

***Cayman National Corporation
Ltd.***

Consolidated Financial Statements

for the year ended September 30, 2017
and Independent Auditor's Report



Independent auditor's report
To Cayman National Corporation Ltd.

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Cayman National Corporation Ltd. and its subsidiaries (together the "Group") as at September 30, 2017, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

Cayman National Corporation Ltd.'s consolidated financial statements comprise:

- the consolidated statement of financial position as at September 30, 2017;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in shareholders' equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

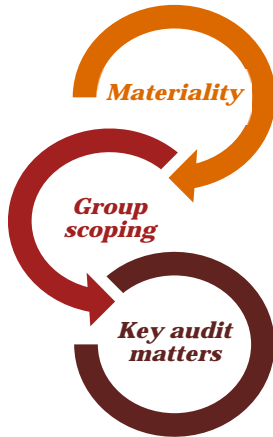
Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code").

We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Overview



Overall group materiality: CI\$1,003,000, which represents 1% of equity and was calculated as the lower of 1% of equity and 5% of our assessment of normalised net income.

We planned and scoped our audit for 2017 reflecting the Group structure. As a result we defined Cayman National Bank Ltd., Cayman National Securities Ltd., Cayman National Fund Services Ltd., Cayman National Bank and Trust Company (Isle of Man) Limited and Cayman National Trust Company (Isle of Man) Limited as significant components, subject to an audit of their complete financial information. A full scope audit was also performed over Cayman National Trust Co. Ltd. For the holding company Cayman National Corporation Ltd., CNFS (IOM) Limited (formerly Cayman National Fund Services (Isle of Man) Limited) and Cayman National (Dubai) Limited, audits of specific financial statement line items were performed.

- Provision for impairment of loans
- Determination of the date of recognition of the sale of trust and company management business

Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Overall group materiality	<i>CI\$1,003,000</i>
How we determined it	<i>The lower of 1% of equity and 5% of normalised net income</i>
Rationale for the materiality benchmark applied	<i>We calculated materiality based on a combined assessment of equity and our assessment of normalised net income, as, in our view, these are the most relevant benchmarks to the users of the financial statements.</i>



We agreed with the Audit Committee that we would report to them misstatements identified during our audit above C\$50,150 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

How our audit addressed the Key audit matter

Provision for impairment of loans

Refer to Note 5 to the consolidated financial statements for the results of the Group's impairment analysis and Notes 2 and 20, Credit risk, for qualitative considerations and assessment methods.

Total loans and overdrafts at September 30, 2017 were C\$716.6 million, net of associated provision for loan impairment of C\$8.8 million. The increase in loan impairment provision for the year ended September 30, 2017 was C\$3.3 million.

We focused on the individual impairment assessment as the assumptions used for estimating both the amount and timing of future cash flows are complex and involve significant judgment by management, including:

- Classification of loans as impaired: we focused on the completeness of the customer accounts that are included in the impairment assessment.
- Valuation of real estate property pledged as collateral: this is the most significant repayment source for impaired mortgages and impaired commercial loans. The estimation of collateral values is impacted by market trends as well as the circumstances of the specific property and involves judgment and specialised skills.
- The key assumptions and judgments made by management when calculating the provision for individually impaired loans. Key assumptions and judgments include the estimated costs to foreclose the collateral, time to liquidate the pledged collateral and the amount and timing of collection of cash flows from sources other than pledged collateral.

- We assessed and tested the design and operating effectiveness of the key controls over the identification of impaired credit balances as well as the monitoring of the impaired and higher risk balances. We determined that we could rely on these controls for the purposes of our audit.
- We tested the credit monitoring system's calculation of the ageing of loans by testing the repayment history of a sample of loan accounts and re-calculating the delinquency days.
- We challenged management's process for identifying potentially impaired loans by examining a sample of loans and advances which had not been identified by management as potentially impaired and formed our own judgement as to whether management's determination was appropriate including using external evidence in respect of the relevant counterparties.
- Management uses valuation experts to support their estimate of future cash flows from foreclosure of real estate properties including residential and commercial properties. We engaged an auditor's expert to assist with the estimation of future cash flows recoverable from a sample of residential and commercial properties for impaired loans including those where, in our judgement, the value was more challenging to assess.
- We performed back-testing of the key assumptions and judgments made by management in estimating the specific provisions based on the history of amounts collected from foreclosed collateral, including history of real estate agency fees, legal fees and other costs (e.g. outstanding strata fees) incurred to foreclose the pledged collateral, the average number of months to foreclose the property and the history of client repayments made other than from foreclosure of collateral.
- We assessed the performance of the loan portfolio subsequent to the end of the reporting period to identify significant adjusting subsequent events.



- Where impairment had been identified, we examined the forecasts of future cash flows prepared by management to support the calculation of the impairment provision for a sample of loan exposures. We challenged management's judgment regarding additional cash flows outside of the collateral foreclosure by examining repayment history and subsequent collections, reviewed property valuation reports and evidence of collateral pledged in favour of the Group and tested the reasonableness of the other key assumptions and judgments.

No material adjustments to the carrying value of loans at September 30, 2017 were noted as a result of the procedures we performed.

Determination of the date of recognition of the sale of trust and company management business

Refer to Note 2 of the consolidated financial statements for discussion of the significant judgment involved and Note 29 of the consolidated financial statements for disclosures around results from discontinued operations.

During 2017, the Group made the strategic decision to divest of the trust and company management business in the Cayman Islands (the "Trust business") and entered a set of agreements with a third party acquirer (the "Acquirer") to sell the book of business (the "Sale Agreements").

We focused on the Sale Agreements due to the level of judgment involved with establishing the effective date when control over the Trust business was relinquished and therefore whether the transaction should be recognised as a sale in the Group's September 30, 2017 consolidated financial statements.

- We performed enquiry with management and obtained their assessment of the effective date of loss of control over the Trust business.

- We examined the Sale Agreements and involved our accounting specialists to critically evaluate management's assessment, with particular focus on the following areas of judgment:

- Whether the remaining legal obligations preclude the Group from relinquishing control over the Trust business at September 30, 2017.
- Whether the substance of the Sale Agreements (and not only the legal form) was appropriately considered by management.
- The nature of the agency relationship between the Group and the Acquirer per the service agreement and its impact on the timing of transfer of control.

- We also evaluated the disclosures of the critical judgment involved in establishing the date of loss of control (and therefore recognition as a sale) in the consolidated financial statements.

Based on the procedures we performed, we concluded that management's conclusion that control over the Trust business had been relinquished at September 30, 2017 was reasonable.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We used PricewaterhouseCoopers Isle of Man ("PwC Isle of Man") in the capacity of component auditor to assist with the audits of Cayman National Bank and Trust Company (Isle of Man) Limited and Cayman National Trust Company (Isle of Man) Limited. PwC Isle of Man is a PwC network firm familiar with the local laws and regulations necessary to perform this audit work.



Our involvement in the work performed by the PwC Isle of Man component auditor involved review of the results of their audit procedures including the nature, timing and extent of the work impacting the Group audit opinion and frequent communications by the Group engagement team to corroborate that our audit plan was appropriately executed. The nature, timing and extent of the work impacting the audit opinion on the consolidated financial statements is set and monitored by the Group audit team in the Cayman Islands, with input from the component audit team at the risk assessment stage.

Other information

Management is responsible for the other information. The other information comprises the Annual Report for 2017 (but does not include the consolidated financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report for 2017, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material



misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Damian Pentney.

A handwritten signature in dark purple ink that reads 'PricewaterhouseCoopers' in a cursive, stylized font.

December 18, 2017

CAYMAN NATIONAL CORPORATION LTD.

