

President's Report – June 2005

Under normal circumstances the final accounts for the Group's financial year to 30th September 2004 would have been presented at an Annual General Meeting (AGM) convened in March 2005. As was explained to shareholders at the Extraordinary General Meeting (EGM) held on 3rd March it was not viable to hold our AGM at that time and this report now accompanies the notice and papers relating to the Annual General Meeting to be held on 28th June 2005. Also, in more normal times the accounts for the Group would be presented by way of a 'Glossy' Report and Accounts but the timing of the exercise to produce such a report is not feasible if the recently completed audited figures are to be distributed without further delay. With this in mind please forgive the less formal presentation of this report and I should add that a "prettier" version of our Report and Accounts will follow shortly, once the printing exercise has been completed.

At the Extraordinary General Meeting held in March a detailed update was given to shareholders regarding the status of the Group and the impact of Hurricane Ivan losses on our insurance subsidiary, Cayman General Insurance Co. Ltd. (CGI). It was also reported that aside from the devastating losses seen within the insurance sector of our business, all other aspects of the Group were performing well. Whilst this report will talk at length about the CGI Hurricane Ivan claims position, it must be stressed that the Group's businesses all remain very robust and profitable as evidenced by the very satisfactory trading results for the half-year to 31st March 2005, which are mentioned later in this report and a copy of which is enclosed.

Cayman General Insurance Co. Ltd – Hurricane Ivan Claims Position

As already reported to shareholders the unprecedented level of claims resulting from "Ivan" and in particular the water and flood damage sustained, has caused all insurance companies involved in the Cayman Islands difficulties. Although CGI had a reinsurance structure consistent with industry standards, at a level approved by our regulators and rating agencies, the level of loss exceeded the cover and exposed the company to substantial direct risk. A significant task faced by CGI was accurately quantifying the level of claim and potential 'loss' and with more than 2000 motor and property claims logged, the logistics of the exercise were daunting, particularly with the available loss adjusters at full stretch. As mentioned at the EGM one of the main reasons for the delay in producing our accounts was the task of accurately assessing such a vast number of claims.

Early in the process we set an anticipated level of loss reserve at CI\$45M. As time has passed this reserve has proved sensible with most claims settling within the figures predicted by the loss adjusters. At the time of writing this report, approximately 92% of claims have been settled.

The impact of this reserve upon the balance sheet of CGI is that a net injection of CI\$41M is required to cover the deficit created by the Ivan claims and to re-instate CGI's capital back to the level of last audited figures in September 2003.

As proposed at the EGM this position is to be funded by the Cayman National Group by way of up to CI\$30M to come from its capital in the longer term with the balance to be funded in the short term from the sale of part of the Group's stake in CGI; although, CNC will also provide this additional support until such a deal is completed.

At the EGM it was indicated that the part sale would have been completed by this time but with the sound on-going trading performance of the Group and CGI, we have been able to attract additional potential purchasers and negotiations are currently underway with five other insurance companies, who have expressed an interest in acquiring a stake in CGI.

The passage of time has also enabled us to provide potential purchasers with actual half-year results, which we anticipate will enable us to maximize the return for the Group from the sale of a stake in CGI.

I also mention at this point that, as confirmed at the EGM, the re-insurance structure now in place for CGI is at an enhanced level to ensure we are not exposed to the same level of risk previously endured.

It should be reported here that the overall loss sustained by CGI in the year to September 2004 was CI\$45,351,352.

It is appropriate at this stage to advise you of the results of the other major elements of the Group.

Cayman National Bank Ltd.

As reported in a press release dated 21st January 2005, Cayman National Bank achieved a net profit of CI\$6,565,334 for the year to 30th September 2004. This profit was more than 33% up on the previous year, despite the effects of "Ivan". It is also pertinent to mention that the balance sheet grew significantly with total assets up by more than 25% in the year to CI\$708,034,010 and deposits up by more than 27% on the 2003 position.

Cayman National Trust Co. Ltd.

Our Trust Company achieved an increase of more than 65% in its profits for the year to September 2004 contributing CI\$822,000 of net income.

Cayman National Securities Ltd.

Cayman National Securities also performed well with a net income contribution of CI\$438,000, a similar performance to 2003.

The other trading subsidiaries Caymanx Trust Co. Ltd. (our Isle of Man operation) and Cayman National Insurance Brokers also contributed positively to the Group results.

