

Annual Report 2016



**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 a representative office in Dubai.

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President's Report

We are pleased to report Net Income Attributable to the Company relating to our normal activities of C\$10,881,003. This represents more than a ten-fold increase over the same period last year. As explained below, this significant improvement is partially due to not only better performance this year, but also attributable to extraordinary expenses that were incurred last year and not in this most recent period.

Total Comprehensive Income for the year was C\$9,309,794, in comparison to C\$1,548,371 for the year prior. Total Income increased by 11% on a year ago with Total Expenses up by 7%, mainly due a modest increase in Personnel Costs and additional loan provisions which we felt prudent as our loan book is increasing. As in previous years, our loan book remains sound with loan default at levels well below most in our industry. Notwithstanding the overall increase in Expenses, our costs remain well-controlled as our business continues to grow. Last year, we accounted for the one-time C\$5 million settlement with the US Department of Justice relating to Cayman National Trust and Cayman National Securities, and there is no similar expense this year.

The Company's balance sheet remains strong with Total Assets now well above the C\$1.3 billion mark and Shareholders' Equity up by 12% on a year ago at C\$89 million.

Stuart Dack, President and CEO



Over the years, we have faced various challenges but this year’s results reflect the strength and depth of our business which remains strong and resilient. We are pleased with the improvement seen in overall profitability and the steady increase in the size of our balance sheet. We continue to take sensible measures to contain costs and improve income. All of the businesses within our group remain under close review and where necessary, we are shifting the emphasis towards more profitable sectors while reducing our involvement in less rewarding areas.

We were pleased to pay an interim dividend of 5 cents per share to shareholders in October 2016, and the expectation is that we will maintain a similar dividend stream to our shareholders with a final dividend for the year, which is due for payment in March 2017. The decision on the final dividend payment will be considered by Shareholders at our Annual General Meeting in March 2017.

Cayman National Bank Ltd.

With Net Income of C\$10,750,626, CNB performed strongly in 2016 with the year-end result up by 21% on a year ago. Although we increased loan provisions modestly in 2016, the Bank’s loan book remains robust and diverse. The generally improving economy in the Cayman Islands has enabled us to grow the loan book selectively.

We remain conservative in our approach to investments but with a modest upward trend in local and US interest rates, the investment and loan interest income has seen upward movement.

The Banker Magazine (part of the Financial Times Group) named CNB as the winner of the Bank of the Year Award for 2016 for the Cayman Islands. This is the fourth time that CNB has received this prestigious award, and we are again honored to be recognised for our solid performance and customer service.



Grand Cayman, Cayman Islands

We are pleased with the improvement seen in overall profitability and the steady increase in the size of our balance sheet.

Cayman National Trust Co. Ltd. (CNT)

Cayman National Trust recorded a loss of C\$143,614 in 2016, and although this represents an improvement over the previous year’s performance, this business remains under close review as we wish to see all areas of our group contribute positively.

Cayman National Securities Ltd. (CNS)

Cayman National Securities turned in a profit of C\$76,879 in 2016 which represents a modest improvement over the previous year. Like CNT, this business remains under close review. We expect that increasing revenue, and our reductions in personnel costs, while still maintaining high levels of control, will improve the position in the foreseeable future.

Cayman National Fund Services Ltd. (CNFS)

CNFS achieved a profit of C\$82,457 in 2016 which was marginally down on the result of C\$130,000 recorded in the last year. As with CNS, we are working on improved efficiency within this business.

Cayman National Bank and Trust Company (Isle of Man) Ltd.

Our Isle of Man operations contributed the equivalent of C\$144,872 to the group’s bottom line in 2016. This figure represents a reduction on the 2015 result. Personnel costs have been reduced in the year to assist in improving future returns.

Risk Control

Risk control remains an important element of our business and we recognise the importance of comprehensive controls throughout our organisation. Costs in this area are continue on an upward trend as more and more regulation is imposed upon the financial sector. This is a challenge to profitability but we recognise that these increasing costs are a necessary aspect of our business and we continue to carefully balance the regulatory and control costs with the standards now demanded to ensure effective and efficient implementation.

Our experienced team of risk control specialists has been developed over the years and reports to our Audit committee which is comprised of non-executive Directors.



Douglas, Isle of Man



43
YEARS
516
MONTHS
162
ORGANISATIONS
SUPPORTED IN 2016
51
STAFF VOLUNTEERS
LIVES TOUCHED
PRICELESS!



Community Support

As successful Caymanian and Isle of Man businesses, we are very conscious of the need to support the communities in which we operate. We actively support a wide range of very worthy causes with a focus on five key sectors of the communities: education, youth, the elderly, sports, the arts, and culture. Our aim is to assist as many people in the communities as possible within these sectors. Sponsorship requests are supported by monetary donations, promotional giveaway items, and staff volunteerism.

Some of the organisations we assisted in the Cayman Islands during 2016 include:

- The National Trust for the Cayman Islands
- Leadership Cayman
- Global Young Leaders Conference
- Cayman HospiceCare
- Deputy Governor 5K Challenge
- John Gray Cadet Corp Detachment
- Rotary Club of Cayman Brac
- Cayman Islands Crisis Center
- Hope for Today Foundation
- Central Caribbean Marine Institute
- Stingray Swim Club and more....

Our Isle of Man (IOM) team displayed a strong spirit of giving through a number of corporate and staff driven initiatives such as:

- The Color Me Rainbow Run/Walk
- Hospice, Isle of Man
- MacMillan Cancer Support

To close off 2016, we held our 14th Home for Christmas event in the Cayman Islands. In keeping with our tradition, we recognised and donated to two charities at the event, Feed our Future and CAYS Foundation were both acknowledged.

In addition to the monetary support that we provide by way of sponsorship and donations, we are grateful to the many staff of the Cayman National Group who continue to give freely of their time and energy to community projects and causes. We again applaud the valuable contribution that you make to your communities.





Downtown, Dubai



Acknowledgement.

2016 was a rewarding year for us and one where we have seen hard work and dedication reflected in our results. In the Cayman Islands, 98% of our staff are Caymanians and we continue to train and develop our staff throughout the organisation, investing in education and training for all staff. We take this opportunity to thank our staff for their commitment to the business.

More than ever, we recognise that there is strong competition in the financial sector and that our clients have a choice – with this in mind we strive to provide high levels of services, and we thank all who choose to do business with us whether the relationship is recent or long-standing.

We also take this opportunity to thank our shareholders. We acknowledge that we have more than 1,600 shareholders who have invested in our business. Some are recent and many have shareholders for decades. We appreciate your support and are pleased that we were in a position to pay an interim dividend to you this year, with the expectation that a final dividend of 5 cents per share will be approved at the AGM to be held in March. We are also pleased that the share price has seen significant upward movement in recent times, which we believe reflects the solid performance of CNC.

We believe our business is well-placed to continue with sound results. We enter our 44th year of operation, looking forward to the forthcoming year with optimism.



Stuart Dack
President and Chief Executive
Cayman National Corporation Ltd.

Board of Directors



Dr. the Hon. Truman Bodden

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

Dr. the Hon. 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 (H.C.), 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 is a member of the 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 former senior partner of the law firm of Truman Bodden & Company from 1974 – 2008. In August Mr. Bodden was presented with an honorary doctorate by the University of Liverpool.



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, 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.

Sherri Bodden–Cowan

MBE, LLB (Hons), Notary Public

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, Consolidated Water Company 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 along with The Brasserie Restaurant and Market on Elgin Avenue.

Board of Directors



Bryan A. Hunter

BA, LLB, Notary Public

Bryan Hunter is the Managing Partner and the Head of the Corporate 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. He 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 President of Consulting Caribbean LLC and President of Caribbean LED Lighting (TCI) Ltd. He has 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 has served on numerous Boards throughout the Caribbean including, Grenada Electricity Services Ltd, Dominica Electricity Services Ltd and Marpin 2k4 Ltd. He has extensive knowledge of the electric utility and telecommunication sectors in the region.

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



Leonard N. Ebanks

OBE, CMH, JP

Mr. Ebanks has over 40 years of banking and financial services experience. He commenced his banking career with RBC in the Cayman Islands in 1967, serving in increasingly senior positions in the Cayman Islands, St. Lucia, and Jamaica. He was subsequently appointed as the President and CEO of Fidelity Bank (Cayman) Limited, and its insurance and pension services subsidiaries, a position that he held for over 23 years until his retirement. He also served on the board of Caribbean Utilities Company, Ltd.

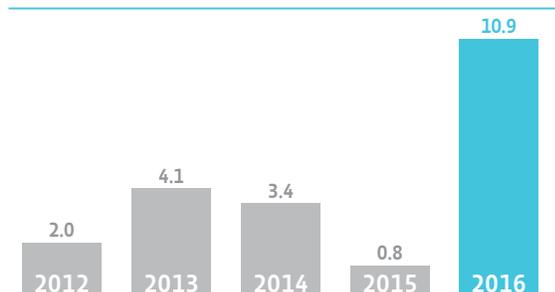
Mr. Ebanks' long record of public service includes tenures on several Cayman Islands Government Boards since 1975, as a member or chairman, including Cayman Airways, the National Housing Development Trust, the Constitutional Review Commission, and the Public Service Pension Board. He was made an Officer of the Order of the British Empire in 2013 in recognition of his services in Economic Development and the Community.

We enter our **44th year of operation**, looking forward to the forthcoming year with optimism.

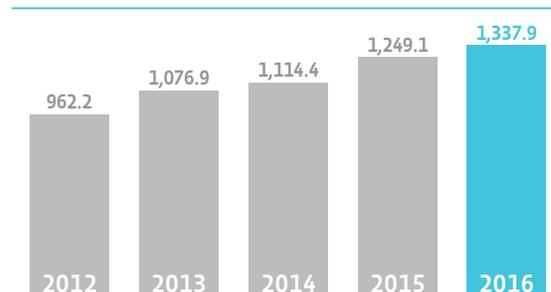
Summarised Financial Details

	2016	2015	Percentage Change
Net Income	\$10,881,003	\$817,431	1231%
Total Income	62,467,705	56,235,272	11%
Total Assets	1,337,890,909	1,246,041,117	7%
Total Deposits	1,234,222,737	1,142,041,323	8%
Total Equity	89,207,577	79,866,201	12%
Earnings Per Share	\$0.26	\$0.02	1185%
Book Value Per Share	2.11	1.89	12%
Return on Assets	0.84%	0.07%	1118%
Return on Equity	12.87%	1.02%	1165%
Price Earnings Ratio	5.51	81.50	-93%
Dividend Yield Per Share	0.00%	3.07%	-100%
Dividend Per Share	\$-	\$0.05	-100%

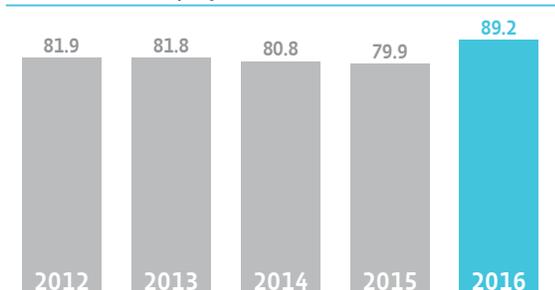
Net Income *in Millions of Dollars*



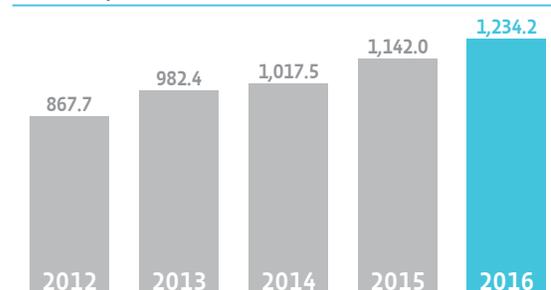
Total Assets *in Millions of Dollars*



Shareholders' Equity *in Millions of Dollars*



Total Deposits *in Millions of Dollars*



Heads of Businesses



Ormond A. Williams

FIFS, MBA, FCMI, FCABFI
President, Cayman National Bank

Ormond A. Williams holds an MBA with Merit from the University of Liverpool, UK and 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 34 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 in September 2003. Mr. Williams is an Accredited Lay Preacher in the Methodist Church in the Caribbean and the Americas (MCCA) and Lay Pastor in the United Church in the Cayman Islands. Mr. Williams has served and continues to serve on a number of local boards. He is currently the Chairman of the Board of Governors of the Cayman Prep and High School (CPHS), Deputy Chairman of the Board of Trustees of the International College of the Cayman Islands (ICCI) and Chairman of the Cayman Islands Judicial and Legal Services Commission (JLSC).