Consolidated Statement of Financial Position

September 30, 2017

(expressed in Cayman Islands dollars)

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and due from banks (Note 3)	\$ 350,900,548	\$ 235,277,395
Short term placements	166,051,726	207,867,003
Investments (Notes 4)	188,087,102	182,272,221
Loans and overdrafts (Notes 5 and 14)	716,577,218	675,559,863
Interest receivable	1,330,062	1,241,221
Accounts receivable and other assets (Note 14)	5,220,552	5,280,581
Fixed assets (Note 6)	19,700,946	19,965,829
Investment Property (Note 8)	3,257,694	6,968,100
Goodwill (Note 9)	467,955	2,714,500
Intangible Assets (Note 7)	3,503,870	744,196
TOTAL ASSETS	<u>\$ 1,455,097,673</u>	<u>\$ 1,337,890,909</u>
LIABILITIES		
Customers' accounts (Note 14)		
Current	\$ 389,876,267	\$ 353,820,373
Savings	346,737,022	332,071,264
Fixed deposits (Note 10)	603,546,995	548,331,100
TOTAL DEPOSITS	<u>1,340,160,284</u>	<u>1,234,222,737</u>
Interest payable	1,514,769	1,168,841
Accounts payable and other liabilities (Note 28)	13,118,432	13,291,754
TOTAL LIABILITIES	<u>1,354,793,485</u>	<u>1,248,683,332</u>
EQUITY		
Share capital and share premium (Note 12)	\$ 47,382,629	\$ 47,382,629
Treasury stock	-	(359,940)
Accumulated retained earnings	47,010,326	33,660,103
Other reserves (Note 13)	5,911,233	8,524,785
TOTAL EQUITY	<u>100,304,188</u>	<u>89,207,577</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 1,455,097,673</u>	<u>\$ 1,337,890,909</u>

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

Truman Boddien
Director

Stuart Dack
Director

December 15, 2017
Date

CAYMAN NATIONAL CORPORATION LTD.

Consolidated Statement of Comprehensive Income

For the year ended September 30, 2017
(expressed in Cayman Islands dollars)

	<u>2017</u>	<u>2016</u>
CONTINUING OPERATIONS		
INTEREST		
Interest income (Note 14 and 25)	\$ 42,548,348	\$ 36,226,320
Interest expense (Note 14 and 25)	<u>(3,314,792)</u>	<u>(2,687,857)</u>
NET INTEREST INCOME	39,233,556	33,538,463
OTHER INCOME		
Banking fees and commissions	4,512,518	4,808,736
Credit card fees and commissions	10,395,738	9,546,143
Trust and company management fees	2,822,536	3,230,210
Foreign exchange fees and commissions (Note 26)	7,629,750	7,152,731
Brokerage commissions and fees	1,781,926	1,339,727
Rental Income (Note 8)	370,932	491,881
Gain on disposal of investment available-for-sale	-	889,258
Gain on sale of fixed assets (Note 6)	<u>7,500</u>	<u>33,160</u>
TOTAL INCOME	<u>66,754,456</u>	<u>61,030,309</u>
EXPENSES		
Personnel (Note 27)	24,905,325	23,994,589
Credit card costs	5,937,895	5,013,702
Other operating expenses	10,086,819	12,333,987
Increase in loan impairment provision (Note 5)	3,271,088	3,475,323
Premises	2,871,738	2,927,191
Depreciation and amortization (Note 6 and 7)	2,268,711	2,244,571
Impairment of goodwill (Note 9)	<u>213,412</u>	<u>-</u>
	<u>49,554,988</u>	<u>49,989,363</u>
NET INCOME BEFORE TAXATION	17,199,468	11,040,946
Taxation (Note 11)	<u>(48,277)</u>	<u>(16,329)</u>
NET INCOME FROM CONTINUING OPERATIONS	\$ 17,151,191	\$ 11,024,617
Net income/ (loss) from discontinued operations (Note 29)	<u>314,076</u>	<u>(143,614)</u>
NET INCOME	<u>\$ 17,465,267</u>	<u>\$ 10,881,003</u>
OTHER COMPREHENSIVE INCOME:		
Change in fair value of available-for-sale financial assets	(513,110)	268,382
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)
Items that will not be reclassified to net income:		
Foreign currency translation differences (Note 13)	<u>\$ 180,773</u>	<u>\$ (950,333)</u>
*Total Other Comprehensive (Loss)/Income	<u>\$ (332,337)</u>	<u>\$ (1,571,209)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 17,132,930</u>	<u>\$ 9,309,794</u>
EARNINGS PER SHARE (Note 12)	<u>\$ 0.41</u>	<u>\$ 0.26</u>
DILUTED EARNINGS PER SHARE (Note 12)	<u>\$ 0.41</u>	<u>\$ 0.26</u>

*There is no other comprehensive income arising from discontinued operations.

CAYMAN NATIONAL CORPORATION LTD.

Consolidated Statement of Changes in Shareholders' Equity

For the year ended September 30, 2017
(expressed in Cayman Islands dollars)

	Attributable to equity holders of the Parent:							Net unrealized holding (loss)/gain on investments available-for-sale	Equity adjustments from foreign currency translation	Total
	Share capital	Share premium	Treasury stock	Share option reserve	General reserve	Accumulated Retained earnings	Reserve for dividends			
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 issued	-	-	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 fair value of available-for-sale financial assets	-	-	-	-	-	-	-	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
Treasury shares issued	-	-	359,940	-	-	(44,161)	-	-	-	315,779
Share Option Expense (Note 19)	-	-	-	-	-	-	-	-	-	-
Share Options cancelled	-	-	-	(163,849)	-	163,849	-	-	-	-
Net income	-	-	-	-	-	17,465,267	-	-	-	17,465,267
Foreign currency translation	-	-	-	-	-	-	-	-	180,773	180,773
Change in fair value of available-for-sale financial assets	-	-	-	-	-	-	-	(513,110)	-	(513,110)
Change in fair value of available-for-sale financial assets reclassified to Net Income (Note 4)	-	-	-	-	-	-	-	-	-	-
Other Comprehensive Gain/(Loss)	-	-	-	-	-	-	-	(513,110)	180,773	(332,337)
Total Comprehensive Income	-	-	-	-	-	17,584,955	-	(513,110)	180,773	17,132,930
2016 final dividend paid (Note 18)	-	-	-	-	-	(2,117,366)	-	-	-	(2,117,366)
2017 interim dividend paid	-	-	-	-	-	(2,117,366)	-	-	-	(2,117,366)
2016 interim dividend proposed and paid	-	-	-	-	-	-	(2,117,366)	-	-	(2,117,366)
Balance at September 30, 2017	\$ 42,350,731	\$ 5,031,898	\$ -	\$ -	\$ 7,486,050	\$ 47,010,326	\$ -	\$ (34,026)	\$ (1,540,791)	\$ 100,304,188

See notes to consolidated financial statements

CAYMAN NATIONAL CORPORATION LTD.

Consolidated Statement of Cash Flows

For the year ended September 30, 2017

(expressed in Cayman Islands dollars)

	<u>2017</u>	<u>2016</u>
CASH (USED IN) / PROVIDED BY:		
OPERATING ACTIVITIES		
Net income	\$ 17,465,267	\$ 10,881,003
Adjustments for items not involving cash:		
Depreciation and amortization (Note 6)	2,268,711	2,280,630
Impairment of goodwill (Note 9)	213,412	37,697
Amortization of premium/discount on investments held-to-maturity (Note 4)	1,643,385	1,545,126
Increase in loan impairment provision (Note 5)	3,271,088	3,475,323
Loss on disposal of fixed assets	135,308	181,379
Gain on disposal of investment available-for-sale	-	(889,258)
Loss on disposal of investment available-for-sale	-	41,804
Gain on sale of fixed assets (Note 6)	(7,500)	(33,160)
	<u>24,989,671</u>	<u>17,520,544</u>
Changes in non-cash working capital items:		
Interest receivable	(88,841)	(729,520)
Accounts receivable and other assets	60,029	(2,721)
Depositors' accounts	105,882,826	95,501,786
Interest payable	345,928	529,981
Accounts payable and other liabilities and deferred revenue	(967,208)	(10,198,153)
Adjustments from foreign currency translation on investments	(1,603,168)	8,665,373
Adjustments from foreign currency translation	(896,713)	10,848,204
Net advances for loans and overdrafts	(44,328,196)	(23,345,359)
	<u>83,394,328</u>	<u>98,790,135</u>
INVESTING ACTIVITIES		
Changes in:		
Short term placements	41,815,277	13,454,390
Proceeds on redemption of investments available-for-sale	130,217,500	21,872,626
Purchase of investments available-for-sale	(146,388,608)	(101,600,203)
Purchase of investments held-to-maturity	(25,049,591)	(50,408,121)
Proceeds on maturity of investments held-to-maturity	33,263,020	15,160,326
Proceeds from sale of investments property (Note 8)	3,710,406	399,900
Purchase of fixed assets (Note 6)	(1,962,128)	(2,831,846)
Proceeds on disposal of fixed assets (Note 6)	7,500	33,160
Purchase of intangible assets (Note 7)	(2,936,682)	(670,858)
Proceeds from sale of business (Note 29)	2,250,000	-
Funds held in escrow	-	28,441
	<u>34,926,694</u>	<u>(104,562,185)</u>
FINANCING ACTIVITIES		
Dividends paid (Note 18)	(5,775,079)	-
Proceeds from issue of treasury shares	315,779	31,582
	<u>(5,459,300)</u>	<u>31,582</u>
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	112,861,722	(5,740,468)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>235,277,395</u>	<u>256,021,204</u>
Exchange gains/(losses) on cash and cash equivalents	2,761,431	(15,003,341)
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 350,900,548</u>	<u>\$ 235,277,395</u>
Supplemental information:		
Interest received	<u>\$ 43,830,559</u>	<u>\$ 37,188,667</u>
Interest paid	<u>\$ 2,968,864</u>	<u>\$ 2,157,876</u>

