

# Annual Report 2011



**CAYMAN  
NATIONAL**



**CAYMAN  
NATIONAL**

Cayman National Corporation Ltd. is publicly owned, with its shares trading on the Cayman Islands Stock Exchange (CNC: KY). No single, or closely associated group of interests, may hold more than 10% of the Corporation's shares, as required by the Government of the Cayman Islands, which also requires control to remain in the Cayman Islands and a Caymanian majority on the Board of Directors.

As an integrated business, we aim to provide a wide range of financial services to local and international clients, currently from our locations in the Cayman Islands and the Isle of Man, with representative offices in Panama and Dubai together with retail banking services in the Turks and Caicos Islands through the International Banking Group (IBG).

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## President's Report



# CAYMAN NATIONAL



Against the back drop of all the turmoil in the financial markets in many parts of the world, including this region, we are pleased to report a further year of sound profitability for Cayman National Corporation Ltd. (CNC). Net Income attributable to CNC for the year to 30 September 2011 was CI\$5,664,258, which is similar to our performance last year when we earned CI\$5,549,230.

With interest rates remaining at historically low levels and weak economies in most areas from where we derive business, we are satisfied with our profitability, particularly at a time when we feel prudent management of the business and its investments is of paramount importance. These are not times to be seeking higher and more risky returns.

Stuart Dack, President and CEO

It is also appropriate to reiterate the comments made in previous reports that, unlike so many of our competitors, we have not had to seek the support of re-capitalisation programmes or assistance from Government during the last few challenging years. Our profitability remains sound and our balance sheet strong.

With interest rates at the low levels that prevail at this time, maintaining a strong deposit book is a challenge for all financial organisations. We are pleased that our Total Deposit base remains close to the record levels of 2010 and that Fixed Deposits are up this year.

The control and monitoring of our lending remains an important aspect of our business. With the economic pressures that continue, we have seen a very modest increase in delinquency. Our controls remain robust and with our legacy of conservative lending policies, we do not anticipate any significant deterioration in the lending book, although we have increased our level of provisions this year which we feel is prudent at this time.

We are pleased that the trading price of CNC shares has increased since last year with the last traded price in February 2012 at US\$2.95, whereas a year ago the price stood at US\$2.45. We also believe that we have maintained a sensible dividend stream and the Board of Directors recommends a final dividend payment of 5 cents per share, which if approved by members at the forthcoming Annual General Meeting, will result in a total dividend of 10 cents per share for the year.

### **Cayman National Bank Ltd. (CNB)**

Cayman National Bank had another satisfactory year with Net Income of C\$5,965,963. This is a creditable performance at a time when interest rates remain very suppressed.

With profitability remaining sound, additional provisions were raised in 2011 as a prudent measure. Control of our lending book remains an important aspect of the business and we consider the level of provisioning now in place to be sensible and realistic.

Total Deposits remained strong. The Bank's capital is now at C\$87,545,254, and is robust and stable.

In the past we have emphasised our cautious approach to investments. Our investment strategies and approach remain consistent and we continue to consider the safety of investments as paramount rather than the pursuit of high rewards at the expense of unreasonable risk.



*The Little Cayman Customer Service Centre Ribbon Cutting Celebration.*

## Cayman National Fund Services had another excellent year

### **Cayman National Trust Co. Ltd. (CNT)**

Cayman National Trust recorded a loss for the year to September 2011 of (CIS134,650), which is in line with our expectations, and represents more than a 50% reduction in the loss from the prior year. As mentioned in our previous reports, business in this sector has come under general pressure in recent times but there are clear indications that trust and company business volumes are now on the rise and we expect CNT to benefit from this increased activity.

We are pleased to report that Mike Hodgson joined the Group as the President of CNT in July 2011. Mike brings a wealth of experience with him and we are confident that this division of our business will flourish under his leadership. With a number of new team members in place and a reorganisation of the business over the last couple of years, we are now well-positioned to see this business perform well in the future.

### **Cayman National Fund Services Ltd. (CNFS)**

Cayman National Fund Services had another excellent year turning in a record profit of CIS1,204,504, up 4% on the 2010 results.

At a time when a number of organisations in this sector are facing difficulties we are pleased that our Funds Services operation continues to perform strongly. Our business has a good client base, good systems, and we expect it to continue to prosper.

### **Cayman National Securities Ltd. (CNS)**

2011 was another challenging year for the securities business. Despite this, CNS made good progress in re-focusing its client base and also reducing costs. A loss of CIS115,930 resulted for the year, a reduction of 56% on the previous year which leads us now to expect a return to profitability in 2012.



*Michael Hodgson, President Cayman National Trust Co. Ltd.*

Solid Performance.  
Confident Outlook.



Our Isle of Man business had an excellent year turning in record Net Income.

### **Cayman National Isle of Man (IOM)**

Cayman National operates two main companies in the Isle of Man, Cayman National Bank and Trust Co.(Isle of Man) Limited and Cayman National Fund Services (Isle of Man) Limited. Through these two companies, we provide a full range of bank, trust, company and fund administration services.

Our Isle of Man businesses had an excellent year turning in record Net Income equivalent to C\$1,169,603, an increase of 80% on the previous year.

As we have reported before, we set out in recent years to gear up the business in the Isle of Man and we are pleased that the strategy is now achieving the desired results.

### **International Banking Group (TCI) Ltd. (IBG)**

Cayman National is the major investor in this new venture which provides full retail banking services in the Turks and Caicos Islands.

As previously reported, the opening of this new bank in 2010 was much delayed, and the launch of the venture coincided with a number of unforeseen challenges.

During 2011, IBG took action to reduce costs significantly and these reductions are now improving the situation. In addition, IBG is considering other options to improve the short and long-term viability of the business, which, if finalised, will expand the client base and improve profitability to a satisfactory level.

### **Risk Control**

A culture of efficient risk control has always been an important aspect of our business. With compliance and regulatory controls becoming ever more focused within our industry, we have now enhanced our team of specialists with the forming of a new position, Manager, Regulatory Compliance. Ryan Bahadur recently took up this new position and brings to our organisation many years of regulatory experience.

Our Internal Audit division has also been strengthened by two new positions and our risk assessment teams continue to report regularly to our Audit Committee, which is comprised of non-executive Directors.



*Mr. Stuart Dack, CEO (right) presents Barry Williams, Isle of Man Banking Director (left) with a sponsorship cheque supporting The Children’s Centre on the Isle of Man. Mr. Williams raised over £3,500 for the Children’s Centre by climbing Kilimanjaro Mountain in Tanzania.*



Aerial View of Downtown Dubai

# Community Support

Throughout the year Cayman National supported a number of community causes which included the Cayman Islands Seafarers Association, Flowers Sea Swim, Women of Valour Basketball and Grand Cayman Flag Football Association.



## Community Support

We take our responsibility of being a good corporate citizen very seriously and we are committed to supporting an extensive range of charities and worthy organisations. Our strategy continues to focus our assistance through donations and sponsorships to five main areas: youth, the elderly, the less fortunate, sports, and culture.

The following is a summary of some of the organisations we assisted during 2011:

- The Cayman Islands Seafarers Association
- Cayman Heart Fund
- Cayman Islands Tennis Federation
- Cayman Islands Diabetes Charitable Trust
- Cayman Islands Kidney Foundation
- The Junior Achievement Programme
- Cayman Islands Crisis Centre
- The Children’s Center (Isle of Man)
- International Day of the Older Person
- Cayman National Cultural Foundation
- Leadership Cayman – Chamber of Commerce Programme
- The National Trust of the Cayman Islands
- Cayman Hospice Care
- Over 20 schools at the primary, middle, secondary, and post-secondary levels.

We are also pleased to again report that many of our staff give freely of their time and skills to assist many charities. Their commitment to helping our communities is a tribute to them and also to this organisation.



*Cayman National Cultural Day, The Canada and USA team join forces.*



*Staff donate to the annual NCVO radio/telethon fund raiser.*



View of Downtown Panama

## Acknowledgement

In October 2011, Jack Bierley, one of the founding directors and shareholders of CNC reached the retirement age set by the company some years ago.

Jack's retirement after 37 years of dedicated service is another milestone in the company's history and I pass on personal thanks to him coupled with thanks from the CNC organisation for his commitment and significant contributions to our businesses over such an extended period.

Continuing the trend since 2008, 2011 was another demanding year for many within the financial industry. As part of our cost control, staff numbers have been kept tight and therefore all the employees within the Group have had to work hard and professionally to achieve the results we enjoy. We have an excellent team of mainly Caymanian employees (92% in the Cayman Islands) who are dedicated to our businesses, and many of whom constantly seek to improve and develop themselves through additional education and training. I am grateful for the support they all give to Cayman National.

We have seen many new customers and clients join us this past year. We are grateful to all of our customers and clients for the opportunity to be of service, from those who are new to us, to all we have known for years. We appreciate and value all of you.



*Jack Bierley, founding Director and Shareholder to retire after 37 years with the organisation.*



*Crime Stoppers Cayman National Charity  
Golf Tournament*

Like our customers, our shareholders are a mix of newcomers and longstanding investors. We are pleased that our share price has performed well, with good price stability, particularly when compared with many in our industry. With another year of potential dividend yield of over 4%, we believe our shares continue to provide a good return to our investors and we remain grateful to all our shareholders for their support, loyalty and confidence.

Although there are still many pressures on our industry, we believe Cayman National is in sound shape and in a good position to continue to trade profitably. There are increasing opportunities emerging and we are in a good position to build on our successful history as we enter our 38th year.

A handwritten signature in black ink that reads "Stuart Dack". The signature is written in a cursive style with a long horizontal line extending to the left.

Stuart Dack  
President and Chief Executive  
Cayman National Corporation Ltd.

# Supporting Education

Cayman National supports the youth through educational efforts in all jurisdictions where we operate.



# Board of Directors

## Peter Tomkins

MBE

Peter Tomkins, founder of Cayman National Corporation Ltd. and its subsidiaries, began his working life in the Merchant Marine. He entered commercial banking with Barclays Bank in 1951. Resigning from Barclays in 1969, he took up the position of Executive Vice President with Mercantile Bank & Trust Co. (Cayman) Ltd., until 1973. From 1973 to 1994 he held the position of President and Chief Executive Officer of Cayman National Corporation Ltd. and its subsidiaries. Now retired, Mr. Tomkins remains on the Board of Directors of Cayman National. Mr. Tomkins has held a number of public appointments during his career, including past President of the Cayman Islands Bankers' Association and a former Director of the Cayman Islands Monetary Authority.

## Truman Bodden

OBE, LLB (Hons), ACIB, JP, Chairman

Truman Bodden is an Attorney-at-Law, as well as a former member of the Cayman Islands Legislative Assembly from 1976 – 1984 and 1988 – 2000, former Leader of Government Business and acting Attorney General. Mr. Bodden is an ACIB, LLB (Hons) London, FICM, FFA, MCMI, ACIARB, and Barrister at Law. He has been the Minister for Health, Education and Social Services and the Minister of Education, Aviation and Planning and was a member of the Financial Services Council, Cayman Islands Law Society and Bar Association. He is also a former Director of Barclays Private Bank and Trust Cayman Ltd., a founding director of Cayman National and a senior partner of the law firm of Truman Bodden & Company from 1974 – 2008.

## Stuart Dack

ACIB, MBA, President and Chief Executive

Stuart Dack 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. In April 2004 he was appointed President and Chief Executive of Cayman National.

## John C. Bierley

BA, JD

Mr. Bierley is a Florida Bar Board Certified international lawyer based in Tampa where he has practised for 45 years. He is a member of the Council on Foreign Relations, a Director of the InterAmerican Bar Association, and a former director of the Society of International Business Fellows and the University of Florida Foundation. He is also founding Director of the Florida Business BancGroup Inc. and Bay Cities Bank in Tampa, Florida. He was previously a Director of Gulf Bay Bank and Southtrust Bank in Florida. Mr. Bierley is a founding Director of Cayman National and several of its international operating subsidiaries.

## Sherri Bodden-Cowan

MBE, LLB (Hons)

Sherri Bodden-Cowan was educated in the Cayman Islands and the United Kingdom, and gained an LLB (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 in numerous capacities as Chairman or Director of various Cayman Islands Statutory Boards and Authorities.

## Clarence Flowers Jr.

Clarence Flowers Jr. 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 Cricket Square Development on Elgin Avenue.



## Bryan A. Hunter

BA, LLB

Bryan Hunter is a Partner and the Head of the Corporate and Commercial Practice in the Cayman office of the law firm Appleby. He has extensive experience in the structuring and formation of hedge funds, funds of funds and private equity funds and regularly advises on various operational and regulatory issues in relation to these funds. His practice also includes general corporate matters, project finance, corporate finance and merger and acquisition transactions.

Bryan was admitted as an Attorney in the Cayman Islands in 1997. He is a Notary Public in the Cayman Islands, has served as a board member of the Civil Aviation Authority, the Caymanian Bar Association (of which he is a past President) and the Chamber of Commerce and has served as a member of the Financial Services Council.

## Nigel Wardle

BA, CA

Mr. Wardle is Vice President of WRB Enterprises Inc. the ultimate parent company of Turks and Caicos Utilities, Grenada Electricity Services and Dominica Electricity Services Ltd. He serves on the Boards of Directors of each of those entities and is Chairman of Marpin 2K4 Ltd, a leading telecommunications company in Dominica. He has also held several positions in the Caribbean, including Managing Director of Turks and Caicos Utilities and General Manager of Grenada Electricity Services Ltd shortly after the privatisation of that entity. He served as Chairman of the Caribbean Electricity Utility Services Corporation (CARILEC) from 1999 to 2001 and was a Director of CARILEC from 1990 through 2003. He is also a director of CNC's subsidiary bank in the Turks & Caicos, International Banking Group (TCI) Ltd.

He is a former Chairman of the Society of International Business Fellows, which selects, educates, and connects business leaders around the world.

Mr. Wardle earned his CA designation in 1980.



Cayman National Corporation Board of Directors: (Left to Right) Peter Tomkins, Clarence Flowers, Jack Bierley, Sherri Bodden-Cowan, Stuart Dack, Nigel Wardle, Bryan Hunter, Truman Bodden.

## Financial Summary

**Net Interest Income  
was up 2.6% with  
Total Income up by 4%**

### The Year in Review

Net Income attributable to the equity holders of Cayman National for the year to 30 September 2011 was C\$5,664,258 (C\$5,549,230 in 2010) which is up by 2% on the previous year.

Although interest rates remained at consistently record low levels for the year, Net Interest Income was up by 2.6%, with Total Income up by 4% at C\$49,933,567.

Total Deposits remained above the US\$1 Billion mark at C\$923,977,076, down 3% on last year.

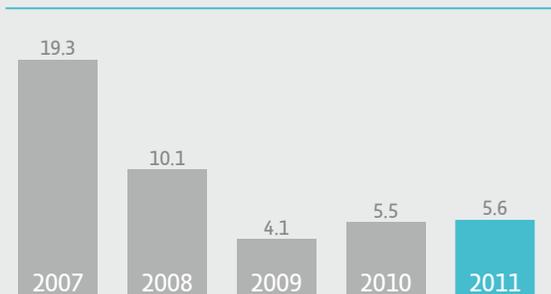
Total Equity is up by 2% on last year at C\$82,904,687.

Based on the strength of the Consolidated Statement of Financial Position and Shareholders' Equity, the Board of Directors approved an interim dividend of 5 cents per share which was paid to shareholders in October 2011. For a final dividend, the Board of Directors recommends the payment of 5 cents per share to be paid in March 2012 to shareholders of record as at 23 March 2012. Shareholders will consider this recommendation at the forthcoming Annual General Meeting, and if approved, the total dividend payment for the financial year will total ten (10) cents per share.