Christopher Lumsden

BA, ACA
President, Cayman National Fund Services,
Senior Executive Officer, Cayman National Securities

Christopher Lumsden joined Cayman National in 2004 and is the President of Cayman National Fund Services Ltd., and the Senior Executive Officer of Cayman National Securities. 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.



Heads of Businesses



Ian M.E. Bancroft

MBA, ACIB, Dip.IOD, 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 forty years' experience in 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 vice president of the Isle of Man Bankers' Association, and sits on a number of Government working parties. He is a past council member of the Chamber of Commerce and past chairman of its Finance Sector Committee.



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**It's more than a title... it's about
who we are and what we do!**

Cayman National Bank - Proud winner of The
Banker's 2016 Cayman Islands Bank of the Year Award

PERSONAL & BUSINESS BANKING | LENDING SERVICES | ONLINE BANKING | CARD & MERCHANT SERVICES

Member of Cayman National Group of Companies



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Cayman National Corporation Ltd.

We have audited the accompanying consolidated financial statements of Cayman National Corporation Ltd. and its subsidiaries on pages 2 to 61, which comprise the consolidated statement of financial position as at September 30, 2016 and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising 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, 2016, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

December 19, 2016

CAYMAN NATIONAL CORPORATION LTD.
Consolidated Statement of Financial Position
September 30, 2016
(expressed in Cayman Islands dollars)

Assets	2016	2015
Cash and due from banks (Note 3)	\$235,277,395	\$256,021,204
Short term placements	207,867,003	221,321,393
Investments (Notes 4 and 14)	182,272,221	77,283,838
Loans and overdrafts (Notes 5 and 14)	675,559,863	655,806,773
Interest receivable	1,241,221	511,701
Accounts receivable and other assets (Notes 14)	5,280,581	5,283,302
Fixed assets (Note 6)	19,965,829	19,485,918
Investment Property (Note 8)	6,968,100	7,368,000
Goodwill (Note 9)	2,714,500	2,752,197
Intangible Assets (Note 7)	744,196	206,791
Total Assets	\$1,337,890,909	\$1,246,041,117
Liabilities		
Customers' accounts (Note 14)		
Current	\$353,820,373	\$322,731,609
Savings	332,071,264	284,594,908
Fixed deposits (Note 10)	548,331,100	534,714,806
Total Deposits	\$1,234,222,737	\$1,142,041,323
Interest payable	1,168,841	638,860
Accounts payable and other liabilities (Note 28)	13,291,754	23,494,733
Total Liabilities	\$1,248,683,332	\$1,166,174,916
Equity Attributable to Owners of the Parent		
Share capital (Note 12)	\$42,350,731	\$42,350,731
Treasury stock	(359,940)	(400,153)
Share option reserve (Note 19)	163,849	163,849
Share premium (Note 12)	5,031,898	5,031,898
General reserve (Note 12)	7,486,050	7,486,050
Accumulated retained earnings	33,660,103	24,905,097
Reserve for dividends (Note 18)	2,117,366	-
Net unrealized holding gain Investments available-for-sale (Note 4)	479,084	1,099,960
Equity adjustments from foreign currency translation (Note 13)	(1,721,564)	(771,231)
	\$89,207,577	\$79,866,201
Total Liabilities and Equity	\$1,337,890,909	\$1,246,041,117

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



Truman Bodden
 Director



Stuart Dack
 Director

December 19, 2016
 Date

See notes to consolidated financial statements

CAYMAN NATIONAL CORPORATION LTD.
Consolidated Statement of Comprehensive Income
For the year ended September 30, 2016
(expressed in Cayman Islands dollars)

Interest	2016	2015
Interest income (Note 14 and 25)	\$36,226,320	\$31,953,455
Interest expense (Note 14 and 25)	2,687,857	2,264,903
Net Interest Income	\$33,538,463	\$29,688,552
Other Income		
Banking fees and commissions	\$14,390,110	\$13,246,702
Trust and company management fees	4,632,375	5,013,119
Foreign exchange fees and commissions (Note 26)	7,152,731	6,398,151
Brokerage commissions and fees	1,339,727	1,343,788
Rental Income (Note 8)	491,881	491,700
Gain on disposal of investment available –for –sale	889,258	5,571
Gain on sale of fixed assets (Note 6)	33,160	47,689
Total Income	\$62,467,705	\$56,235,272
Expenses		
Personnel (Note 27)	24,833,981	23,859,932
Other operating expenses (Note 8)	17,881,960	17,501,857
Penalties/fines incurred (Note 28)	–	5,000,000
Increase in loan impairment provision (Note 5)	3,475,323	2,636,459
Premises	3,060,782	3,101,858
Depreciation and amortization (Note 6 and 7)	2,280,630	2,173,595
Change in fair value of investment property (Note 8)	–	1,022,000
Impairment of goodwill (Note 9)	37,697	97,732
	51,570,373	55,393,433
NET INCOME BEFORE TAXATION	10,897,332	841,839
TAXATION (Note 11)	(16,329)	(24,408)
NET INCOME	\$10,881,003	\$817,431
NET INCOME ATTRIBUTABLE TO:		
Equity Holders of the Parent	\$10,881,003	\$817,431
	\$10,881,003	\$817,431
Other Comprehensive Income		
Change in unrealised appreciation	268,382	1,174,072
Items that may subsequently be reclassified to net income:		
Change in fair value of available –for –sale financial assets reclassified to Net Income (Note 4)	(889,258)	(5,571)
Items that will not be reclassified to net income:		
Foreign currency translation differences (Note 13)	\$(950,333)	\$(437,561)
*Total Other Comprehensive (Loss)/Income	\$(1,571,209)	\$730,940
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	\$9,309,794	\$1,548,371
EARNINGS PER SHARE (Note 12)	\$0.26	\$0.02
DILUTED EARNINGS PER SHARE (Note 12)	\$0.26	\$0.02

*There is no other comprehensive income attributable to Non –controlling interests.
See notes to consolidated financial statements

CAYMAN NATIONAL CORPORATION LTD.

Consolidated Statement of Changes in Shareholders' Equity

For the year ended September 30, 2016
(expressed in Cayman Islands dollars)

Attributable to equity holders of the Parent:	Share capital	Share premium	Treasury stock	Share option reserve	General reserve	Accumulated Retained earnings	Reserve for dividends	Net unrealised holding (loss)/gain on investments available-for-sale	Equity adjustments from foreign currency translation	Total
Balance at September 30, 2014	\$42,350,731	\$5,031,898	\$(6,323)	\$148,739	\$7,486,050	\$24,049,829	\$2,117,366	\$(68,541)	\$(333,670)	\$80,776,079
Treasury shares	-	-	(393,830)	-	-	37,837	-	-	-	(355,993)
Share Option Expense (Note 19)	-	-	-	15,110	-	-	-	-	-	15,110
Net income	-	-	-	-	-	817,431	-	-	-	817,431
Foreign currency translation	-	-	-	-	-	-	-	-	(437,561)	(437,561)
Change in unrealised appreciation	-	-	-	-	-	-	-	1,174,072	-	1,174,072
Change in fair value of available-for-sale financial assets reclassified to Net Income (Note 4)	-	-	-	-	-	-	-	(5,571)	-	(5,571)
Other Comprehensive Gain/(Loss)	-	-	-	-	-	-	-	1,168,501	(437,561)	730,940
Total Comprehensive Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$817,431	\$ -	\$1,168,501	\$(437,561)	\$1,548,371
2014 proposed dividend paid (Note 18)	-	-	-	-	-	-	(2,117,366)	-	-	(2,117,366)
Balance at September 30, 2015	\$42,350,731	\$5,031,898	\$(400,153)	\$163,849	\$7,486,050	\$24,905,097	\$ -	\$1,099,960	\$(771,231)	\$79,866,201
Treasury shares	-	-	40,213	-	-	(8,631)	-	-	-	31,582
Share Option Expense (Note 19)	-	-	-	-	-	-	-	-	-	-
Net income	-	-	-	-	-	10,881,003	-	-	-	10,881,003
Foreign currency translation	-	-	-	-	-	-	-	-	(950,333)	(950,333)
Change in unrealised appreciation	-	-	-	-	-	-	-	268,382	-	268,382
Change in fair value of available-for-sale financial assets reclassified to Net Income (Note 4)	-	-	-	-	-	-	-	(889,258)	-	(889,258)
Other Comprehensive Gain/(Loss)	-	-	-	-	-	-	-	(620,876)	(950,333)	(1,571,209)
Total Comprehensive Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$10,881,003	\$ -	\$(620,876)	\$(950,333)	\$9,309,794
2016 proposed dividend (Note 18)	-	-	-	-	-	(2,117,366)	2,117,366	-	-	-
Balance at September 30, 2016	\$42,350,731	\$5,031,898	\$(359,940)	\$163,849	\$7,486,050	\$33,660,103	\$2,117,366	\$479,084	\$(1,721,564)	\$89,207,577

See notes to consolidated financial statements

CAYMAN NATIONAL CORPORATION LTD.

Consolidated Statement of Cash Flows

For the year ended September 30, 2016
(expressed in Cayman Islands dollars)

CASH (USED IN) / PROVIDED BY:	2016	2015
Operating Activities		
Net income (including non controlling interest)	\$10,881,003	\$817,431
Adjustments for items not involving cash:		
Depreciation and amortization (Note 6)	2,280,630	2,173,595
Impairment of goodwill (Note 8)	37,697	97,732
Amortization of premium/discount on investments held-to-maturity (Note 4)	1,545,126	743,970
Change in fair value of Investment property (Note 8)	-	1,022,000
Increase in loan impairment provision (Note 5)	3,475,323	2,636,459
Loss on disposal of fixed assets	181,379	-
Gain on disposal of investment available -for -sale	(889,258)	(5,571)
Loss on disposal of investment available -for -sale	41,804	-
Gain on sale of fixed assets (Note 6)	(33,160)	(47,689)
Share option expense (Note 19)	-	15,110
	\$17,520,544	\$7,453,037
Changes in non -cash working capital items:		
Interest receivable	(729,520)	22,283
Accounts receivable and other assets	(2,721)	1,686,678
Depositors' accounts	95,501,786	124,580,111
Interest payable	529,981	20,588
Accounts payable and other liabilities and deferred revenue*	(10,198,153)	10,790,824
Adjustments from foreign currency translation on investments	8,665,373	266,483
Adjustments from foreign currency translation	10,848,204	3,874,232
Net advances for loans and overdrafts	(23,345,359)	(53,736,158)
	\$98,790,135	\$94,958,078
Investing Activities		
Changes in:		
Short term placements	\$13,454,390	\$8,432,117
Proceeds on redemption of investments available -for -sale	21,872,626	8,880,263
Purchase of investments available -for -sale	(101,600,203)	(6,975,665)
Purchase of investments held -to -maturity	(50,408,121)	(30,048,262)
Proceeds on maturity of investments held -to -maturity	15,160,326	6,452,576
Proceeds from sale of investments property (Note 8)	399,900	-
Purchase of additions to fixed assets (Note 6)	(2,831,846)	(2,585,396)
Proceeds on disposal of fixed assets (Note 6)	33,160	72,783
Purchase of additions to intangible assets (Note 7)	(670,858)	(84,311)
Funds held in escrow	28,441	-
	\$(104,562,185)	\$(15,855,895)
Financing Activities		
Dividends paid (Note 18 and 28)	\$ -	\$ (2,208,746)
Proceeds from issue of treasury shares	31,582	(355,993)
	\$31,582	\$(2,564,739)
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	\$(5,740,468)	\$76,537,444
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	256,021,204	183,795,553
Exchange losses on cash and cash equivalents	(15,003,341)	(4,311,793)
CASH AND CASH EQUIVALENTS, END OF YEAR	\$235,277,395	\$256,021,204
Supplemental information:		
Interest received	\$37,188,667	\$32,372,405
Interest paid	\$2,157,876	\$2,244,315

See notes to consolidated financial statements

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

*for the year ended September 30, 2016
(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, and stock brokering in the Cayman Islands and the Isle of Man. The Corporation also operates a representative office in Dubai.

The Corporation is listed and its shares trade on the Cayman Islands Stock Exchange. The principal place of business for 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. Only one (2015: two) of the Corporation's subsidiaries are liable for taxation which are those in the Isle of Man and which is reflected in these consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, investment property and financial assets held at fair value through profit or loss. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgments in the process of applying the Group's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. The areas involving a higher degree of judgment or complexity, or where assumptions and estimates are significant to the consolidated financial statements are also disclosed in Note 2.

The significant accounting policies adopted by the Group are as follows:

Standards and amendments to existing standards effective October 1, 2015

There were no new standards, amendments or interpretations adopted by the Group for the first time for the financial year beginning on or after October 1, 2015 that had a material impact on the Group.

