriting of these classes of business.

Health Insurance

Gross written premiums for the year ended September 30, 2003 were CI\$8,307,204, significantly up from the CI\$4,037,773 posted the previous year. At this level of premiums, expenses as a percentage of premiums are now at a satisfactory level, and we are delighted to report to shareholders our first underwriting profit.

Last year we advised shareholders of the acquisition of the Capital Life/Sagicor book of business. The merging of the two portfolios was accomplished with the anticipated strain on our resources, but our team was up to the task. Special note must be made of the Quik Care Health plan that now has in excess of 1,000 members, is easily our single largest account, and growing profitably for both ourselves and Quik Care.

The main challenge facing our company and by extension our industry is to stop the 20% year on year increase in the cost of the health insurance product. This level of annual increase will certainly take its toll on our economy if this trend continues unabated. The main culprit driving these increases is the antiquated method used to settle claims but like most systems, we tend to try and make improvements, as with the HIPAA requirement in the US market that all claims must be submitted electronically. In conjunction with Brac Informatics Centre we will be launching a product that will change forever the manner in which health claims are handled worldwide, and we have the opportunity to pioneer this product.

Captive Management

Earlier this year we employed the services of Mike Donnelly to head our captive management division. Mike brings several years of experience in the development and management of captives and he is tasked with developing our book of business. With no new captives and the addition of Mike, the company's performance for the year was (CI\$24,676) against a modest profit of CI\$55,043 last year.

**REPORT OF THE AUDITORS TO THE MEMBERS OF
CAYMAN NATIONAL CORPORATION LTD.**

We have audited the accompanying consolidated balance sheet of Cayman National Corporation Ltd. and its subsidiaries (the "Group") as of September 30, 2003, and the related consolidated statements of income, changes in shareholders' equity and of cash flows for the year then ended. These financial statements are the responsibility of the Group's management. 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 plan and perform the audit to obtain reasonable assurance about 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of September 30, 2003 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

November 25, 2003

CAYMAN NATIONAL CORPORATION LTD.

Consolidated Balance Sheet
for the year ended September 30, 2003
(expressed in Cayman Islands dollars)

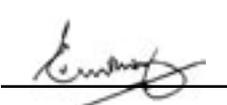
	2003	US Dollar Equivalent 2003	2002
ASSETS			
Cash and due from banks (Note 3)	\$ 297,754,723	\$ 357,305,668	\$ 201,787,048
Investments and derivatives (Notes 4 and 13)	26,385,450	31,662,540	44,828,672
Loans and overdrafts (Note 5 and 13)	250,720,568	300,864,682	290,144,050
Interest receivable	735,423	882,507	1,612,624
Accounts receivable (Notes 13 and 17)	18,339,671	22,007,605	25,533,193
Fixed assets (Note 6)	22,462,651	26,955,181	23,741,702
Goodwill (Note 7)	2,682,710	3,219,252	1,205,452
	\$ 619,081,196	\$ 742,897,435	\$ 588,852,741
LIABILITIES			
Customers' accounts (Note 13)			
Current	\$ 83,196,811	\$ 99,836,173	\$ 62,171,760
Savings	99,227,480	119,072,976	91,141,445
Fixed deposits (Note 8)	332,854,601	399,425,521	320,514,531
	515,278,892	618,334,670	473,827,736
Interest payable	264,120	316,944	510,079
Accounts payable and other liabilities (Note 17)	19,484,378	23,381,254	28,007,924
Provision for unpaid claims (Note 9)	4,541,895	5,450,274	10,669,846
Taxation (Note 10)	21,996	26,395	45,148
Dividends payable (Note 18)	-	-	2,423,340
	539,591,281	647,509,537	515,484,073
MINORITY INTEREST (Notes 2 and 7)	62,837	75,404	54,160
SHAREHOLDERS' EQUITY			
Share capital (Note 11)	40,394,957	48,473,949	40,389,008
Share premium	3,572,572	4,287,086	3,563,348
General reserve (Note 11)	12,411,626	14,893,951	12,411,626
Retained earnings	19,479,045	23,374,854	16,518,284
Reserve for dividends (Note 18)	2,423,697	2,908,436	-
Net unrealized appreciation on investments available-for-sale (Note 4)	950,874	1,141,049	421,288
Equity adjustments from foreign currency translation (Note 12)	194,307	233,169	10,954
	79,427,078	95,312,494	73,314,508
	\$ 619,081,196	\$ 742,897,435	\$ 588,852,741

See notes to consolidated financial statements

Approved by the Board:

B.O. Ebanks, Jr. 

Director

Eric J. Crutchley 

Director

Consolidated STATEMENT OF INCOME

CAYMAN NATIONAL CORPORATION LTD.

Consolidated Statement of Income

For the year ended September 30, 2003

(Expressed in Cayman Islands dollars)

	2003	US Dollar Equivalent 2003	2002
INTEREST			
Interest income	\$ 21,985,047	\$ 26,382,056	\$ 26,193,085
Interest expense	3,540,087	4,248,104	5,620,134
NET INTEREST INCOME	18,444,960	22,133,952	20,572,951
OTHER INCOME			
Banking fees and commissions	5,580,819	6,696,983	5,608,869
Trust and company management fees	3,687,368	4,424,842	3,274,827
Foreign exchange fees and commissions	3,227,411	3,872,893	3,125,410
Brokerage commissions and fees	1,633,474	1,960,169	1,647,166
Net underwriting income (Note 17)	3,752,938	4,503,525	2,636,693
TOTAL INCOME	36,326,970	43,592,364	36,865,916
EXPENSES			
Personnel	16,209,714	19,451,657	15,805,179
Other operating expenses	6,563,032	7,875,638	6,628,188
Increase in loan impairment provision (Note 5)	1,576,554	1,891,865	2,485,911
Premises	1,318,756	1,582,507	1,270,814
Depreciation (Note 6)	2,404,365	2,885,238	2,348,699
Amortization of goodwill (Note 7)	419,830	503,796	188,205
	28,492,251	34,190,701	28,726,996
NET INCOME BEFORE TAXATION AND MINORITY INTEREST	7,834,719	9,401,663	8,138,920
TAXATION	(10,059)	(12,071)	(12,642)
NET INCOME BEFORE MINORITY INTEREST	7,824,660	9,389,592	8,126,278
MINORITY INTEREST IN NET (INCOME) LOSS OF SUBSIDIARY (Notes 2 and 7)	(16,541)	(19,849)	(8,344)
NET INCOME	\$ 7,808,119	\$ 9,369,743	\$ 8,117,934
EARNINGS PER SHARE (Note 11)	\$ 0.19	\$ 0.23	\$ 0.20