## Summarised Financial Details

	2011	2010	Change 2011/2010
Net Income Attributable to the Equity Holders of the Parent	5,664,258	5,549,230	2%
Total Income	49,933,567	48,102,015	4%
Total Assets	1,021,107,253	1,056,539,202	-3%
Total Deposits	923,977,076	953,742,491	-3%
Total Equity	82,904,687	81,134,616	2%
Earnings Per Share	\$0.13	0.13	0%
Book Value Per Share	1.96	\$1.92	2%
Return on Assets	0.55%	0.55%	-1%
Return on Equity	6.91%	6.76%	2%
Price Earnings Ratio	17.62	17.62	0%
Dividend Yield Per Share	4.37%	4.37%	0%
Dividend Per Share	\$0.10	\$0.10	0%

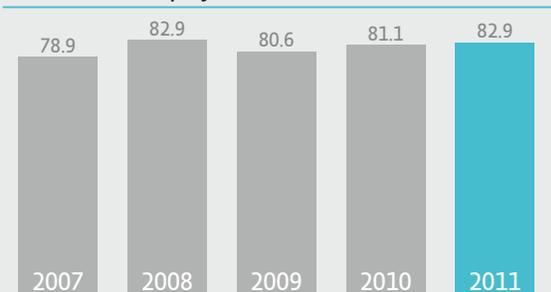
**Net Income** *in Millions of Dollars*



**Total Assets** *in Millions of Dollars*



**Shareholders' Equity** *in Millions of Dollars*



**Total Deposits** *in Millions of Dollars*



# Heads of Businesses



Ormond A. Williams



Christopher Lumsden

## Ormond A. Williams

FIFS, FCMI, FCABFI

President, Cayman National Bank

Ormond Williams is a Fellow of the Institute of Financial Services, UK, a Fellow of the Chartered Management Institute, UK and a Fellow of the Caribbean Banking and Finance Institutes. His banking career spans over 28 years with 21 of these years with Barclays Bank Plc where he worked in St. Vincent and the Grenadines, Barbados, Belize and the United Kingdom. He was Executive Vice President of CNB from 2002 – 2003 before taking on the responsibilities of President. Mr. Williams is an Accredited Lay Preacher in the Methodist Church in the Caribbean and the Americas (MCCA), an Elder in the John Gray United Church (West Bay) and Lay Pastor in the William Pouchie Memorial United Church (North Side), Cayman Islands.

## Christopher Lumsden

BA, ACA

President, Cayman National Fund Services

Christopher Lumsden joined Cayman National in 2004 and is the President of Cayman National Fund Services Ltd. He has been a member of the Institute of Chartered Accountants in England and Wales since 1993. From 2000 until joining Cayman National, he was a hedge fund analyst based in the Bermuda office of Union Bancaire Privee, one of the world's largest allocators of alternative investment capital. Previously, he was an Account Manager in the Bank of Bermuda's fund administration business in Bermuda. Prior to moving to Bermuda, Mr. Lumsden worked for 5 years in the financial services industry in the United Kingdom, with Edinburgh Fund Managers and with Hill Samuel Commercial Finance. Mr. Lumsden earned his BA in Accounting in 1990.



James J.W. Youn



Michael L. Hodgson

## James J.W. Youn

BA, CFA

President, Cayman National Securities

James Youn joined CNS in 2008 as Head, and was subsequently promoted to President in 2009. Mr. Youn received his Bachelor of Arts from the University of Toronto, was awarded the Chartered Financial Analyst charter in 2001, and is a member of the Cayman Islands CFA Society. Mr. Youn brings to Cayman National Securities over 18 years of investment management experience, initially at Toronto-Dominion Bank creating and managing mutual fund portfolios, with the bulk of his career at RBC Capital Markets (Canada's largest investment bank) as a Bond Trader and more recently as a Fund of Hedge Funds executive and consultant. A published author in Institutional Investor's "Journal of Alternative Investments" in 2007 and later reviewed in the CFA Digest (August 2008), Mr. Youn has spoken at the Chicago Mercantile Exchange and to Canadian and global investment bank executives regarding hedge fund liquidity derivatives. Mr. Youn is in charged with the overall management of client investments, and launched the Cayman National Securities series of mutual funds.

## Michael L. Hodgson

Hons BA, MBA, TEP

President, Cayman National Trust Co.

Michael Hodgson has almost 35 years in the financial services industry, including 24 years with RBC where he had board appointed executive officer roles in Canada, Taiwan, Singapore, and Hong Kong. He then joined Ansbacher Group as a main board director responsible for their Caribbean offices before relocating to the Isle of Man and heading up Abacus Trust Company Limited for more than 4 years as Managing Director.

In addition to 2 undergraduate university degrees, Mike has an MBA from Ivey Business School and is a member of the Society of Estate and Trust Practitioners (TEP).



Ian M.E. Bancroft



Naiem A. Qadir



Carlos Guzman

## Ian M.E. Bancroft

MBA, ACIB, FCMI

Managing Director, Isle of Man

Ian Bancroft holds an MBA with distinction, and is an Associate of the Chartered Institute of Bankers and a Fellow of the Chartered Management Institute. He has over thirty years experience in private banking and wealth management. Prior to joining the Cayman National Group, Mr. Bancroft worked for National Westminster Bank; PK English Trust; Rea Brothers Group Plc, where he served as Group Head of Banking; and Senior Executive Director of its Isle of Man operations, and Managing Director of Close Private Bank, Isle of Man. Mr. Bancroft is a council member of the Isle of Man Chamber of Commerce and chairman of its Finance Committee. He is also a council member of the Isle of Man Bankers' Association.

## Naiem A. Qadir

MBA, CA, CFA

Senior Executive Officer, Cayman National (Dubai).

Naiem Qadir is Senior Executive Officer of Cayman National (Dubai) Ltd. He holds an MBA from the University of Toronto, is a Chartered Accountant with the Canadian Institute of Chartered Accountants, and a Chartered Financial Analyst with the CFA Institute. Mr. Qadir started his career in Canada with Deloitte & Touche before joining Cayman National Securities Ltd. in 1999. In 2003, Mr. Qadir was appointed as Head of Cayman National Securities, and in 2009, moved to Dubai to open Cayman National's Office.

## Carlos Guzman

BA, TEP

Senior Vice President, Business Development, Latin America

Carlos Guzman earned his degree in Economics from Iberoamericana University. He is certified as a Family Business Advisor and Family Wealth Advisor by the Family Firm Institute and is member of the Society of Trust and Estate Practitioners.

Mr. Guzman was a trader and then promoted to Head of Operations of a family office firm in Mexico and then in the Cayman Islands. He joined Canadian Imperial Bank of Commerce (CIBC) to develop the Latin American market, and subsequently for the Royal Bank of Canada Trust Company as Head of Business Development for Latin America. Mr. Guzman joined Cayman National in 2004, and in 2007, opened the Representative Office of Cayman National Bank in Panama.





High angle view of boats docked at a harbor, Rushen Castle, Isle of Man, British Isles



## **Independent auditor's report**

### **To the Shareholders of Cayman National Corporation Ltd:**

We have audited the accompanying consolidated financial statements of Cayman National Corporation Ltd. and its subsidiaries, which comprise the consolidated statement of financial position as at September 30, 2011 and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's responsibility for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's responsibility*

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

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

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

#### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cayman National Corporation Ltd. and its subsidiaries as at September 30, 2011, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive script.

February 10, 2012

Cayman National Corporation Ltd.

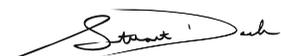
## Consolidated Statement of Financial Position

30 September 2011 (expressed in Cayman Islands dollars)

Assets	2011	2010
Cash and due from banks (Note 3)	\$298,460,250	\$325,914,086
Short term placements	60,322,674	92,643,119
Investments (Notes 4 and 14)	58,492,866	17,642,239
Loans and overdrafts (Note 5 and 14)	568,282,624	580,604,381
Interest receivable	1,283,141	1,480,560
Accounts receivable (Notes 10 and 14)	4,909,184	6,989,117
Fixed assets (Note 6)	24,114,420	25,632,995
Investment Property (Note 7)	2,337,475	2,277,475
Goodwill (Note 8)	2,904,619	3,355,230
<b>Total Assets</b>	<b>\$1,021,107,253</b>	<b>\$1,056,539,202</b>
<b>Liabilities</b>		
Customers' accounts (Note 14)		
Current	\$163,363,860	\$177,399,343
Savings	286,436,041	305,503,282
Fixed deposits (Note 9)	474,177,175	470,839,866
<b>Total Deposits</b>	<b>923,977,076</b>	<b>953,742,491</b>
Interest payable	669,516	417,968
Accounts payable and other liabilities (Note 29)	9,454,904	14,960,083
Provisions (Note 17)	50,000	1,473,518
Deferred revenue	3,103,530	3,412,703
<b>Total Liabilities</b>	<b>937,255,026</b>	<b>974,006,763</b>
<b>Equity Attributable to Owners of the Parent</b>		
Share capital (Note 12)	42,350,731	42,350,731
Treasury stock (Note 12)	(72,885)	-
Share premium (Note 12)	5,031,898	5,031,898
General reserve (Note 12)	7,486,050	7,486,050
Accumulated retained earnings	26,324,963	24,895,779
Reserve for dividends (Note 18)	2,117,537	2,117,537
Net unrealised holding gain/(loss) investments available-for-sale (Note 4)	410,185	(117,615)
Equity adjustments from foreign currency translation (Note 13)	(743,792)	(629,764)
<b>Total Shareholders' Equity</b>	<b>82,904,687</b>	<b>81,134,616</b>
Non-Controlling Interest (Note 30)	947,540	1,397,823
<b>Total Liabilities And Equity</b>	<b>\$1,021,107,253</b>	<b>\$1,056,539,202</b>

Approved for issuance on behalf of Cayman National Corporation Ltd.'s Board of Directors by:

 Director   
 Truman Bodden, Chairman

 Director   
 S. J. Dack

Date: 10 February 2012

See notes to consolidated financial statements

Cayman National Corporation Ltd.

# Consolidated Statement of Comprehensive Income

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

	2011	2010
<b>Interest</b>		
Interest income (Note 25)	\$28,319,183	\$27,016,290
Interest expense (Note 25)	(2,854,094)	(2,201,221)
<b>Net Interest Income</b>	<b>25,465,089</b>	<b>24,815,069</b>
<b>Other Income</b>		
Banking fees and commissions	9,239,848	8,382,157
Trust and company management fees	7,846,696	7,566,130
Foreign exchange fees and commissions (Note 26)	5,412,514	5,108,999
Brokerage commissions and fees	1,994,719	1,766,382
Realised losses on available for sale securities (Note 4)	(27,171)	(30,387)
Realised gain on disposal of joint venture (Note 10)	-	761,382
Impairment loss on held to maturity investment (Note 4)	-	(806,200)
Impairment loss on available for sale investment (Note 4)	(138,889)	(314,843)
Gain on sale of investment Visa shares (Note 27)	-	910,055
Gain on sale of held to maturity investment (Note 4)	73,187	-
Gain on sale of fixed assets (Note 6)	7,574	-
Income from repossessed collateral	60,000	-
Loss on financial instruments designated at fair value (Note 4)	-	(56,729)
<b>Total Income</b>	<b>49,933,567</b>	<b>48,102,015</b>
<b>Expenses</b>		
Personnel (Note 28)	24,341,675	24,321,620
Other operating expenses (Note 14)	12,699,126	11,488,388
Increase in loan impairment provision (Note 5)	1,249,279	35,322
Premises	3,687,582	3,633,149
Depreciation (Note 6)	2,621,522	2,732,987
Goodwill impairment charge (Note 8)	450,611	689,820
<b>Total Expenses</b>	<b>45,049,795</b>	<b>42,901,286</b>
<b>Net Income Before Taxation</b>	<b>4,883,772</b>	<b>5,200,729</b>
<b>Taxation</b>	<b>(44,797)</b>	<b>(30,343)</b>
<b>Net Income</b>	<b>\$4,838,975</b>	<b>\$5,170,386</b>
<b>Net Income/(Loss) Attributable To:</b>		
Equity Holders of the Parent	\$5,664,258	\$5,549,230
Non-Controlling Interests	(825,283)	(378,844)
	<b>\$4,838,975</b>	<b>\$5,170,386</b>
<b>Other Comprehensive Income:</b>		
Net realised loss on available for sale investments	-	\$(879,668)
Net realised impairment of available-for-sale investments (Note 4)	\$138,889	314,843
Change in unrealised appreciation (Note 4)	388,911	(210,449)
Net gain/(loss) on available-for-sale investments	527,800	(775,274)
Foreign currency translation differences	\$(114,028)	\$(101,554)
*Total Other Comprehensive Income/(Loss)	\$413,772	\$(876,828)
<b>Total Comprehensive Income For The Year</b>	<b>\$5,252,747</b>	<b>\$4,293,558</b>
<b>Earnings Per Share (Note 12)</b>	<b>\$0.13</b>	<b>\$0.13</b>
<b>Diluted Earnings Per Share (Note 12)</b>	<b>\$0.13</b>	<b>\$0.13</b>
* There is no other comprehensive income attributable to Non-Controlling interests.		

Cayman National Corporation Ltd.

## Consolidated Statement of Changes in Shareholders' Equity

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

	Share Capital	Share Premium	Treasury Shares	General Reserve	Retained Earnings	Reserve for Dividends	Net unrealised holding loss/gains on Available-for-sale Financial Assets	Foreign Currency Translation Reserve	Total	Non Controlling Interests	Total
<b>Balance at 30 September 2009</b>	\$42,350,731	\$5,031,898	\$-	\$7,486,050	\$23,581,623	\$2,117,537	\$657,659	\$(528,210)	\$80,697,288	\$-	\$80,697,288
Issuance of shares – IBG (Note 30)										1,776,667	1,776,667
Net income	-	-	-	-	5,549,230	-	-	-	5,549,230	(378,844)	5,170,386
Other Comprehensive Loss	-	-	-	-	-	-	(775,274)	(101,554)	(876,828)	-	(876,828)
<b>Total Comprehensive Income</b>	\$-	\$-	\$-	\$-	\$5,549,230	\$-	\$(775,274)	\$(101,554)	\$4,672,402	\$(378,844)	\$4,293,558
2009 proposed dividends paid (Note 18)	-	-	-	-	-	(2,117,537)	-	-	(2,117,537)	-	(2,117,537)
2010 interim dividend paid (Note 18)	-	-	-	-	(2,117,537)	-	-	-	(2,117,537)	-	(2,117,537)
Final dividend proposed (Note 18)	-	-	-	-	(2,117,537)	2,117,537	-	-	-	-	-
<b>Balance at 30 September 2010</b>	\$42,350,731	\$5,031,898	\$-	\$7,486,050	\$24,895,779	\$2,117,537	\$(117,615)	\$(629,764)	\$81,134,616	\$1,397,823	\$82,532,439
Issuance of shares – IBG (Note 30)	-	-	-	-	-	-	-	-	-	375,000	375,000
Treasury shares	-	-	(72,885)	-	-	-	-	-	(72,885)	-	(72,885)
Net income	-	-	-	-	5,664,258	-	-	-	5,664,258	(825,283)	4,838,975
Comprehensive Gain/(Loss)	-	-	-	-	-	-	527,800	(114,028)	413,772	-	413,772
<b>Total Comprehensive Income</b>	\$-	\$-	\$-	\$-	\$5,664,258	\$-	\$527,800	\$(114,028)	\$6,078,030	\$(825,283)	\$5,252,747
2010 proposed dividends paid (Note 18)	-	-	-	-	-	(2,117,537)	-	-	(2,117,537)	-	(2,117,537)
2011 interim dividend paid (Note 18)	-	-	-	-	(2,117,537)	-	-	-	(2,117,537)	-	(2,117,537)
Final dividend proposed (Note 18)	-	-	-	-	(2,117,537)	2,117,537	-	-	-	-	-
<b>Balance at 30 September 2011</b>	\$42,350,731	\$5,031,898	\$(72,885)	\$7,486,050	\$26,324,963	\$2,117,537	\$410,185	\$(743,792)	\$82,904,687	\$947,540	\$83,852,227

See notes to consolidated financial statements

Cayman National Corporation Ltd.