** Cash flows from discontinued operations are disclosed in Note 29.

See notes to consolidated financial statements

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2017

(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 (2016: one) 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, 2016

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, 2016 that had a material impact on the Group.

New standards, amendments and interpretations issued but not effective for financial years beginning on or after October 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, 2017

(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 financial years beginning on or after October 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.

Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

Management is in the process of assessing how the Group's business model will impact the classification and measurement of financial assets in scope of IFRS 9. An Implementation Committee was created to oversee the implementation project. The project involves three phases:

- Phase 1: Key decisions; this includes identification of key decisions, deciding on the measurement and classification for all products, determining stage migration and cure rate thresholds;
- Phase 2: Assessing availability of data, defining and determining detailed modelling methodology across different businesses based on available data, resources and infrastructure, defining and developing methodology to estimate unadjusted ECL and defining methodology to incorporate forward looking information;
- Phase 3: Implementation; this includes finalising the forward-looking scenarios and determining the weight for each scenario and estimating ECL with forward looking information.

Currently management has completed Phase 1 and key decisions around classification and measurement of financial assets are currently being reviewed by management. Phase 2 has also been started and data gaps are being addressed and management is working on the ECL methodology.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income. The new standard is not expected to impact the Group's consolidated financial liabilities as there are no financial liabilities which are currently designated at fair value through profit or loss

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2017

(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 financial years beginning on or after October 1, 2016 and not early adopted (continued)

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, as the Group does not use hedge accounting.

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, an allowance 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 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 on an ongoing basis 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 forward looking information specific to the the counterparty as well as 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. 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 is in the process of assessing the full impact of the impairment requirements of IFRS 9. An Implementation Committee was established and is currently working to determine stage migration and cure rate for financial assets.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

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 the Group has satisfied its performance obligations. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations and establishes a more systematic approach for revenue measurement and recognition by introducing a five-step model governing revenue recognition. The five-step model includes 1) identifying the contract with the customer, 2) identifying each of the performance obligations included in the contract, 3) determining the amount of consideration in the contract, 4) allocating the consideration

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2017

(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 financial years beginning on or after October 1, 2016 and not early adopted (continued)

to each of the identified performance obligations and 5) recognizing revenue as each performance obligation is satisfied. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Group is currently assessing the impact of IFRS 15 and does not expect it to have a significant impact on the consolidated financial statements, other than enhanced disclosures to comply with the requirements of the standard. Management has established an inventory of all impacted transactions, including details of how revenue is currently being earned, and has performed a preliminary assessment whether there are any contracts which include multiple performance obligations and whether any of these performance obligations are performed over time. The preliminary assessment indicated that the financial impact of IFRS 15 is not expected to be material.

IFRS 16 "Leases" was issued in January 2017 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. Firstly, IFRS 16 requires an entity to assess whether an arrangement contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. 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 consolidated 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 structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the group (Note 2, Business Combinations).

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.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2017

(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

(a) Subsidiaries (continued)

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.

Where settlement of any part of cash consideration for disposed divisions is deferred and variable dependent on a future event, the contingent consideration is classified as a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in 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, 2017 and 2016. 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, 2017

(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 Trust Company (Isle of Man) Limited ("CNT (IOM)")	100%	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.

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.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2017

(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

Business Combinations (continued)

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, 2017

(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (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 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 or 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 substantially 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.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2017

(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible Assets (continued)

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 annually at each financial year end.

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.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2017

(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts receivable and other assets (continued)

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.

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.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2017

(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Director benefits (continued)

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.

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 consolidated 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. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2017

(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Short term placements

Short term placements principally represent deposits and placements with other banks with original maturities 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.

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 and held to maturity. 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.

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 bonds, equity investments, and preference shares.

For publicly traded securities fair value is based on the last quoted trade prices of these securities at financial year end. 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.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2017

(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

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.

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 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.

CAYMAN NATIONAL CORPORATION LTD.

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for the year ended September 30, 2017

(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 (Note 28).

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 by 10 percent, the provision would decrease by \$1,869,075 (2016: \$1,511,066), and if the net present value of the recoverable collateral increases by 10 percent, the provision would increase by \$1,938,741 (2016: \$2,004,454). 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, 2017

(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 units within the same complex.

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 \$433,330 (2016: \$1,734,640) 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, 2017

(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 15 years (2016: 19 years). The average maturity period of loans is 13 years. Management also estimates that annually, 5% (2016: 5%) 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 a decrease in loan origination fee revenue recognized of approximately \$57,976 (2016: \$37,944). An one year decrease in average maturity periods result in an increase in loan origination fee revenue recognized of approximately \$54,426 (2016: \$47,089). A 1% change in the level of loans repaid prior to the scheduled maturity date has an effect of approximately +/- \$58,509 (2016: \$8,642) 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.

Discontinued operations

During 2017, the Group made the strategic decision to divest of the Cayman Islands trust and company management business (the "Trust business") and entered a set of agreements (the "SMP agreements") to sell the Trust business and transfer all the relevant client servicing staff to SMP Partners (Cayman) Limited ("SMP").

The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries or divisions are deconsolidated from the date that control ceases.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2017

(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Critical Accounting Estimates and Judgments (continued)

Management applied significant judgment to establish the effective date when control over the Trust business ceased. The following are the key areas of judgment applied in reaching the conclusion that the Group lost control of the Cayman trust division effective September 29, 2017:

- The Group is not entitled to any positive returns and has no net exposure to future losses from the division's revenue after September 29, 2017;
- All client servicing staff transferred to and are controlled by SMP and have practical authority to execute all relevant transactions and decisions.
- A non-compete clause eliminates the Group's ability to direct or make decisions related to the relevant activities of the sold division;
- The remaining legal obligations are insignificant and have no substance and, accordingly, do not preclude the Group from losing control over the Trust business at September 29, 2017.

Management concluded that its ability to exercise power to impact the division's returns and therefore control ceased on September 29, 2017. Accordingly, the Trust business is presented as a disposal in these consolidated financial statements.

Comparatives

Certain comparative amounts within the statement of financial position and the statement of comprehensive income have been re-classified to conform to the current year presentation.

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.