New standards, amendments and interpretations issued, but not effective, for the financial year beginning January 1, 2016 and not early adopted

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. The standard is effective for accounting periods beginning on or after January 1, 2018 and early adoption is permitted.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

*for the year ended September 30, 2016
(expressed in Cayman Islands dollars)*

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2016 and not early adopted (continued)

IFRS 9 replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. Management is in the process of performing the initial assessment on how the Group's business model will impact that the classification and measurement of these financial assets under IFRS 9. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The new standard is not expected to impact the Group's consolidated financial liabilities.

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, and lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in 'stage 3'. The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL. The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date.

In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39. The Group has yet to assess the full impact of the impairment requirements of IFRS 9.

IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The new standard relating to hedge accounting is not expected to impact the Group's consolidated financial statements.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

*for the year ended September 30, 2016
(expressed in Cayman Islands dollars)*

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2016 and not early adopted (continued)

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

IFRS 16 "Leases" was issued in January 2016 and effective for annual periods on or after January 1, 2019. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its financial statements.

There were no other such standards, interpretations or amendments to existing standards that are expected to have a significant impact on the Group.

(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.

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.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2016
(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

(a) Subsidiaries (continued)

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) Non –Operating Companies

The following subsidiaries 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 during the years ended September 30, 2016 and 2015. The non –operating companies of the Corporation are:

CNT (Nominees) Limited.

Cayman National (Nominees) Limited and its wholly owned subsidiary CNT (Directors) Limited.

CN Director Limited, CNB Nominees Limited, Cayman National Nominees Limited, Cayman National Secretarial Limited, and Beeston Management Limited are wholly owned subsidiaries of Cayman National Bank and Trust Company (Isle of Man) Limited.

CNFS (IOM) Limited (formerly Cayman National Fund Services (Isle of Man) Limited) ceased trading June 29, 2016.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2016
(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

(c) Operating Companies:

Entity	% Owned	Principal activity
Cayman National Bank Ltd. ("CNB") and its wholly owned subsidiary Cayman National Property Holdings Ltd. ("CNP")	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 Investments Ltd. ("CNI")	100%	Investment management
Cayman National Bank and Trust Company (Isle of Man) Limited. ("CNB&T" (IOM)), (incorporated and regulated in the Isle of Man)	100%	Banking, company and trust management
Cayman National (Dubai) Ltd. (incorporated in Dubai, UAE)	100%	Representative Office

(d) Structured entities:

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity often has some or all of the following features or attributes; (a) restricted activities, (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors, (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

The Group earns fees from affiliated funds whose objectives are disclosed in Note 14. The Group does not invest in the affiliated funds. The funds are managed by related asset managers and apply various investment strategies to accomplish their respective investment objectives. The affiliated funds finance their operations by issuing redeemable shares which are puttable at the holder's option and entitles the holder to a proportional stake in the respective fund's net assets.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

*for the year ended September 30, 2016
(expressed in Cayman Islands dollars)*

(continued)

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 contingent liabilities.

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, based on the fixed exchange rate policy of the Cayman Islands Monetary Authority.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2016
(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation (continued)

(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 are translated at bid-market rates 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 consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;
- Income and expenses for each statement of comprehensive income are translated at average exchange rates; and
- All resulting exchange differences are recognized 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 in accordance with 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	Variously over 3 to 7 years
Freehold buildings	Up to 50 years
Freehold land	N/A
Furniture and equipment	Variously over 2 to 15 years
Leasehold improvements	Over the terms of the leases
Leasehold property	Shorter of terms of leases or 20 years
Motor vehicles	Over 4 years

Expected useful lives of fixed assets are reviewed annually. 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.

Intangible Assets

The Group's intangible assets include the value of computer software.

An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2016
(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible Assets (continued)

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is presented within depreciation expense in the consolidated statement of comprehensive income.

Amortisation is calculated using the straight –line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

Computer software	Variously over 2 to 7 years
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Loans and provision for loan impairment

Loans are recognized when cash is advanced to the borrowers. Loans are carried at amortized 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 and are presented as a loss within the consolidated statement of comprehensive income. Additions to the provision are charged to expenses in order to maintain the reserve at a level deemed appropriate by management to absorb known and inherent risks in the loan portfolio. See critical accounting estimates and judgments below.

When a financial asset is uncollectible, it is written off against the related allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. 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 the allowance account. The amount of the reversal is recognised in the consolidated statement of comprehensive income.

Accounts receivable and other assets

Accounts receivable and other assets are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of accounts receivable and other assets 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 reorganization, 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 recognized 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.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2016
(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Accounts payable are recognized initially at fair value and subsequently stated at amortized cost using the effective interest method.

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.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

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 values of the options are recorded as compensation costs on the date at grant with a corresponding credit to equity.

The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions

Non-market performance and service conditions are included in the assumptions about the number of options that are expected to vest. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

*for the year ended September 30, 2016
(expressed in Cayman Islands dollars)*

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Director benefits (continued)

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognizes the impact of the revision to original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

When the options are exercised, the Group 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 recognized 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 recognized 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 incremental direct costs, and recognized as an adjustment to the effective interest rate on the loan over the average life of the related loans.

Pension obligations

The Group's 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 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 90 days 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 90 days.

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 recognizes, within personnel costs, the cost of its matched contributions to the Scheme.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2016
(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 recognized on trade date basis, which is the date the Group commits to purchase or sell the investment. Investments are initially recognized 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 recognized 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.

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.

Gains and losses on disposal are calculated on gross proceeds less the original cost of securities sold on a specific identification basis, and are included in income. Unrealized appreciation and depreciation on available –for –sale investments is reported as a separate component of shareholders' equity, until the investment is derecognized 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 amortized cost, using the effective interest method, less any impairment loss recognized to reflect unrecoverable amounts. Premiums and discounts arising on acquisition are amortized over the period remaining to maturity using the effective yield basis and are included in the consolidated statement of comprehensive income within interest income.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2016
(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

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
- 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 consolidated statement of comprehensive income within (loss)/gain from financial assets designated at fair value through profit and loss.

Investment Properties at fair value

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 rental property and land.

Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with invest the investment properties will flow to the Group and the cost can be reliably measured; generally the date when all risks are transferred. The Group derecognizes the asset when the Group enters into a revocable sales agreement or has executed a sale of the property.

Investment properties are measured initially at cost, including related transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property provided the recognition criteria are met and excludes the costs of the servicing an investment property. Subsequently, investment properties are carried at fair value, which reflects market conditions as of the date of the consolidated statement of financial position. Gains or losses arising from changes in fair value of investment properties are included in the consolidated statement of comprehensive income in the year in which they arise. All repairs and maintenance costs are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

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.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

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(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

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

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transactions costs. Other financial liabilities are subsequently measured at amortized 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 amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

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 increases or decreases by 10 percent, the provision would decrease by \$1,511,066 and increase by \$2,004,454 respectively (2015: \$1,447,080). 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 consolidated statement of financial position date.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2016
(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Critical Accounting Estimates and Judgments (continued)

Investment property

There are significant balances in the financial statements relating to investment property which require management to exercise judgment in determining the fair value. The fair value of investment properties is based on the nature, location and condition of the specific asset. The fair value is calculated using recent sales transactions involving similar properties. These valuations are performed and/or reviewed periodically by an independent appraiser who holds a recognized and relevant professional qualification and has recent experience in the location of the investment property.

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. A change in the net present value of estimated cash flows will have a direct impact on the impairment analysis.

Held -to -maturity financial assets

Management applies judgment in assessing whether financial assets can be categorized as held -to -maturity, in particular its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available -for -sale. The investments would, therefore, be measured at fair value rather than amortized cost. If the entire class of held -to -maturity investments is tainted, the carrying amount would increase by \$1,734,640 (2015: \$78,664) with a corresponding entry in other comprehensive income. An active market exists if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The Group considers a market for a particular financial instrument as active if trades in the instrument occur on more than 90% of trading days.

Impairment and valuation 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. See Note 22 for discussion of fair value estimation for investments.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2016
(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Critical Accounting Estimates and Judgments (continued)

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 current data and management's knowledge and experience of the current portfolio, management estimates that the loans granted in the current year have an average maturity period of 19 years (2015: 18 years). Loans granted prior to this have an average cumulative maturity period of 13 years. Management also estimates that annually, 5% (2015: 3%) of loan balances are repaid before the maturity date. 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 consolidated statement of financial position.

A one year increase in average maturity periods result in an decrease in loan origination fee revenue recognized of approximately \$37,944 (2015: \$74,498). An one year decrease in average maturity periods result in an increase in loan origination fee revenue recognized of approximately \$47,089 (2015: \$49,707). A 1% change in the level of loans repaid prior to the scheduled maturity date has an effect of approximately +/- \$8,642 (2015: \$9,021) on loan origination fees revenue recognized.

Structured entities

The Group is associated with certain investments entities which it sponsors and from which it earns fees (see Note 14) and these investment vehicles are considered structured entities. In determining whether the group has control of these structured entities, and accordingly, whether or not it must consolidate any of them, management have necessarily applied significant judgment.

The following are the key areas of judgment applied in reaching the conclusion that none of the investment funds should be consolidated:

- Service fees based on a percentage of Net Asset Value ("NAV"): all of the investment vehicles pay the Group service fees based on a percentage of NAV. Management have concluded that the fees for those services are arms length arrangements at normal market rates that are commensurate with the services provided and accordingly have concluded that these do not significantly change the Group's exposure to variability of returns and therefore are not significant enough to give the Group control.
- The Group has voluntarily provided financial support to the Cayman National Money Market Fund for a limited period during the year ended September 30, 2015. These actions have resulted in the Group beginning to absorb variability of returns for this investment fund, however, as the support only occurred for a limited period and ceased subsequent to July 21, 2015, management have concluded that the circumstances were temporary and accordingly do not significantly change the Group's exposure to variability of returns. Management have determined that this exposure is not significant enough to give the Group control. In the event that this financial support reoccurred and a pattern of absorbing variability emerged, management's judgment around this conclusion would likely change and may result in the Group consolidating the Cayman National Money Market Fund.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2016
(expressed in Cayman Islands dollars)

(continued)

3. CASH AND DUE FROM BANKS

Cash and due from banks comprise cash on hand, placements with original maturities of 90 days or less and nostro accounts with banks.

	2016	2015
Cash in hand and current accounts	\$98,207,567	\$97,894,922
Operating accounts	32,690,108	29,738,909
Money market accounts	227,428	252,899
Deposits with other banks	104,152,293	128,134,474
	\$235,277,396	\$256,021,204

Deposits with other banks attracted interest rates ranging from 0.01% to 2.21% (2015: 0.01% to 2.59%) during the financial year.

4. INVESTMENTS

Investments comprise:	2016	2015
Available –for –sale, at fair value	\$127,516,689	\$48,375,604
Held –to –maturity, at amortized cost	54,755,532	28,908,234
Total	\$182,272,221	\$77,283,838

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

	Market	Cost	Gross unrealised holding gains (losses)	Estimated fair value
September 30, 2016				
Ordinary shares	Unlisted	\$ –	\$ –	\$ –
Preference Shares	Unlisted	40,885	42,448	83,333
Mutual Funds	Unlisted	47,149	(2,396)	44,753
Government agency bonds	Listed	91,801,286	211,796	92,013,082
Regional corporate & government bonds	Listed	5,150,450	133,171	5,283,621
International corporate bonds	Listed	29,997,835	94,065	30,091,900
		\$127,037,605	\$479,084	\$127,516,689

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2016
(expressed in Cayman Islands dollars)

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4. INVESTMENTS (CONTINUED)

	Market	Cost	Gross unrealised holding gains (losses)	Estimated fair value
September 30, 2015				
Ordinary shares	Unlisted	\$555,558	\$888,894	\$1,444,452
Preference Shares	Unlisted	40,885	42,448	83,333
Mutual Funds	Unlisted	47,149	946	48,095
Government agency bonds	Listed	22,904,104	91,792	22,995,896
Regional corporate & government bonds	Listed	\$3,173,790	\$45,016	3,218,806
International corporate bonds	Listed	20,554,158	30,864	20,585,022
		\$47,275,644	\$1,099,960	\$48,375,604

The unlisted investments (ordinary and preference shares) do not trade in markets that are considered to be active. The absence of a liquid market for these securities may restrict the Group's ability to dispose of these investments and amounts ultimately realized may differ materially from the carrying values.

Government agency bonds are issued by government sponsored enterprises mainly comprised of 40% (2015: 18%) supranational bonds, 4% (2015: 5%) United States government bonds and 56% (2015: 77%) in other jurisdictions all with a Moody's rating of A1 or greater.