## Consolidated Statement of Cash Flows

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

Cash Provided By/(Used In):	2011	2010
<b>Operating Activities</b>		
Net income (including non controlling interest)	\$4,838,975	\$5,170,386
Adjustments for items not involving cash:		
Depreciation	2,621,522	2,732,987
Impairment of goodwill	450,611	689,820
Amortisation of premium/discount on investments held-to-maturity	721,674	120,820
Loss on available for sale investments	27,171	30,387
Gain on held-to-maturity investments	(73,187)	-
Gain on disposal of joint venture	-	(761,382)
Loss on financial instruments designated at fair value	-	56,729
Increase in loan impairment provision	1,249,279	35,322
Gain on sale of VISA shares	-	(910,055)
Impairment loss on held-to-maturity investment	-	806,200
Impairment loss on available-for-sale investment	138,889	314,843
Gain on sale of fixed assets	(7,574)	-
Income from repossessed collateral	(60,000)	-
	<b>9,907,360</b>	<b>8,286,057</b>
Changes in non-cash working capital items:		
Interest receivable	197,419	407,701
Accounts receivable*	2,179,933	(1,316,458)
Depositors' accounts	(29,765,415)	134,403,445
Interest payable	251,548	(214,374)
Accounts payable and other liabilities*	(7,237,870)	2,211,291
Adjustments from foreign currency translation	(114,028)	(101,554)
Net advances for loans and overdrafts	11,072,478	(88,372,687)
<b>Net Cash Generated From (Used In) Operating Activities:</b>	<b>(13,508,575)</b>	<b>55,303,421</b>
<b>Investing Activities</b>		
Short term placements	32,320,445	(22,391,648)
Proceeds on disposal of investments in joint venture	-	423,020
Proceeds on redemption of investments available-for-sale	38,816	3,473,343
Proceeds on sale of investments held-to-maturity	3,317,738	-
Purchase of investments available-for-sale	(33,871,737)	(1,666,667)
Purchase of investments held-to-maturity	(31,947,662)	-
Proceeds from sale of financial instruments designated at fair value	-	2,893,183
Proceeds on maturity of investments held-to-maturity	21,325,471	989,766
Disposal on Deconsolidation of subsidiary	-	114,500
Purchase of additions to fixed assets	(1,116,403)	(3,113,707)
Proceeds on disposal of fixed assets	21,030	-
<b>Net Cash Generated From (Used In) Investing Activities:</b>	<b>(9,912,302)</b>	<b>(19,278,210)</b>
<b>Financing Activities</b>		
Dividends paid (Note 18)	(4,235,074)	(4,235,074)
Proceeds from subsidiary's share issuance to NCI*	275,000	1,776,667
Treasury shares (Note 12)	(72,885)	-
<b>Net Cash Generated From (Used In) Financing Activities:</b>	<b>(4,032,959)</b>	<b>(2,458,407)</b>
<b>(Decrease)/Increase In Cash And Cash Equivalents</b>	<b>(27,453,836)</b>	<b>33,566,804</b>
<b>Cash And Cash Equivalents, Beginning Of Year</b>	<b>325,914,086</b>	<b>292,347,282</b>
<b>Cash And Cash Equivalents, End Of Year</b>	<b>\$298,460,250</b>	<b>\$325,914,086</b>
<b>Supplemental Information:</b>		
Interest received	\$28,516,602	\$27,423,991
Interest paid	\$2,602,546	\$2,415,595

\* Net of non-cash balances eliminated re deconsolidation of subsidiary in 2010 (Note 10) and share subscriptions.  
See notes to consolidated financial statements

Cayman National Corporation Ltd.

# Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

## 1. 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, mutual fund administration, stock brokering, and formerly insurance brokerage (see Note 10) in the Cayman Islands and the Isle of Man. The Corporation also operates a representative office in Dubai and in the Republic of Panama. The Panama representative office is subject to the provisions of law No.9 of 1988 of that country. Through its subsidiary, International Banking Group (TCI) Ltd., the Corporation provides full banking services in the Turks and Caicos Islands (“TCI”), and it is subject to the regulations of the Financial Services Commission in TCI. The Corporation is listed and trades 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 in the Cayman Islands as there are currently no income, profits or capital gains taxes in the Cayman Islands. The Corporation is also not liable for taxation in respect of its Panama, Dubai, or TCI operations. Two of the Corporation’s subsidiaries are liable for Isle of Man income tax, which is reflected in these consolidated financial statements.

## 2. Significant Accounting Policies

### Basis of Preparation

These consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of available for sale financial assets and financial assets held at fair value through profit or loss 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 IFRS requires the use of certain accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas where assumptions and estimates are significant to the consolidated financial statements are disclosed below in Note 2. The significant accounting policies adopted by the Group are as follows:

There are no new standards or amendments to existing standards which are effective for the first time in annual periods starting on 1 October 2010.

The following standards or amendments to existing standards that are relevant to the Group’s financial statements, but not effective until future dates are as follows:

- IFRS 9 Financial Instruments. This new standard specifies how an entity should classify and measure financial assets and liabilities, including some hybrid contracts. The standard improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39. Most of the requirements in IAS 39 for classification and measurement of financial liabilities

Cayman National Corporation Ltd.

# Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

## 2. Significant Accounting Policies (continued)

### Basis of Preparation (continued)

were carried forward unchanged from IAS 39. The standard applies a consistent approach to classifying financial assets and replaces the numerous categories of financial assets in IAS 39, each of which had its own classification criteria. The new standard is not effective until 2015 and management will consider the impact of IFRS 9 on its financial assets and liabilities prior to 2015.

- IFRS 7 Amendments: Disclosures – Transfers of Financial Assets. The amendments will help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position and will promote transparency in the reporting of transfer transactions, particularly those that involve the securitisation of financial assets. An entity shall provide the required disclosures for all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset, existing at the reporting date, irrespective of when the related transfer transaction occurred. Entities are required to apply the amendments for annual periods beginning on or after 1 July 2011. The impact of the disclosures on the Group's financial statements will depend on the Group's facts and circumstances at the reporting date during the year of adoption.
- Revised IAS 24 Related Party Disclosures. This revision is mandatory for periods beginning on or after 1 January 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. This revision is not expected to have a significant impact on the Group's financial statements when it is adopted by the Group.
- IFRS 10 Consolidated Financial Statements. This standard replaces all of the guidance on control and consolidation in IAS 27 and SIC-12. IAS 27 is renamed Separate Financial Statements, and continues to be the standard dealing solely with separate financial statements, with such guidance being unchanged. The new standard is not effective until 2013 and is not expected to change any present consolidation conclusions made by the Group.
- IFRS 11 Joint Arrangements. This standard supersedes IAS 31 and SIC 13, and impacts the accounting for all joint arrangements. A joint arrangement is an arrangement of which two or more parties have joint control. The standard classifies joint arrangements into two types – joint operations and joint ventures, and specifies separate accounting guidance for each of these types. The new standard is not effective until 2013 and is not expected to impact the Group as the Group presently is not involved in any joint arrangements.
- IFRS 12 Disclosure of Interests in Other Entities. IFRS 12 sets out the required disclosures for entities reporting under IFRS 10 and IFRS 11, and replaces the disclosure requirements currently found in IAS 28

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 2. Significant Accounting Policies (continued)

#### Basis of Preparation (continued)

Investments in Associates. IFRS 12 requires entities to disclose significant judgments and assumptions made in determining whether the entity controls, jointly controls, significantly influences or has some other interest in other entities. Entities will also be required to provide more disclosures around certain 'structured entities'. The new standard is effective in 2013, and management is currently reviewing its disclosures to ensure compliance.

- IFRS 13 Fair Value Measurement. This standard provides new guidance which results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value. Although the new guidance changes some fair value measurement principles and disclosure requirements, the new standard is not expected to significantly impact the Group's fair value measurement decisions and disclosures. The new standard is effective in 2013. The Group is currently assessing the impact of this standard.
- The IAS 32, Financial instruments: Presentation amendments clarify some of the requirements for offsetting financial assets and financial liabilities in the statement of financial position. In connection therewith, IFRS 7, 'Financial instruments: Disclosures' amendments were also issued. These new IFRS 7 disclosures are intended to facilitate comparison between IFRS and US GAAP preparers. The converged offsetting disclosures in IFRS 7 are to be retrospectively applied, with an effective date of annual periods beginning on or after 1 January 2013. The IAS 32 changes are retrospectively applied, with an effective date of annual periods beginning on or after 1 January 2014. Master netting agreements where the legal right of offset is only enforceable on the occurrence of some future event, such as default of the counterparty, continue not to meet the offsetting requirements. The disclosures focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. The new amendments are not expected to have any impact on the Group's financial position or performance.

#### Basis of Consolidation

##### (a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies, etc. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Cayman National Corporation Ltd.

# Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

## 2. Significant Accounting Policies (continued)

### Basis of Consolidation (continued)

#### (a) Subsidiaries (continued)

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions –that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

#### Disposal of subsidiaries

When the Group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in the consolidated statement of comprehensive income. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

#### (b) Joint Ventures

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 2. Significant Accounting Policies (continued)

#### Basis of Consolidation (continued)

##### (c) Nominee Companies

The following seven subsidiaries earned no fee income and incurred no expenses during the years ended 30 September 2011 and 2010; in addition they had no assets or liabilities as at these dates.

Cayman National (Nominees) Ltd.

CNT (Nominees) Ltd.

Cayman National Nominees Ltd. (regulated and incorporated in the Isle of Man)

Cayman National Secretarial Ltd. (regulated and incorporated in the Isle of Man)

CN Director Limited

Beeston Management Limited

Beeston Administration Limited

#### OPERATING COMPANIES:

Entity	% Owned	Principal activity
Cayman National Bank Ltd. ("CNB") and its wholly owned subsidiary Cayman National Property Holdings Ltd. ("CNP"), and Cayman National S.A. (incorporated in Panama)	100%	Banking and property holding subsidiaries respectively
Cayman National Trust Co. Ltd. ("CNT")	100%	Company and trust management
Cayman National Fund Services Ltd. ("CNFS")	100%	Mutual fund administration
Cayman National Securities Ltd. ("CNS")	100%	Securities brokerage and wealth management
Cayman National Bank & Trust Company (Isle of Man) Ltd. ("CNB&T" (IOM)), (incorporated and regulated in the Isle of Man)	100%	Banking, company and trust management
Cayman National Fund Services (Isle of Man) Ltd. ("CNFS" (IOM)), (incorporated and regulated in the Isle of Man)	100%	Mutual fund administration
International Banking Group (TCI) Ltd. ("IBG") (incorporated and regulated in Turks and Caicos*)	74.36%	Banking services (operations commenced July 2010)
Cayman National Investments Ltd. ("CNI")	100%	Holds a minority investment in a venture capital limited partnership
Cayman National (Dubai) Ltd. (incorporated in Dubai, UAE)	100%	Representative Office

\* 25.64% non-controlling interest was subscribed as of 30 September 2011 (See Note 30)

#### JOINT VENTURE:

Entity	% Owned	Principal activity
AON/Cayman National Insurance Brokers Ltd. ("AON/CNIB") – see Note 10	50%	Insurance brokerage

Cayman National Corporation Ltd.

# Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

## 2. Significant Accounting Policies (continued)

### Business Combinations

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest' proportionate share of the acquiree's net assets.

### Operating Segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

### Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest, if any, in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units ("CGUs") that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

### 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.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 2. Significant Accounting Policies (continued)

#### Foreign Currency Translation

##### (a) Functional and presentation currency

Items included in these consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (“the Functional Currency”). The consolidated financial statements are presented in Cayman Islands dollars (KYD), which is the Corporation’s functional and presentation currency. The Corporation’s functional currency in the current and prior year, is set at a fixed exchange rate to the United States Dollars of USD1.2 to KYD1.0.

##### (b) Transactions and balances

Revenue and expense transactions involving currencies other than the functional currency have been translated at exchange rates ruling at the date of those transactions. Monetary assets and monetary liabilities are translated at the closing rate in effect at the balance sheet date.

Non-monetary assets and liabilities are translated at historical rates. Gains and losses on exchange are credited or charged in the consolidated statement of comprehensive income.

##### (c) Group Companies

The results and financial position of the Group’s Isle of Man entities (which does not have the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates; and
- All resulting exchange differences are recognised in the consolidated statement of comprehensive income.

#### Fixed Assets

Fixed assets are recorded at cost less accumulated depreciation and impairment losses. Fixed assets are depreciated by 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	N/A
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

Cayman National Corporation Ltd.

# Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

## 2. Significant Accounting Policies (continued)

### Fixed Assets (continued)

Fixed assets are reviewed annually at each balance sheet date for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment losses, if any, are recorded in the consolidated statement of comprehensive income.

### Loans and Provision for Loan Impairment

Loans are recognised at fair value when cash is advanced to the borrowers. Loans are carried at amortised cost using the effective interest yield method.

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. The loan impairment provision includes an amount deemed appropriate by management to cover known and incurred risks in the loan portfolio, which have not been specifically identified.

### Accounts Receivable

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of accounts receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through use of an allowance account, and the amount of the loss is recognised in the consolidated statement of comprehensive income. When an account receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the consolidated statement of comprehensive income.

### Accounts Payable

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from vendors. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 2. Significant Accounting Policies (continued)

#### Provisions

Provisions for legal claims or restructuring costs are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions may comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

#### Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

#### Director Benefits

Share options are, from time to time, offered to directors as an incentive in consideration for the carrying out of their duties in addition to directors' fees or other emoluments. The fair value of options are recorded as compensation costs on the date at grant. When the options are exercised, the company will purchase shares in the market. The proceeds received net of any transaction costs are credited to share capital (par value) and the surplus to share premium.

#### Interest Income and Expense

Interest income and expense for all interest-bearing financial instruments, except for those designated at fair value through profit and loss, are recognised within 'interest income' and 'interest expense' in the consolidated statement of comprehensive income using the effective interest method.

#### Fees and Commissions

Fees and commissions for services are recognised on an accrual basis over the period that the services are provided. Loan origination fees for loans which are likely to be drawn down are deferred, together with related direct costs, and recognised as an adjustment to the effective interest rate on the loan over the average life of the related loans.

#### Pension Obligations

The Group employees participate in a defined contribution plan. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no further payment obligations once

Cayman National Corporation Ltd.

# Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

## 2. Significant Accounting Policies (continued)

### Pension Obligations (continued)

the contributions have been paid. Payments to defined contribution retirement plans are charged as and when the service is provided by the employee. The Group does not operate any defined benefit plans.

### Cash and Cash Equivalents

For the purposes of the consolidated statement of cash flows, the Group considers all cash at banks, cash in hand and short term placements with original maturities of three months or less from date of placement as cash or cash equivalents.

### Short Term Placements

Short term placements principally represent deposits and placements with other banks with original maturities of greater than three months but less than twelve months.

### 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.

### Share Purchase Scheme

Employees and directors are entitled to participate in the Share Purchase Scheme (the "Scheme"). Employees make cash contributions which are matched by the Group; these funds are used to purchase shares from the open market. The Group recognises, within personnel costs, the cost of its matched contributions to the Scheme.

### Leases

The leases entered into by the Group are primarily operating leases. The total payments made under operating leases are charged to premises expense in the consolidated statement of comprehensive income on a straight line basis over the period of the leases.

### Investments

The Group classifies its investments in the following categories: available for sale, held to maturity and financial assets at fair value through profit and loss. Management determines the classification of its investments at initial recognition. Purchases and sales of investments available for sale, held to maturity and at fair value through profit or loss are recognised on trade date basis, which is the date the Group commits to purchase or sell the investment. Investments are initially recognised at fair value plus transaction costs for all investments not carried at fair value through profit or loss. Investments carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 2. Significant Accounting Policies (continued)

#### Investments (continued)

##### Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates and equity prices. Available for sale investments are subsequently carried at fair value. The Group's available-for-sale investments are comprised mainly of equity investments, preference shares and bonds.

For publicly traded securities fair value is based on quoted bid prices of these securities. 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 for equity securities, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions and reference to other instruments that are substantially the same. The fair value of bonds and other debt securities are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining maturity. If 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. Unrealised appreciation and depreciation on available-for-sale investments is reported as a separate component of shareholders' equity, until the investment is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the consolidated statement of comprehensive income.

##### Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held to maturity assets, the entire category would be reclassified as available for sale.

Held-to-maturity investments are recorded on a trade date basis and are subsequently carried at amortised cost, using the effective interest method, less any impairment loss recognised to reflect unrecoverable amounts. Premiums and discounts arising on acquisition are amortised over the period remaining to maturity using the effective yield basis and are included in the consolidated statement of comprehensive income within interest income.