Group Unaudited Results for the half-year to 31st March 2005

Hurricane Ivan had some level of impact on all businesses operating in the Cayman Islands and CNC was no exception. Our management and staff has had to work through extremely difficult times to maintain the Group's business and service levels and our financial results to 31st March 2005 are important as they record the results for the first significant period of trading after the catastrophe that hit the Cayman Islands in 2004.

The results speak for themselves and confirm not only that Cayman National is 'fit and well' but is continuing to prosper. In all, the Group turned in a net profit of CI\$8.1M for the half-year to 31st March 2005. All areas of the Group contributed to this very creditable result with the profit figure up more than 59% on the same period to March 2004. One should also view this result against the net profit achieved for the whole of 2003 of CI\$7.8M.

Cayman National Bank contributed more than \$5M to this figure, again confirming the strength and profitability of our banking sector where we have reduced costs and increased efficiency.

Cayman General Insurance also contributed to this figure where the trading profit was CI\$1M, a similar results to last year - indicating that the business is still sound and profitable but that we are not making excessive profits from increased premium margins.

Dividends

At the EGM held in March it was indicated to shareholders that the Board of Directors would consider making a final dividend payment for 2004 if the on-going trading performance made such a commitment viable.

After very careful consideration and in the light of the Group's ongoing performance and the projected profitability the Directors are recommending a final dividend payment of 4¢ (four cents) per share for the financial year to 30th September 2004. The Board has also taken into consideration that many local investors would welcome a dividend payment, at this time, to assist with post-"Ivan" recovery. Taking into account the interim dividend of 6¢ (six cents) per share paid earlier in 2004, the overall dividend payment for the 2003/2004 financial year will be 10¢ (ten cents) per share, if approved by shareholders at the AGM.

The fact that Cayman National can consider such a commitment, following the impact of Hurricane Ivan losses on our insurance subsidiary and the support required from the holding company, is a tribute to the strength of the Group, which has been built up over its 30-year history of prudent profit retention and strong liquidity.

As on previous recent occasions shareholders are offered the opportunity to take the proposed final dividend as additional shares, if so desired and the appropriate paperwork is enclosed for your consideration.

Summary

There are various aspects of our business that will be reported on in greater detail in the full report and accounts that will be published shortly. In particular, Cayman National, as the leading independent financial services provider in the Cayman Islands has a number of very significant opportunities before it. Our strong trading performance and the comprehensive structure of the Group means that we are well positioned to take advantage of a number of exciting situations that are currently available and we will continue to carefully evaluate and capitalize on those opportunities that are beneficial to the Group and its future.

As mentioned previously the past few months have been difficult times for all in the Cayman Islands. The task of addressing the losses incurred by our insurance subsidiary has been a considerable challenge, but we can take satisfaction from the outcome.

Our main objective is now to rebuild our capital base, whilst still maintaining the strong momentum of the business. Our sound profitability should ensure that is accomplished within a reasonable time scale.

At the EGM in March I paid tribute to our staff and I again reiterate my thanks and appreciation to all those working within the Group for their professionalism, dedication and commitment throughout the recent months.

We should also acknowledge the strong loyalty of our customer base. Many of our customers and clients have been with us for many years and they have shown their loyalty not only by maintaining their business with us but also by the many new business introductions that we enjoy through referrals from our existing clients – Thank you.

I also extend my thanks to our many shareholders. Your support, loyalty and the investment you have made in Cayman National is vital to our success. I can assure you that one of our main aims is to focus on “Shareholder Value” and although recent events have given us a set back, I see a strong and profitable future for the Group and I look forward to ensuring that those who invest in the organization are rewarded over time for their commitment.

A handwritten signature in black ink, reading "Stuart J. Dack". The signature is written in a cursive style with a large, sweeping initial 'S'.

Stuart J. Dack
President & Chief Executive

June 2005

NOTE - “Hurricane Ivan”

For most people reading this report the details of “Ivan” will be only too well known but in the knowledge that there may be some readers not fully familiar with the event it is appropriate to mention some details in this report.

Hurricane Ivan was a category 5 storm that affected the Cayman Islands between 11th and 12th September 2004. The main brunt of the storm was experienced on Grand Cayman with recorded winds of up to 185mph hitting the island from the South East. The storm track took it about 30 miles to the South of Grand Cayman so that the East and South of the Island was raked by the full force of the northern section of the eye-wall. A significant feature of the storm was its slow passage across Grand Cayman. It is believed that the fact the storm stalled in its tracks was a factor that contributed to the level of storm surge and flooding. It was estimated by the United Nations report relating to “Ivan” that 90% of properties on Grand Cayman were damaged in some way by the storm with property damage put at about US\$3.4 billion or US\$75,000 per capita of the population.