International corporate bonds are issued by multi-national corporations mainly supranationals 50% (2015: 29%) or domiciled in United States 28% (2015: 42%) and other jurisdictions 22% (2015: 29%) with all bonds having a Moody's rating of A1 or greater.

The issuers of the regional, corporate and government bonds are domiciled in the Cayman Islands. In June 2014, Moody's lowered Barbados long-term sovereign credit ratings from Ba3 to B3. During the year ended September 30, 2016, the credit ratings of this bond fell to Caa1, and the Barbados bonds were sold resulting in a loss of \$41,804 (2015: \$nil) which is included in the consolidated statement of comprehensive income.

Yield to maturity for the above debt instruments range from 0.51% to 4.76% (2015: 0.25% to 6.50%).

The amortized cost of investments held-to-maturity approximates their fair value. The amortized costs of investments held-to-maturity are as follows:

Investments comprise:	2016	2015
International corporate bonds	\$2,502,044	\$22,135,750
Government and multi development bank	52,253,488	6,772,484
Total	\$54,755,532	\$28,908,234

Net amortization of discounts/premiums on purchase of debt securities of \$1,545,126 (2015: \$743,970) is included within interest income.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2016
(expressed in Cayman Islands dollars)

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5. LOANS AND OVERDRAFTS

Composition and aging of the loan portfolio are based on the contractual maturity date as follows:

	Period from year end to maturity				Total
	Under one year	Within two to five years	Withing six to ten years	Over ten years	
(All figures in \$000's)					
At September 30, 2016					
Commercial	\$47,676	\$10,641	\$30,426	\$95,825	\$184,568
Personal	30,755	22,904	51,057	379,158	\$483,874
Corporate	7,287	665	2,666	4,400	\$15,018
Total	\$85,718	\$34,210	\$84,149	\$479,383	\$683,460
Provision for loan impairment					(7,426)
Deferred Revenue					(3,383)
Interest Receivable					2,909
Total Loans and Overdrafts					\$675,560
	Period from year end to maturity				Total
	Under one year	Within two to five years	Withing six to ten years	Over ten years	
(All figures in \$000's)					
At September 30, 2015					
Commercial	\$45,484	\$16,435	\$40,105	\$92,490	\$194,514
Personal	44,134	17,311	45,572	351,702	\$458,719
Corporate	5,770	4	-	2,594	\$8,368
Total	\$95,388	\$33,750	\$85,677	\$446,786	\$661,601
Provision for loan impairment					(5,770)
Deferred Revenue					(3,552)
Interest Receivable					3,056
Total Loans and Overdrafts					\$655,335

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%.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2016
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5. LOANS AND OVERDRAFTS (CONTINUED)

Movements in the provision for loan impairment are as follows:

	2016	2015
Provision for loan impairment, beginning of year	\$5,769,728	\$3,877,425
Increase charged to expenses (net of recoveries)	3,475,323	2,636,459
Loans written off	(1,819,276)	(744,157)
Provision for loan impairment, end of year	\$7,425,775	\$5,769,727

Recoveries for loans previously written –off were \$81,137 (2015: \$119,348) recognized in the increase in loan impairment provision in the consolidated statement of comprehensive income. See Note 20 for discussion on credit risk.

6. FIXED ASSETS

September 30 2016	Freehold land and buildings	Leasehold property and improvements	Furniture & Equipment	Motor Vehicles	Total
Cost:					
At September 30, 2015	\$20,314,749	\$4,827,516	\$20,461,016	\$309,412	\$45,912,693
Additions	584,830	–	2,102,708	146,300	\$2,833,838
Disposals	(44,389)	(257,052)	(1,187,167)	(119,100)	\$(1,607,708)
At September 30, 2016	\$20,855,190	\$4,570,464	\$21,376,557	\$336,612	\$47,138,823
Accumulated depreciation:					
At September 30, 2015	\$7,291,263	\$3,460,066	\$15,429,299	\$246,147	\$26,426,775
Charge for year	528,841	252,991	1,320,868	44,477	\$2,147,177
Disposals	(42,396)	(257,052)	(982,410)	(119,100)	\$(1,400,958)
At September 30, 2016	\$7,777,708	\$3,456,005	\$15,767,757	\$171,524	\$27,172,994
Net book value:					
At September 30, 2016	\$13,077,482	\$1,114,459	\$5,608,800	\$165,088	\$19,965,829

During the year ended September 30, 2016, fully depreciated fixed assets that were obsolete and/or no longer exist with a cost of \$1,400,958 (2015: \$1,005,066) and accumulated depreciation of \$1,400,958 (2015: \$1,005,006) were written off. Total proceeds received from the sale of assets during 2016 were \$33,160 (2015: \$72,783), resulting in a gain on sale of \$33,160 (2015: \$47,689) in the consolidated statement of comprehensive income.

Also, during the year assets with a cost of \$181,379 (2015: \$76,421) and accumulated depreciation of \$nil (2015: \$51,329) were disposed resulting in a loss of \$181,379 (2015: \$25,092) in the consolidated statement of comprehensive income.

CAYMAN NATIONAL CORPORATION LTD.

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for the year ended September 30, 2016
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6. FIXED ASSETS (CONTINUED)

September 30 2015	Freehold land and buildings	Leasehold property and improvements	Furniture & Equipment	Motor Vehicles	Total
Cost:					
At September 30, 2014	\$20,047,823	\$4,825,036	\$19,315,878	\$302,512	\$44,491,249
Additions	299,966	2,480	2,257,050	25,900	\$2,585,396
Disposals	(33,040)	-	(1,111,912)	(19,000)	\$(1,163,952)
At September 30, 2015	\$20,314,749	\$4,827,516	\$20,461,016	\$309,412	\$45,912,693
Accumulated depreciation:					
At September 30, 2014	\$6,813,599	\$3,192,532	\$15,219,503	\$228,137	\$25,453,771
Charge for year	510,704	267,534	1,296,614	37,010	\$2,111,862
Disposals	(33,040)	-	(1,086,818)	(19,000)	\$(1,138,858)
At September 30, 2015	\$7,291,263	\$3,460,066	\$15,429,299	\$246,147	\$26,426,775
Net book value:					
At September 30, 2015	\$13,023,486	\$1,367,450	\$5,031,717	\$63,265	\$19,485,918

7. INTANGIBLE ASSETS

Cost	2016	2015
Beginning Balance	\$883,094	\$798,783
Additions	670,858	84,311
Disposals	-	-
Ending Balance	\$1,553,952	\$883,094
Accumulated Depreciation		
Beginning Balance	\$676,303	\$614,570
Charge for the year	133,453	61,733
Disposals	-	-
Ending Balance	\$809,756	\$676,303
Net Book Value		
Ending Balance	\$744,196	\$206,791

During the year ended September 30, 2016, amortization of computer software totaling \$133,453 (2015: \$61,733) was included in depreciation and amortization expense in the consolidated statement of comprehensive income.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2016
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8. INVESTMENT PROPERTY

Investment property at fair value is as follows:

	2016		2015	
	Rental property	Land	Rental property	Land
Beginning Balance	\$7,308,000	\$60,000	\$8,330,000	\$60,000
Sales	(399,900)	-	-	-
Purchases	-	-	-	-
Transfer In	-	-	-	-
Impairment charge	-	-	(1,022,000)	-
Reversal of provision	-	-	-	-
Transfers from / (to) assets held for sale	-	-	-	-
Ending Balance	\$6,908,100	\$60,000	\$7,308,000	\$60,000

Rental property represents a single property apartment block in Grand Cayman. The Group has entered into operating leases with third parties for substantially all of the units in the apartment block. During fiscal 2016, the Group earned rental income of \$491,881 (2015: \$491,700) recognized in rental income in the consolidated statement of comprehensive income. The rental income for fiscal 2016 represented partial occupancy. If the property was fully occupied throughout the year, based on rental agreements, the annual gross rental income is estimated to be approximately \$525,150 (2015: \$508,400). The direct operating expenses arising from the investment property was \$269,297 (2015: \$404,414) which is recorded in other operating expenses in the consolidated statement of comprehensive income. Tenants enter into a 12 month rental agreement but can terminate with 45 days written notice if the tenants are leaving Grand Cayman.

The carrying value of investment property as of September 30, 2016 was \$6,968,100 (2015: \$7,368,000); this change is due to the sale of one unit in the apartment block. The fair value of investment property is determined using the comparative method approach by reference to current market prices for similar properties, adjusted as necessary for condition and location, or by reference to recent transactions updated to reflect current economic conditions. Inputs are observable as they are comparable sales recorded by the Land and Survey Department of the Cayman Islands. Valuations are carried out by experts hired by management who are MRICS designated independent valuers. If the significant input (comparable sales value) changes by 10% this would impact the fair value of the investment property by \$696,810 (2015: \$736,800).

9. GOODWILL

The purchase method has been applied to the acquisition of two businesses by two subsidiaries of the Group. The goodwill arising on acquisition represents the excess of the purchase consideration over the fair value of the identifiable assets and liabilities.

The Group reviews the carrying value of the goodwill to assess impairment in accordance with the accounting policy as described in Note 2. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between estimates and actual experience. Management determined the movement of key assumptions through a combination of past experience and its expectation of future results. The key assumptions used in the assessment of the carrying value of the goodwill are as follows:

CAYMAN NATIONAL CORPORATION LTD.

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9. GOODWILL (CONTINUED)

	2016	2015
Annual revenue change p.a.	2%	2%
Annual cost change p.a.	2%	2%
Overheads allocation factor	2.72% to 7.73%	5.72% to 6.31%
Annual discount rate	3.64%	3.87%
Attrition rate	5.50% to 7.50%	3.14% to 7.50%

Goodwill is summarized as follows:

Cost	2016	2015
Balance at beginning of year	\$6,910,119	\$6,910,119
Less cost for businesses fully impaired before October 1, 2014	\$(2,310,875)	–
Purchase consideration paid in year	–	–
Balance at end of year	\$4,599,244	\$6,910,119
Accumulated impairment:		
Balance at beginning of year	\$4,157,922	\$4,060,190
Less impairment for businesses fully impaired before October 1, 2014	\$(2,310,875)	–
Impairment charge for the year	37,697	97,732
Balance at end of year	\$1,884,744	\$4,157,922
Goodwill at end of year	\$2,714,500	\$2,752,197

Goodwill comprises the following business combinations:

Business acquired:	Year of acquisition	Original cost	Cumulative impairment charge	Carrying value
Fiduciary Trust (Cayman) Limited	2003	1,519,894	(564,399)	955,495
Aall Trust & Bank ("ATB")	2005 –2008	3,079,350	(1,320,345)	1,759,005
		\$4,599,244	\$ (1,884,744)	\$ 2,714,500

Annual revenue change per annum is determined based on management's projections and past experience and results from changes in fees and changes in assets under management for the acquired businesses clients. Revenue is assumed to increase by 2% every year beginning 2017.

Cost represent salaries and related benefit costs of employees directly involved with the businesses as well as overheads necessarily incurred to generate the revenue, allocated based on reasonable apportionment factors as determined by management.

CAYMAN NATIONAL CORPORATION LTD.

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(continued)

9. GOODWILL (CONTINUED)

The annual cost change per annum is based on the Group's internal cost of living increase.

The Group assumed a discount rate in order to calculate the present value of the businesses' projected cash flows. Changes in discount rates are affected by current interest rates available in the market.

The attrition rate represents the annual decrease in the number of clients for the business and is based on past experience of client retention, as well as future projections.

As of September 30, 2016, the recoverable amount of the ATB business in CNT was \$1,213,947 which is higher than the carrying value therefore no impairment was recognized in the business (2015: impairment of \$97,732). The recoverable amount of the Fiduciary Trust business in 2016 was \$955,424, which is lower than the carrying value, therefore an impairment loss of \$37,697 (2015: \$nil) was recorded.

Management has assessed the sensitivity of the net present value of the discounted future cash flows of the businesses, with respect to reasonable possible changes in the assumptions used and noted that when considered individually, certain reasonable expected changes would result in impairment/additional impairment of the goodwill balances for some of the business.

The following possible changes were considered reasonable to be expected in regards of the businesses acquired by CNT:

	2016		2015	
Revenue Change:	ATB	Fiduciary Trust	ATB	Fiduciary Trust
+5%	\$103,999	\$121,433	\$156,017	\$136,251
-5%	\$(103,999)	\$(121,433)	\$(156,017)	\$(136,251)
Cost change				
+1%	\$(9,143)	\$(14,734)	\$(20,426)	\$(16,653)
-1%	\$9,143	\$14,734	\$20,426	\$16,653
Overheads allocation factor change				
+300 bps	\$(236,467)	\$(236,457)	\$(470,765)	\$(348,078)
-300 bps	\$236,467	\$236,457	\$470,765	\$348,078
Discount rate change				
+25bps	\$(39,007)	\$(31,876)	\$(51,221)	\$(38,327)
-25bps	\$41,788	\$34,152	\$56,601	\$41,315
Attrition rate change				
+100 bps	\$(154,702)	\$(126,788)	\$(162,091)	\$(148,291)
-100 bps	\$205,412	\$168,345	\$242,939	\$200,670

CAYMAN NATIONAL CORPORATION LTD.