##### Financial assets at fair value through profit and loss

Financial assets may be designated by management at fair value through profit or loss if:

- Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss; and

Cayman National Corporation Ltd.

# Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

## 2. Significant Accounting Policies (continued)

### Investments (continued)

#### Financial assets at fair value through profit and loss (continued)

- Financial instruments, such as debt securities held, contain one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit and loss.

Financial assets are initially designated at fair value through profit and loss by management on inception. Gains and losses arising from changes in the fair value of these financial assets are included in the statement of comprehensive income within (loss)/gain from financial assets designated at fair value through profit and loss.

### Investment Properties

Investment properties that are not occupied by the Group and are held for long term rental yields or capital appreciation or both are classified as investment property. Investment property comprises principally of land which is not depreciated. Investment properties are measured initially at cost, including transaction costs and are subsequently measured at depreciated cost less any accumulated impairment losses. Valuations for investment property will be performed every three years for disclosure purposes.

### Financial Liabilities

The Group classifies its financial liabilities as either financial liabilities at fair value through profit and loss "FVTPL" or as other liabilities. Financial liabilities are classified as FVTPL where the financial liability is either held for trading or it is designated at FVTPL. Management determines the classification of its financial liabilities at initial recognition.

#### Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are financial liabilities held for trading. A financial liability is classified in this category if acquired principally for the purpose of repurchasing in the short term or if it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short term profit taking. Derivatives are also categorised as held for trading unless they are designated as hedges.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in the consolidated statement of comprehensive income. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

#### Other Financial Liabilities

Other financial liabilities Other financial liabilities are initially measured at fair value, net of transactions costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 2. Significant Accounting Policies (continued)

#### Financial Liabilities (continued)

##### Other Financial Liabilities (continued)

rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

#### Critical Accounting Estimates and Judgments

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

##### Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis or when an indicator of impairment is present. In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income on these loans, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the discounted collateral and estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group or local economic conditions that correlate with defaults on assets in the group. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of recoverable collateral differs by +/-10 percent, the provision would change by +/- \$990,000 (2010: no material change in the loan provision). Additionally, the Group periodically reviews its provisions for losses incurred in the performing loan portfolio but not specifically identifiable at year end. In determining the provision for loan losses management makes certain judgments regarding the extent to which historical loss trends and current economic circumstances impact their best estimate of losses that exist in the performing loan portfolio at the balance sheet date.

##### Loan origination fees

There are significant balances in the financial statements relating to loan origination fees which require management to exercise judgment in determining the estimates which impact these balances. Based on historical data and management's knowledge and experience of the current portfolio, management estimates that the aggregate portfolio of loan balances has an average maturity period of twelve years (2010: 9 years) and that, annually, 5% (2010: 5%) of loan balances are repaid before the maturity date. The effect of this change in estimate resulted in a decrease in income of \$221,180. These estimates have an impact on loan origination fees recorded within interest income in the consolidated statement of comprehensive income and deferred loan origination fees recorded in the statement of financial position.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 2. Significant Accounting Policies (continued)

#### Critical Accounting Estimates and Judgments (continued)

##### Loan origination fees (continued)

A 1 year increase in the average maturity period results in a decrease in loan origination fee revenue recognised of approximately \$45,619 (2010: \$235,975). A 1 year decrease in the average maturity period has an effect on loan origination fee revenue recognised of approximately \$56,050 (2010: \$218,800). A 1% change in the level of loans repaid prior to the scheduled maturity date has an effect of approximately +/- \$5,863 (2010: \$10,000) on loan origination fees revenue recognised.

##### Estimated Goodwill impairment

The Group reviews its goodwill annually to assess impairment or when there is an indicator of impairment. In assessing impairment, the Group evaluates among other factors any adverse change in the number of clients, or size of assets under management that correlates with a decrease in revenue for the Group. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the purchased portfolio and operational and financing cash flows.

Management uses estimates based on historical loss experience for client assets when projecting its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows for the acquired business differs by +/-5 percent the impairment charge would change by \$192,850 (2010: \$74,242).

##### Impairment of available-for-sale equity investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price/fair value. In addition, impairment may be appropriate when there is evidence of a significant deterioration in the financial health of the investee, industry and sector performance and operational and financing cash flows. Management has determined that there has been a prolonged and significant decline in the value of one of its equity investments as its share price has remained consistently below the value of the original tranche purchased over the past two years. Management has reviewed the financial health of the investee, its share price, the industry of the investee, and its operational and financing cash flows and accordingly recorded an impairment charge on the investment during the year. See Note 4.

##### Held-to-maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 2. Significant Accounting Policies (continued)

#### Critical Accounting Estimates and Judgments (continued)

##### Held-to-maturity investments (continued)

amount close to maturity – it will be required by IAS 39 to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

##### Impairment of assets carried at amortised cost

Other assets carried at amortised cost include accounts receivable, interest receivable and other receivables. The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- (a) significant financial difficulty of the issuer or obligor.
- (b) a breach of contract, such as default or delinquency in interest or principal payments.
- (c) the disappearance of an active market for that financial asset because of financial difficulties.
- (d) the lender, for economic or legal reasons relating to the borrower’s financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.

The estimated period between a loss occurring and its identification is determined by management using periods between 3 months and 12 months.

The amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through an allowance account and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan or held to maturity investment has a variable interest rate the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient the Group may measure impairment of investments on the basis of an instrument’s fair value using an observable market price.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 2. Significant Accounting Policies (continued)

#### Critical Accounting Estimates and Judgments (continued)

##### Impairment of assets carried at amortised cost (continued)

the allowance account. The amount of the reversal is recognised in the consolidated statement of comprehensive income.

### 3. Cash and Due from Banks

Cash and Due from Banks Comprise:	2011	2010
Cash in hand and current accounts	\$62,633,811	\$67,404,863
Operating accounts	16,514,185	20,694,702
Money market accounts	21,657	5,633
Deposits with other banks	219,290,597	237,808,888
	<b>\$298,460,250</b>	<b>\$325,914,086</b>

Deposits with other banks attracted interest of 0.01% to 4.75% during the financial year.

### 4. Investments

Investments Comprise:	2011	2010
Available-for-sale at fair value	\$58,492,866	\$2,582,905
Held-to-maturity, at amortised cost	-	15,059,334
	<b>\$58,492,866</b>	<b>\$17,642,239</b>

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 4. Investments (continued)

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

	Market	Cost	Gross unrealised holding gains (losses)	Impairment of investment	Estimated fair value
<b>30 September 2011</b>					
Ordinary shares*	listed	\$843,638	\$880,722	\$ –	\$1,724,360
	unlisted	1,250,010	(555,563)	(138,889)	555,558
Preference Shares	listed	–	–	–	–
	unlisted	40,885	21,615	–	62,500
Mutual Funds**	listed	–	–	–	–
	unlisted	500,000	(40,666)	–	459,334
Government agency bonds		47,409,761	74,421	–	47,484,182
Regional corporate & government bonds		5,717,362	(6,702)	–	5,710,660
International corporate bonds		2,459,914	36,358	–	2,496,272
		<b>\$58,221,570</b>	<b>\$410,185</b>	<b>\$(138,889)</b>	<b>\$58,492,866</b>
<b>30 September 2010</b>					
Ordinary shares*	listed	\$843,638	\$621,141	\$ –	\$1,464,779
	unlisted	1,250,010	(694,452)	–	555,558
Preference Shares	listed	–	–	–	–
	unlisted	355,728	19,532	(314,843)	60,417
Mutual Funds	listed	–	–	–	–
	unlisted	565,987	(63,836)	–	502,151
		<b>\$3,015,363</b>	<b>\$(117,615)</b>	<b>\$(314,843)</b>	<b>\$2,582,905</b>

\* Included within cost is the initial fair value of \$843,638 (2010: \$843,638) (on the remaining 23,670 shares) on the non-monetary exchange of the Group's membership interest in Visa for a share interest (see Note 27).

\*\* During the year ended 30 September 2011, mutual funds with a cost of \$65,987 were redeemed and proceeds of \$38,816 were received resulting in a loss of \$27,171.

The unlisted mutual funds, equity shares and certain of the international corporate and regional bonds do not have a readily available market. The absence of a liquid market for these securities may restrict the Group's ability to dispose of these investments and amounts ultimately realised may differ materially from the carrying values. Due to a prolonged

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 4. Investments (continued)

and significant decline in value of one of these investments, management assessed the investment as impaired and accordingly \$138,889 (2010: \$314,843) in unrealised losses previously recorded in net unrealised appreciation on investments available-for-sale in the statement of changes in shareholders equity, was recorded as an impairment charge in the consolidated statement of comprehensive income.

Mutual funds represent a fund sponsored and managed by a fellow CNC subsidiary (see Note 14). The mutual fund is the Absolute Return Fund which seeks to maintain capital preservation while outperforming LIBOR through indirect holdings of investments in international markets with a medium term investment horizon.

The issuers of the regional, corporate and government bonds are domiciled in Barbados, Trinidad, and the Cayman Islands. Effective interest rates for the above debt instruments range from 0% to 9.5% (2010: 0% to 7.5%).

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

	2011	2010
Government agency bonds	\$ -	\$ 4,255,195
Regional corporate and government bonds	-	8,327,262
International corporate bonds	-	2,476,877
	<b>\$-</b>	<b>\$15,059,334</b>

During the year, CNB sold \$3,244,550 (amortised cost) of previously designated held to maturity regional corporate bonds for sales proceeds of \$3,317,738 resulting in a realised gain of \$73,187 prior to its maturity. This resulted in tainting of the entire remaining held-to-maturity portfolio of \$9,901,154 (amortised cost). The remaining bonds were reclassified as available for sale and subsequently measured at fair value. The fair value of these bonds at the date of reclassification was \$10,041,440 resulting in an unrealised gain of \$140,286 being subsequently recorded in shareholders' equity.

Included in regional corporate and government bonds is a 0%, 20 year government of the Republic of Trinidad and Tobago note which has replaced the CLICO investment previously held. The CLICO investment was written down by \$1,006,200 during the previous two financial years due to significant financial difficulty of the issuer (which led to control of the Company being assumed by the Government of the Republic of Trinidad and Tobago (GORTT) in January 2009) and delinquency in interest and principal payments.

Based on that information at 30 September 2010 and in accordance with IAS 39, Management determined that the note from the Government of Trinidad represented a new investment and accordingly derecognised the CLICO bonds, and recorded a new investment by performing a discounted cash flow analysis, using a discount rate of 5.5% (approximate yield on similar GORTT bond, 20 payments and a period of one year). This resulted in an impairment charge of \$806,200 which was included in the consolidated statement of comprehensive income. For the year ended September 30,

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 4. Investments (continued)

2011 management has again assessed the investment for impairment, however, based on revised analysis no further impairment of the note is required.

Net amortisation of discounts/premiums on purchase of debt securities of \$721,674 (2010: \$120,820) is included within interest income.

### 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)					
<b>At 30 September 2011</b>					
Commercial	\$73,301	\$25,588	\$54,452	\$92,275	\$245,616
Personal	34,768	23,776	42,600	219,508	320,652
Corporate	4,824	-	727	-	5,551
<b>Total</b>	<b>\$112,893</b>	<b>\$49,364</b>	<b>\$97,779</b>	<b>\$311,783</b>	<b>\$571,819</b>
Provision for loan impairment					(3,536)
					<b>\$568,283</b>
<b>At 30 September 2010</b>					
Commercial	\$115,073	\$23,514	\$53,704	\$81,094	\$273,385
Personal	27,803	23,210	49,148	204,507	304,668
Corporate	4,256	312	865	-	5,433
<b>Total</b>	<b>\$147,132</b>	<b>\$47,036</b>	<b>\$103,717</b>	<b>\$285,601</b>	<b>\$583,486</b>
Provision for loan impairment					(2,882)
					<b>\$580,604</b>

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 5. Loans and Overdrafts (continued)

Substantially all of the Group's loans and overdrafts are advanced to customers in the Cayman Islands. Loans to clients in other geographical areas do not exceed 10%.

Movements in the provision for loan impairment are as follows:

	2011	2010
Provision for loan impairment, beginning of year	\$2,882,448	\$3,326,859
Increase charged to income	1,249,279	35,322
Loans written off	(596,050)	(479,733)
Provision for loan impairment, end of year	\$3,535,677	\$2,882,448

Included in the 2011 impairment provisions is \$2,590,551 (2010: \$793,831) in respect of loans and credit cards classified as delinquent. The aggregate amount included in the impairment provision for loans and overdrafts classified as delinquent is \$2,448,249 (2010: \$583,000). Recoveries for loans previously written-off were \$180,468 (2010: \$133,615). (See Note 20 for discussion on credit risk).

### 6. Fixed Assets

	Freehold land and buildings	Leasehold property and improvements	Computers, software, furniture and equipment	Motor Vehicles	Total
<b>Cost:</b>					
At 30 September 2010	20,542,396	\$7,317,184	\$26,006,212	\$348,538	\$54,214,330
Additions	32,188	37,407	1,006,907	39,901	\$1,116,403
Disposals *	-	-	(30,494)	(68,954)	(99,448)
<b>At 30 September 2011</b>	<b>\$20,574,584</b>	<b>\$7,354,591</b>	<b>\$26,982,625</b>	<b>\$319,485</b>	<b>\$55,231,285</b>
<b>Accumulated depreciation:</b>					
At 30 September 2010	\$5,204,211	\$3,189,835	\$19,965,581	\$221,708	\$28,581,335
Charge for year	520,286	545,552	1,520,862	34,822	\$2,621,522
Disposals	-	-	(29,258)	(56,734)	(85,992)
<b>At 30 September 2011</b>	<b>\$5,724,497</b>	<b>\$3,735,387</b>	<b>\$21,457,185</b>	<b>\$199,796</b>	<b>\$31,116,865</b>
<b>Net book value:</b>					
<b>At 30 September 2011</b>	<b>\$14,850,087</b>	<b>\$3,619,204</b>	<b>\$5,525,440</b>	<b>\$119,689</b>	<b>\$24,114,420</b>

\* During the year ended 30 September 2011, fixed assets with a cost of \$99,448 (2010: \$nil), and a net book value of \$13,456 (2010: \$nil) were disposed resulting in a gain on sale of \$7,574 (2010: \$nil). Proceeds of \$21,030 (2010: \$nil) were received on disposal of these assets.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 6. Fixed Assets (continued)

	Freehold land and buildings	Leasehold property and improvements	Computers, software, furniture and equipment	Motor Vehicles	Total
<b>Cost:</b>					
At 30 September 2009	22,557,422	56,932,371	523,886,748	5327,548	553,704,089
Additions	262,449	420,813	2,348,730	81,715	53,113,707
Disposals *	(2,277,475)	(36,000)	(229,266)	(60,725)	(2,603,466)
<b>At 30 September 2010</b>	<b>\$20,542,396</b>	<b>\$7,317,184</b>	<b>\$26,006,212</b>	<b>\$348,538</b>	<b>\$54,214,330</b>
<b>Accumulated depreciation:</b>					
At 30 September 2009	54,595,117	52,705,272	518,517,123	5242,327	526,059,839
Charge for year	609,094	502,063	1,592,224	29,606	52,732,987
Disposals	–	(17,500)	(143,766)	(50,225)	(211,491)
<b>At 30 September 2010</b>	<b>\$5,204,211</b>	<b>\$3,189,835</b>	<b>\$19,965,581</b>	<b>\$221,708</b>	<b>\$28,581,335</b>
<b>Net book value:</b>					
<b>At 30 September 2010</b>	<b>\$15,338,185</b>	<b>\$4,127,349</b>	<b>\$6,040,631</b>	<b>\$126,830</b>	<b>\$25,632,995</b>
At 30 September 2009	\$17,962,305	\$4,227,099	\$5,369,625	\$85,221	\$27,644,250

\* During the year ended 30 September 2010, two parcels of land previously included in fixed assets with a cost of \$2,277,475 were transferred out of fixed assets and into investment property (see Notes 2 and 7).