See notes to consolidated financial statements

Consolidated STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

CAYMAN NATIONAL CORPORATION LTD. Consolidated Statement of Changes in Shareholders' Equity for the year ended September 30, 2003 (expressed in Cayman Islands dollars)

	Share capital	Share premium	General reserve	Retained earnings	Reserve for dividends	Net unrealized appreciation on investments	Equity from foreign currency translation	Treasury shares	Total
Balance at September 30, 2001	\$40,265,774	\$3,302,610	\$12,411,626	\$13,321,905	\$ -	\$ 991,563	\$ 124,068	\$(15,105)	\$70,154,305
Issue of shares (Note 7)	123,234	260,738	-	-	-	-	-	-	383,972
Gifting of shares								15,105	15,105
Net income				8,117,934				-	8,117,934
Interim dividend				(2,422,731)				-	(2,422,731)
Final dividend				(2,423,340)				-	(2,423,340)
Cumulative effect of an accounting change				(75,484)				-	(75,484)
Reclassification adjustment for net gain on disposal of available for sale investments recognized in earnings (Note 4)	-	-	-	-	-	(35,805)	-	-	(35,805)
Net change in unrealized appreciation on investments (Note 4)	-	-	-	-	-	(534,470)	-	-	(534,470)
Equity adjustment from foreign currency translation (Note 12)	-	-	-	-	-	-	135,022	-	135,022
Balance at September 30, 2002	\$40,389,008	\$3,563,348	\$12,411,626	\$16,518,284	\$ -	\$ 421,288	\$ 10,954	\$ -	\$73,314,508
Issue of shares (Note 7)	5,949	9,224	-	-	-	-	-	-	15,173
Net income	-	-	-	7,808,119	-	-	-	-	7,808,119
Interim dividend paid (Note 18)	-	-	-	(2,423,661)	-	-	-	-	(2,423,661)
Final dividend proposed (Note 18)	-	-	-	(2,423,697)	2,423,697	-	-	-	-
Reclassification adjustment for net gain on disposal of available for sale investments recognized in earnings (Note 4)	-	-	-	-	-	(238,411)	-	-	(238,411)
Net change in unrealized appreciation on investments (Note 4)	-	-	-	-	-	767,997	-	-	767,997
Equity adjustment from foreign currency translation (Note 12)	-	-	-	-	-	-	183,353	-	183,353
Balance at September 30, 2003	\$40,394,957	\$3,572,572	\$12,411,626	\$19,479,045	\$ 2,423,697	\$950,874	\$ 194,307	\$ -	\$79,427,078

See notes to consolidated financial statements

Consolidated STATEMENT OF CASH FLOW

CAYMAN NATIONAL CORPORATION LTD.

Consolidated Statement of Cash Flows

for the year ended September 30, 2003

(expressed in Cayman Islands dollars)

	2003	US Dollar Equivalent 2003	2002
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Net income	\$ 7,808,119	\$ 9,369,743	\$ 8,117,934
Adjustments for items not involving cash:			
Depreciation	2,404,365	2,885,238	2,348,699
Amortization of goodwill	419,830	503,796	188,205
Amortization of premium/discount on investments held-to-maturity	44,393	53,271	6,536
Gain on sale of investments available-for-sale	(238,411)	(286,093)	(35,805)
Change in fair value of options purchased designated as fair value hedges	26,234	31,481	-
Loss (gain) on disposal of fixed assets	5,574	6,689	(5,555)
Net increase loan impairment provision	634,788	761,746	2,096,055
Minority interest in assets of subsidiary	8,677	10,412	(191,248)
Adjustments from foreign currency translation	148,763	178,515	127,874
Share capital issued in consideration for net assets acquired (Note 7)	13,155	15,786	220,624
Treasury shares gifted	-	-	15,105
	11,275,487	13,530,584	12,888,424
Changes in non-cash working capital items:			
Interest receivable	877,201	1,052,642	1,084,889
Accounts receivable	7,193,522	8,632,226	(854,728)
Depositors' accounts	41,451,156	49,741,387	(37,863,018)
Interest payable	(245,959)	(295,151)	(1,314,284)
Accounts payable and other liabilities (including change in fair value of options written designated as fair value hedges)	(8,949,135)	(10,738,962)	10,032,452
Taxation	(23,152)	(27,782)	(8,356)
Provision for unpaid claims	(6,127,951)	(7,353,541)	(76,546)
	45,451,169	54,541,403	(16,111,167)
INVESTING ACTIVITIES			
Proceeds on disposal of investments available-for-sale	11,363,056	13,635,667	26,863
Purchase of investments available-for-sale	-	-	(1,785,960)
Proceeds on maturity of investments held-to-maturity	11,333,399	13,600,079	4,267,192
Purchase of investments held-to-maturity	(3,555,863)	(4,267,036)	(1,912,802)
Purchase of businesses (Note 7)	(1,469,481)	(1,763,377)	-
Net repayments (advances) for loans and overdrafts	38,788,694	46,546,433	(10,630,237)
Additions to fixed assets	(1,125,041)	(1,350,049)	(3,658,498)
Proceeds on disposal of fixed assets	28,743	34,492	219,400
	55,363,507	66,436,209	(13,474,042)
FINANCING ACTIVITIES			
Dividends paid (Note 18)	(4,847,001)	(5,816,402)	(4,838,716)
	(4,847,001)	(5,816,402)	(4,838,716)
DECREASE IN CASH AND CASH EQUIVALENTS	95,967,675	115,161,210	(34,423,925)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	201,787,048	242,144,458	236,210,973
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 297,754,723	\$ 357,305,668	\$ 201,787,048
Supplemental information:			
Interest received	\$ 22,862,248	\$ 27,434,698	\$ 27,277,974
Interest paid	\$ 3,786,046	\$ 4,543,255	\$ 6,934,418

See notes to consolidated financial statements

I. INCORPORATION AND BACKGROUND INFORMATION

Cayman National Corporation Ltd. (the "Corporation" or "CNC") was incorporated on October 4, 1976 and operates subject to the provisions of the Companies Law of the Cayman Islands. The Corporation is a holding company for the companies referred to in Note 2 (collectively, the "Group"), all of which are incorporated in the Cayman Islands except where otherwise indicated. Through these companies the Corporation conducts full service banking, company and trust management, stock broking, general (property & casualty) and health insurance, insurance brokerage and captive insurance management services in the Cayman Islands. The Corporation is listed on the Cayman Islands Stock Exchange. The registered office of the Corporation is 200 Elgin Avenue, George Town, Grand Cayman.