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9. GOODWILL (CONTINUED)

The following possible changes were considered reasonable to be expected in regards of the businesses acquired by CNS:

	2016	2015
Revenue Change	ATB	ATB
+/-5% (2015: +/-5%)	\$+/-54,346	\$+/-55,946
Cost change		
+/-1% (2015: +/-1%)	\$ -/+3,435	\$ -/+4,956
Discount rate change		
+25bps (2015: +/-25bps)	\$(19,808)	\$(4,397)
-25bps	\$20,923	\$4,397
Attrition rate change		
+100 bps	\$(80,458)	\$(63,420)
-100 bps	\$100,244	\$78,631
Overheads allocation factor change		
+300 bps	\$(201,443)	\$(177,002)
-300 bps	\$201,443	\$177,018

There are 2 clients representing 33% of the ongoing revenues of ATB in CNT. The unexpected loss of one or both of these relationships may result in a significant decrease in the recoverable amount for this business. The effect of the loss of each of these clients in the recoverable amount is assessed as follows:

	Annual revenue	Change in recoverable amount
Client A	\$41,667	\$(576,231)
Client B	\$8,333	\$(115,246)

10. FIXED DEPOSITS

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

11. TAXATION

Under current laws of the Cayman Islands, there is no income, estate, corporation, capital gains or other taxes payable by the Corporation. Taxation charges relate to the Groups operations in the Isle of Man.

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12. SHARE CAPITAL, GENERAL RESERVE AND EARNINGS PER SHARE

Authorised:	2016	2015
Shares of \$1 par value each (2016 and 2015: 200,000,000)		
Issued and fully paid: Shares (2016 and 2015: 42,350,731)	\$42,350,731	\$42,350,731

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 equalization 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, subject to CNB's capital adequacy requirements.

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 Corporation 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.

	2016	2015
Net income attributable to equity holders of the Corporation	\$10,881,003	\$817,431
Weighted average number of shares in issue	42,279,864	42,350,731
Diluted weighted average number of shares in issue	42,279,864	42,350,731
Earnings per share	\$0.26	\$0.02
Diluted earnings per share	\$0.26	\$0.02
Dividend per share	\$ -	\$0.05

13. EQUITY ADJUSTMENTS FROM FOREIGN CURRENCY TRANSLATION

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

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14. RELATED PARTY BALANCES AND TRANSACTIONS

The Group enters into various transactions with related parties in the normal course of business. 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:

	2016	2015
Accounts receivable and other assets:		
Affiliated companies	\$138,225	\$208,358
Loans and overdrafts:		
Affiliated companies	\$1,583,333	\$2,564,601
Directors and key management	18,862,062	21,854,669
	\$20,445,395	\$24,419,270
Investments (Note 4):		
Directors	\$ -	\$1,444,452
Customers' accounts:		
Affiliated companies	\$7,584,344	\$26,387,881
Directors and key management	4,887,584	2,479,410
Other related parties	249,777	321,842
	\$12,721,705	\$29,189,133

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

Included within interest income is interest of \$647,674 (2015: \$439,894) on loans and overdrafts to directors and key management (see Note 25).

Included within interest expense is interest of \$101,386 (2015: \$138,177) on deposits to affiliated companies.

Staff loans, which totaled \$39,425,549 (2015: \$44,351,315) at the consolidated statement of financial position date, are primarily at rates varying between 3.50% and 7.50% p.a. (2015: 3.25% and 10.25% p.a.).

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

For its custody and management services of the Cayman National Mutual Funds, the Group receives a management fee at market based rates 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.

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14. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

The following is a summary of the fees received from these affiliated funds:

	2016	2015
Cayman National Mortgage Fund	\$253,678	\$328,063
CNB Money Market Fund	74,874	131,712
Cayman National Securities Mutual Funds	201,408	192,210
Cayman National Pension Fund	313,776	307,667
	\$843,736	\$959,652

The affiliated fund's strategies are as follow:

- CNB Money Market Fund: to earn a competitive rate of return from investments in short-term bank and savings deposits and fixed income securities.
- Cayman National Mortgage Fund Ltd: to invest principally in first mortgage loans secured on property in the Cayman Islands.
- Cayman National Pension Fund is a defined contribution pension fund providing pension benefits to Cayman Islands employees in accordance with the National Pensions Law of the Cayman Islands.
- Cayman National Securities US Bond Fund Segregated Portfolio targets returns relative to the Merrill Lynch Domestic Master Bond Index, with the goal of marginally outperforming the index, by investing in investment grade corporate debt and bond sector exchange traded funds.
- Cayman National Securities International Equity Fund Segregated Portfolio targets returns relative to the Merrill FTSE AWCI ex -US Index with the goal of marginally outperforming the index, by investing in large cap ex -US stocks and sector exchange traded funds.
- Cayman National Securities US Equity Fund Segregated Portfolio: to invest in a concentrated portfolio of large cap US stocks and sector exchange traded funds.

The affiliated fund's assets are:

	2016		2015	
	Net Asst Value	Fair Value	Net Asst Value	Fair Value
CNB Money Market Fund	34,824,625	34,824,625	51,433,222	51,433,222
Cayman National Mortgage Fund Ltd.	13,098,716	12,981,797	16,966,229	17,046,680
Cayman National Pension Fund	50,805,378	50,805,378	44,780,619	44,780,619
Cayman National Securities US Bond Fund Segregated Portfolio	4,611,760	4,611,760	3,681,987	3,681,987
Cayman National Securities International Equity Fund Segregated Portfolio	1,890,874	1,890,874	2,205,962	2,205,962
Cayman National Securities US Equity Fund Segregated Portfolio	1,620,043	1,620,043	1,750,745	1,750,745

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14. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

During the year ended September 30, 2015, the Cayman National Group of companies, through Cayman National Trust Co Ltd (a company related to the Company) supplemented the yield of Cayman National Money Market Fund (the "CNMMF") by approximately \$8,000 for the purpose of enabling CNMMF to achieve at least an annualised 3 basis points return until July 2015 when this guarantee was cancelled by the Trustees of CNMMF. No such supplement was granted during the year ended September 30, 2016. During the years ended September 30, 2016, and 2015, certain fees due by the MMF to the Company and the related entities were recorded and settled on a net basis as allowed by the fund's Trustee resolutions.

Cayman National Bank Ltd. ("CNB") acts as the investment advisor for the Cayman National Mortgage Fund (the "Mortgage Fund") and certain related party transfers of loans to and from CNB (the sole market maker for the loans held by Mortgage Fund) are executed in connection with this relationship. During the year ended September 30, 2016 loans with a book value \$437,904 (2015: \$447,924) were transferred from the Mortgage Fund to CNB and loans with a book value \$7,176,016 (2015: \$Nil) were transferred from CNB to the Mortgage fund. Notwithstanding the conflicts of interests inherent in such related party transactions, the Directors are satisfied that they appropriately fulfilled their fiduciary duties and that the Manager appropriately fulfilled its duties under its investment management mandate.

In fiscal 2016, CNC entered into a guarantee with Cayman National Trust Co. Ltd. ("CNT") for \$1,300,000 (2015: CNC entered into a guarantee with CNT and Cayman National Securities ("CNS") for \$3,800,000 and \$2,700,000 respectively). CNT and CNS received a collective \$5 million in relation to this guarantee during the year ended September 30, 2016 in connection to the transaction described in Note 28. If required this guarantee will be funded through a dividend from the Bank to CNC.

Other than where indicated, all transactions with related parties are conducted on normal commercial terms and at non-preferential interest rates.

15. COMMITMENTS

In the normal course of business there are various commitments on behalf of customers to extend credit. Commitments to extend credit totaled \$41,696,452 at September 30, 2016 (2015: \$30,155,506) of which \$1,807,650 (2015: \$1,012,750) are commitments to staff members. 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 \$2,152,509 (2015: \$2,122,853). The total annual commitments are as follows:

Year End September 30	Annual commitment
2017	\$2,231,340
2018	\$1,864,599
2019	\$1,913,741
2020	\$1,891,153
2021	\$1,388,927
Beyond 2021	\$1,240,834

There is one commitment which extends beyond five years from the consolidated statement of financial position date.

On expiry of the existing premises commitments, the Group has the option to extend the lease contracts for a further period of five years. There are six software operating commitments which extend up to five years with the Group having the option to renew these contracts for a further one year period on each anniversary.

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16. PENSION OBLIGATIONS

The Cayman National Corporation Pension Fund (“the Fund” or “CNPf”) is a defined contribution pension scheme which became effective on July 1, 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 of pensionable age, with contributions from both employer and employees. Employees contribute 5% of their salary up to 5% of a maximum salary of \$60,000 per annum and the Group contributes 5% on the employees’ total annual salary. Included in personnel expense is an amount of \$896,708 (2015: \$861,978) 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 these entities 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 \$7,317,544 (2015: \$6,055,535) on behalf of customers.

18. DIVIDENDS

Final proposed dividends are presented as a separate component of Shareholders’ Equity until they have been formally ratified at the Annual General Meeting (“AGM”).

	2016
2015 proposed dividend paid in 2016	\$ –
Total dividend paid out of 2016 earnings	\$ –
2016 Interim proposed dividend – \$0.05 per share	\$2,117,366
	2015
2014 proposed dividend paid in 2015	\$2,117,366
Total dividend paid out of 2015 earnings	\$2,117,366

19. DIRECTORS AND OFFICERS REMUNERATION

During the year ended September 30, 2016, the Corporation had a total of 7 directors (2015: 7) of whom 1 is an executive officer (2015: 1). For the financial year ended September 2016, the aggregate compensation for directors' services was \$371,312 (2015: \$325,812).

Salaries and other short term employee benefits for key management (being those executives with the authority to direct the Group's operating policy) of \$1,630,402 (2015: \$1,754,883) are included within personnel expenses.

During the year ended September 30, 2011, total share options of 690,000 were granted to directors and executive management on September 20, 2011 at a strike price of US\$2.50 per share. In 2012, 50,000 of the options were forfeited. The options expired during the year ended September 30, 2016.

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19. DIRECTORS AND OFFICERS REMUNERATION (CONTINUED)

During the year ended September 30, 2016, no share options were granted. Movements in the number of share options outstanding were as follows:

	2016	2015
Beginning balance	640,000	640,000
Granted	–	–
Exercised	–	–
Forfeited	–	–
Expired	640,000	–
At September 30,	–	640,000
Exercisable	–	640,000

The option value is US\$0.25 as determined using the Black Scholes model; the calculation included the US Treasury on the run risk free rate of .82%, the exercise price at \$2.50, stock volatility rate of 20%, the current stock price adjusted for present value of dividends over the next five years of \$2.16, and time to maturity of the options of five years.

A stepped approach to determine the expense associated with the options was calculated and a total of \$Nil (2015: \$15,110) was expensed in the consolidated statement of comprehensive income within other operating expenses with a credit to equity.

Directors held 5,091,319 (2015: 5,001,368) of the Corporation shares as at September 30, 2016 of which 3,947,541 (2015: 3,634,954) were beneficially owned and 1,143,778 (2015: 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 are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize 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.

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20. FINANCIAL RISK MANAGEMENT (CONTNUED)

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.

There has been no change in management's policies and procedures for managing interest rate risk in 2016 and 2015. The table below summarizes the Group's exposure to interest rate risks based on contractual repricing dates. Loans over five years include staff loans which are at fixed rates and disclosed at their contractual maturity period. Substantially all financial assets contractually re-price when the market rate resets, the timing of which is driven by market forces.