### 7. Investment Property

Investment Property at depreciated cost is as follows:

	2011	2010
Cost	\$2,337,475	\$2,277,475

There were no impairment charges on investment properties. Investment property comprises principally of land which is not depreciated. The fair value of investment property was assessed at \$3,367,000 during the prior year by an independent appraiser with an MRICS designation. New property was acquired during the year as a result of repossessed collateral at a value of \$60,000.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 8. Goodwill

Goodwill is summarised as follows:

	2011	2010
<b>Cost:</b>		
Balance at beginning of year	\$7,209,874	\$7,209,874
Purchase consideration paid in year	-	-
Balance at end of year	7,209,874	7,209,874
<b>Accumulated amortisation and impairment:</b>		
Balance at beginning of year	3,854,644	3,164,824
Impairment charge for the year	450,611	689,820
Balance at end of year	4,305,255	3,854,644
Goodwill at end of year	\$2,904,619	\$3,355,230

Goodwill comprises the following business combinations:

Business acquired:	Year of acquisition	Original cost	Cumulative impairment charge	Carrying value
Cayman National Insurance Brokers and Cayman National Insurance Managers	1998	\$299,755	\$(299,755)	\$-
Fiduciary Trust (Cayman) Limited	2003	1,543,550	(550,356)	993,194
Cayman Islands Securities Ltd.	2003	378,011	(313,010)	65,001
Aall Trust & Bank ("ATB")	2005-2008	4,988,558	(3,142,134)	1,846,424
		\$7,209,874	\$(4,305,255)	\$2,904,619

The main factors contributing to the impairment were:

- early repayment of loans by customers which were not reinvested;
- the continued decline in interest earned on deposits and loss of a few large deposits which were not renewed; and
- lower growth in other fees and commissions expected from these relationships and the subsequent decline in profit margins associated with the business.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 9. Fixed Deposit

Substantially all fixed deposits have a maturity of less than one year and bear fixed rates of interest. Interest is recognised on deposits using the effective yield method.

### 10. Joint Venture

Effective 1 October 2006, CNC entered into a 50% joint venture agreement, AON/CNIB, which provided insurance brokerage services. Effective 31 March 2010, the Group sold its 50% interest in the joint venture to Aon Insurance Managers (Cayman) Ltd. As agreed, Aon owes CNC a remaining balance of \$265,181 (2010: \$530,362) in settlement of the sale, which is included in accounts receivable. This balance is payable May 2012. The Group recognised a profit of \$761,382 on the sale, which was recognised in the consolidated statement of comprehensive income in the year ended 30 September 2010. Results for AON/CNIB up to the date of sale were:

	31 March 2010
Total Assets	\$1,062,000
Total Liabilities	\$872,500
Net Assets	\$192,000
Income	\$314,000
Expenses	\$316,500
<b>Net Income</b>	<b>\$(2,500)</b>

### 11. Taxation

The asset/liability for taxation comprises as follows:

	2011	2010
Deferred tax asset/liability	\$(6,293)	\$(6,365)

Under current laws of the Cayman Islands, there are no income, estate, corporation, capital gains or other taxes payable by the Corporation.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 12. Share Capital, General Reserve and Earnings Per Share

	2011	2010
<u>Authorised:</u>		
200,000,000 shares of \$1 par value each (2011 and 2010: 200,000,000)		
<u>Issued and fully paid:</u>		
Shares (2011 and 2010: 42,350,731)	<b>\$42,350,731</b>	<b>\$42,350,731</b>

#### Share Premium

Share premium represents the amount by which the proceeds for shares issued exceeded the par value of \$1 per share. Under Cayman Islands law, the use of the share premium account is restricted.

#### General Reserve

The general reserve represents amounts appropriated by the directors, from retained earnings to a separate component of shareholders' equity, for dividend equalisation and general banking risks including potential future losses or other unforeseeable risks. To the extent that the general reserve is considered by the directors to be surplus to requirements, the reserve is distributable at the discretion of the directors.

#### Earnings and Diluted Earnings Per Share

Earnings per share is calculated by dividing the net income attributable to shareholders of the company by the weighted average number of ordinary shares in issue during the year excluding the average number of ordinary shares purchased by the company and held as treasury shares. Diluted earnings per share is calculated by dividing net income attributable to shareholders by the diluted weighted average number of ordinary shares in issue and the total amount of exercisable stock options which the directors can exercise during the year (see Note 2).

For share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Corporation's shares) based on the monetary value of the subscription price attached to the outstanding share options. The number of shares calculated above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2011	2010
Net income attributable to equity holders of the Corporation	<b>\$ 5,664,258</b>	\$ 5,549,230
Weighted average number of shares in issue	<b>42,319,589</b>	42,350,731
Diluted weighted average number of shares issue	<b>42,319,589</b>	42,350,731
Earnings per share	<b>\$0.13</b>	\$0.13
Diluted earnings per share	<b>\$0.13</b>	\$0.13

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 12. Share Capital, General Reserve and Earnings Per Share (continued)

#### Treasury shares:

During the year one of the Group companies received Cayman National Corporation shares in lieu of fees due. On consolidation these shares were recorded as treasury shares and as such were presented in the statement of shareholders' equity. These shares were sold on 23 November 2011 through the Cayman Islands Stock Exchange.

### 13. Equity Adjustments from Foreign Currency Translation

Equity adjustments from foreign currency translation represent the unrealised exchange gain or loss arising from the translation of the financial statements of CNB&T (IOM) and CNFS (IOM) from pounds sterling to Cayman Islands dollars.

### 14. Related Party Balances and Transactions

The Group enters into various transactions with related parties in the normal course of business. Related parties are entities that are controlled by or maybe significantly influenced by Cayman National Corporation either directly or indirectly through its subsidiaries, the Board of Directors and key employees of the Corporation. Directors include individual directors of CNC and its subsidiaries and also corporations, partnerships, trusts or other entities in which a director or directors collectively, have direct or indirect significant shares or interest in such entities.

Included in the consolidated statement of financial position are the following related party balances:

	2011	2010
Accounts receivable:		
Affiliated companies	\$184,966	\$88,087
Directors	\$83,333	\$-
	<b>\$268,299</b>	<b>\$88,087</b>
Loans and overdrafts:		
Affiliated companies	\$2,519,543	\$2,498,723
Directors and key management	\$8,173,586	\$7,910,779
	<b>\$10,693,129</b>	<b>\$10,409,502</b>
Investments (Note 4):		
Affiliated companies	\$459,334	\$436,164
Directors	\$55,558	\$621,545
	<b>\$1,014,892</b>	<b>\$1,057,709</b>
Customers' accounts:		
Affiliated companies	\$63,262,374	\$61,698,413
Directors and key management	\$1,151,522	\$1,285,770
	<b>\$64,413,896</b>	<b>\$62,984,183</b>

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 14. Related Party Balances and Transactions (continued)

Included in the consolidated statement of comprehensive income are the following related party balances:

Included within interest income is interest of \$180,482 (2010: \$280,172) on loans and overdrafts to directors and key management (see Note 19).

Included within interest expense is interest of \$396,479 (2010: \$483,898) on deposits to affiliated companies.

Included within other operating expenses are professional fees of \$nil (2010: \$17,738) paid to firms of attorneys of whom 2 directors of CNB are also directors and owners.

Staff loans, which totaled \$44,611,770 (2010: \$45,649,763) at the balance sheet date, are at rates varying between 3.25% and 6% p.a. (2010: 3.25% and 6% p.a.). Employees of a former associated company continue to receive loans at rates consistent with staff loans.

Customers' accounts with affiliated companies represent deposits from clients, trusts and companies managed by CNT.

The Group owns the sponsor's shares totaling US\$100 in Cayman National Mortgage Fund Ltd. ("CNMF"), a fund for which the Group provides the banker and mortgage advisor services and is remunerated by way of commitment fees negotiated between the Group and the individual mortgagors. In addition, the Group provides the administration, registrar and transfer agent services and receives a fee amounting to 1.75% p.a. of the daily net assets of the fund. The Group also provides administration services for CNB Money Market Fund ("CMMF") and the Cayman National Master Series Trust ("CNMST") and receives an annual fee amounting to 1% of the daily net assets of CMMF. Management has waived the fees for the year ended 30 September 2011 and 2010 in respect of the management of CNMST. The Group provides the trustee of both CMMF and CNMST. Additionally, the Group provides certain 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 net assets at the end of the year.

For its custody and management services of the Cayman National Mutual Funds, the Group receives a management fee amounting to 2% p.a. of the Cayman National US Equity Fund, 2.25% p.a. of the Cayman National International Equities Fund and 1.25% p.a. of the Cayman National US Bond Fund.

The following is a summary of the fees received from these related parties:

	2011	2010
Cayman National Mortgage Fund	\$660,237	\$ 602,412
CNB Money Market Fund	393,183	534,126
Cayman National Securities Mutual Funds	165,224	-
Cayman National Pension Fund	144,109	136,378
	<b>1,362,753</b>	<b>1,272,916</b>

All other transactions with related parties are conducted on normal commercial terms and at non-preferential interest rates.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 15. Commitments

In the normal course of business there are various commitments on behalf of customers to extend credit. Commitments to extend credit totaled \$11,078,848 at 30 September 2011 (2010: \$18,907,540). 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 lease expense for the year was \$3,270,323 (2010: \$3,113,933). The total annual commitments are as follows:

Year ended 30 September	Annual commitment
2012	\$3,462,394
2013	\$3,675,092
2014	\$3,781,365
2015	\$3,349,323
2016 or greater	\$14,317,139

### 16. Pension Obligations

The Cayman National Corporation Pension Fund (“the Fund” or “CNPF”) is a defined contribution pension scheme which became effective on 1 July 1997. The Fund is administered by Cayman National Trust Co. Ltd. and is available for participation by Group and third party employees. Membership is mandatory for all Group employees between the ages of 18 and 60, with contributions from both employer and employees. The required contribution is 5% of employees’ salary matched by the employer on a maximum salary of \$60,000 per annum. Included in personnel expense is an amount of \$520,346 (2010: \$588,024) representing the Group’s contribution to the Fund.

### 17. Contingent Liabilities

A subsidiary of the Group has guaranteed \$400,000 for future possible liabilities of CNT (Directors) Ltd. and CNT (Nominees) Ltd. This guarantee specifically covers the possibility that the company be unable to meet its liabilities to clients, trustees, customers or other creditors arising from carrying on its business as a corporate director, officer or nominee in the Cayman Islands.

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

The Group has issued letters of credit, acceptances and guarantees to third parties totaling \$4,320,617 (2010: \$4,776,498) on behalf of customers. 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

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 17. Contingent Liabilities (continued)

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's best estimate of provisions for incurred liabilities comprises:

	2011	2010
Claims		
Provision	\$50,000	-
Warranty provisions (i)	-	\$988,993
Fiduciary liabilities (ii)	-	\$484,525
<b>Total provisions</b>	<b>\$50,000</b>	<b>\$1,473,518</b>

(i) Over the course of two transactions during two years ended 30 September 2007, CNC sold its stake in Cayman General Insurance Co Ltd (whose name was subsequently changed to Sagacor General Insurance (Cayman) Ltd ("SGI"). This sale was subject to various warranties made by CNC in the sale agreement which were limited to an aggregate amount of \$8,000,000. At 30 September 2011, the maximum warranty amount of \$8,000,000 (2010: \$7,011,007) had been disbursed in relation to accepted claims under these warranties. Management has not accrued any further amounts on this warranty (2010: \$998,993) as the maximum exposure limit has been reached and no further claims are due under the agreement.

(ii) Fiduciary liabilities represents management's best estimate of amounts required to effect the correction of a prior year accounting error. The entire amount was settled during the year ended 30 September 2011.

During the financial year ended 30 September 2009, CNB sold property held by its subsidiary, CNPH. Included in the sale agreement is a warranty to the purchaser that CNB shall hold harmless the purchaser for a period of five years from the date of completion of the sale if the purchaser is unable to develop the property solely as a result of the restrictive agreements registered on title to the property. Management continues to believe that this warranty will not have a material adverse effect on CNB's (or the Group's) financial position, as no claim in respect of this warranty has been reported during the year, nor is expected.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 18. Dividends Per Share

Final proposed dividends (Note 30) are presented as a separate component of Shareholders' Equity until they have been formally ratified at the Annual General Meeting ("AGM").

	2011
2010 proposed dividend paid in 2011	\$2,117,537
Interim 2011 dividend declared and paid in 2011	2,117,537
Total dividend paid out of 2011 earnings	\$4,235,074
Final proposed dividend – \$0.05 per share	\$2,117,537
	2010
2009 proposed dividend paid in 2010	\$2,117,537
Interim 2010 dividend declared and paid in 2010	2,117,537
Total dividend paid out of 2010 earnings	\$4,235,074
Final proposed dividend – \$0.05 per share	\$2,117,537

### 19. Directors' and Officers' Remuneration

During the year ended 30 September 2011, the Corporation had a total of 9 directors (2010: 9) of whom 1 is an executive officer (2010: 1). For the financial year ended September 2011, the aggregate compensation for directors' services was \$248,836 (2010: \$270,998).

Salaries and other short term employee benefits for key management (being those executives with the authority to direct the Group's operating policy) of \$1,730,395 (2010: \$1,496,158) are included within personnel expenses.

During the year ended 30 September 2011, total share options of 690,000 were granted to directors and executive management on 20 September 2011 at a strike price of US\$2.50 per share. The options expire five years after the authorisation date of each director's option agreement. The options vest immediately as each year of service is performed, however, a minimum of 1,000 options could be exercised at any one time and a maximum, ranging between 10,000 to 20,000 options, could be exercised per director per year, cumulative. At 30 September 2011, 138,000 options were exercisable.

Directors held 6,171,535 (2010: 6,074,338) of the Corporation shares as at 30 September 2011 of which 4,805,121 (2010: 4,707,924) were beneficially owned and 1,366,414 (2010: 1,366,414) were non-beneficially owned.

### 20. Financial Risk Management

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial services business, and operational risks

Cayman National Corporation Ltd.

# Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

## 20. Financial Risk Management (continued)

are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practices.

Financial risk management is carried out by various operating units under policies approved by the Board of Directors. The Board provides written policies for overall risk management as well as specific policies covering credit risk, interest rate risk, foreign exchange risk, use of derivative and non-derivative financial instruments, liquidity risk and investment of excess liquidity. The most important types of risk are credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate risk and other price risk.

### Market Risk

The Group takes on exposure to market risk which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements and changes in the volatility of market prices or prices such as interest rates, credit spreads and foreign exchange rates.

### Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by the Treasury Manager. The Board also reviews a quarterly yield analysis to monitor its cost of funds and repricing risk as appropriate.