	2017	2016
Cash in hand and current accounts	\$ 93,228,763	\$ 98,207,567
Operating accounts	49,536,048	32,690,107
Money market accounts	391,677	227,428
Deposits with other banks	207,744,060	104,152,293
	<u>\$ 350,900,548</u>	<u>\$ 235,277,395</u>

Deposits with other banks attracted interest rates ranging from 0.01% to 1.80% (2016: 0.01% to 2.21%) during the financial year.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2017

(expressed in Cayman Islands dollars)

(continued)

4. INVESTMENTS

Investments comprise:	<u>2017</u>	<u>2016</u>
Available-for-sale, at fair value	\$ 141,076,104	\$ 127,516,689
Held-to-maturity, at amortized cost	<u>47,010,998</u>	<u>54,755,532</u>
Total	<u>\$ 188,087,102</u>	<u>\$ 182,272,221</u>

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

	<u>Market</u>	<u>Cost</u>	<u>Gross unrealized holding gains (losses)</u>	<u>Estimated fair value</u>
<u>September 30, 2017</u>				
Preference Shares	Unlisted	40,885	42,448	83,333
Mutual Funds	Unlisted	47,149	(3,075)	44,074
Government agency bonds	Publicly traded	115,038,253	(155,396)	114,882,857
Regional corporate & government bonds	Publicly traded	5,022,506	53,080	5,075,586
International corporate bonds	Publicly traded	<u>20,961,337</u>	<u>28,917</u>	<u>20,990,254</u>
		<u>\$ 141,110,130</u>	<u>\$ (34,026)</u>	<u>\$ 141,076,104</u>

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2017

(expressed in Cayman Islands dollars)

(continued)

4. INVESTMENTS (CONTINUED)

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

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 included in Available-for-sale and Held-to-maturity investments are issued by government sponsored enterprises mainly comprised of 56% (2016: 40%) supranational bonds, 27% (2016: 4%) United States government bonds and 17% (2016: 56%) in other jurisdictions all with a Moody's rating of A2 or greater.

International corporate bonds included in Available-for-sale and Held-to-maturity investments are issued by multi-national corporations mainly domiciled in United States 59% (2016: 28%), other jurisdictions 41% (2016: 22%) and supranationals nil% (2016: 50%), 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. During the year ended September 30, 2016, a regional bond was sold resulting in a loss of \$41,804 which is included in the 2016 consolidated statement of comprehensive income. Funds held in escrow associated with the sale of this security were reconcovered in 2017.

Yield to maturity for the above debt instruments range from 0.68% to 4.76% (2016: 0.51% to 4.76%).

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2017

(expressed in Cayman Islands dollars)

(continued)

4. INVESTMENTS (CONTINUED)

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:	<u>2017</u>	<u>2016</u>
International corporate bonds	\$ 1,175,542	\$ 2,502,044
Government and multi development bank	<u>45,835,456</u>	<u>52,253,488</u>
Total	<u>\$ 47,010,998</u>	<u>\$ 54,755,532</u>

Net amortization of discounts/premiums on purchase of debt securities of \$1,643,386 (2016: \$1,545,126) is included within interest income.

5. LOANS AND OVERDRAFTS

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

	<u>Period from year end to maturity</u>				<u>Total</u>
	<u>Under one year</u>	<u>Within two to five years</u>	<u>Within six to ten years</u>	<u>Over ten years</u>	
(All figures in \$000's)					
<u>At September 30, 2017</u>					
Commercial	\$ 46,556	\$ 13,604	\$ 38,457	\$ 83,756	\$ 182,373
Personal	29,615	23,916	65,505	407,805	\$ 526,841
Corporate	<u>8,555</u>	<u>822</u>	<u>7,367</u>	<u>-</u>	<u>\$ 16,744</u>
Total	<u>\$ 84,726</u>	<u>\$ 38,342</u>	<u>\$ 111,329</u>	<u>\$ 491,561</u>	<u>\$ 725,958</u>
Provision for loan impairment					(8,845)
Deferred Revenue					(3,717)
Interest Receivable					<u>3,182</u>
Total Loans and Overdrafts					<u>\$ 716,578</u>

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2017

(expressed in Cayman Islands dollars)

(continued)

5. LOANS AND OVERDRAFTS (CONTINUED)

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	Within 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	<u>\$ 85,718</u>	<u>\$ 34,210</u>	<u>\$ 84,149</u>	<u>\$ 479,383</u>	<u>\$ 683,460</u>
Provision for loan impairment					(7,426)
Deferred Revenue					(3,383)
Interest Receivable					2,909
Total Loans and Overdrafts					<u>\$ 675,560</u>

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

Movements in the provision for loan impairment are as follows:

	2017	2016
Provision for loan impairment, beginning of year	\$ 7,425,775	\$ 5,769,728
Increase charged to expenses (net of recoveries)	3,287,779	3,475,323
Loans written off	<u>(1,868,716)</u>	<u>(1,819,276)</u>
Provision for loan impairment, end of year	<u>\$ 8,844,838</u>	<u>\$ 7,425,775</u>

Increase charged to expenses for the years ended 2017 and 2016 includes the charges for the Trust business discontinued during the year.

Recoveries for loans previously written-off were \$86,162 (2016: \$81,137) recognized in the increase in loan impairment provision in the consolidated statement of comprehensive income. See Note 20 for discussion on credit risk.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2017

(expressed in Cayman Islands dollars)

(continued)

6. FIXED ASSETS

September 30 2017	Freehold land and buildings	Leasehold property and improvements	Furniture and equipment	Motor Vehicles	Total
<u>Cost:</u>					
At September 30, 2016	\$ 20,855,190	\$ 4,570,464	\$ 21,376,557	\$ 336,612	\$ 47,138,823
Additions	663,360	29,028	1,258,774	41,800	\$ 1,992,962
Disposals	-	-	(367,134)	(92,549)	\$ (459,683)
At September 30, 2017	<u>\$ 21,518,550</u>	<u>\$ 4,599,492</u>	<u>\$ 22,268,197</u>	<u>\$ 285,863</u>	<u>\$ 48,672,102</u>
<u>Accumulated depreciation:</u>					
At September 30, 2016	\$ 7,777,708	\$ 3,456,005	\$ 15,767,757	\$ 171,524	\$ 27,172,994
Charge for year	540,564	209,557	1,281,823	59,759	\$ 2,091,703
Disposals	-	-	(200,992)	(92,549)	\$ (293,541)
At September 30, 2017	<u>\$ 8,318,272</u>	<u>\$ 3,665,562</u>	<u>\$ 16,848,588</u>	<u>\$ 138,734</u>	<u>\$ 28,971,156</u>
<u>Net book value:</u>					
At September 30, 2017	<u>\$ 13,200,278</u>	<u>\$ 933,930</u>	<u>\$ 5,419,609</u>	<u>\$ 147,129</u>	<u>\$ 19,700,946</u>

During the year ended September 30, 2017, fully depreciated fixed assets that were obsolete and/or no longer exist with a cost of \$297,071 (2016: \$1,400,958) and accumulated depreciation of \$297,071 (2016: \$1,400,958) were written off. Total proceeds received from the sale of assets during 2017 were \$7,500 (2016: \$33,160), resulting in a gain on sale of \$7,500 (2016: \$33,160) in the consolidated statement of comprehensive income.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

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(expressed in Cayman Islands dollars)

(continued)

6. FIXED ASSETS (CONTINUED)

Also, during the year assets with a cost of \$135,308 (2016: \$181,379) and accumulated depreciation of \$Nil (2016: \$Nil) were disposed resulting in a loss of \$135,308 (2016: \$181,379) in the consolidated statement of comprehensive income.