At Sept 30, 2016	1 – 3 Months	3 – 6 Months	6 – 12 Months	1 – 5 Years	Over 5 Years	Non Interest Bearing	Total
Assets							
Cash and bank balances	\$225,578,604	\$ –	\$ –	\$ –	\$ –	\$9,698,791	\$235,277,395
Short term placements	–	38,971,312	133,775,278	35,120,413	–	–	\$207,867,003
Available –for –sale investments	15,738,314	18,199,725	13,238,692	80,211,871	–	128,087	\$127,516,689
Held –to –maturity investments	3,454,650	11,277,860	15,729,681	24,293,341	–	–	\$54,755,532
Loans and Overdrafts	74,019,272	13,911,076	520,980,786	30,901,520	35,706,372	40,837	\$675,559,863
Other assets	–	–	–	–	–	5,108,826	\$5,108,826
Total	\$318,790,840	\$82,359,973	\$683,724,437	\$170,527,145	\$35,706,372	\$14,976,541	\$1,306,085,308
Liabilities							
Demand & Term Deposits	\$821,366,537	\$89,480,692	\$76,747,321	\$18,953,156	\$ –	\$227,675,031	\$1,234,222,737
Other Liabilities	–	–	–	–	–	14,115,994	\$14,115,994
Total	\$821,366,537	\$89,480,692	\$76,747,321	\$18,953,156	\$–	\$241,791,025	\$1,248,338,731
Total Interest Sensitivity Gap	(502,575,697)	(7,120,719)	606,977,116	151,573,989	35,706,372		

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20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk (continued)

At Sept 30, 2015	1 – 3 Months	3 – 6 Months	6 – 12 Months	1 – 5 Years	Over 5 Years	Non Interest Bearing	Total
Assets							
Cash and bank balances	\$245,799,911	\$ –	\$ –	\$ –	\$ –	\$10,221,293	\$256,021,204
Short term placements	–	97,568,398	96,004,938	27,748,057	–	–	\$221,321,393
Available –for –sale investments	4,456,093	1,682,383	8,740,344	30,396,154	1,524,750	1,575,880	\$48,375,604
Held –to –maturity investments	5,105,444	4,100,298	8,387,158	11,315,334	–	–	\$28,908,234
Loans and Overdrafts	610,183,898	670,540	2,970,075	3,192,735	38,813,130	394	\$655,830,772
Other assets	–	–	–	–	–	5,130,843	\$5,130,843
Total	\$865,545,346	\$104,021,619	\$116,102,515	\$72,652,280	\$40,337,880	\$16,928,410	\$1,215,588,050
Liabilities							
Demand & Term Deposits	\$741,432,994	\$98,726,977	\$75,376,542	\$5,742,054	\$ –	\$220,762,756	\$1,142,041,323
Other Liabilities	–	–	–	–	–	20,110,114	20,110,114
Total	\$741,432,994	\$ 98,726,977	\$75,376,542	\$5,742,054	\$ –	\$240,872,870	\$1,162,151,437
Total Interest Sensitivity Gap	124,112,352	5,294,642	40,725,973	66,910,226	40,337,880		

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for financial assets and liabilities at the consolidated statement of financial position date. A 25 basis point (2015: 25 basis points) increase or decrease is used as it represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points (2015: 25 basis points) higher/lower and all other variables remained constant, the Group's profit and equity for the year ended 2016 would increase/decrease by \$712,585 (2015: increase/decrease by \$693,453). This is mainly attributable to the Group's exposure to interest rates in its fixed rate liabilities and variable rate loans. Additionally, if interest rates had been 25 basis points (2015: 25 basis points) higher/lower and all other variables remained constant, the Group's net unrealized (depreciation)/appreciation for the year ended 2016 would increase/decrease by \$318,792 (2015: increase/decrease by \$218,925). This is mainly attributable to the Group's exposure to debt securities held in available –for –sale investments.

Equity price sensitivity analysis

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.

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.
- equity would increase/decrease by \$12,500 (2015: \$229,168) for the Group as a result of the change in fair value of available –for –sale equity investments.

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20. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 generally matched with corresponding foreign currency deposits placed with correspondent banks such that the foreign currency risk is substantially economically hedged. It has been the long term policy of the Cayman Islands Monetary Authority to maintain the Cayman Islands exchange rate fixed to the United States dollar at C\$1.00 to US\$1.20, accordingly, there is currently no foreign currency exposure between these two currencies. 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. There has been no change in management's policies and procedures for managing currency risk in 2016 and 2015. The following table presents, by major currency, the Group's exposure to foreign currency risk at September 30, 2016:

2016	KYD	USD	GBP	CAD	EURO	CHF	OTHER	TOTAL
Assets								
Cash & Due From Banks	9,099,776	148,940,890	44,117,349	12,281,142	16,508,439	250,071	4,079,728	235,277,395
Short term placements	-	191,750,000	8,586,694	7,338,870	-	-	191,439	207,867,003
Available for sale Investments	-	127,516,689	-	-	-	-	-	127,516,689
Held to maturity investments	-	10,494,582	44,260,950	-	-	-	-	54,755,532
Interest Receivable	-	1,214,359	16,366	10,243	-	-	253	1,241,221
Loans & Overdrafts	480,337,409	172,258,947	22,963,507	-	-	-	-	675,559,863
Total Assets	\$489,437,185	\$652,175,467	\$119,944,866	\$19,630,255	\$16,508,439	\$250,071	\$ 4,271,420	\$1,302,217,703
Liabilities								
Depositors Accounts								
Current	119,985,519	150,567,733	62,848,672	4,895,617	11,605,069	-	3,917,763	353,820,373
Savings	84,568,907	203,291,979	32,413,575	6,541,653	4,905,489	246,119	103,542	332,071,264
Fixed Deposits	156,704,653	364,087,779	19,276,725	8,082,593	-	-	179,350	548,331,100
Sub Total	\$361,259,079	\$717,947,491	\$114,538,972	\$19,519,863	\$16,510,558	\$246,119	\$4,200,655	\$1,234,222,737
Interest Payable	142,051	968,829	53,382	4,539	-	-	40	1,168,841
Accounts Payable & Other Liabilities	7,903,503	4,660,797	692,102	24,484	10,868	-	-	13,291,754
Total Liabilities	\$369,304,633	\$723,577,117	\$115,284,456	\$19,548,886	\$16,521,426	\$246,119	\$ 4,200,695	\$1,248,683,332
Net on Balance Sheet position	\$120,132,552	\$(71,401,650)	\$ 4,660,410	\$81,369	\$(12,987)	\$3,952	\$70,725	

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20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency Risk (continued)

The following table presents, by major currency, the Group's exposure to foreign currency risk at September 30, 2015:

2015	KYD	USD	GBP	CAD	EURO	CHF	OTHER	TOTAL
Assets								
Cash & Due From Banks	12,339,073	168,800,368	46,186,202	6,105,835	12,226,114	6,229,293	4,134,319	256,021,204
Short term placements	–	207,826,545	3,762,939	9,559,980	–	–	171,929	221,321,393
Available for sale Investments	–	48,375,604	–	–	–	–	–	48,375,604
Held to maturity investments	–	1,250,462	27,657,772	–	–	–	–	28,908,234
Interest Receivable	–	478,468	16,244	16,689	–	–	300	511,701
Loans & Overdrafts	446,337,731	184,263,659	25,229,382	–	–	–	–	655,830,772
Total Assets	\$458,676,804	\$610,995,106	\$102,852,539	\$15,682,504	\$12,226,114	\$6,229,293	\$4,306,548	\$1,210,968,908
Liabilities								
Depositors Accounts								
Current	103,393,739	157,122,506	49,525,024	2,346,737	6,612,140	–	3,731,463	322,731,609
Savings	77,612,206	172,808,359	18,826,008	5,366,206	3,638,537	6,219,897	123,695	284,594,908
Fixed Deposits	152,439,237	357,291,719	16,149,955	7,895,159	524,022	–	414,714	534,714,806
Sub Total	\$333,445,182	\$687,222,584	\$84,500,987	\$15,608,102	\$10,774,699	\$6,219,897	\$4,269,872	\$1,142,041,323
Interest Payable	116,977	466,504	48,853	5,907	–	–	619	638,860
Accounts Payable & Other Liabilities	11,131,538	11,159,263	341,673	23,967	10,821	–	–	22,667,262
Total Liabilities	\$344,693,697	\$698,848,351	\$84,891,513	\$15,637,976	\$10,785,520	\$6,219,897	\$4,270,491	\$1,165,347,445
Net on Balance Sheet position	\$113,983,107	\$(87,853,245)	\$17,961,026	\$44,528	\$1,440,594	\$9,396	\$36,057	

Accounts receivables and other assets are excluded from the table as these accounts are held in KYD and USD on which there is no currency risk as exchange rate is currently fixed by CIMA.

Currency sensitivity analysis

It is been the long term policy of the Cayman Islands Monetary Authority to maintain the Cayman Islands exchange rate fixed to the United States dollar at C\$1.00 to US\$1.20, accordingly, there is currently no foreign currency exposure between these two currencies. The Group is mainly exposed to the currency fluctuations of Britain (GBP), the European Union (EUR), Canada (CAD) and Switzerland (CHF).

Although the Group is exposed to the fluctuations in GBP, the net on balance sheet exposure in 2016 and 2015 is due principally to the underlying assets and liabilities of its subsidiary in the Isle of Man of which the functional currency is GBP. Should foreign exchange rates move by 10% (2015: 10%) there would \$501,994 (2015: \$1,949,160) increase/decrease in the KYD against the relevant foreign currencies impacting the net income of the Group. The Group's policy is to closely match (within set limits) assets and liabilities in non – functional currencies (except where the exchange rate is fixed).

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20. FINANCIAL RISK MANAGEMENT (CONTINUED)

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. The monitoring of debt security maturities are diarized and re-assessed and reported on a quarterly basis.

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 of CNB 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 sometimes cashed before their contractual maturity and certain investments which may have call or prepayment features.

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 and receivable by and to the Group for financial assets and liabilities remaining as at the consolidated statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows including interest for the disclosed liabilities but excluding expected interest for assets. Accounts receivable and other assets and accounts payable and accrued expenses are classified as current assets and liabilities, respectively as they are expected to settle within one year or less.

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(continued)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Liquidity risk (2016)

	1 – 3 Months	3 – 6 Months	6 – 12 Months	1 – 5 Years	Over 5 Years	Total
Assets						
Cash and bank balances	\$235,277,395	\$ –	\$ –	\$ –	\$ –	\$235,277,395
Short term placements	–	38,971,312	133,775,278	35,120,413	–	\$207,867,003
Available –for –sale investments	15,866,401	18,199,725	13,238,692	80,211,871	–	\$127,516,689
Held –to –maturity investments	3,454,649	11,277,860	15,729,681	24,293,342	–	\$54,755,532
Interest receivable	1,241,221	–	–	–	–	\$1,241,221
Loans	51,636,882	15,940,833	16,913,549	34,206,615	556,861,984	\$675,559,863
Total Assets	\$307,476,548	\$84,389,730	\$179,657,200	\$173,832,241	\$556,861,984	\$1,302,217,703
Liabilities						
Depositors accounts						
Current	\$353,820,573	\$–	\$–	\$–	\$–	\$ 353,820,573
Savings	331,578,391	492,873	–	–	–	\$ 332,071,264
Fixed Deposits	341,095,333	112,772,929	79,666,239	17,148,217	–	550,682,718
Subtotal	1,026,494,297	113,265,802	79,666,239	17,148,217	–	1,236,574,555
Other Liabilities	12,609,584	637,783	–	–	–	\$ 13,247,367
Total Liabilities	\$1,039,103,881	\$113,903,585	\$79,666,239	\$17,148,217	\$ –	\$1,249,821,922
Loan Commitments (Note 17)	41,696,452	–	–	–	–	\$41,696,452
Net exposure	\$(773,323,785)	\$(29,513,855)	\$ 99,990,961	\$156,684,024	\$556,861,984	\$10,699,329

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20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Liquidity risk (2015)

	1 – 3 Months	3 – 6 Months	6 – 12 Months	1 – 5 Years	Over 5 Years	Total
Assets						
Cash and bank balances	\$256,021,204	\$ –	\$ –	\$ –	\$ –	\$256,021,204
Short term placements	–	97,568,398	96,004,938	27,748,057	–	\$221,321,393
Available –for –sale investments	6,031,973	1,682,383	8,740,344	30,396,154	1,524,750	\$48,375,604
Held –to –maturity investments	5,105,444	4,100,298	8,387,158	11,315,334	–	\$28,908,234
Interest receivable	511,701	–	–	–	–	\$511,701
Loans	51,124,375	18,901,976	17,673,903	40,389,869	527,740,649	\$655,830,772
Total Assets	\$318,794,697	\$ 122,253,055	\$ 130,806,343	\$109,849,414	\$529,265,399	\$1,210,968,908
Liabilities						
Depositors accounts						
Current	\$322,731,609	\$ –	\$ –	\$ –	\$ –	\$322,731,609
Savings	284,057,862	537,046	–	–	–	284,594,908
Fixed Deposits	355,454,527	98,297,850	75,914,139	6,361,457	–	536,027,973
Subtotal	962,243,998	98,834,896	75,914,139	6,361,457	–	1,143,354,490
Other Liabilities	22,667,261	–	–	–	–	22,667,261
Total Liabilities	\$984,911,259	\$98,834,896	\$75,914,139	\$6,361,457	\$ –	\$1,166,021,751
Loan Commitments (Note 17)	30,155,506	–	–	–	–	\$30,155,506
Net exposure	\$(666,116,562)	\$23,418,159	\$54,892,204	\$103,487,957	\$529,265,399	\$ 44,947,157

All other financial assets and liabilities are due within twelve months or less unless where disclosed.