The Corporation is not liable for taxation as there are currently no income, profits or capital gains taxes in the Cayman Islands. One of the Corporation's subsidiaries is liable for Isle of Man income tax, which is reflected in these consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared under the historical cost convention, modified by the revaluation of investments and derivatives to fair value, and in accordance with International Financial Reporting Standards ("IFRS"), which includes International Accounting Standards and Interpretations issued by the International Accounting Standards Board. The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting periods. Actual results could differ from those estimates. The significant accounting policies adopted by the Group are as follows:

Basis of consolidation

The financial statements consolidate those of the Corporation and the following subsidiaries:

NOMINEE COMPANIES:

Cayman National (Nominees) Ltd. Caymanx Nominees Limited
CNT (Nominees) Ltd. Caymanx Secretarial Limited

These four subsidiaries earned no fee income and incurred no expenses during the years ended September 30, 2003 and 2002; in addition they had no assets or liabilities as at these dates.

OPERATING COMPANIES:

Subsidiary	% Owned	Principal activity
Cayman National Bank Ltd. ("CNB") and its wholly owned subsidiary Cayman National Property Holdings Ltd. ("CNP")	100%	Banking and property holding, respectively
Cayman National Trust Co. Ltd. ("CNT")	100%	Company and trust management
Cayman National Securities Ltd. ("CNS")	100%	Securities brokerage
Caymanx Trust Company Limited (incorporated and regulated in the Isle of Man) ("Caymanx")	100%	Banking, company and trust management
Cayman National Investments Ltd. ("CNI")	100%	Holds an investment in a merchant banking limited partnership (investment represents 16% of the limited partnership)
Cayman National Insurance Brokers Limited ("CNIB") *	100%	Insurance brokerage
Cayman General Insurance ("CGI") (Note 7) and its wholly owned subsidiary Cayman National Insurance Management Limited (formerly known as Absit Insurance Management Limited).	99.24% (Note 7)	General (property & casualty) and health insurance

* Effective April 1, 2003 100% ownership of CNIB was transferred to CNC. Prior to that date, CNIB has been a wholly owned subsidiary of CGI.

All significant inter-company transactions and balances are eliminated on consolidation.

Investment in subsidiary

Investments in subsidiaries are accounted for under the purchase method and the results of operations are consolidated in these financial statements. Minority interest in the net assets of subsidiaries are recorded as a liability and minority interest in the results of operations subsidiaries are recorded in the consolidated income statement.

Acceptances

Acceptances comprise undertakings by the Group to pay letters of credit and guarantees drawn on customers. Management expects substantially all acceptances to be settled simultaneously with the reimbursement from its customers. Acceptances for standby letters of credit and guarantees are accounted for as off-balance sheet transactions and are disclosed as commitments.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Foreign currency translation**

Revenue and expense transactions involving currencies other than the Cayman Islands dollar have been translated at exchange rates ruling at the date of those transactions. All assets and liabilities originating in other currencies have been translated at mid-market rates ruling at the balance sheet date. Gains and losses on exchange are credited or charged in the statement of income.

The income statement of the foreign subsidiary, Caymanx, is translated at average exchange rates for the year and the balance sheet is translated at mid-market rate ruling at the year end for the purpose of incorporation in these consolidated financial statements. Exchange differences arising from the translation of the net investment in the foreign subsidiary are recorded as a separate component of shareholders' equity.

Depreciation and amortization

Fixed assets are depreciated, and goodwill amortized, using the straight-line method at the following rates, estimated to write off the cost of the assets over the period of their expected useful lives:

Computer hardware and software	Variously over 3 to 7 years
Freehold buildings	Over 50 years
Freehold land	Nil
Furniture and equipment	Variously over 2 to 10 years
Leasehold improvements	Over the terms of the leases
Leasehold property	Shorter of terms of leases or 20 years
Motor vehicles	Over 4 years
Goodwill	Variously over 5 years to 10 years

Provision for loan impairment

An allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

Loan impairment provisions are charged and impairment recoveries credited to the provision for loan impairment. Additions to the provision are charged to expenses in order to maintain the reserve at a level deemed appropriate by management to absorb known and inherent risks in the loan portfolio.

Loans which are over 90 days in arrears are provided against where there is a shortfall in security. Interest is not accrued on these loans. Loans are written off when there is no realistic expectation of recovery.

Interest income and expense

Interest income and expense is recorded on an accrual basis which approximates the effective yield basis. The Group's policy is to cease accruing interest income on loans when the principal and interest payments are contractually past due by more than 90 days.

Fees and commissions

Fees and commissions for banking services are recognized on an accrual basis over the period that the services are provided.

Premiums and commissions

Premiums written and reinsurance premiums ceded are accounted for on a pro-rata basis over the periods covered by the underlying policies, and any unearned or unamortized portions at the financial period end are carried forward as unearned premiums and reinsurers' share of unearned premiums, respectively, and are included within accounts payable and other liabilities on the consolidated balance sheet.

Commissions relating to these underwriting contracts are also treated on a pro-rata basis, and unearned or unamortized portions at the financial period end are similarly carried forward on the consolidated balance sheet.

Provision for unpaid claims

The provision for unpaid claims, and reinsurers' share thereof, includes amounts for all claims reported but not settled, and further amounts estimated by management for claims incurred but not reported.

Reinsurance

The Group cedes reinsurance to other companies by way of individual facultative placements, proportional treaties and excess of loss covers. These reinsurance arrangements minimize the Group's exposures arising from large risks or from hazards of an unusual or catastrophic nature.

In the event that the Group's reinsurers are unable to meet their obligations under the reinsurance agreements, the Group would be liable to pay all claims made under the insurance policies it issues but would only receive reimbursement to the extent that the reinsurers can meet their above mentioned obligations.

Pension fund

Payments to a defined contribution retirement benefit plan are charged as an expense as they fall due.

Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, the Group considers all cash at banks and in hand as cash or cash equivalents.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivatives

The Group may purchase or write options for hedging purposes, for which premiums paid or received are recorded as assets and liabilities, respectively, and are subsequently adjusted to the current fair value of the options. Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective in relation to hedged risk, are recorded in the income statement, along with the corresponding change in fair value of the hedged liability that is attributable to the specific hedged risk.

Investments

Available-for-sale

Available-for-sale investments are recorded on a trade date basis and carried at estimated fair value. For publicly traded securities fair value is based on quoted bid prices of these securities. The fair value of the investment in the merchant banking limited partnership owned by CNI is determined based on the portfolio valuation provided by management of the limited partnership, which management considers to represent fair value. The fair value of non-exchange traded mutual funds is determined based on the net asset value per share provided by the administrators of the funds. In cases where there is no quoted market price and the Group is not able to estimate the fair value, the investment is valued at cost subject to impairment recognition.