September 30 2016	Freehold land and buildings	Leasehold property and improvements	Furniture and equipment	Motor Vehicles	Total
<u>Cost:</u>					
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	<u>\$ 20,855,190</u>	<u>\$ 4,570,464</u>	<u>\$ 21,376,557</u>	<u>\$ 336,612</u>	<u>\$ 47,138,823</u>
<u>Accumulated depreciation:</u>					
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	<u>\$ 7,777,708</u>	<u>\$ 3,456,005</u>	<u>\$ 15,767,757</u>	<u>\$ 171,524</u>	<u>\$ 27,172,994</u>
<u>Net book value:</u>					
At September 30, 2016	<u>\$ 13,077,482</u>	<u>\$ 1,114,459</u>	<u>\$ 5,608,800</u>	<u>\$ 165,088</u>	<u>\$ 19,965,829</u>

7. INTANGIBLE ASSETS

	2017	2016
<u>Cost</u>		
Beginning Balance	\$ 1,553,952	\$ 883,094
Additions	2,936,682	670,858
Disposals	-	-
Ending Balance	<u>\$ 4,490,634</u>	<u>\$ 1,553,952</u>
<u>Accumulated Depreciation</u>		
Beginning Balance	\$ 809,756	\$ 676,303
Charge for the year	177,008	133,453
Disposals	-	-
Ending Balance	<u>\$ 986,764</u>	<u>\$ 809,756</u>
<u>Net Book Value</u>		
Ending Balance	<u>\$ 3,503,870</u>	<u>\$ 744,196</u>

Substantially all intangible assets are computer software. During the year ended September 30, 2017, amortization of computer software totaling \$177,008 (2016: \$133,453) 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, 2017

(expressed in Cayman Islands dollars)

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8. INVESTMENT PROPERTY

Investment property at fair value is as follows:

	2017		2016	
	Rental property	Land	Rental property	Land
Beginning Balance	\$ 6,908,100	\$ 60,000	\$ 7,308,000	\$ 60,000
Sales	(3,710,406)	-	(399,900)	-
Purchases	-	-	-	-
Change in fair value	-	-	-	-
Ending Balance	<u>\$ 3,197,694</u>	<u>\$ 60,000</u>	<u>\$ 6,908,100</u>	<u>\$ 60,000</u>
Total		<u>\$ 3,257,694</u>		<u>\$ 6,968,100</u>

Rental property represents a single property apartment block on Grand Cayman. The Group and the Receiver have entered into operating leases with third parties for some of the units in the apartment block. During fiscal 2017, the Group sold units within the apartment block, which resulted in proceeds received of \$3,710,406 (2016: \$399,900). No gains or losses have been recognized as a result of the sale of the units. During fiscal 2017, the Group earned rental income of \$370,934 (2016: \$491,881) recognized in rental income in the consolidated statement of comprehensive income. The rental income for fiscal 2017 represented partial occupancy.

The direct operating expenses arising from the investment property was \$215,889 (2016: \$269,297) 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, 2017 was \$3,257,694 (2016: \$6,968,100); this change is due to the sale of nine units 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 \$325,769 (2016: \$696,810).

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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(expressed in Cayman Islands dollars)

(continued)

9. GOODWILL (CONTINUED)

	<u>2017</u>	<u>2016</u>
Annual revenue change p.a.	2%	2%
Annual cost change p.a.	2%	2%
Overheads allocation factor	1.95%	2.72% to 7.73%
Annual discount rate	3.57%	3.64%
Attrition rate	8.00%	5.50% to 7.50%

Goodwill is summarized as follows:

Goodwill is summarized as follows:

	<u>2017</u>	<u>2016</u>
Cost:		
Balance at beginning of year	\$ 4,599,244	\$ 6,910,119
Less cost for businesses fully impaired before October 1, 2016	-	(2,310,875)
Less cost for businesses disposed during the year	(3,262,062)	-
Purchase consideration paid in year	-	-
Balance at end of year	<u>1,337,182</u>	<u>4,599,244</u>
Accumulated impairment:		
Balance at beginning of year	1,884,744	4,157,922
Less impairment for businesses fully impaired before October 1, 2016	\$ -	\$ (2,310,875)
Less impairment for businesses disposed during the year	(1,228,929)	-
Impairment charge	<u>213,412</u>	<u>37,697</u>
Balance at end of year	<u>869,227</u>	<u>1,884,744</u>
Goodwill at end of year	<u>\$ 467,955</u>	<u>\$ 2,714,500</u>

Goodwill comprises the following business combinations:

Business acquired:	<u>Year of acquisition</u>	<u>Original cost</u>	<u>Cumulative impairment charge</u>	<u>Disposal</u>	<u>Carrying value</u>
Fiduciary Trust (Cayman) Limited ("FT")	2003	1,519,894	(564,399)	(955,495)	-
Aall Trust & Bank ("ATB")	2005-2008	<u>3,079,350</u>	<u>(1,533,757)</u>	<u>(1,077,638)</u>	<u>467,955</u>
		<u>\$ 4,599,244</u>	<u>\$ (2,098,156)</u>	<u>\$ (2,033,133)</u>	<u>\$ 467,955</u>

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.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

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(expressed in Cayman Islands dollars)

(continued)

9. GOODWILL (CONTINUED)

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.

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.

During the year, the Group divested of the Cayman Islands Trust business (Note 29) and the goodwill previously recorded in CNT for FT and ATB was disposed of.

As of September 30, 2017, the recoverable amount of the ATB business in CNS was \$467,955 which is lower than the carrying value therefore and impairment loss of \$213,412 was recognized in the business (2016: nil).

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 CNS:

	<u>2017</u> <u>ATB</u>	<u>2016</u> <u>ATB</u>
Revenue change		
+/-5% (2016: +/-5%)	\$ +/-35,297	\$ +/-54,346
Cost change		
+/-1% (2016: +/-1%)	\$ +/-2,387	\$ -/+3,435
Discount rate change		
+25bps (2016: +/-25bps)	\$ (11,900)	\$(19,808)
-25bps	\$ 12,538	\$ 20,923
Attrition rate change		
+100 bps	\$ (48,721)	\$ (80,458)
- 100 bps	\$ 60,095	\$ 100,244
Overheads allocation factor change		
+300 bps	\$ (177,000)	\$ (201,443)
- 300 bps	\$ 177,000	\$ 201,443

As a result of the sale of the Cayman Trust business at September 29, 2017, no analysis is presented for CNT.

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.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

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(expressed in Cayman Islands dollars)

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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.

12. SHARE CAPITAL, SHARE PREMIUM AND EARNINGS PER SHARE

	<u>2017</u>	<u>2016</u>
Share capital	42,350,731	42,350,731
Share premium	5,031,898	5,031,898
	<u>\$47,382,629</u>	<u>\$47,382,629</u>
	<u>2017</u>	<u>2016</u>
<u>Authorized:</u>		
Shares of \$1 par value each (2017 and 2016: 200,000,000)		
<u>Issued and fully paid:</u>		
Shares (2017 and 2016: 42,350,731)	<u>\$ 42,350,731</u>	<u>\$ 42,350,731</u>

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.

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.

	<u>2017</u>	<u>2016</u>
Net income attributable to equity holders of the Corporation	\$ 17,465,267	\$ 10,881,003
Weighted average number of shares in issue	42,324,014	42,291,127
Diluted weighted average number of shares in issue	42,324,014	42,291,127
Earnings per share	\$ 0.41	\$ 0.26
Diluted earnings per share	\$ 0.41	\$ 0.26
Dividend per share	\$ 0.15	\$ nil

CAYMAN NATIONAL CORPORATION LTD.

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13. OTHER RESERVES

	<u>2017</u>	<u>2016</u>
Share option reserve (Note 19)	-	163,849
General reserve	7,486,050	7,486,050
Reserve for dividends (Note 18)	-	2,117,366
Net unrealized gain Investments available-for-sale (Note 4)	(34,026)	479,084
Equity adjustments from foreign currency translation	<u>(1,540,791)</u>	<u>(1,721,564)</u>
	<u>\$5,911,233</u>	<u>\$ 8,524,785</u>

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.

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 Isle of Man based subsidiaries from pounds sterling to Cayman Islands dollars.

14. RELATED PARTY BALANCES AND TRANSACTIONS

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

	<u>2017</u>	<u>2016</u>
Accounts receivable and other assets:		
Affiliated companies	\$ 160,681	\$ 138,225
Loans and overdrafts:		
Affiliated companies	\$ 1,243,010	\$ 1,583,333
Directors and key management	15,361,206	18,862,062
	<u>\$ 16,604,216</u>	<u>\$ 20,445,395</u>
Customers' accounts:		
Affiliated companies	\$ 8,163,793	\$ 7,584,344
Directors and key management	3,564,648	4,887,584
Other related parties	730,177	249,777
	<u>\$ 12,458,618</u>	<u>\$ 12,721,705</u>

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

Included within interest income is interest of \$709,181 (2016: \$647,674) on loans and overdrafts to directors and key management (see Note 25).

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

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14. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

Included within interest expense is interest of \$39,591 (2016: \$101,386) on deposits to affiliated companies.