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 cash at bank and 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 maximization of recovery on impaired debts.

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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 consolidated statement of financial position date (the 'incurred loss model') rather than expected losses. The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in net income in the consolidated statement of comprehensive income.

The Bank's ratings scale and mapping of external ratings is as follows:

Bank's rating	Description of the grade	External rating: Approximate Agency Equivalent
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.

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.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

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20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

(i) Credit risk measurement (continued)

Other assets

The majority of other assets consist of accounts receivables and other assets, prepayments, fixed assets, interest receivable (except where separately shown), and other fees receivable.

Accounts and other fees receivable mainly consist of transactions due from credit card processors. These receivables are usually cleared by the next business day.

Management further manages credit risk by only transacting with reputable counterparties.

(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 collateralization

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.

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.

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20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

(ii) Risk limit control and mitigation policies (continued)

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.

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 gross amount of the Group’s balance sheet items relating to loans and advances excluding interest receivable and the associated impairment provision including impairment provision associated with interest receivable for each of the Group’s internal rating categories:

Bank’s rating	2016		2015	
	Gross Loans and advances excluding interest (\$000s)	Impairment provision on Gross Loans and Interest (\$000s)	Gross Loans and advances excluding interest (\$000s)	Impairment provision on Gross Loans and Interest (\$000s)
1. Excellent	629,873	–	609,529	–
2. Good	5,926	–	8,382	–
3. Average	2,895	–	1,346	–
4. Fair	10,110	–	17,508	–
5. Watch List	13,255	1,022	9,952	–
6. Substandard	2,150	424	7,051	2,068
7. Non Accrual	18,520	4,054	7,589	2,385
8. Doubtful / Loss	731	878	243	269
	683,460	6,378	661,600	4,722

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20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

(ii) Risk limit control and mitigation policies (continued)

Impairment and provisioning policies

The impairment provision includes provision for interest receivable on impaired loans and advances that have been individually assessed and impaired. 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 normally 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.

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. The majority of other assets consist of prepayments, interest receivable and other fees from related entities, which minimizes the credit risk of the Group.

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(continued)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

(ii) Risk limit control and mitigation policies (continued)

Impairment and provisioning policies (continued)

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

	2016 (\$000's)	2015 (\$000's)
Credit risk exposures relating to on –balance sheet assets are as follows:		
Placements with banks	433,331	466,851
Loans and advances to customers:		
Loans to individuals:		
Overdrafts	14,879	19,082
Credit cards	10,161	9,979
Term loans	60,617	59,415
Mortgages	410,721	385,286
Loans to corporate entities:	186,588	187,336
Investment securities		
Available –for –sale debt securities (Bonds)	127,389	46,800
Held –to –maturity debt securities (Bonds)	54,755	28,908
Interest receivables and other assets	8,065	7,555
Credit risk exposures relating to off –balance sheet items are as follows:		
Financial guarantees and letter of credits	7,318	6,056
Loan commitments and other credit related liabilities	41,696	30,001
At 30 September	\$1,356,014	\$1,247,269

CAYMAN NATIONAL CORPORATION LTD.

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(continued)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

(ii) Risk limit control and mitigation policies (continued)

Impairment and provisioning policies (continued)

The above table represents a worst case scenario of credit risk exposure to the Group at September 30, 2016 and 2015, without taking account of any collateral held or other credit enhancements attached. For on – balance –sheet assets, the exposures set out above are based on carrying amounts as reported in the consolidated statement of financial position.

Loans and advances and cash and placements are summarized as follows:

(\$000)	30 –Sep –16		30 –Sep –15	
	Loans and advances to customers	Placements with banks	Loans and advances to customers	Placements with banks
Neither past due nor impaired	644,690	433,331	620,729	466,851
Past due but not impaired	17,368	–	25,987	–
Individually impaired	21,402	–	14,884	–
Gross	683,460	433,331	661,600	466,851
Less: allowance for impairment	7,426	–	5,769	–
Net	676,033	433,331	655,831	466,851

(a) Loans and advances neither past due nor impaired

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

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

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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

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:

September 30, 2016	Individual (retail customers) and Corporate entities (\$000)					
	Overdrafts	Credit cards	Term loans	Mortgages	Large corporate customers	Total
Past due up to 30 days	–	424	211	3,728	–	4,363
Past due 30 – 60 days	–	21	415	2,160	299	2,895
Past due 60 –90 days	–	11	–	742	–	753
Over 91 days	–	–	175	4,892	4,290	9,357
Total	–	456	801	11,522	9,516	17,368
Fair value of collateral	–	–	1,585	19,425	16,305	37,315

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.

September 30, 2015	Individual (retail customers) and Corporate entities (\$000)					
	Overdrafts	Credit cards	Term loans	Mortgages	Large corporate customers	Total
Past due up to 30 days	–	426	523	2,860	4,340	8,149
Past due 30 – 60 days	–	29	12	477	–	518
Past due 60 –90 days	–	17	442	2,130	345	2,934
Over 91 days	–	–	1,047	8,508	4,831	14,386
Total	–	472	2,024	13,975	9,516	25,987
Fair value of collateral	–	–	3,813	25,236	23,685	52,734

Accounts receivable and other assets have been assessed by management as having insignificant credit risk due to the short term nature and lack historical losses incurred.

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20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

(ii) Risk limit control and mitigation policies (continued)

(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 \$22,255,000 (2015: \$13,646,000).

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

September 30, 2016	Individual (retail customers) and Corporate entities (\$000)					
	Overdrafts	Credit cards	Term loans	Mortgages	Large corporate customers	Total
Individually impaired loans	120	49	782	7,972	12,479	21,402
Provision	98	55	366	2,362	2,475	5,356
Fair value of collateral	–	–	540	8,178	13,537	22,255
September 30, 2015						
Individually impaired loans	117	89	426	7,230	7,022	14,884
Provision	81	80	196	2,010	2,355	4,722
Fair value of collateral	–	–	292	7,243	6,111	13,646

A change in the fair value of collateral held by the bank presented above will not directly correlate to an equal movement in provisions against individually impaired loans as the individual loans will have varying loan to collateral ratios.

Investment securities and other investments

The table below presents an analysis of investment securities by rating agency designation at September 30, 2016 and September 30, 2015, based on Moody's ratings or their equivalent:

(\$'000)	Investment Securities	Total
2016		
Aaa	144,829	144,829
Aa1 to Aa3	26,361	26,361
A1 to A3	10,955	10,955
Lower than A3	–	–
Total	182,145	182,145

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(continued)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Investment securities and other investments (continued)

(\$'000)	Investment Securities	Total
2015		
Aaa	26,877	26,877
Aa1 to Aa3	30,527	30,527
A1 to A3	16,779	16,779
Lower than A3	1,525	1,525
Total	75,708	75,708

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. 3% (2015: 3%) of deposits with other banks at September 30, 2016 are placed within the United States and 64% (2015: 64%) are placed with banks within Canada. Another 30% (2015: 32%) of deposits with other banks are placed within the United Kingdom. See also Note 4.

Deposit concentration

As at September 30, 2016, the Group also has concentration of risk with respect to depositors as 28% (2015: 35%) of total deposits were held by five (2015: five) depositors; two (2015: three) of the five depositors, each held in excess of 5% of total deposits with maturities of one year or less.

21. REGULATORY REQUIREMENTS

CNC does not have a regulatory capital adequacy requirement however 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 and the Group's home regulator responsible for Consolidated Supervision. The significant regulatory requirements are:

CNB, CNT, CNFS 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/or a minimum ratio of risk-weighted assets to capital.

Similar capital adequacy requirements by the Isle of Man Financial Services Commission are imposed on the Groups subsidiaries in the Isle of Man.

CNC as a publicly traded company is subject to continuing obligations and rules of the Cayman Islands Stock Exchange. CNC does not have a capital adequacy requirement.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

*for the year ended September 30, 2016
(expressed in Cayman Islands dollars)*

(continued)

21. REGULATORY REQUIREMENTS (CONTINUED)

Management believes, as of September 30, 2016 and 2015 that all regulated subsidiaries met the respective regulatory capital adequacy requirements established by the Isle of Man Financial Supervision Commission and the Dubai Financial Services Authority.

The Isle of Man has fully implemented Basel II and the CNB&T(IoM) remains compliant with its regulatory requirements. The Isle of Man Financial Services Commission continues to consider the implementation of the Basel Committee's Basel III: A global regulatory framework for more resilient banks and banking systems.

As at September 30, 2015, CNS and CNT were in breach of their minimum capital requirements. The CNS and CNT deficits were remedied through a recapitalisation funded by CNC which in turn was funded by a dividend from CNB. The payment of this dividend (and other adjustments recorded during the finalisation of the accounting records) resulted in the CNB capital adequacy ratio temporarily falling below the prescribed minimum of 15%. Management remediated this de minimis breach in early 2016, in accordance with the plan agreed with CIMA. Management notified CSX and CIMA of the position. See also Note 14.

The Group's objectives when managing each subsidiaries regulatory capital are:

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

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

Credit and market risk –weighted assets are calculated in accordance with the Basel II Framework and are determined based on the nature, external credit rating and the adjusted exposure of the counterparty net of applicable specific provisions, eligible collateral and/or guarantees associated with the exposure. A similar treatment is adopted for off –balance sheet exposures which are converted to on –balance sheet equivalents through the use of CIMA prescribed Credit Conversion factors. Operational Risk weighted assets are determined from Gross Income.

Having previously implemented Pillar I Capital requirements, CIMA proposes to introduce Pillar II – the Supervisory Review Process followed by Pillar III – Market Discipline.

The second phase of the CIMA Basel II implementation will be considered for implementation after the introduction of Pillar III. It will include considering the implementation of advanced approaches, specifically Pillar 1 – 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 1 and intends to meet the requirement to submit a Board approved Internal Capital Adequacy Assessment Process (ICAAP) to CIMA by January 31, 2017 in accordance with CIMA's Pillar II requirement. An updated ICAAP will need to be submitted annually to CIMA.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

*for the year ended September 30, 2016
(expressed in Cayman Islands dollars)*

(continued)

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 the majority of 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).

The level in the fair value hierarchy within which the fair value measurement is categorized 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.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2016
(expressed in Cayman Islands dollars)

(continued)

22. FAIR VALUE (CONTINUED)

IFRS 13 requires the Group to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

September 30, 2016	FV Hierarchy	Carrying Amount	Fair Value	Appreciation/ (depreciation)
Financial Assets				
Cash and cash equivalents	2	235,277,395	235,277,395	–
Short term placements	2	207,867,003	207,867,003	–
Investments held-to-maturity	2	54,755,532	56,490,172	–
Loans net of allowance for credit	2	676,032,907	676,032,907	–
Accounts receivable and other assets	2	5,296,949	5,296,949	–
Investment property	2	6,968,100	6,968,100	–
Financial Liabilities				
Customer deposits:				
Current and savings	2	676,060,200	676,060,200	–
Fixed deposits	2	545,656,199	545,656,199	–
Deposits from banks	2	12,506,338	12,506,338	–

September 30, 2015	FV Hierarchy	Carrying Amount	Fair Value	Appreciation/ (depreciation)
Financial Assets				
Cash and cash equivalents	2	256,021,204	256,021,204	–
Short term placements	2	221,321,393	221,321,393	–
Investments held-to-maturity	2	28,908,234	22,142,966	–
Loans net of allowance for credit	2	655,830,772	655,830,772	–
Accounts receivable and other assets	2	3,898,010	3,898,010	–
Investment property	2	7,368,000	7,368,000	–
Financial Liabilities				
Customer deposits:				
Current and savings	2	600,867,838	600,867,838	–
Fixed deposits	2	527,282,675	527,282,675	–
Deposits from banks	2	13,890,810	13,890,810	–

The level in the fair value hierarchy within which the fair value measurement is categorized 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.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2016
(expressed in Cayman Islands dollars)

(continued)

22. FAIR VALUE (CONTINUED)

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 carrying amounts of the Group's financial assets and liabilities at the balance sheet date approximated their fair value due to the relative short term nature of the balances and/or fact that interest rates on loans reflect rates for new similar loans.