Gains and losses on disposal are calculated on gross proceeds less the original cost of securities sold on a specific identification basis, and are included in income. Unrealized appreciation and depreciation on available-for-sale investments is reported as a separate component of shareholder's equity.

Held-to-maturity

Held-to-maturity investments are recorded on a trade date basis and carried at amortized cost, less any impairment loss recognized to reflect unrecoverable amounts. Premiums and discounts arising on acquisition are amortized over the period remaining to maturity and are included in the statements of income in interest income.

Assets under administration

Securities, cash and other assets held in a trust, agency or fiduciary capacity for customers are not included in these consolidated financial statements as such assets are not the property of the Group.

Reclassification of Comparative Figures

Certain prior year amounts have been reclassified to conform with the current year presentation.

3. CASH AND DUE FROM BANKS

	2003	2002
Cash in hand and current accounts	\$ 49,383,852	\$ 24,470,673
Short term placements with banks	248,370,871	177,316,375
	<u>\$ 297,754,723</u>	<u>\$ 201,787,048</u>

4. INVESTMENTS AND DERIVATIVES

	2003	2002
Investments and derivatives comprise:		
Available-for-sale, at fair value	\$ 4,462,748	\$ 15,057,807
Held-to-maturity, at amortized cost	21,715,583	29,537,512
Derivatives, at fair value	207,119	233,353
	<u>\$ 26,385,450</u>	<u>\$ 44,828,672</u>

CAYMAN NATIONAL CORPORATION LTD.

NOTES TO FINANCIAL STATEMENTS

for the year ended September 30, 2003

(expressed in Cayman Islands dollars)

4. INVESTMENTS AND DERIVATIVES (CONTINUED)

The cost and estimated fair value of investments held as available-for-sale are as follows:

	Cost	Gross unrealized holding losses	Gross unrealized holding gains	Estimated fair value
September 30, 2003				
Ordinary shares	\$ 549,794	\$ -	\$ 255,367	\$ 805,161
Preference shares	40,885	-	-	40,885
Mutual funds	2,671,195	(259,674)	888,407	3,299,928
Convertible securities	250,000	-	66,774	316,774
	\$ 3,511,874	\$(259,674)	\$ 1,210,548	\$ 4,462,748
September 30, 2002				
U.S. Government Agency bonds	\$ 2,169,375	\$ -	\$ -	\$ 2,169,375
International bonds	8,333,333	-	121,959	8,455,292
Ordinary shares	554,959	-	201,881	756,840
Preference shares	657,654	-	-	657,654
Mutual funds	2,671,198	(380,941)	440,631	2,730,888
Convertible securities	250,000	-	37,758	287,758
	\$ 14,636,519	\$(380,941)	\$ 802,229	\$ 15,057,807

Interest rates attaching to the convertible securities were between 0% and 8.25%.

Included in investments available-for-sale are three securities with a carrying value of \$1,063,007 (2002: \$1,489,450) that are not publicly traded. The Group is unable to estimate the fair value of two of these securities with a carrying value of \$457,352 (2002: \$1,074,119) therefore, they are carried at cost less impairment provision. The absence of a liquid market for these securities may restrict the Group's ability to dispose of these investments and amounts ultimately realized may differ materially from the carrying values. Two directors of the Corporation are also directors of two of these investee companies with carrying values of \$1,022,122 (2002: \$831,798).

Realized gains of \$238,441 (2002: \$35,805) arising on sale of debt securities classified as available-for-sale are included within interest income in the consolidated statement of income.

The amortized cost of investments held-to-maturity is as follows:

	2003	2002
U.S. Government Agency Bonds	\$ 17,718,859	\$ 25,554,045
International corporate bonds	557,280	0
Regional corporate and government bonds	3,439,444	3,983,467
	\$ 21,715,583	\$ 29,537,512

The issuers of the regional corporate and government bonds are domiciled in Jamaica and Trinidad. Estimated fair value of the above investments at September 30, 2003 was \$26,265,273 (2002: \$30,698,674). Interest rates attaching to the above debt instruments range from 2.5% to 10.2%.

Derivatives designated as fair value hedges comprise of the following:

	2003	2002
Options purchased – recorded within investments:		
Off-balance sheet amount – Notional amount	\$ 1,314,667	\$ 1,314,667
Fair value	\$ 207,119	\$ 233,353
Cost	\$ 233,353	\$ 233,353
Options written – recorded within other liabilities:		
Off-balance sheet amount – Notional amount	\$ 1,314,667	\$ 1,314,667
Fair value	\$ 207,119	\$ 233,353
Premium received	\$ 233,353	\$ 233,353

The options purchased were designated as a fair value hedge of an option written embedded in S&P 500 index linked certificate of deposits issued by the Group. The amount of the deposit which is directly linked to the performance of the S&P 500 index is \$1,314,667 (2002: \$1,314,667). The deposits are scheduled to mature in August 2005.

5. LOANS AND OVERDRAFTS

Composition and aging of the loan portfolio are as follows:

	Period from year end to maturity				Total
	Under one year	Within two to five years	Within six to ten years	Over ten years	
(All figures in \$000's)					
At September 30, 2003					
Commercial	\$ 24,247	\$ 23,462	\$ 31,401	\$ 18,809	\$ 97,919
Personal	14,710	36,310	47,330	46,075	144,425
Corporate	6,280	1,294	4,610	1,463	13,647
Total	\$ 45,237	\$ 61,066	\$ 83,341	\$ 66,347	255,991
Provision for loan impairment					(5,270)
					\$ 250,721
At September 30, 2002					
Commercial	\$ 34,705	\$ 19,255	\$ 34,220	\$ 13,801	\$ 101,981
Personal	13,394	37,741	47,767	58,878	157,780
Corporate	14,152	7,412	11,900	1,554	35,018
Total	\$ 62,251	\$ 64,408	\$ 93,887	\$ 74,233	294,779
Provision for loan impairment					(4,635)
					\$ 290,144

Mortgages are primarily for owner occupants. Substantially all of the Group's loans and overdrafts are advanced to customers in the Cayman Islands.

Movements in the provision for loan impairment are as follows:

	2003	2002
Provision for loan impairment, beginning of year	\$ 4,635,194	\$ 2,539,140
Increase charged to expenses	1,576,554	2,485,911
Loans written off	(941,766)	(389,857)
Provision for loan impairment, end of year	\$ 5,269,982	\$ 4,635,194

Included in the 2003 impairment provisions is \$2,533,453 (2002:\$3,457,268) based on loans classified after 90 days delinquent. The aggregate amount included in the consolidated balance sheet for loans and overdrafts in arrears by more than 90 days on which interest is not being accrued is \$12,255,392 (2002: \$19,593,794).