Staff loans, which totaled \$40,369,410 (2016: \$39,425,549) at the consolidated statement of financial position date, are primarily at rates varying between 4.00% and 11.25% p.a. (2016: 3.50% and 7.50% p.a.).

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

The Group acts as investment manager and custodian for the following affiliated funds. The Group also holds an insignificant investment in CNB Money Market Fund (less than 1.5% (2016: 1%)). The Group has no other interests in these affiliated funds.

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.

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

	<u>2017</u>	<u>2016</u>
Cayman National Mortgage Fund	\$207,334	\$253,678
CNB Money Market Fund	124,362	74,874
Cayman National Securities Mutual Funds	187,702	201,408
Cayman National Pension Fund	<u>339,872</u>	<u>313,776</u>
	<u>\$ 859,270</u>	<u>\$ 843,736</u>

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.

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14. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

- 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:

	<u>2017</u>		<u>2016</u>	
	<u>Net Asst Value</u>	<u>Fair Value</u>	<u>Net Asst Value</u>	<u>Fair Value</u>
CNB Money Market Fund	37,206,969	37,206,969	34,824,625	34,824,625
Cayman National Mortgage Fund Ltd.	9,748,211	9,706,686	13,098,716	12,981,797
Cayman National Pension Fund	59,160,272	59,160,272	50,805,378	50,805,378
Cayman National Securities US Bond Fund Segregated Portfolio	4,775,983	4,775,983	4,611,760	4,611,760
Cayman National Securities International Equity Fund Segregated Portfolio	2,159,809	2,159,809	1,890,874	1,890,874
Cayman National Securities US Equity Fund Segregated Portfolio	1,774,565	1,774,565	1,620,043	1,620,043

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, 2017 loans with a book value \$3,572,313 (2016: \$437,904) were transferred from the Mortgage Fund to CNB and loans with a book value \$3,601,468 (2016: \$7,176,016) 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.

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 \$55,925,592 at September 30, 2017 (2016: \$41,696,452) of which \$721,961 (2016: \$1,807,650) are commitments to staff members. No material losses are anticipated by management as a result of these transactions.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

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15. COMMITMENTS (CONTINUED)

The Group has entered into various commitments in respect of operating leases for equipment and premises. The total lease expense for the year was \$2,208,005 (2016: \$2,152,509). The total annual commitments are as follows:

<u>Year ended</u> <u>September 30</u>	<u>Annual</u> <u>commitment</u>
2018	\$ 2,368,189
2019	\$ 1,906,759
2020	\$ 1,956,871
2021	\$ 2,008,449
2022	\$ 1,315,050
Beyond 2022	\$ 72,742

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.

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. Cayman based employees, including key management, contribute 5% of their salary up to 5% of a maximum salary of \$87,000 (2016: \$60,000) per annum and the Group contributes 5% on the employees' total annual salary. Included in personnel expense is an amount of \$961,894 (2016: \$896,708) representing the Group's contribution to the Fund. The Isle of Man based employees participate in a defined contribution scheme and included in personnel expense is an amount of \$43,641 (2016: \$47,640) representing the Group's contribution to this scheme.

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 \$8,463,201 (2016: \$7,317,544) on behalf of customers.

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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").

	<u>2017</u>
2016 proposed dividend paid in 2017	<u>\$2,117,366</u>
2017 Interim proposed dividend - \$0.05 per share	<u>\$2,117,366</u>
2017 Final proposed dividend - \$0.05 per share	<u>\$2,117,366</u>
Total dividend paid out of 2017 earnings	<u>\$4,234,732</u>
	<u>2016</u>
2015 proposed dividend paid in 2016	\$ _____ -
Total dividend paid out of 2016 earnings	<u>\$2,117,366</u>
2016 Interim proposed dividend - \$0.05	<u>\$2,117,366</u>

19. DIRECTORS AND OFFICERS REMUNERATION

During the year ended September 30, 2017, the Corporation had a total of 7 directors (2016: 7) of whom 1 is an executive officer (2016: 1). For the financial year ended September 2017, the aggregate compensation for directors' services was \$368,441 (2016: \$371,312).

Salaries and other short term employee benefits for key management (being those executives with the authority to direct the Group's operating policy) of \$1,604,459 (2016: \$1,630,402) 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. During the year ended September 30, 2017 and 2016, no share options were granted.

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19. DIRECTORS AND OFFICERS REMUNERATION (CONTINUED)

Directors held 2,441,211 (2016: 2,415,874) of the Corporation shares as at September 30, 2017 of which 790,905 (2016: 765,568) were beneficially owned and 1,650,306 (2016: 1,650,306) were non-beneficially owned.

Board of Directors	2017		2016	
	Directly held *	Indirectly held**	Directly held*	Indirectly held**
Truman Bodden	434,937	-	428,609	-
A. Nominee Ltd.	-	479,548	-	479,548
Waide Ltd.	-	33,680	-	33,680
Sherri Bodden-Cowan	116,109	-	100,653	-
Bryan Hunter	63,936	-	56,820	-
Nigel Wardle	57,956	-	46,841	-
Clarence Flowers	42,053	1,137,078	84,937	1,137,078
Stuart Dack	19,174	-	19,174	-
Leonard Ebanks	56,740	-	28,534	-
Total	790,905	1,650,306	765,568	1,650,306

* Legal and beneficial rights. ** Held by another entity, legally with non-beneficial rights.

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 (CONTINUED)

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 2017 and 2016. 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 September 30, 2017

	1-3 Months	3 - 6 Months	6 - 12 Months	1 - 5 Years	Over 5 Years	Non Interest Bearing	Total
Cash and bank balances	\$ 339,426,554	\$ -	\$ -	\$ -	\$ -	\$ 11,473,994	\$ 350,900,548
Short term placements	-	30,857,732	118,527,327	16,666,667	-	-	\$ 166,051,726
Available-for-sale investments	25,828,290	40,783,837	47,308,935	27,027,634	-	127,408	\$ 141,076,104
Held-to-maturity investments	5,914,794	7,843,864	11,804,839	21,447,501	-	-	\$ 47,010,998
Loans and Overdrafts	667,887,121	2,367,165	423,013	2,517,434	43,366,051	16,434	\$ 716,577,218
Other assets	-	-	-	-	-	4,843,223	\$ 4,843,223
TOTAL	<u>1,039,056,759</u>	<u>81,852,598</u>	<u>178,064,114</u>	<u>67,659,236</u>	<u>43,366,051</u>	<u>16,461,059</u>	<u>1,426,459,817</u>
LIABILITIES							
Demand & Term Deposits	\$ 906,411,140	\$ 95,300,889	\$ 78,475,889	\$ 3,691,273	\$ -	\$ 256,281,093	\$ 1,340,160,284
Other Liabilities	-	-	-	-	-	14,641,861	\$ 14,641,861
TOTAL	<u>906,411,140</u>	<u>95,300,889</u>	<u>78,475,889</u>	<u>3,691,273</u>	<u>-</u>	<u>270,922,954</u>	<u>\$ 1,354,802,145</u>
Total Interest Sensitivity Gap	<u>132,645,619</u>	<u>(13,448,291)</u>	<u>99,588,225</u>	<u>63,967,963</u>	<u>43,366,051</u>		

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20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk

At September 30, 2016

	1-3 Months	3 - 6 Months	6 - 12 Months	1 - 5 Years	Over 5 Years	Non Interest Bearing	Total
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		

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 (2016: 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 (2016: 25 basis points) higher/lower and all other variables remained constant, the Group's profit and equity for the year ended 2017 would increase/decrease by \$815,299 (2016: increase/decrease by \$712,585). 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 (2016: 25 basis points) higher/lower and all other variables remained constant, the Group's net unrealized (depreciation)/appreciation for the year ended 2017 would increase/decrease by \$331,838 (2016: increase/decrease by \$318,792). This is mainly attributable to the Group's exposure to debt securities held in available-for-sale investments.

CAYMAN NATIONAL CORPORATION LTD.

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20. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 (2016: \$12,500) for the Group as a result of the change in fair value of available-for-sale equity investments.