The table below summarises the Group's exposure to interest rate risks. It includes the Group's financial instruments at carrying amounts categorised by when management expects interest rates to reset. As management does not expect interest rates to materially change within the next one to two years, loans with maturity periods greater than five years are included in the 1-5 year category which is the next anticipated repricing period. Loans over five years include staff loans which are at fixed rates and disclosed at their contractual maturity period.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 20. Financial Risk Management (continued)

#### Interest Rate Risk (continued)

At 30 September 2011	1–3 months	3–6 months	6–12 months	1–5 Years	Over 5 Years	Non–interest Bearing	Total
<b>Assets</b>							
Cash and bank balances	\$289,234,892	\$–	\$–	\$–	\$–	\$9,225,358	\$298,460,250
Short term placements	–	36,833,189	23,489,485	–	–	–	\$60,322,674
Investments	13,410,575	5,822,017	9,536,421	22,501,903	4,420,198	2,801,752	\$58,492,866
Loans and Overdrafts	66,620,055	33,516,592	24,520,963	388,342,913	55,274,591	7,510	\$568,282,624
Interest receivable	1,283,141	–	–	–	–	–	\$1,283,141
Other assets	–	–	–	–	–	7,813,803	\$7,813,803
<b>TOTAL</b>	<b>\$370,548,663</b>	<b>\$76,171,798</b>	<b>\$57,546,869</b>	<b>\$410,844,816</b>	<b>\$59,694,789</b>	<b>\$19,848,423</b>	<b>\$994,655,358</b>
<b>Liabilities and Equity</b>							
Demand & Term Deposits	\$627,395,677	\$65,706,757	\$63,012,448	\$3,375,770	\$–	\$164,486,424	\$923,977,076
Other liabilities	–	–	–	–	–	13,277,950	\$13,277,950
<b>TOTAL</b>	<b>\$627,395,677</b>	<b>\$65,706,757</b>	<b>\$63,012,448</b>	<b>\$3,375,770</b>	<b>\$–</b>	<b>\$177,764,374</b>	<b>\$937,255,026</b>
<b>Total Interest Sensivity Gap</b>	<b>\$(256,847,014)</b>	<b>\$10,465,041</b>	<b>\$(5,465,579)</b>	<b>\$407,469,046</b>	<b>\$59,694,789</b>		

At 30 September 2010	1–3 months	3–6 months	6–12 months	1–5 Years	Over 5 Years	Non–interest Bearing	Total
<b>Assets</b>							
Cash and bank balances	\$315,809,550	\$–	\$–	\$–	\$–	\$10,104,536	\$325,914,086
Short term placements	–	22,919,657	48,306,795	21,416,667	–	–	\$92,643,119
Investments	–	–	–	6,732,073	6,833,462	4,076,704	\$17,642,239
Loans and Overdrafts	64,918,290	23,076,667	69,735,944	366,562,356	56,167,448	143,676	\$580,604,381
Other assets	–	–	–	–	–	14,102,382	\$14,102,382
Interest receivable	1,480,560	–	–	–	–	–	\$1,480,560
<b>TOTAL</b>	<b>\$382,208,400</b>	<b>\$45,996,324</b>	<b>\$118,042,739</b>	<b>\$394,711,096</b>	<b>\$63,000,910</b>	<b>\$28,427,298</b>	<b>\$1,032,386,767</b>
<b>Liabilities and Equity</b>							
Demand & Term Deposits	\$627,245,090	\$55,607,631	\$90,376,329	\$3,171,906	\$–	\$177,341,535	\$953,742,491
Other liabilities	–	–	–	–	–	20,264,272	\$20,264,272
<b>TOTAL</b>	<b>\$627,245,090</b>	<b>\$55,607,631</b>	<b>\$90,376,329</b>	<b>\$3,171,906</b>	<b>\$–</b>	<b>\$197,605,807</b>	<b>\$974,006,763</b>
<b>Total Interest Sensivity Gap</b>	<b>\$(245,036,690)</b>	<b>\$(9,611,307)</b>	<b>\$27,666,410</b>	<b>\$391,539,190</b>	<b>\$63,000,910</b>		

#### Interest Rate Risk Sensitivity Analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for financial assets and liabilities at the balance sheet date. A 25 basis point (2010: 50 basis points) increase or decrease is used as it represents management's assessment of the reasonably possible change in interest rates.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 20. Financial Risk Management (continued)

#### Interest Rate Risk Sensitivity Analysis (continued)

If interest rates had been 25 basis points (2010: 50 basis points) higher/lower and all other variables remained constant, the Group's profit and equity for the year ended 2011 would increase/decrease by \$538,291 (2010: increase/decrease by \$1,137,790). This is mainly attributable to the Group's exposure to interest rates in its fixed rate liabilities and variable rate loans.

#### Other Price Risk

The Group is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments.

#### Equity Price Sensitivity Analysis

If equity prices had been 15% higher/lower:

- net profit for the year would have been unaffected as the equity investments are classified as available for sale and no investments were impaired.
- equity would increase/decrease by \$351,393 (2010: \$387,436) for the Group as a result of the change in fair value of available-for-sale investments.

#### Currency Risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign currency deposits accepted from customers are matched with corresponding foreign currency deposits placed with correspondent banks such that the foreign currency risk is economically hedged. Moreover the Cayman Islands Dollar is pegged at a fixed rate of exchange to the United States Dollar (see Note 2), thus this is not considered to pose a significant foreign exchange risk. The Group does however have exposure to fluctuations of exchange rates on unhedged foreign currency assets (see table below). The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily by management. Management believes that these policies mitigate the Group's exposure to significant currency risks.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 20. Financial Risk Management (continued)

#### Currency Risk (continued)

The following table presents, by major currency, the Group's exposure to foreign currency risk at 30 September 2011:

2011	KYD	USD	GBP	CAD	EURO	OTHER	Total
<b>Assets</b>							
Cash & Due From Banks	\$7,930,789	\$160,414,330	\$77,727,872	\$7,064,625	\$38,797,974	\$6,524,660	\$298,460,250
Short term placements	–	\$6,614,560	\$2,802,815	\$119,430	\$705,159	\$80,710	\$60,322,674
Investments	–	\$45,848,802	\$12,644,064	–	–	–	\$58,492,866
Loans & Overdrafts	\$350,500,948	\$183,907,996	\$33,873,680	–	–	–	\$568,282,624
<b>Total Assets</b>	<b>\$358,431,737</b>	<b>\$446,785,688</b>	<b>\$127,048,431</b>	<b>\$7,184,055</b>	<b>\$39,503,133</b>	<b>\$6,605,370</b>	<b>\$985,558,414</b>
<b>Liabilities</b>							
Depositors Accounts							
Current	\$67,657,408	\$95,582,470	\$114,534	\$9,448	–	–	\$163,363,860
Savings	\$61,752,707	\$118,791,810	\$94,159,850	\$3,515,415	\$2,047,597	\$6,168,662	\$286,436,041
Fixed Deposits	\$92,539,324	\$313,681,730	\$26,478,653	\$3,663,162	\$37,443,129	\$371,177	\$474,177,175
<b>Sub Total</b>	<b>\$221,949,439</b>	<b>\$528,056,010</b>	<b>\$120,753,037</b>	<b>\$7,188,025</b>	<b>\$39,490,726</b>	<b>\$6,539,839</b>	<b>\$923,977,076</b>
Interest Payable	\$73,535	\$569,715	\$6,270	\$12,437	\$6,036	\$1,523	\$669,516
Accounts Payable & Other Liabilities	\$7,412,743	\$4,185,235	\$1,001,493	\$5,940	\$3,023	–	\$12,608,434
<b>Total Liabilities</b>	<b>\$229,435,717</b>	<b>\$532,810,960</b>	<b>\$121,760,800</b>	<b>\$7,206,402</b>	<b>\$39,499,785</b>	<b>\$6,541,362</b>	<b>\$937,255,026</b>
<b>Net on Balance Sheet position</b>	<b>\$128,996,020</b>	<b>\$(86,025,272)</b>	<b>\$5,287,631</b>	<b>\$(22,347)</b>	<b>\$3,348</b>	<b>\$64,008</b>	

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 20. Financial Risk Management (continued)

#### Currency Risk (continued)

The following table presents, by major currency, the Group's exposure to foreign currency risk at 30 September 2010:

2010	KYD	USD	GBP	CAD	EURO	OTHER	Total
<b>Assets</b>							
Cash & Due From Banks	\$7,021,419	\$138,555,093	\$127,566,185	\$5,375,024	\$43,188,103	\$4,208,262	\$325,914,086
Short term placements	-	85,693,594	3,209,574	1,960,535	922,023	857,393	92,643,119
Investments	-	17,642,239	-	-	-	-	17,642,239
Loans & Overdrafts	333,519,444	208,770,046	38,314,891	-	-	-	580,604,381
<b>Total Assets</b>	<b>\$340,540,863</b>	<b>\$450,660,972</b>	<b>\$169,090,650</b>	<b>\$7,335,559</b>	<b>\$44,110,126</b>	<b>\$5,065,655</b>	<b>\$1,016,803,825</b>
<b>Liabilities</b>							
Depositors Accounts							
Current	\$63,612,051	\$113,648,324	\$132,600	\$6,368	-	-	\$177,399,343
Savings	59,841,995	102,657,758	129,979,549	3,374,033	5,538,342	4,111,605	305,503,282
Fixed Deposits	83,710,379	310,324,092	33,647,350	3,877,920	38,436,228	843,897	470,839,866
<b>Sub Total</b>	<b>\$207,164,425</b>	<b>\$526,630,174</b>	<b>\$163,759,499</b>	<b>\$7,258,321</b>	<b>\$43,974,570</b>	<b>\$4,955,502</b>	<b>\$953,742,491</b>
Interest Payable	53,329	341,681	4,966	8,440	2,060	7,492	417,968
Accounts Payable & Other Liabilities	12,166,876	7,390,903	288,525	-	-	-	19,846,304
<b>Total Liabilities</b>	<b>\$219,384,630</b>	<b>\$534,362,758</b>	<b>\$164,052,990</b>	<b>\$7,266,761</b>	<b>\$43,976,630</b>	<b>\$4,962,994</b>	<b>\$974,006,763</b>
<b>Net on Balance Sheet position</b>	<b>\$121,156,233</b>	<b>\$(83,701,786)</b>	<b>\$5,037,660</b>	<b>\$68,798</b>	<b>\$133,496</b>	<b>\$102,661</b>	<b>\$42,797,062</b>

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 20. Financial Risk Management (continued)

#### Currency Sensitivity Analysis

The Cayman Islands dollar is pegged to the United States dollar at 1.00 to 1.20, as such that exposure is fixed. The Bank is mainly exposed to the currency of Britain (GBP), the European Union (EUR) and Canada (CAD).

Should the foreign exchange rate move by 10% (2010: 10%) there would be no significant increase/ decrease in the KYD against the relevant foreign currencies. 10% represents management's assessment of the reasonably possible change in foreign exchange rates, as there was less volatility in the movements of the relevant currencies above during the year ended 30 September 2011. As such no sensitivity analysis has been prepared.

#### Liquidity Risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

#### Liquidity Risk Management Process

The Group's liquidity management process, as carried out within the Group and monitored by a separate team, the Asset Liability Committee (ALCO), which includes the Treasury Manager, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt security maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are the key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

Treasury and the ALCO also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

To mitigate exposure to liquidity risk, the Board of Directors have established a maximum ratio of loans to total customers' deposits of 75% which is continuously monitored by management. 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.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 20. Financial Risk Management (continued)

#### Funding Approach

Sources of liquidity are regularly reviewed by ALCO to monitor diversification by currency, geography, provider, and product. The Group ensures that sufficient cash and due from banks and short term placements are held in order to address liquidity demands. These are the key financial assets used to mitigate liquidity risk, see Note 3 for composition of these balances.

The table below presents the cash flows payable by the Group for financial liabilities remaining as at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash flows:

#### Liquidity Risk

At 30 September 2011	1-3 months	3-6 months	6-12 months	1-5 Years	Over 5 Years	Total
<b>Liquidity Risk</b>						
Cash and bank balances	298,460,250	-	-	-	-	\$298,460,250
Short term placements	-	36,833,189	23,489,485	-	-	\$60,322,674
Investments	16,212,327	5,822,017	9,536,421	22,501,903	4,420,198	\$58,492,866
Loans	66,620,055	33,516,592	24,520,963	21,288,861	422,336,153	\$568,282,624
	<b>381,292,632</b>	<b>76,171,798</b>	<b>57,546,869</b>	<b>77,784,004</b>	<b>392,763,111</b>	<b>985,558,414</b>
<b>LIABILITIES</b>						
Depositors accounts						
Current	163,363,860	-	-	-	-	\$163,363,860
Savings	286,436,041	-	-	-	-	\$286,436,041
Fixed Deposits	342,662,468	66,035,962	63,542,563	3,505,484	-	\$475,746,477
<b>Subtotal</b>	<b>792,462,369</b>	<b>66,035,962</b>	<b>63,542,563</b>	<b>3,505,484</b>	<b>-</b>	<b>\$925,546,378</b>
Other Liabilities	7,522,494	562,765	215,423	1,169,461	34,760	\$9,504,903
<b>Total Liabilities</b>	<b>799,984,863</b>	<b>66,598,727</b>	<b>63,757,986</b>	<b>4,674,945</b>	<b>34,760</b>	<b>\$935,051,281</b>
Net exposure	(418,692,231)	9,573,071	(6,211,117)	73,109,059	392,728,351	\$50,507,133
Loan Commitments	11,078,848					\$11,078,848

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 20. Financial Risk Management (continued)

#### Liquidity Risk (continued)

At 30 September 2010	1–3 months	3–6 months	6–12 months	1–5 Years	Over 5 Years	Total
<b>Liquidity Risk</b>						
Cash and bank balances	325,914,086	–	–	–	–	\$325,914,086
Short term placements	–	22,919,657	48,306,795	21,416,667	–	\$92,643,119
Investments	4,076,704	–	–	6,732,073	6,833,462	\$17,642,239
Loans	64,918,290	23,076,667	69,735,944	33,281,454	389,592,026	\$580,604,381
	<b>394,909,080</b>	<b>45,996,324</b>	<b>118,042,739</b>	<b>61,430,194</b>	<b>396,425,488</b>	<b>\$1,016,803,825</b>
<b>LIABILITIES</b>						
Depositors accounts						
Current	\$177,399,343	–	–	–	–	\$177,399,343
Savings	\$305,503,282	–	–	–	–	\$305,503,282
Fixed Deposits	321,891,654	55,787,273	91,053,874	3,281,325	–	\$472,014,126
<b>Subtotal</b>	<b>804,794,279</b>	<b>55,787,273</b>	<b>91,053,874</b>	<b>3,281,325</b>	<b>–</b>	<b>\$954,916,751</b>
Other Liabilities	9,749,892	1,981,189	1,309,270	3,393,247	–	\$16,433,598
<b>Total Liabilities</b>	<b>814,544,171</b>	<b>57,768,462</b>	<b>92,363,144</b>	<b>6,674,572</b>	<b>–</b>	<b>\$971,350,349</b>
Net exposure	(419,635,091)	(11,772,138)	25,679,595	54,755,622	396,425,488	\$45,453,476
Loan Commitments	18,907,540	–	–	–	–	\$18,907,540

#### Credit Risk

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk is the most important risk for the Group's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Group's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments and no material losses are anticipated by management as a result of these transactions. The credit risk management and controls are centralised in the credit risk management team who reports to the President who in turn reports to the Executive Credit Committee, a subset of the Board of Directors. Key functions of these groups in their monitoring of credit risk cover:

- Independent review and objective assessment of risk;
- Performance and management of retail and commercial portfolios;
- Compliance with policies on large credit exposures;
- Debt recovery management and maximisation of recovery on impaired debts.

Cayman National Corporation Ltd.

# Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

## 20. Financial Risk Management *(continued)*

### Credit Risk *(continued)*

#### *(i) Credit Risk Measurement*

##### Loans and Advances

In measuring credit risk of loan and advances to customers the Group reflects three components (1) the ‘probability of default’ by the client on its contractual obligations; (2) current exposures to the client and its likely future development; and (3) the likely recovery on the defaulted obligations.

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. The operational measurements are consistent with impairment allowances required under IAS 39, which are based on losses that have been incurred at the balance sheet date (the ‘incurred loss model’) rather than expected losses. Loan impairment provisions are charged to expenses in order to maintain the reserve at a level deemed appropriate by management to absorb known inherent risks in the loan portfolio.

The Bank’s future ratings scale and mapping of external ratings:

<b>Bank’s rating</b>	<b>Description of the grade</b>	<b>External rating: Approximate Agency Equivalent</b>
1	Excellent	AAA to A-
2	Good	BBB+ to BBB
3	Average	BBB- to BB+
4	Fair	BB to B-
5	Watch List	CCC to C-
6	Substandard	Un-rated
7	Non-Accrual	Un-rated
8	Doubtful/Loss	Un-rated

While the above rating system is a recent undertaking, the ratings of the major rating agency shown in the table above are mapped to the Group’s rating classes based on the Group’s experience. The Group uses the external ratings where available to benchmark our internal credit risk assessment. Observed defaults per rating category vary year on year, especially over an economic cycle.

The total exposure on default is based on the amounts the Group expects to be owed at the time of default. For example, for a loan this is the face value plus unpaid interest. For a commitment, the Group includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 20. Financial Risk Management (continued)

#### Credit Risk (continued)

##### Debt Securities and other Bills

For debt securities and other investments, external rating such as Moody's and Standard & Poor's rating or their equivalents are used by the Group for managing of the credit risk exposures. The investments in those securities and investments are viewed as a way to gain a better credit quality mapping.

##### Other Assets

The majority of other assets consist of accounts receivables (which are shown presented net of provision for doubtful accounts), prepayments, interest receivable, due from brokers and other fees receivable.