CAYMAN NATIONAL CORPORATION LTD.

NOTES TO FINANCIAL STATEMENTS

for the year ended September 30, 2003

(expressed in Cayman Islands dollars)

6. FIXED ASSETS

	Freehold land and buildings	Leasehold property and improvements	Computers, software, furniture and equipment	Motor Vehicles	Total
Cost:					
At September 30, 2002	\$ 16,100,302	\$ 3,700,774	\$ 15,397,035	\$ 114,320	\$ 35,312,431
Fully Depreciated Assets	-	-	(81,953)	-	(81,953)
Additions	189,440	72,231	828,036	35,334	1,125,041
Disposals	-	-	(59,006)	(22,249)	(81,255)
Foreign currency translation adjustment	20,668	-	(6,560)	2,422	16,530
At September 30, 2003	\$ 16,310,410	\$ 3,773,005	\$ 16,077,552	\$ 129,827	\$ 36,290,794
Accumulated depreciation:					
At September 30, 2002	1,420,087	1,526,426	8,561,651	62,565	11,570,729
Fully depreciated assets	-	-	(81,953)	-	(81,953)
Charge for year	358,392	232,548	1,792,730	20,694	2,404,364
Disposals	-	-	(30,261)	(16,677)	(46,938)
Foreign currency translation adjustment	4,584	-	(6,960)	(15,683)	(18,059)
At September 30, 2003	\$ 1,783,063	\$ 1,758,974	\$ 10,235,207	\$ 50,899	\$ 13,828,143
Net book value:					
At September 31, 2003	\$ 14,527,347	\$ 2,014,031	\$ 5,842,345	\$ 78,928	\$ 22,462,651
At September 31, 2002	\$ 14,680,215	\$ 2,174,348	\$ 6,835,384	\$ 51,755	\$ 23,741,702

7. GOODWILL

Effective February 11, 2000 the Corporation purchased an additional 45% holding in the issued share capital of CGI, bringing the total holding to 90%. Accordingly, as of that date the method for recording the Corporation's investment in CGI changed from equity accounting to the consolidation method.

During subsequent years the Corporation purchased additional holdings in the issued share capital of CGI. The purchases were effected by exchanging CNC shares for CGI shares on a 3:1 basis.

The acquisition history of all holdings in CGI is summarized as follows:

	% Acquired	Purchase price	Fair Value of identifiable assets and liabilities acquired	Goodwill arising on aquisition
Prior to October 31, 1999	45.00%	\$ 478,887		-
October 31, 2000	45.00%	\$ 3,278,459	\$ 2,304,925	\$ 973,534
September 30, 2001	4.95%	\$ 639,910	\$ 277,685	\$ 362,225
September 30, 2002	4.11%	\$ 381,248	\$ 220,624	\$ 160,624
September 30, 2003	0.18%	\$ 15,173	\$ 13,155	\$ 2,018
	<u>99.24%</u>			<u>\$ 1,498,401</u>

The goodwill arising on the acquisition of these holdings is being amortized on a straight line basis over a period of 10 years.

7. GOODWILL (CONTINUED)

Effective January 1, 2003 CNT purchased the business of Fiduciary Trust (Cayman) Limited, a company and trust management business. Additionally, effective January 1, 2003, CNS purchased the business of Cayman Islands Securities Ltd., a securities brokerage business. The aggregate purchase consideration for these transactions was \$1,895,070 and the fair value of identifiable assets and liabilities acquired was nil. These acquisitions have been accounted for under the purchase method. The purchase consideration for each business was payable in three instalments, the third instalment totaling \$425,589 is due on May 1, 2004 and is recorded with accounts payable at September 30, 2003. The goodwill of \$1,895,070 arising on these acquisitions is being amortized on a straight line basis over a period of 5 years.

Goodwill is summarized as follows:

	2003
Cost:	
Balance at beginning of year	\$ 1,796,138
Goodwill arising on acquisitions made in the year	1,897,088
Balance at end of year	<u>\$ 3,693,226</u>
Accumulated amortization:	
Balance at beginning of year	\$ 590,686
Amortization charge for the year	419,830
Balance at end of year	<u>\$ 1,010,516</u>
Carrying value at September 30, 2003	<u>\$ 2,682,710</u>
Carrying value at September 30, 2002	<u>\$ 1,205,452</u>

8. FIXED DEPOSITS

Substantially all fixed deposits have a maturity of less than one year and bear fixed rates of interest. Customers' deposits issued at a discount are accreted to par value over the period to maturity of the respective deposits.

9. PROVISION FOR UNPAID CLAIMS

The provision for unpaid claims is comprised as follows:

	2003	2002
Gross provision	\$ 4,541,895	\$ 10,669,846
Reinsurers' share	(3,202,808)	(9,527,919)
Net provision	<u>\$ 1,339,087</u>	<u>\$ 1,141,927</u>
Claims incurred for the year:		
	2003	2002
Gross paid claims	\$ 9,229,936	\$ 15,668,914
Reinsurers' share	(7,179,041)	(13,829,286)
Net paid claims	2,050,895	1,839,628
Increase (decrease) in provision for unpaid claims	197,160	(76,546)
Net claims incurred (Note 17)	<u>\$ 2,248,055</u>	<u>\$ 1,763,082</u>

10. TAXATION

The liability for taxation comprises:

	2003	2002
Provision for deferred tax - Caymanx	\$ 2,678	\$ 2,471
Isle of Man corporation tax - Caymanx	19,318	42,677
	<u>\$ 21,996</u>	<u>\$ 45,148</u>

The Caymanx operations in the Isle of Man incurred tax charges for the year ended September 30, 2003 of \$10,059 (2002: \$12,642). Under current laws of the Cayman Islands, there are no income, estate, corporation, capital gains or other taxes payable by the Company.

CAYMAN NATIONAL CORPORATION LTD.

NOTES TO FINANCIAL STATEMENTS

for the year ended September 30, 2003

(expressed in Cayman Islands dollars)

11. SHARE CAPITAL

2003 2002

Authorized:
200,000,000 shares of \$1 par value each
(2002: 200,000,000)

Issued and fully paid:
40,394,957 shares (2002: 40,389,008)

\$ 40,394,957 \$ 40,389,008

General reserve:

The general reserve represents amounts appropriated by the directors from retained earnings to a separate component of shareholder's equity. Such amounts are not currently considered to be distributable.