Currency Risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign currency deposits accepted from customers are 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 CI\$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 2017 and 2016. The following table presents, by major currency, the Group's exposure to foreign currency risk at September 30, 2017:

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20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency Risk (continued)

<u>2017</u>	KYD	USD	GBP	CAD	EURO	CHF	OTHER	TOTAL
Assets								
Cash & Due From Banks	10,001,052	231,097,253	85,486,829	6,088,023	11,872,023	241,202	6,114,166	350,900,548
Short term placements	-	145,336,899	13,215,141	7,316,790	-	-	182,896	166,051,726
Available for sale Investments	-	137,738,226	3,337,878	-	-	-	-	141,076,104
Held to maturity investments	-	19,251,546	27,759,452	-	-	-	-	47,010,998
Interest Receivable	-	1,298,484	21,535	9,821	-	-	222	1,330,062
Loans & Overdrafts	525,766,378	167,617,053	23,193,787	-	-	-	-	716,577,218
Total Assets	\$ 535,767,430	\$ 702,339,461	\$ 153,014,622	\$ 13,414,634	\$ 11,872,023	\$ 241,202	\$ 6,297,284	\$ 1,422,946,656
Liabilities								
Depositors Accounts								
Current	147,483,506	155,083,515	74,668,946	1,714,562	5,420,004	-	5,505,734	389,876,267
Savings	100,223,441	182,902,364	52,783,122	3,787,906	6,390,258	209,534	440,397	346,737,022
Fixed Deposits	149,574,609	427,094,037	18,834,920	7,859,064	-	-	184,365	603,546,995
Sub Total	397,281,556	765,079,916	146,286,988	13,361,532	11,810,262	209,534	6,130,496	1,340,160,284
Interest Payable	421,507	1,072,339	15,260	5,623	-	-	40	1,514,769
Accounts Payable & Other Liabilities	9,771,464	2,911,259	397,004	26,371	9,061	-	-	13,115,159
Total Liabilities	\$ 407,474,527	\$ 769,063,514	\$ 146,699,252	\$ 13,393,526	\$ 11,819,323	\$ 209,534	\$ 6,130,536	\$ 1,354,790,212
Net on Balance Sheet position	\$ 128,292,903	\$ (66,724,053)	\$ 6,315,370	\$ 21,108	\$ 52,700	\$ 31,668	\$ 166,748	

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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, 2016:

<u>2016</u>	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	

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 2017 and 2016 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% (2016: 10%) there would be a \$658,759 (2016: \$501,994) 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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(continued)

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.

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(continued)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Funding approach

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

The table below presents the cash flows payable 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 net maturity gap table are the discounted cash flows, including a maturity analysis for financial assets held for managing liquidity risk. The additional table presents the maturity analysis for financial liabilities on a contractual undiscounted basis. 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.

CAYMAN NATIONAL CORPORATION LTD.

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(continued)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Liquidity risk (2017)

	1-3 Months	3 - 6 Months	6 - 12 Months	1 - 5 Years	Over 5 Years	Total
Cash and bank balances	\$ 350,894,348	\$ -	\$ -	\$ -	\$ -	\$ 350,894,348
Short term placements	-	30,857,732	118,527,327	16,666,667	-	\$ 166,051,726
Available-for-sale investments	25,828,290	40,783,837	47,308,935	27,027,634	127,408	\$ 141,076,104
Held-to-maturity investments	5,914,794	7,843,864	11,804,839	21,447,501	-	\$ 47,010,998
Interest receivable	1,330,062	-	-	-	-	\$ 1,330,062
Loans	48,290,666	25,195,082	11,241,492	38,340,506	593,509,472	\$ 716,577,218
Total Assets	\$ 432,258,160	\$ 104,680,515	\$ 188,882,593	\$ 103,482,308	\$ 593,636,880	\$ 1,422,940,456
LIABILITIES						
Depositors accounts						
Current	\$ 389,870,067	\$ -	\$ -	\$ -	\$ -	\$ 389,870,067
Savings	346,316,085	420,937	-	-	-	\$ 346,737,022
Fixed Deposits	426,499,881	94,879,952	78,475,889	3,691,273	-	603,546,995
Subtotal	1,162,686,033	95,300,889	78,475,889	3,691,273	-	1,340,154,084
Other Liabilities	13,114,058	-	-	-	-	\$ 13,114,058
Total Discounted Financial Liabilities	\$ 1,175,800,091	\$ 95,300,889	\$ 78,475,889	\$ 3,691,273	\$ -	\$ 1,353,268,142
Loan Commitments (Note 17)	55,907,762	-	-	-	-	\$ 55,907,762
Total Discounted Maturity Gap	\$ (799,449,693)	\$ 9,379,626	\$ 110,406,704	\$ 99,791,035	\$ 593,636,880	\$ 13,764,552
Undiscounted Financial Liabilities						
Depositors accounts						
Current	\$ 389,870,067	\$ -	\$ -	\$ -	\$ -	\$ 389,870,067
Savings	346,316,085	420,937	-	-	-	\$ 346,737,022
Fixed Deposits	427,739,801	95,380,279	79,481,790	3,790,826	-	606,392,696
Subtotal	1,163,925,953	95,801,216	79,481,790	3,790,826	-	1,342,999,785
Other Liabilities	13,114,058	-	-	-	-	\$ 13,114,058
Total Undiscounted Financial Liabilities	\$ 1,177,040,011	\$ 95,801,216	\$ 79,481,790	\$ 3,790,826	\$ -	\$ 1,356,113,843
Loan Commitments (Note 17)	55,907,762	-	-	-	-	\$ 55,907,762
Total Undiscounted Financial Liabilities	\$ 1,232,947,773	\$ 95,801,216	\$ 79,481,790	\$ 3,790,826	\$ -	\$ 1,412,021,605

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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
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	340,315,086	112,229,762	79,149,989	16,636,263	-	548,331,100
Subtotal	1,025,714,050	112,722,635	79,149,989	16,636,263	-	1,234,222,937
Other Liabilities	12,609,584	637,783	-	-	-	\$ 13,247,367
Total Liabilities	\$ 1,038,323,634	\$ 113,360,418	\$ 79,149,989	\$ 16,636,263	\$ -	\$ 1,247,470,304
Loan Commitments (Note 17)	41,696,452					\$ 41,696,452
Total Discounted Maturity Gap	(730,847,086)	(28,970,688)	100,507,211	157,195,978	556,861,984	\$ 54,747,399
Undiscounted Financial 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 Undiscounted Financial 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
Total Undiscounted Financial Liabilities	1,080,800,333	113,903,585	79,666,239	17,148,217	-	1,291,518,374

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

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Notes to Consolidated Financial Statements

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20. FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

(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.

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20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

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.

(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.

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20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

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

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.

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.

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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 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:

Group's rating

	2017		2016	
	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	665,722	-	629,873	-
2. Good	12,753	-	5,926	-
3. Average	3,724	-	2,895	-
4. Fair	9,706	-	10,110	-
5. Watch List	16,319	1,327	13,255	1,022
6. Substandard	2,344	407	2,150	424
7. Non Accrual	14,902	5,175	18,520	4,201
8. Doubtful / Loss	488	488	731	731
	725,957	7,397	683,460	6,378

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.

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20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

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

Impairment and provisioning policies (continued)

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 Moody's short term ratings of P-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.

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

	2017 (\$000's)	2016 (\$000's)
Credit risk exposures relating to on-balance sheet assets are as follows:		
Placements with banks	505,485	433,331
Loans and advances to customers	716,577	675,560
Investment securities		
Available-for-sale debt securities (Bonds)	140,949	127,389
Held-to-maturity debt securities (Bonds)	47,011	54,755
Interest receivables and other assets	4,843	5,250
Credit risk exposures relating to off-balance sheet items are as follows:		
Financial guarantees and letter of credits	8,463	7,318
Loan commitments and other credit related liabilities	<u>55,925</u>	<u>41,696</u>
At 30 September	<u>\$1,478,628</u>	<u>\$1,345,299</u>

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(continued)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

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

The above table represents a worst case scenario of credit risk exposure to the Group at September 30, 2017 and 2016, 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-17		30-Sep-16	
	Loans and advances to customers	Placements with banks	Loans and advances to customers	Placements with banks
Neither past due nor impaired	681,367	505,485	644,690	433,331
Past due but not impaired	24,590	-	17,368	-
Individually impaired	20,000	-	21,402	-
Gross	725,957	505,485	683,460	433,331
Less: allowance for impairment	8,845	-	7,426	-
Net	717,112	505,485	676,033	433,331

(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.