Account and other fees receivable consist of a large number of clients spread across diverse geographical areas. Ongoing credit evaluation is performed on the financial condition of receivables and, where appropriate, a provision is established for accounts deemed uncollectible. In addition, a portion of the receivables are due from entities of which the Group is director or trustee or where the Group holds assets in a fiduciary capacity and as such has control over the settlement of the liabilities to the Group, which minimises the credit risk to the Group.

#### *(ii) Risk Limit Control and Mitigation Policies*

The Group manages limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups. It maintains a policy on large credit exposures, ensuring that concentrations of exposure by counterparty do not become excessive in relation to the Group's capital base and remain within internal and regulatory limits.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. The Group's main operations are in the Cayman Islands.

##### Exposure Policy

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Other specific control and mitigation measures are outlined below:

##### Adequate Collateralisation

It is the Group's policy when making loans to establish that they are within the customer's capacity to repay rather than relying exclusively on security. However, while certain facilities may be unsecured depending on the client's standing and the type of product, collateral can be an important mitigant of credit risk.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 20. Financial Risk Management (continued)

#### Credit Risk (continued)

##### *(ii) Risk Limit Control and Mitigation Policies (continued)*

###### *Adequate Collateralisation (continued)*

The Group implements guidelines on the acceptability of specific classes of collateral. Longer term financing and lending to corporate entities are generally secured however, revolving lines of credit, customer overdrafts and credit cards are generally unsecured. The principal collateral types accepted by the Group are as follows:

- In the personal sector, mortgages over residential properties;
- In the commercial and industrial sector, charges over business assets such as premises, stock and accounts receivables;
- In the commercial real estate sector, charges over the properties being financed;

#### Credit-related Commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate along with charges over property and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

#### Impairment and provisioning policies

The impairment provision shown in the consolidated statement of financial position at year-end is derived from each of the eight internal rating grades. However, the majority of the impairment provision comes from the bottom four gradings. The table below shows the percentage of the Group's on- and off-balance sheet items relating to loans and advances and the associated impairment provision for each of the Group's internal rating categories:

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 20. Financial Risk Management (continued)

#### Credit Risk (continued)

##### (ii) Risk Limit Control and Mitigation Policies (continued)

Impairment and provisioning policies (continued)

Bank's rating	2011		2010	
	Loans and advances (%)	Impairment provision (%)	Loans and advances (%)	Impairment provision (%)
1. Excellent	75.12	–	84.89	–
2. Good	14.54	0.55	13.00	2.76
3. Average	0.54	0.08	0.59	0.49
4. Fair	3.23	0.16	1.40	0.97
5. Watch List	6.39	63.28	0.01	2.43
6. Substandard	0.03	2.19	0.06	49.68
7. Non Accrual	0.05	11.02	0.03	27.44
8. Doubtful / Loss	0.10	22.72	0.02	16.23
	100.00	100.00	100.00	100.00

Management uses this tool to assess the credit quality of its loan book, based on the following criteria set out by the Group:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Court Judgment;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

The Group's policy requires the review of individual financial assets that are above certain individually significant thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment always encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds e.g. credit cards; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience and experienced judgment.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 20. Financial Risk Management *(continued)*

#### Credit Risk *(continued)*

##### *(ii) Risk Limit Control and Mitigation Policies (continued)*

##### Impairment and provisioning policies *(continued)*

Maximum credit exposure at the year-end approximates to the carrying value of all assets, plus the off balance sheet items contained in the table below. The classes of financial instruments to which the Group is most exposed are loans and advances to customers.

The Group's cash and due from banks balances, short term placements and term deposits are primarily placed at institutions and/or subsidiaries of institutions with Standard & Poor's short term ratings of A-1 or above. Mortgage, consumer and other loans are presented net of provisions for loan losses. 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 mortgage, consumer and other loans is limited due to the large number of customers comprising the Group's customer base.

Maximum exposure to credit risk before collateral held or other credit enhancements, presented in thousands of dollars is as follows:

Credit risk exposures relating to on-balance sheet assets as follows:	2011 (\$000's)	2010 (\$000's)
Placements with banks	349,893	412,554
<b>Loans and advances to customers:</b>		
Loans to individuals:		
Overdrafts	22,469	23,741
Credit cards	9,888	10,046
Term loans	53,173	55,214
Mortgages	253,732	256,178
Loans to corporate entities:	232,557	238,306
<b>Investment securities</b>		
Debt securities	55,691	15,060
Other assets	6,290	8,470
<b>Credit risk exposures relating to off-balance sheet items are as follows:</b>		
Financial guarantees	1,643	1,824
Loan commitments and other credit related liabilities	13,631	21,861
<b>At 30 September</b>	<b>\$998,967</b>	<b>\$1,043,254</b>

The above table represents a worst case scenario of credit risk exposure to the Group at 30 September 2011 and 2010, without taking account of any collateral held or other credit enhancements attached.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 20. Financial Risk Management (continued)

#### Credit Risk (continued)

##### (ii) Risk Limit Control and Mitigation Policies (continued)

Impairment and provisioning policies (continued)

Loans and advances are summarised as follows:

(\$000)	30-Sep-11		30-Sep-10	
	Loans and advances to customers	Placements with banks	Loans and advances to customers	Placements with banks
Neither past due nor impaired	\$464,001	\$349,893	\$500,698	\$412,554
Past due but not impaired	105,322	-	81,086	-
Individually impaired	2,496	-	1,702	-
Gross	\$71,819	\$349,893	\$583,486	\$412,554
Less: allowance for impairment	3,536	-	2,882	-
<b>Net</b>	<b>\$568,283</b>	<b>\$349,893</b>	<b>\$580,604</b>	<b>\$412,554</b>

##### (a) Loans and advances neither past due nor impaired

The credit quality of loans and advances neither past due nor impaired are assessed as excellent in accordance with the internal rating system adopted by the Corporation.

##### (b) Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

30 September 2011	Individual (retail customers) and Corporate entities (\$000)					Total
	Overdrafts	Credit Cards	Term Loans	Mortgages	Large Corporate Customers	
Past due up to 30 days	-	\$691	\$6,219	\$28,861	\$47,178	\$82,949
Past due 30 – 60 days	-	105	211	1,708	760	2,784
Past due 60–90 days	-	36	52	156	1,083	1,327
Over 91 days	-	72	879	7,516	9,795	18,262
<b>Total</b>	<b>-</b>	<b>\$904</b>	<b>\$7,361</b>	<b>\$38,241</b>	<b>\$58,816</b>	<b>\$105,322</b>
Fair value of collateral	-	\$321	\$16,913	\$78,227	\$150,773	\$246,234

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 20. Financial Risk Management (continued)

#### Credit Risk (continued)

##### (ii) Risk Limit Control and Mitigation Policies (continued)

##### (b) Loans and advances past due but not impaired (continued)

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

30 September 2010	Individual (retail customers) and Corporate entities (\$000)					Total
	Overdrafts	Credit Cards	Term Loans	Mortgages	Large Corporate Customers	
Past due up to 30 days	–	840	5,722	27,451	38,226	72,239
Past due 30 – 60 days	–	124	352	2,448	215	3,139
Past due 60–90 days	–	121	16	770	–	907
Over 91 days	86	–	112	3,224	1,379	4,801
<b>Total</b>	<b>86</b>	<b>1,085</b>	<b>6,202</b>	<b>33,893</b>	<b>39,820</b>	<b>81,086</b>
Fair value of collateral	–	315	17,197	70,954	124,589	213,055

Subsequent to year end and as at 31 October 2011, total loans and advances past due but not impaired had decreased to \$33.5 million (2010: \$23 million). The reduction in past due balances is a result of the payment history of over the counter customers who historically make their loan payments shortly after the end of each month.

##### (c) Loans and advances individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is \$2,496,000 (2010: \$1,702,000).

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Group as security, are as follows:

	Individual (retail customers) and Corporate entities (\$000)					Total
	Overdrafts	Credit Cards	Term Loans	Mortgages	Large Corporate Customers	
<b>30 September 2011</b>						
Individually impaired loans	133	108	205	170	1,880	2,496
Fair value of collateral	–	–	–	–	–	–
<b>30 September 2010</b>						
Individually impaired loans	185	107	202	155	1,053	1,702
Fair value of collateral	–	–	–	–	–	–

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 20. Financial Risk Management (continued)

#### Credit Risk (continued)

##### (ii) Risk Limit Control and Mitigation Policies (continued)

##### (d) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset from overdue to a performing status. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to mortgages and corporate loans, in particular customer finance loans. Renegotiated loans that would otherwise be past due or impaired totaled \$7,207,969 at 30 September 2011 (2010: \$24,682,000).

Loans and advances to customers – individuals ('000):	2011	2010
Term loans	\$1,329	5354
Mortgages	2,863	4,850
Corporate	3,015	19,478
Total	\$7,207	\$24,682

#### Investment Securities

The table below presents an analysis of investment securities by rating agency designation at 30 September 2011 and 30 September 2010, based on Standard & Poor's ratings or their equivalent:

(\$'000) 2011	Investment Securities	Other Investments	Total
AAA	44,411	-	44,411
AA- to AA+	5,484	-	5,484
A- to A+	863	-	863
Lower than A-	3,073	-	3,073
Unrated*	1,860	-	1,860
Total	55,691	-	55,691

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 20. Financial Risk Management (continued)

#### Credit Risk (continued)

##### (ii) Risk Limit Control and Mitigation Policies (continued)

##### Investment Securities (continued)

(\$'000) 2010	Investment Securities	Other Investments	Total
AAA	5,865	-	5,865
AA- to AA+	1,160	-	1,160
A- to A+	867	-	867
Lower than A-	4,840	-	4,840
Unrated*	2,328	-	2,328
<b>Total</b>	<b>15,060</b>	<b>-</b>	<b>15,060</b>

\*Included in the unrated category is an impaired investment in GORRT/CLICO Ltd (see Note 4 for further discussion.)

#### Repossessed Collateral

During 2011, the Group served demand notices on collateral held as security, as follows:

Nature of assets	Carrying amount ('000)
Residential property	\$1,086
Commercial property	\$512

Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness and any surplus is returned to the customer.

#### Concentration of risks

##### Geographical Sectors

The Group has a concentration of risk in respect of geographical area as both customers and assets held as collateral on loans are primarily based in the Cayman Islands.

### 21. Regulatory Requirements

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

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 21. Regulatory Requirements (continued)

CNB, CNT and CNS are 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 Group's financial statements. The subsidiaries must meet specific capital guidelines that involve quantitative measures of the subsidiaries assets and liabilities. The subsidiaries' capital amount and classifications are also subject to qualitative analysis by CIMA. Quantitative measures established by CIMA to ensure capital adequacy requires that subsidiaries maintain a minimum amount of capital and a minimum ratio of risk-weighted assets to capital.

CNC as a publicly traded company is subject to continuing obligations rules of the Cayman Islands Stock Exchange.

During 2010, one of the subsidiaries received a capital contribution from the parent company which allowed the company to comply with the minimum capital requirements and risk asset ratio. Management believes, as of 30 September 2011 and 2010 that all regulated subsidiaries meet the respective regulatory capital adequacy requirements established by CIMA, the Isle of Man Financial Supervision Commission and other regulatory bodies in the respective jurisdictions in Dubai and Panama. In TCI, unexpected year end accruals resulted in the minimum required capital falling below \$2,500,000, the regulatory required minimum. However, subsequent to year end the IBG's capital position has been restored with additional capital paid in of \$737,500.

The Group's objectives when managing capital are:

- To comply with the capital requirements set by the chief regulator in the jurisdictions where the Group's subsidiaries operates.
- To safeguard the Group's ability to continue as a going concern while maximising the return to stakeholders; and
- To maintain a strong capital base to support the development of the business.

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented by the chief regulator, for supervisory purposes. The required information is filed with regulator on a quarterly basis.

The regulatory capital of the Group's reporting subsidiaries as monitored by the Board is divided into two tiers:

Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital; and

Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available for sale. Investments in associates are deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposures.

The Cayman Island Monetary Authority (CIMA) implemented the Basel II Framework. The Basel II Framework describes a more comprehensive measure and minimum standard for capital adequacy that seeks to improve on the existing Basel I rules by aligning

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 21. Regulatory Requirements (continued)

regulatory capital requirements more closely to the underlying risks that banks face. A key objective of the revised Framework is to promote the adoption of stronger risk management practices by the banking industry.

CIMA proposes to apply the Basel II Framework in two phases leveraging a practical measured approach. The first phase of the implementation comprised the following Pillar I approaches:

- Credit Risk – Standardised
- Market Risk – Standardised
- Operational Risk – Basic Indicator Approach and The Standardised Approach

The first phase of the Basel II implementation will also include Pillar II – Supervisory Review Process and Pillar III – Market Discipline. However, given the scope of Pillar II and Pillar III and the possible impact to banks, CIMA will implement these after at a later date.

The second phase of the CIMA Basel II implementation will be considered for implementation after 2012. It will include considering the implementation of advanced approaches, specifically Pillar I – Credit Risk – Advanced Approaches (IRB), Operations Risk – Advanced Measurement Approaches (AMA) and Market Risk – Internal Risk Management Models.

The Group has complied with all filings in accordance with Pillar I under the standardised approach and is a part of the working committee to give input to CIMA on the impact of implementing Pillar II.

The Group has incorporated relevant changes to its investment policy in order to ensure maximum credit quality and maintain its required minimum Capital Adequacy ratio.

### 22. Fair Value

The majority of the Group's financial assets and liabilities, with the exception of loans and certain investments, 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 mainly 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 is disclosed in Note 4.

The Group is required to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 22. Fair Value (continued)

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The determination of what constitutes ‘observable’ requires significant judgment by the Group. The Group considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The Group has assessed the sensitivity of investment valuation to changes in related indices as well as the impact of sudden price movements in fair valued investments in Notes 2 and 20.

The following table analyzes within the fair value hierarchy the Group’s financial instruments (by class) measured at fair value at 30 September 2011:

Assets:	Level 1	Level 2	Level 3	Total Balance
Investments in securities, at fair value:				
Equities	\$1,724,360	\$–	\$618,058	\$2,342,418
Mutual funds	–	459,334	–	459,334
Bonds	–	54,197,314	1,493,800	55,691,114
<b>Total Assets</b>	<b>\$1,724,360</b>	<b>\$54,656,648</b>	<b>\$2,111,858</b>	<b>\$58,492,866</b>
30 September 2010	\$1,464,779	\$436,194	\$681,962	\$2,582,905

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include investments in funds where redemption is not restricted, certain non-US sovereign obligations and thinly traded listed equities. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on comparable market information.

Investments classified within level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 instruments include equity in a private company and debt in relation to GORRT/CLICO (Note 4). As observable prices are not available for these securities, the Group has used valuation techniques to derive the fair value. The main inputs into the Group’s valuation methods for level 3 assets may include: discounted cash flow projections, original transaction price, recent transactions in the same or similar instruments and completed third-party transactions in comparable instruments and information obtained from investment manager of the fund. It adjusts the model as deemed necessary.

The following table presents the movement in level 3 instruments for the year ended 30 September 2011 by class of financial instrument. The transfer into level 3 during the year resulted from the reclassification of an investment previously classified as held-to-maturity to available for sale in the current period.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 22. Fair Value (continued)

	Equity Securities	Bonds	Other securities	Total
Opening balance	\$615,975	–	\$65,987	\$681,962
Purchases	–	–	–	–
Sales	–	–	(38,816)	(38,816)
Transfers into level 3	–	1,493,800	–	1,493,800
Transfers out of level 3	–	–	–	–
Gains (Losses) recognised	140,972	–	(27,171)	113,801
Impairment	(138,889)	–	–	(138,889)
<b>Closing balance</b>	<b>\$618,058</b>	<b>\$1,493,800</b>	<b>–</b>	<b>\$2,111,858</b>

### 23. 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 may be accused of mal-administration or under-performance.

### 24. Geographical and Segmental Information

The Group's main operations are in the Cayman Islands, with two subsidiaries, CNB&T (IOM) and CNFS (IOM) based in the Isle of Man, and one subsidiary, IBG based in the Turks and Caicos Islands.

For the year ended 30 September 2011, summary financial data for CNB&T (IOM), CNFS (IOM) and IBG operations is presented below; as IBG only became fully operational in July 2010, its results are not presented for 2010 due to the insignificance of the balances.