Earnings Per Share:

Earnings per share is calculated by dividing the net income attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

2003 2002

Net income	\$ 7,808,119	\$ 8,117,934
Weighted average number of shares in issue	40,391,983	40,312,454
Earnings Per Share	\$0.19	\$0.20

The Corporation has no outstanding options or warrants on its shares, therefore, diluted earnings per share is the same as basic earnings per share.

Share Purchase Scheme

Employees are voluntarily able to participate in the Company's Share Purchase Scheme (the "Scheme"). Under the Scheme employees contribute up to 2% of salary which is matched by the Company. In addition, on a quarterly basis, 20% of Directors fees (Note 19) are settled through contribution to the Scheme which is also matched by the Company. The contributions are used to purchase shares in the open market at prevailing prices and the shares are subject to certain vesting terms.

12. EQUITY ADJUSTMENTS FROM FOREIGN CURRENCY TRANSLATION

Equity adjustments from foreign currency translation represent the unrealized exchange gain or loss arising from the translation of the financial statements of Caymanx from pounds sterling to Cayman Islands dollars.

13. RELATED PARTY BALANCES AND TRANSACTIONS

Included in the consolidated balance sheet are the following related party balances:

2003 2002

Accounts receivable:
Affiliated companies

\$ 180,784 \$ 152,080

Loans and overdrafts:
Directors

\$ 5,273,219 \$ 11,503,695

Investments (Note 4):

\$ 1,022,122 \$ 861,798

Customers' accounts:
Affiliated companies
Directors

\$ 47,218,064 \$ 36,723,195
1,573,857 3,175,257

\$ 48,791,921 \$ 39,898,452

13. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

Directors include individual directors of the Group and also corporations, partnerships, trusts or other entities in which a director, or directors collectively, have direct and indirect significant shares or interest in such entities.

All transactions with related parties, other than staff loans and overdrafts, are conducted on normal commercial terms and at non-preferential interest rates. Staff loans, which totaled \$21,634,015 (2002: \$24,121,688) at the balance sheet date, are at preferential rates varying between 5% and 6% p.a. (2000: 5.0% and 6.0 % p.a.) with the exception of loans granted in respect of the Staff Share Purchase Scheme (Note 11) and Staff Computer Purchase Scheme where loans have been granted at 0% p.a. These interest free loans totaled \$30,046 (2002: \$78,512) at the balance sheet date.

The Group owns the sponsor's shares totaling US\$100 in Cayman National Mortgage Fund, a fund for which the Group acts as banker and mortgage advisor and is remunerated by way of commitment fees negotiated between the Group and the individual mortgagors. In addition, the Group acts as the manager and receives a fee amounting to 1.5% p.a. of the daily net assets of such fund. In the year ended September 30, 2003, the Group earned \$448,570 (2002: \$301,979) of commission under this arrangement, of which \$117,428 (2002: \$77,834) was receivable at September 30, 2003.

The Group also acts as the manager of CNB Money Market Fund ("CMMF") and receives an annual fee amounting to 1% of the daily net assets of CMMF. The Group is trustee of CMMF. During the year ended September 30, 2003, the Group earned \$219,750 (2002: \$316,527) under this arrangement of which \$51,511 (2002: \$69,646) was receivable at September 30, 2003.

The Group provides certain management, financial, accounting, administrative and other services on behalf of Cayman National Pension Fund ("CNPF") and receives an annual fee amounting to 2% of annual contributions into CNPF plus 0.25% of CNPF's assets at the end of the year. During the year ended September 30, 2003, the Group earned \$68,232 (2002: \$57,634) under this arrangement of which \$11,845 (2002: \$4,600) was receivable at September 30, 2003.

14. COMMITMENTS

In the normal course of business there are various commitments on behalf of customers to extend credit, which are not reflected in these financial statements. Commitments to extend credit totaled \$10,598,902 at September 30, 2003 (2002: \$4,790,082). No material losses are anticipated by management as a result of these transactions.

The Group has entered into various commitments in respect of operating leases for equipment and premises. The total annual commitments are as follows:

Year ended September 30	Annual commitment
2004	\$861,651
2005	\$904,990
2006	\$754,612
2007	\$682,482
2008	\$688,758

15. PENSION FUND

The Cayman National Corporation Pension Fund (the "Fund") is a defined contribution pension scheme which became effective on July 1, 1997. The Fund is managed by CNT and membership is mandatory for all employees between the ages of 18 and 60, with contributions from both employer and employees. Included in personnel expense is an amount of \$496,813 (2002: \$500,266) representing the Group's portion of contribution required under the scheme.

At September 30, 2003, the Group employed a total of 265 personnel (2002: 291)

16. CONTINGENT LIABILITIES

Guarantees of \$200,000 have been issued to the Government of the Cayman Islands in support of a fellow subsidiary, Cayman National (Nominees) Ltd.

The Group has issued letters of credit and guarantees to third parties totaling \$5,929,983 (2002: \$3,764,564) on behalf of customers and employees. The Group holds customer assets as security for substantially all of these instruments.

The Group is routinely involved in a number of claims or potential claims arising from its operations. Where appropriate, management establishes provisions after taking into consideration the advice of attorneys and other specialists. It is management's policy to rigorously assert its position in such cases. Management does not believe that any current litigation will have a material adverse effect on the Company's financial position.

17. NET UNDERWRITING INCOME

Net underwriting income for the year:

	2003	2002
Premiums written	\$ 23,045,459	\$ 20,351,316
Reinsurance premiums ceded	(18,915,805)	(17,855,342)
Movement in unearned premiums	17,934	(166,155)
Net premiums earned	4,147,588	2,329,819
Reinsurance commissions	3,766,682	3,273,634
Claims incurred (Note 9)	(2,248,055)	(1,763,082)
Policy acquisition commissions	(1,913,277)	(1,203,678)
	<u>\$ 3,752,938</u>	<u>\$ 2,636,693</u>

Accounts receivable at September 30, 2003 include premiums receivable of \$1,648,803 (2002: \$2,064,337) and deferred policy acquisition commissions of \$613,284 (2001: \$643,725).

Accounts payable and other liabilities at September 30, 2003 include reinsurance premiums payable of \$2,190,009 (2002: \$2,052,811) unearned premiums of \$7,854,619 (2002: \$8,832,585) and unearned commissions on reinsurance policies of \$1,302,000 (2002: \$1,495,757).

18. DIVIDENDS PER SHARE

Final proposed dividends are presented as a separate component of shareholder's equity until they have been formally ratified at the Annual General Meeting ("AGM").