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

September 30, 2016				
Assets	Level 1	Level 2	Level 3	Total balance
Investments in securities, at fair value:				
Equities	-	-	83,333	83,333
Bonds	-	127,388,603	-	127,388,603
Mutual Funds	-	-	44,753	44,753
Total	\$ -	\$127,388,603	\$128,086	\$127,516,889

September 30, 2015				
Assets	Level 1	Level 2	Level 3	Total balance
Investments in securities, at fair value:				
Equities	-	-	1,527,785	1,527,785
Bonds	-	46,799,724	-	46,799,724
Mutual Funds	-	-	48,095	48,095
Total	\$ -	\$46,799,724	\$1,575,880	\$48,375,604

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. In 2016, level 3 instruments is predominantly comprised of equity in a private company and mutual funds (2015: equity in a private company and mutual funds). 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. The Group adjusts the model as deemed necessary.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2016
(expressed in Cayman Islands dollars)

(continued)

22. FAIR VALUE (CONTINUED)

The following table presents the movement in level 3 instruments for the year ended September 30, 2016 by class of financial instrument.

	Equity securities	Bonds	Total
Balance as at September 30, 2015	\$1,575,880	\$ –	\$1,575,880
Purchases	–	–	–
Sales	(2,337,052)	–	(2,337,052)
Gains and losses recognized	889,258	–	889,258
Balance as at September 30, 2016	\$128,086	\$ –	\$128,086

	Equity securities	Bonds	Total
Balance as at September 30, 2014	\$688,049	\$ –	\$688,049
Purchases	–	–	–
Sales	–	–	–
Gains and losses recognized	887,831	–	887,831
Balance as at September 30, 2015	\$1,575,880	\$ –	\$1,575,880

There were no transfers between levels during the 2016 and 2015 financial years.

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.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2016
(expressed in Cayman Islands dollars)

(continued)

24. GEOGRAPHICAL AND SEGMENTAL INFORMATION

The Group's main operations are in the Cayman Islands, with two subsidiaries operating outside of the Cayman Islands, CNB&T (IOM) based in the Isle of Man.

For the year ended September 30, 2016, summary financial data for CNB&T (IOM).

	2016	2015
Gross Assets	172,259,666	154,609,457
Total Liabilities	166,518,476	148,062,806
Gross Revenue	3,487,683	3,722,536
Net Income	161,200	492,326
Capital Expenditure	50,429	57,760
Depreciation charge	38,205	43,177
Interest expense	225,606	410,556
Interest income	1,270,163	1,208,838

For the year ended September 30, 2016 and 2015, summary financial data for IBG.

	2016	2015
Gross Assets	-	-
Total Liabilities	-	\$8,333
Gross Revenue	-	-
Net Income (Loss)	-	\$(39,152)

In September 2015, IBG was fully liquidated; accordingly, the Group has no further obligations relating to IBG.

Management identifies their operating segments based on the nature of products and services provided. 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 hold the investment in each subsidiary and, have been adjusted to reflect inter-company and consolidation adjustments.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2016
(expressed in Cayman Islands dollars)

(continued)

24. GEOGRAPHICAL AND SEGMENTAL INFORMATION (CONTINUED)

September 30, 2016	Banking	Trust and Company Management	Asset Management	Other*	Group
Gross Assets	1,166,139,601	174,587,262	3,741,852	(6,577,806)	1,337,890,909
Total Liabilities	1,083,535,915	167,628,311	1,436,143	(3,917,037)	1,248,683,332
Gross Revenue	54,477,876	4,925,301	3,503,285	(438,757)	62,467,705
Net Income	10,750,626	1,258	159,336	(30,217)	10,881,003
Capital Expenditure	2,673,406	87,256	74,968	(1,792)	2,833,838
Depreciation charge	2,008,341	74,264	63,407	1,165	2,147,177
Goodwill impairment	-	37,697	-	-	37,697
Interest expense	2,496,665	225,606	-	(34,414)	2,687,857
Interest income	35,095,021	1,270,385	35,638	(174,724)	36,226,320
September 30, 2015					
Gross Assets	1,246,421,863	2,313,094	3,607,478	(6,301,318)	1,246,041,117
Total Liabilities	1,164,301,795	3,549,788	4,009,480	(5,686,147)	1,166,174,916
Gross Revenue	48,349,475	5,130,004	3,545,090	(789,297)	56,235,272
Net Income	8,813,412	(2,349,208)	(2,366,874)	(3,279,899)	817,431
Capital Expenditure	2,508,635	61,697	15,064	-	2,585,396
Depreciation charge	1,967,587	80,492	61,842	1,941	2,111,862
Goodwill impairment	-	97,732	-	-	97,732
Interest expense	1,854,462	410,556	-	(115)	2,264,903
Interest income	31,005,333	1,208,862	1,019	(261,759)	31,953,455

*“Other” primarily relates to intra –segment transactions and balances.

25. INTEREST INCOME AND EXPENSE

Interest income comprises of the following:

	2016	2015
Cash and short term funds	1,650,318	874,764
Investment securities	1,230,487	802,480
Loans and advances	33,345,515	30,276,211
	\$36,226,320	\$31,953,455

Substantially all interest expense is attributable to customer deposits.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2016
(expressed in Cayman Islands dollars)

(continued)

26. FOREIGN EXCHANGE

Included within foreign exchange fees and commissions are foreign exchange transaction gains of \$5,670,923 (2015: \$5,297,037) and realized foreign exchange losses of \$Nil (2015: loss of \$Nil).

27. PERSONNEL

Personnel costs comprise of the following:

	2016	2015
Salaries and overtime	\$20,337,251	\$19,738,245
Pension	968,245	972,687
Health insurance	1,386,858	1,362,699
Bonus	846,723	354,542
Training	409,894	408,225
Other	885,010	1,023,533
	\$24,833,981	\$23,859,932

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 \$91,790 (2015: \$105,727) which is included within personnel costs in the consolidated statement of comprehensive income.

At September 30, 2016, the Group employed a total of 333 personnel (2015: 325).

28. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2016	2015
Managers cheques	7,913,768	13,134,162
Due to customers	2,477,073	1,778,224
Accounts payable and accrued expenses	1,590,796	6,027,732
Clients monies borrowed	-	355,993
Deferred revenue	344,651	471,479
Other liabilities	965,466	1,727,141
Accounts payable and other liabilities	\$13,291,754	\$23,494,733

Clients monies borrowed represent borrowings from Cayman National Securities Ltd. clients to purchase Cayman National Corporation Ltd. treasury shares.

In 2016, CNS and CNT settled outstanding investigations by the United States Department of Justice regarding their actions involving some of its United States clients and their United States tax obligations. CNT and CNS paid a total of \$5 million in financial penalties; these financial penalties were funded by the Bank through a dividend to CNC. No issues or wrong-doing was alleged with respect to the Bank or CNC and no case was pursued against the Bank or CNC. Subsequent to this settlement, CNT and CNS have substantively completed their settlement obligations (Note 11).

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

*for the year ended September 30, 2016
(expressed in Cayman Islands dollars)*

(continued)

29. NON –CONTROLLING INTEREST

International Banking Group (TCI) Ltd. (IBG) is based in the Turks and Caicos and held a national and overseas banking license issued by the Turks & Caicos Islands Financial Services Commission. IBG commenced operations in July 2010. As of September 30, 2015, IBG was fully liquidated; the Group has no further obligations related to IBG.

30. SUBSEQUENT EVENTS

During September 2016, CNC declared an interim dividend of \$0.05 per share or \$2,117,366 in total which were paid to shareholders of record October 11, 2016. The payment of the CNC dividend was funded by CNB.

CAYMAN NATIONAL BANK LTD.
Consolidated Statement of Financial Position
September 30, 2016
(expressed in Cayman Islands dollars)

Assets	2016	2015
Cash and due from banks (Note 3)	\$141,882,513	\$155,609,909
Short term placements	207,867,003	221,321,393
Investments (Notes 4 and 11)	127,516,689	49,219,414
Investment Property (Note 8)	6,968,100	7,368,000
Loans and overdrafts (Notes 5 and 11)	655,365,589	633,667,733
Interest receivable (Note 11)	1,233,740	502,184
Accounts receivable and other assets (Note 11)	5,033,315	4,723,780
Fixed assets (Note 6)	19,528,456	19,046,761
Intangible Assets (Note 7)	744,196	206,791
	\$1,166,139,601	\$1,091,665,965
Liabilities		
Customers' accounts (Note 11)		
Current	\$227,675,031	\$220,125,774
Savings	321,872,654	271,641,759
Fixed deposits (Note 9)	519,767,485	502,818,863
	1,069,315,170	994,586,396
Interest payable	1,115,342	589,521
Accounts payable and accrued expenses (Notes 11 and 23)	10,988,037	15,698,746
Dividends Payable	2,117,366	5,000,000
	\$1,083,535,915	\$1,015,874,663
Shareholder's Equity		
Share capital (Note 10)	\$2,436,585	\$2,436,585
Share premium	1,695,816	1,695,816
General reserve (Note 10)	39,500,000	39,500,000
Retained earnings	38,492,201	31,058,941
Net unrealised appreciation on investments available-for-sale (Note 4)	479,084	1,099,960
	\$82,603,686	\$75,791,302
Total Liabilities & Shareholder's Equity	\$1,166,139,601	\$1,091,665,965

Note: This Consolidated Statement of Financial Position of CNB does not form part of the audited financial statements set out on pages 2 to 60 but is an extract of the financial statements of CNB for the year ended 30 September 2016. The summary financial statements of CNB on pages 61 and 62 do not contain all the statements or disclosures required by International Financial Reporting Standards. Reading these summary financial statements, therefore, is not a substitute for reading the audited financial statements of CNB.

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



Ormond Williams
 Director



Stuart Dack
 Director

December 19, 2016
 Date

CAYMAN NATIONAL BANK LTD.
Consolidated Statement of Comprehensive Income
for the year ended September 30, 2016
(expressed in Cayman Islands dollars)

Interest	2016	2015
Interest income (Notes 11 and 21)	\$35,095,021	\$31,005,333
Interest expense (Notes 11 and 21)	(2,496,665)	(1,854,462)
Net Interest Income	\$32,598,356	\$29,150,871
Other Income		
Foreign exchange fees and commissions (Note 22)	\$7,152,731	\$6,394,326
Other income, fees and commissions	13,123,657	12,091,962
Rental income (Notes 8 and 11)	680,714	696,839
Gain on disposal of fixed assets (Note 6)	33,160	9,906
Gain on disposal of available –for –sale investment (Note 4)	889,258	5,571
Total Income	\$54,477,876	\$48,349,475
Expenses		
Depreciation and amortization (Note 6 and 7)	\$2,141,794	\$2,029,320
Increase in reserve for loan loss (Note 5)	3,402,932	2,610,940
Change in fair value of investment property (Note 8)	–	1,022,000
Other operating expenses (Note 6, 8 and 11)	15,473,294	12,471,085
Personnel (Notes 13,15 and 17)	20,177,899	18,866,695
Premises	2,531,331	2,496,871
Total Expenses	\$43,727,250	\$39,496,911
Net Income	\$10,750,626	\$8,852,564
Other Comprehensive (Loss)/Income		
Change in unrealised appreciation	268,382	1,174,072
Items that may subsequently be reclassified to net income:		
Change in fair value of available –for –sale financial assets reclassified to Net Income (Note 4)	(889,258)	(5,571)
Total Other Comprehensive (Loss)/Income	\$(620,876)	\$1,168,501
Total Comprehensive Income For the Year	\$10,129,750	\$10,021,065

Note: This Consolidated Statement of Comprehensive Income of CNB does not form part of the audited financial statements set out on pages 2 to 60 but is an extract of the financial statements of CNB for the year ended 30 September 2016. The summary financial statements of CNB on pages 61 and 62 do not contain all the statements or disclosures required by International Financial Reporting Standards. Reading these summary financial statements, therefore, is not a substitute for reading the audited financial statements of CNB.

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President & Chief Executive

Leonard N. Ebanks, OBE, CMH, JP

Clarence Flowers, Jr.

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Nigel Wardle, BA, CA **

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Tina Ducharme, CPA, CA,
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Group Internal Auditor

Raquel Eden, MBA
Senior Vice President,
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Ian C. Whan Tong, AB, MPA, JD, CAMS,
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*** Members of the Group Legal Committee

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Christopher Lumsden, BA, ACA,
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Susan Levy-Elliott, BBA, M.Acc., CPA,
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Jill Anderson,
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Bryan A. Hunter, LLB
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Course, CFA Level II candidate
Senior Vice President,
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Cayman National Bank Ltd.

Cayman National Fund Services Ltd.

Cayman National Trust Co. Ltd.

Cayman National Securities Ltd.

Cayman National Bank & Trust Company (Isle of Man) Limited

Cayman National Fund Services (Isle of Man) Limited

Cayman National (Dubai) Ltd.