	IOM 2011	IBG 2011	IOM 2010
Total Assets	122,878,381	\$4,625,573	\$158,243,240
Total Liabilities	116,608,823	\$2,168,595	\$152,682,533
Total Income	4,467,107	\$103,434	\$3,618,507
Net Income (Loss)	1,169,603	\$(2,863,384)	\$650,314

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 24. Geographical and Segmental Information (continued)

The Group's primary business segment includes domestic and offshore retail and corporate banking; secondary operations include trust and company management, mutual fund administration and asset management services. Other operations include the holding company accounts which are mostly impacted by inter-company eliminations.

30 September 2010	Banking	Trust & Company Management	Asset Management	Eliminations	Group
Gross Assets	909,883,246	126,300,635	3,417,076	(18,493,704)	1,021,107,253
Total Liabilities	819,881,014	117,385,241	1,193,531	(1,204,760)	937,255,026
Gross Revenue	38,965,473	7,614,413	4,988,081	(1,634,400)	49,933,567
Net Income	3,102,579	1,034,953	1,088,574	(387,131)	4,838,975
Capital Expenditure	976,533	91,325	12,523	36,022	1,116,403
Depreciation charge	2,360,664	149,881	76,977	34,000	2,621,522
Goodwill impairment	309,470	-	141,141	-	450,611
Interest expense	2,487,526	366,568	-	-	2,854,094
Interest income	27,588,071	1,133,646	8,873	(411,407)	28,319,183
<b>30 September 2010</b>					
Gross Assets	907,999,713	162,367,614	4,278,092	(18,106,217)	1,056,539,202
Total Liabilities	819,606,818	154,026,709	2,073,125	(1,699,889)	974,006,763
Gross Revenue	36,915,440	6,492,101	4,726,949	(32,475)	48,102,015
Net Income	3,891,476	347,247	897,349	34,314	5,170,386
Capital Expenditure	2,994,753	97,996	20,958	-	3,113,707
Depreciation charge	2,497,481	138,486	79,160	17,860	2,732,987
Goodwill impairment	335,571	310,383	43,866	-	689,820
Interest expense	1,966,902	234,319	-	-	2,201,221
Interest income	26,094,932	911,979	9,379	-	27,016,290

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 25. Interest Income

Interest Income comprises of the following:

	2011	2010
Cash and short term funds	\$1,873,957	\$1,975,276
Investment securities	658,246	539,351
Loans and advances	25,786,980	24,501,663
	<b>\$28,319,183</b>	<b>\$27,016,290</b>

Substantially all interest expense is attributable to customer deposits.

### 26. Foreign Exchange

Included within foreign exchange fees and commissions are foreign exchange transaction gains of \$4,422,403 (2010: \$3,884,524) and realised foreign exchange losses of \$nil (2010: loss of \$nil).

### 27. Income Received From VISA Shares

The Group's payment services business issues and acquires credit and debit card transactions through the VISA Inc. Association or its affiliates (collectively "Visa"). On 3 October 3 2007, Visa completed a restructuring and issued shares of Visa common stock to its financial institution members in contemplation of its initial public offering ("IPO") which occurred in the first quarter of 2008 (the "Visa Reorganisation"). As part of the re-organisation the Group received its proportionate number of Visa common stock, a portion of which were simultaneously redeemed for cash, with the remaining shares to be converted to Class A shares three years after the IPO.

A portion of the shares initially allocated to the group in 2008 were converted to unrestricted Class A shares by VISA, which the Group then subsequently sold in 2010 at a gain of \$910,055. The remaining 23,670 (2010: 23,670) shares are held in available for sale investments at \$1,724,360 (2010: \$1,464,779) with a corresponding unrealised gain of \$880,722 (2010: \$621,140) recorded in the net unrealised appreciation on investments available-for-sale reserve.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 28. Personnel

Personnel costs comprise of the following:

	2011	2010
Salaries and overtime	\$20,277,961	\$20,356,362
Pension	622,433	693,582
Health insurance	1,606,655	1,631,182
Bonus	558,293	402,210
Training	279,544	233,805
Other	996,789	1,004,479
	<b>\$24,341,675</b>	<b>\$24,321,620</b>

Certain employees and directors are voluntarily able to participate in the Corporation's Staff Share Purchase Scheme (the "Scheme"). Under the Scheme employees can contribute up to 2% of salary which is matched by the Corporation, and directors contribute up to 20% of their quarterly directors' fees which is also matched by the Corporation. The contributions are used to purchase shares in the open market at prevailing prices and the shares are subject to certain vesting terms as set out in the Scheme. The net cost to the Corporation of this Scheme for the year was \$106,694 (2010: \$116,668) which is included within personnel costs in the statement of income.

At 30 September 2011, the Group employed a total of 320 personnel (2010: 314).

### 29. Accounts Payable and Other Liabilities

	2011	2010
Due to customers	\$6,662,117	\$11,812,579
Accounts payable & accrued expenses	1,765,083	2,440,795
Other liabilities	1,027,704	706,709
Accounts payable and other liabilities	<b>\$9,454,904</b>	<b>\$14,960,083</b>

### 30. Non-Controlling Interest

International Banking Group (TCI) Ltd. (IBG) is based in the Turks and Caicos and holds a national and oversea banking license issued by the Turks & Caicos Islands Financial Services Commission. IBG commenced operations in July 2010.

As of 30 September 2009, IBG was a wholly owned subsidiary of CNC; however, in May 2010 the directors approved a share subscription offering to the public and as a result additional shares were issued, which resulted in a minority shareholding or non controlling interest in IBG being recorded.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

### 30. Non-Controlling Interest (continued)

As of 30 September 2011, total shares issued to minority shareholders were 258,200 (2010: 213,200) with CNC maintaining majority shareholding of 74.36% (2010: 73.78%) and minority shareholding or non-controlling interest was 25.64% (2010: 26.22%).

Currently and historically, IBG is/has been dependent upon the financial support of its parent and majority shareholder (CNC) to allow it to continue as a going concern. IBG has incurred a loss of \$3,768,615 (prior period unaudited: \$2,165,102) for the year ended 30 September 2011, and has an accumulated deficit of \$5,933,717 (prior period unaudited: \$2,165,102) as at that date. IBG's ability to continue as a going concern is dependent on the continuing financial support of CNC in order to ensure its continued normal course of business. CNC has given a letter of support to IBG which states that it is the present intention of CNC to continue to provide appropriate financial support, as may be required, to enable IBG to continue its operations at its present level of activity, for a period of at least 12 months from 12 December 2011 and to meet its obligation as they fall due in the normal course of business.

However in the event that CNC decides to withdraw its support to IBG, IBG will cease to be a going concern. As such, this indicates the existence of a material uncertainty which may cast significant doubt on the IBG's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that may be necessary should the IBG be unable to continue as a going concern.

### 31. Subsequent Events

During November 2011, CNC declared a final dividend of \$0.05 per share (\$2,117,537) which is anticipated will be paid to shareholders of record after approval by shareholders at the annual General meeting in March 2012. The payment of the CNC dividend will be funded by dividends from the various Group subsidiaries; although the exact amount of dividends to be paid from each subsidiary has not yet been determined, the majority of the dividend will be paid by CNB. In anticipation of this dividend declaration at 30 September 2011, the directors made an appropriation from retained earnings to the reserve for dividends.

Cayman National Bank Ltd.

## Consolidated Statement of Financial Position

30 September 2011 (expressed in Cayman Islands dollars)

<b>Assets</b>	<b>2011</b>	<b>2010</b>
Cash and due from banks (Note 3)	\$223,866,673	\$205,623,342
Short term placements	58,426,919	92,241,098
Investments (Notes 4 and 10)	45,848,802	17,576,252
Investment Property (Note 7)	2,337,475	2,277,475
Loans and overdrafts (Notes 5 and 10)	549,306,105	545,067,733
Interest receivable	1,613,906	1,951,579
Accounts receivable (Note 10)	3,151,990	16,324,204
Fixed assets (Note 6)	20,705,803	21,902,488
Goodwill (Note 20)	–	309,470
	<b>\$905,257,673</b>	<b>\$903,273,641</b>
<b>Liabilities</b>		
Customers' accounts (Note 10)		
Current	\$163,801,707	\$179,459,003
Savings	193,770,204	178,480,252
Fixed deposits (Note 8)	449,935,672	446,031,865
	<b>\$807,507,583</b>	<b>\$803,971,120</b>
Interest payable	661,754	413,891
Deferred Revenue	2,229,854	2,189,137
Accounts payable and accrued expenses	7,313,228	12,012,932
	<b>\$817,712,419</b>	<b>\$818,587,080</b>
<b>Shareholder's Equity</b>		
Share capital (Note 9)	\$2,436,585	\$2,436,585
Share premium	1,695,816	1,695,816
General reserve (Note 9)	39,500,000	39,500,000
Retained earnings	43,502,668	41,171,775
Net unrealised appreciation on investments available-for-sale (Note 4)	410,185	(117,615)
	87,545,254	84,686,561
<b>Total liabilities and shareholder's equity</b>	<b>\$905,257,673</b>	<b>\$903,273,641</b>

Approved for issuance on behalf of Cayman National Bank Ltd.'s Board of Directors by:

Chairman



S.J. Dack

Director



O.A. Williams

Date: 21 December 2011

Note: These Financial Statements for Cayman National Bank Ltd. are extracts from the detailed audited Financial Statements of the Bank.

Cayman National Bank Ltd.

## Consolidated Statement of Comprehensive Income

for the year ended 30 September 2011 (expressed in Cayman Islands dollars)

Interest	2011	2010
Interest income (Notes 10 & 21)	\$27,550,601	\$26,094,177
Interest expense (Notes 10 & 21)	2,480,561	1,966,821
<b>Net Interest Income</b>	<b>\$25,070,040</b>	<b>\$24,127,356</b>
<b>Other Income</b>		
Foreign exchange fees and commissions (Note 22)	\$5,400,919	\$5,108,999
Other fees and commissions (Note 10)	8,391,596	7,659,212
Income from repossessed collateral	60,000	-
Gain on sale of investment Visa shares (Note 23)	-	910,055
(Loss) on investment available-for-sale (Note 4)	-	(30,387)
Gain on investment held-to-maturity (Note 4)	73,187	-
Gain on sale of fixed assets (Note 6)	5,186	-
Impairment loss on held-to maturity investment (Note 4)	-	(806,200)
Impairment loss on available-for-sale investment (Note 4)	(138,889)	-
Loss from financial instruments designated at fair value (Note 4)	-	(56,729)
<b>Total Income</b>	<b>\$38,862,039</b>	<b>\$36,912,306</b>
<b>Expenses</b>		
Depreciation (Note 6)	\$2,043,224	\$2,253,395
Increase in reserve for loan loss (Note 5)	1,200,000	-
Other operating expenses (Note 10)	9,491,326	8,610,683
Personnel (Notes 12, 14 and 16)	17,107,778	16,722,963
Premises	2,744,278	2,529,818
Goodwill impairment (Note 20)	309,470	335,571
<b>Total Expenses</b>	<b>\$32,896,076</b>	<b>\$30,452,430</b>
<b>Profit For The Year</b>	<b>\$5,965,963</b>	<b>\$6,459,876</b>
<b>Other Comprehensive Income / (Loss):</b>		
Net realised (loss) gain on sales of available-for-sale investments (Note 4)	-	(879,668)
Net realised impairment of available-for-sale investments	138,889	-
Change in unrealised appreciation (Note 4)	388,911	(210,449)
<b>Total Other Comprehensive Income / (Loss)</b>	<b>527,800</b>	<b>(1,090,117)</b>
<b>Total Comprehensive Income For The Year</b>	<b>\$6,493,763</b>	<b>\$5,369,759</b>

Note: These Financial Statements for Cayman National Bank Ltd. are extracts from the detailed audited Financial Statements of the Bank.

# Directory

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### Directors

**Truman M. Bodden, OBE, LLB (Hons), ACIB, JP\*\*\***  
Chairman  
**Stuart J. Dack, ACIB, MBA,**  
President & Chief Executive  
**John C. Bierley, BA, JD (USA)**  
(retired October 2011)  
**Sherri Bodden-Cowan, LLB (Hons)\*\*,\*\***  
**Clarence Flowers, Jr.\***  
**Bryan A. Hunter, LLB\*\*\***  
**Peter A. Tomkins, MBE\*,\*\***  
**Nigel Wardle, BA, CA\*\***

### Senior Officers & Management

**Stuart J. Dack, ACIB, MBA,**  
President & Chief Executive  
**Dorette Brown, Senior Vice President,**  
Administration & Human Resources  
**Patricia Estwick, BA (Hons), CPA, MBA,**  
Group Chief Financial Officer  
**Owen Henry, ACIB,**  
Group Internal Auditor  
**Claudia Welds,**  
Senior Executive, Corporate  
Communications  
**Ian C. Whan Tong, AB, LLB, MPA, CAMS,**  
Notary Public, Group Legal Counsel  
**Ryan Bahadur BSc. Hons, CAMS,**  
Manager, Regulatory Compliance

\* Members of the Group Compensation  
Committee

\*\* Members of the Group Audit Committee

\*\*\* Members of the Group Legal Committee

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**Sherri Bodden-Cowan, LLB (Hons.)**  
**Clarence Flowers, Jr.**  
**Peter A. Tomkins, MBE**  
**Ormond A. Williams, FIFS, FCMI, FCABFI**

### Senior Officers & Management

**Ormond A. Williams, FIFS, FCMI, FCABFI,**  
President  
**Brian Esau, BA, Dipl Fin Mgmt, CSC, AICB,**  
Executive Vice President  
**Avolyn Tatum, BSc, Notary Public**  
Senior Vice President,  
Personal & Business Banking  
and Credit Risk Management  
**Norma Williams-Seymour, MICA, Int.Dip**  
**(Comp), M.Sc., B.Sc., Notary Public,**  
Senior Vice President, Service Delivery  
**Denniston Swaby, BSc,**  
Chief Information Technology Officer  
**Michele Ebanks, BBA,**  
Senior Vice President, Card Services  
**John Henry Ebanks, AML/CA**  
Senior Vice President & MLRO, &  
Operational Risk Management  
**Kim Remizowski, TEP, AICB**  
Senior Vice President,  
International Premier Banking  
**Judy Watler, AICB,**  
Manager, Premier Banking  
**Sharon Wyckoff,**  
Manager, Treasury  
**Shari Whittaker, MA**  
Manager, Bank Marketing  
**Karen Baptiste, BA (Hons), CPA,**  
Senior Finance Manager

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**Bryan A. Hunter, LLB**  
**Christopher Lumsden, BA, ACA**  
**Peter A. Tomkins, MBE**  
**Nigel Wardle, BA, CA**

### Senior Officers & Management

**Christopher Lumsden, BA, ACA,**  
President  
**Susan Levy, BBA, M.Acc., CPA,**  
Deputy Head of Fund Services  
**Jill Anderson,**  
Head of Investor Services  
**Debra C. Humphreys, FICA, TEP, JP,**  
Senior Vice President,  
Risk & Compliance Manager, MLRO

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**Bryan A. Hunter, LLB**  
**Peter A. Tomkins, MBE**  
**Nigel Wardle, BA, CA**

### Senior Officers & Management

**Michael L. Hodgson, BA, MBA, TEP,**  
President  
**Armando Ebanks, BSc., TEP**  
Senior Vice President  
**Simon Garnett, FCCA CGA,**  
Head of Finance  
**Joyce Shaw,**  
Head of Operations, Trust & Corporate  
**Debra C. Humphreys, FICA, TEP, JP,**  
Senior Vice President,  
Risk & Compliance Manager, MLRO

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Senior Vice President,  
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## Cayman National Bank and Trust Company (Isle of Man) Limited

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**Christopher Lumsden, BA, ACA,**  
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**David W. Trimble, MA (Cantab)**  
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**Barbara Cox-Ambrister, MBA, BA,**  
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Cayman National Bank Ltd.  
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Cayman National Trust Co. Ltd.  
Cayman National Securities Ltd.  
Cayman National Bank & Trust Co. (Isle of Man) Limited  
Cayman National Fund Services (Isle of Man) Limited  
Cayman National Bank Ltd. Oficina de Representación (Panama)  
Cayman National (Dubai) Ltd.  
International Banking Group (TCI) Ltd.