At the AGM in March 2004, the final dividend for the year ended September 30, 2003 of \$0.06 per share amounting to a total of \$2,423,679 is to be proposed. The financial statements for the year ended September 30, 2003 reflect this final proposed dividend as an appropriation from retained earnings to a separate component of shareholder's equity.

	2003	2002
Interim paid - \$0.06 per share (2002: \$0.06 per share)	\$ 2,423,661	\$ 2,422,731
Final proposed -\$0.06 per share (2002: \$0.06 per share)	\$ 2,423,697	\$ 2,423,340

19. DIRECTORS AND OFFICERS REMUNERATION

During the year ended September 30, 2003, the Corporation had a total of 11 directors of whom 3 were executive officers. For the financial year ended September 30, 2003, the aggregate compensation paid for directors' services was \$285,571 (2002: \$255,167).

20. FINANCIAL RISK MANAGEMENT***Fair value***

The majority of the Group's financial assets and liabilities, with the exception of loans, investments and derivatives, are short term, with maturities within one year, and the carrying amounts of these financial assets and liabilities approximate fair value because of the short maturity of these instruments. For personal, commercial and corporate loans, the interest is based upon variable rates, which are linked to the Cayman Islands prime rate and accordingly, the recorded amount of these financial instruments approximates their fair value. However, the lack of any formal secondary market for these types of financial assets means that in practice, it may not be feasible to liquidate or exchange such assets for consideration which approximates carrying value. Management considers that the fair values of mortgage, consumer and other loans are not materially different from their carrying values. The fair value of investments and derivatives is disclosed in Note 4.

Regulatory requirements

Certain subsidiaries are subject to regulatory requirements established by Cayman Islands Monetary Authority ("CIMA") the Group's primary regulator. The significant regulatory requirements are:

CNB is required to meet minimum capital requirements. Failure to meet minimum capital requirements can initiate certain actions by the regulators, that if undertaken could have a direct material effect on the Company's financial statements. CNB must meet specific capital guidelines that involve quantitative measures of CNB's assets and liabilities. CNB's capital amount and classifications are also subject to qualitative analysis by CIMA. Quantitative measures established by CIMA to ensure capital adequacy requires that the Company maintain a minimum amount of capital and a minimum ratio of risk-weighted assets to capital. Management believes that at September 30, 2003, CNB meets all regulatory capital adequacy requirements established by CIMA.

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

CGI has provided an undertaking to CIMA that it will hold, to the order of CGI, securities with a minimum aggregate market value of \$3.10m (2002: \$2.95m).

Caymanx operations are regulated by the Isle of Man Financial Supervision Commission

Currency Risk

The Group operates a substantially matched book policy, matching currency of its interest bearing assets and liabilities in its banking operations. Deposits accepted from customers are matched with deposits placed with correspondent banks such that a margin is earned on the spread of interest rates. Management believes that these policies mitigate the Group's exposure to significant currency risks.

Interest rate risk

The Group employs effective techniques and procedures to monitor and control its exposure to interest rate risk. Personal, commercial and corporate loans have variable rates, which are linked to the Cayman Islands prime rate. Exposure to interest rate risk, which is mainly due to fixed rates on both its term deposits with banks and customers' fixed deposits, is minimized by the short-term maturities of the majority of these deposits (Note 8).

Credit risk

The Group's bank balances and term deposits are placed with high credit quality financial institutions. Commercial, personal and corporate loans are presented net of provisions for doubtful receivables. Whilst the majority of loans are secured by first mortgages upon single family residences or by chattel mortgages, credit card receivables and certain overdrafts advanced in the normal course of business are unsecured. Credit risk with respect to personal, commercial and corporate loans is limited through diversification due to the large number of customers comprising the Group's customer base. Accordingly, the Group has a concentration of risk in respect of geographical area as both customers and securitised assets are primarily based in the Cayman Islands.

Liquidity risk

To mitigate exposure to liquidity risk, the Board of Directors have established a maximum ratio of loans to customers' deposits of 70% which is continuously monitored by management.

The following table analyses the maturity gap between assets and liabilities based on contractual maturity date:

	1-3 Months	3 - 6 Months	6 - 12 Months	1 - 5 Years	Over 5 Years	Non-Interest Sensitive	Total
ASSETS							
Cash and bank balances \$	283,397,398	\$ 3,633,851	\$ 3,025,640	\$ -	\$ -	\$ 7,697,834	\$ 297,754,723
Loans	34,636,608	4,241,837	6,323,702	44,338,833	161,149,542	30,046	250,720,568
Investments	557,280	-	83,307	20,842,702	439,412	4,462,749	26,385,450
Other assets	-	-	-	-	-	21,673,954	21,673,954
Fixed Assets	-	-	-	-	-	22,462,651	22,462,651
TOTAL	\$ 318,591,286	\$ 7,875,688	\$ 9,432,649	\$ 65,181,535	\$ 161,588,954	\$ 56,327,234	\$ 618,997,346
LIABILITIES AND EQUITY							
Demand & Term							
Deposits	\$ 479,815,685	\$ 14,992,493	\$ 14,727,272	\$ 5,743,442	\$ -	\$ -	\$ 515,278,892
Other liabilities	-	-	-	-	-	24,291,376	24,291,376
TOTAL	\$ 479,815,685	\$ 14,992,493	\$ 14,727,272	\$ 5,743,442	\$ -	\$ 24,291,376	\$ 539,570,268
Off-balance liabilities	5,929,983	-	-	-	-	-	-
Maturity gap	\$ (167,154,382)	\$ (7,116,805)	\$ (5,294,623)	\$ 59,438,093	\$ 161,588,954	-	-

Actual maturities could differ from contractual maturities because the counterparty may have the right to call or prepay obligations with or without call or prepayment penalties. Examples of this include: mortgages, which are shown at contractual maturity but which often repay earlier; certain term deposits, which are shown at contractual maturity but which are often cashed before their contractual maturity; and certain investments which may have call or prepayment features.

20. FINANCIAL RISK MANAGEMENT (CONTINUED)***Fiduciary activities***

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. These services give rise to the risk that the Group will be accused of mal-administration or under-performance.

21. Geographical and Segmental Information

The Group's main operations are in the Cayman Islands, with one subsidiary, Caymanx based in the Isle of Man.

Summary financial data for Caymanx operations:

	2003	2002
Total assets	\$ 31,705,901	\$ 27,296,335
Total liabilities	\$ 29,010,222	\$ 24,925,987
Total Income	\$ 752,586	\$ 784,790
Net income	\$ 95,183	\$ 163,508

The Group's operations include domestic and offshore banking, insurance, trust and company administration, and asset management services.

	Banking	Insurance	Trust and Company Management	Asset Management	Eliminations	Group
Total assets	\$565,572,527	\$25,553,488	\$34,420,136	\$ 4,856,886	\$(11,321,841)	\$619,081,196
Total liabilities	\$498,643,583	\$16,689,990	\$29,989,320	\$ 3,541,762	\$ (9,273,374)	\$539,591,281
Total Income	\$ 26,871,245	\$ 5,551,960	\$ 3,862,372	\$ 1,616,125	\$ (1,574,732)	\$ 36,326,970
Net income	\$ 4,900,993	\$ 2,196,398	\$ 592,545	\$ 488,552	\$ (370,369)	\$ 7,808,119

CAYMAN NATIONAL BANK LTD.

Consolidated Balance Sheet

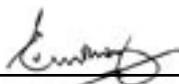
for the year ended September 30, 2003

(expressed in Cayman Islands dollars)

	2003	US Dollar Equivalent 2003	2002
ASSETS			
Cash and due from banks (Notes 3 and 9)	\$ 271,768,904	\$ 326,122,685	\$ 179,813,833
Investments and derivatives (Notes 4 and 9)	18,665,416	22,398,499	39,656,804
Loans and overdrafts (Notes 5 and 9)	248,926,129	298,711,355	288,042,137
Interest receivable	671,361	805,633	1,499,961
Accounts receivable (Note 9)	4,907,547	5,889,056	4,172,914
Fixed assets (Note 6)	20,633,170	24,759,804	21,867,819
	\$ 565,572,527	\$ 678,687,032	\$ 535,053,468
LIABILITIES			
Customers' accounts (Note 9)			
Current	\$ 83,774,101	\$ 100,528,921	\$ 74,275,451
Savings	93,581,484	112,297,781	86,881,326
Fixed deposits (Note 7)	318,134,058	381,760,870	304,839,051
	495,489,643	594,587,572	465,995,828
Interest payable	291,242	349,490	465,936
Accounts payable and accrued expenses	2,862,698	3,435,238	2,571,430
Dividends payable	-		1,723,340
	498,643,583	598,372,300	470,756,534
SHAREHOLDER'S EQUITY			
Share capital (Note 8)	2,436,585	2,923,902	2,436,585
Share premium	1,695,816	2,034,979	1,695,816
General reserve (Note 8)	39,500,000	47,400,000	39,500,000
Retained earnings	21,376,574	25,651,889	20,447,939
Reserve for dividends (Note 15)	1,798,697	2,158,436	-
Net unrealized appreciation on investments available-for-sale (Note 4)	121,272	145,526	216,594
	66,928,944	80,314,732	64,296,934
	\$ 565,572,527	\$ 678,687,032	\$ 535,053,468

See notes to consolidated financial statements

Approved by the Board:

Eric J. Crutchley  Director

Ormond A. Williams  Director

Consolidated STATEMENT OF INCOME

CAYMAN NATIONAL BANK LTD.

Consolidated Statement of Income

for the year ended September 30, 2003

(expressed in Cayman Islands dollars)

	2003	US Dollar Equivalent 2003	2002
INTEREST INCOME			
Interest income (Note 4)	\$ 21,016,414	\$25,219,697	\$ 5,160,396
Interest expense	3,073,832	3,688,599	5,122,817
NET INTEREST INCOME	17,942,582	21,531,098	20,037,579
FOREIGN EXCHANGE FEES AND COMMISSIONS	3,227,411	3,872,893	3,125,409
OTHER FEES AND COMMISSIONS	5,701,252	6,841,503	5,835,300
TOTAL INCOME	26,871,245	32,245,494	28,998,288
EXPENSES			
Depreciation (Note 6)	2,016,201	2,419,441	1,937,689
Increase in loan impairment provision (Note 5)	1,576,554	1,891,865	2,485,911
Other operating expenses	5,381,102	6,457,322	5,691,476
Personnel (Notes 11, 14 and 16)	12,011,950	14,414,340	12,214,941
Premises	984,445	1,181,334	916,678
	21,970,252	26,364,302	23,246,695
NET INCOME	\$ 4,900,993	\$ 5,881,192	\$ 5,751,593

Directory to Cayman National Corporation Ltd.

Cayman National Corporation Ltd.

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Cayman National Corporation Ltd. (Holding Company)

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Benson O. Ebanks, Jr., OBE, JP, *Chairman*
Truman M. Bodden, OBE, LLB (Hons),
ACIB, JP *Deputy Chairman*
*Eric J. Crutchley, MBE, FCIB,
President & Chief Executive
John C. Bierley, BA, JD (USA)
Sherri Bodden-Cowan, LLB (Hons.)
Stuart J. Dack, ACIB, MBA
Clarence Flowers, Jr.
J.F. Richard Hew, BSEE, MBA, PE
Peter A. Tomkins, MBE
David W. Trimble, MA (Cantab)

Senior Officers & Management

*Eric J. Crutchley, MBE, FCIB,
President & Chief Executive Officer
Stuart J. Dack, ACIB, MBA,
*Executive Vice President & Chief Executive
Officer Designate*
Kevin Atkinson, BA(Hons),
President, International Financial Services
Dorette Brown, *Senior Vice President,
Administration & Human Resources*
Patricia Estwick, CPA, MBA,
Group Financial Controller
Alex St. John, BA, CSSA, *Senior Vice President,
Chief Internal Auditor*
Debra Humphreys, TEP
Senior Vice President, Group Compliance
Denniston Swaby, BSc,
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David W. Trimble, MA (Cantab)
Ormond A. Williams, ACIB

Senior Officers & Management

Ormond A. Williams, ACIB, *President*
Tracy Moore, *Senior Vice President, Personal and
Business Banking and Credit Risk Management*
Ralph Lewis, AICB, *Senior Vice President, Service
Delivery*
Michele Ebanks, BBa, *Senior Vice President,
Card Services*

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Senior Officers & Management

Naiem A. Qadir, MBA, CA., *Senior Vice
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Dominic Tomkins, BBA, *Senior Vice
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Barry J. Williams, SCIB,
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Danny A. Scott
Peter A. Tomkins, MBE

Senior Officers & Management

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Senior Vice President, Property & Casualty
Gordon B. Philip, MA, CA,
Senior Vice President, Financial Controller
Trevor H.B. Stewart, DBA, CEBS, CLU,
FLMI/M, FLHC, *Senior Vice President,
Health & Life Insurance*

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Roger Corbin, *President*

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Senior Officers & Management

Michael Donnelly, *President*

* Eric J. Crutchley, MBE, FCIB retires 3/3/04 to be succeeded by Stuart J. Dack ACIB, MBA