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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, 2017	Individual (retail customers) and Corporate entities (\$000)					Total
	Overdrafts	Credit cards	Term loans	Mortgages	Large corporate customers	
Past due up to 30 days	-	438	433	6,368	4,486	11,724
Past due 30 - 60 days	-	74	342	2,316	-	2,732
Past due 60-90 days	-	18	373	1,930	708	3,029
Over 91 days	-	-	468	6,637	-	7,105
Total	-	530	1,616	17,245	5,194	24,590
Fair value of collateral	-	-	6,067	28,920	16,422	51,408

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, 2016	Individual (retail customers) and Corporate entities (\$000)					Total
	Overdrafts	Credit cards	Term loans	Mortgages	Large corporate customers	
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

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.

(b) Loans and advances individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is \$17,734,000 (2016: \$21,402,000).

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20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

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

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, 2017	Individual (retail customers) and Corporate entities (\$000)					Total
	Overdrafts	Credit cards	Term loans	Mortgages	Large corporate customers	
Individually impaired loans	138	98	845	8,871	10,047	20,000
Provision	115	1	543	2,841	3,593	7,094
Fair value of collateral	-	-	745	9,141	10,475	20,361
September 30, 2016						
Individually impaired loans	120	49	782	7,972	12,479	21,402
Provision	104	49	366	2,362	2,475	5,356
Fair value of collateral	-	-	540	8,178	13,537	22,255

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, 2017 and September 30, 2016, based on Moody's ratings or their equivalent:

(\$'000)	<u>Investment Securities</u>	<u>Total</u>
<u>2017</u>		
Aaa	156,199	156,199
Aa1 to Aa3	27,793	27,793
A1 to A3	3,969	3,969
Lower than A3	-	-
Total	187,960	187,960

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20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

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

(\$'000)	<u>Investment Securities</u>	<u>Total</u>
<u>2016</u>		
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

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. 8% (2016: 3%) of deposits with other banks at September 30, 2017 are placed within the United States and 46% (2016: 64%) are placed with banks within Canada. Another 44% (2016: 30%) of deposits with other banks are placed within the United Kingdom. See also Note 4.

Deposit concentration

As at September 30, 2017, the Group also has concentration of risk with respect to depositors as 29% (2016: 28%) of total deposits were held by five (2016: five) depositors; two (2016: two) of the five depositors, each held in excess of 5% of total deposits with maturities of one year or less.

21. CAPITAL MANAGEMENT AND REGULATORY REQUIREMENTS

Capital components are detailed in Note 12. The Group's objectives when managing capital are to:

- safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders,
- maintain an optimal capital structure to reduce the cost of capital, and
- maintain a strong capital base to support the development of the business.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

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:

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21. REGULATORY REQUIREMENTS (CONTINUED)

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 Authority are imposed on the Group's 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.

Management believes, as of September 30, 2017 and 2016 that all regulated subsidiaries met the respective regulatory capital adequacy requirements established by the Isle of Man Financial Supervision Authority and the Dubai Financial Services Authority.

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

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 subsidiaries and 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 Isle of Man Financial Services Authority 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.

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Notes to Consolidated Financial Statements

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(expressed in Cayman Islands dollars)

(continued)

21. REGULATORY REQUIREMENTS (CONTINUED)

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 annually submits a Board approved Internal Capital Adequacy Assessment Process (ICAAP) to CIMA in accordance with CIMA's Pillar II requirement.

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).

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22. FAIR VALUE (CONTINUED)

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.

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, 2017

Financial Assets	FV Hierarchy	Carrying Amount	Fair Value	Appreciation/ (depreciation)
Cash and cash equivalents	2	350,900,548	350,900,548	-
Short term placements	2	166,051,726	166,051,726	-
Investments held-to-maturity	2	47,010,998	46,590,900	(420,098)
Loans net of allowance for credit	2	716,577,218	716,577,218	-
Accounts receivable and other assets	2	5,220,552	5,220,552	-
Investment property	2	3,257,694	3,257,694	-
<u>Financial Liabilities</u>				
Customer deposits:				
Current and savings	2	710,768,538	710,768,538	-
Fixed deposits	2	602,107,064	602,107,064	-
Deposits from banks	2	27,284,682	27,284,682	-

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22. FAIR VALUE (CONTINUED)

September 30, 2016

Financial Assets	FV Hierarchy	Carrying Amount	Fair Value	Appreciation/ (depreciation)
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	1,734,640
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	-

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 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, 2017:

<u>Assets</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total balance</u>
Investments in securities, at fair value:			
Equities	-	83,333	83,333
Bonds	140,948,697	-	140,948,697
Mutual Funds	-	44,074	44,074
Total	\$ 140,948,697	\$ 127,408	\$ 141,076,104

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22. FAIR VALUE (CONTINUED)

September 30, 2016:

<u>Assets</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total balance</u>
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	\$127,516,689

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 2017, level 3 instruments is predominantly comprised of equity in a private company and mutual funds (2016: 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.

The following table presents the movement in level 3 instruments for the year ended September 30, 2017 by class of financial instrument.

	<u>Equity securities</u>
Balance as at September 30, 2016	\$ 128,086
Additions	-
Sales	-
Gains and losses recognized	<u>(678)</u>
Balance as at September 30, 2017	<u>\$ 127,408</u>

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22. FAIR VALUE (CONTINUED)

	Equity securities
Balance as at September 30, 2015	\$ 1,575,880
Additions	-
Sales	(2,337,052)
Gains and losses recognized	<u>889,258</u>
Balance as at September 30, 2016	<u>\$ 128,086</u>

There were no transfers between levels during the 2017 and 2016 financial years.

23. FIDUCIARY ACTIVITIES

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties which involve the Group acting in a fiduciary capacity. Assets and liabilities managed in a fiduciary capacity represent assets and liabilities of third parties on whose behalf the Group is acting and accordingly these are not assets and liabilities of the Group and, therefore, are not included in its balance sheet. Nevertheless, the Group is exposed to fiduciary risk resulting from acting in such a fiduciary capacity, for example, a breach of fiduciary duty to the other party may result in claims against the Group. The Group manages those risks through effective fiduciary policies and procedures.

24. GEOGRAPHICAL AND SEGMENTAL INFORMATION

The Group's main operations are in the Cayman Islands. The Group also has the following bank and trust operations in the Isle of Man.

For the year ended September 30, 2017, summary financial data:

	<u>2017</u>	<u>2016</u>
Gross Assets	177,184,267	172,259,666
Total Liabilities	170,306,902	166,518,476
Gross Revenue	2,399,034	3,487,683
Net Income	546,328	161,200
Capital Expenditure	69,881	50,429
Depreciation charge	36,180	38,205
Interest expense	159,662	225,606
Interest income	1,520,240	1,270,163

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Notes to Consolidated Financial Statements

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24. GEOGRAPHICAL AND SEGMENTAL INFORMATION (CONTINUED)

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.

Substantially all cash, short term placements and customer deposits and loans are banking activities and are presented in the consolidated statement of financial position.

	<u>Banking</u>	<u>Trust and Company Management</u>	<u>Asset Management</u>	<u>Other*</u>	<u>Group</u>
<u>September 30, 2017</u>					
Gross Assets	1,455,868,404	2,392,695	4,538,409	(7,701,835)	1,455,097,673
Total Liabilities	1,356,668,366	425,009	2,107,590	(4,407,480)	1,354,793,485
Gross Revenue	62,545,758	825,821	3,655,432	(272,555)	66,754,456
Net Income	16,839,632	(223,141)	475,110	59,590	17,151,191
Capital Expenditure	1,976,715	5,416	10,831	-	1,992,962
Depreciation charge	2,204,349	-	63,693	669	2,268,711
Goodwill impairment	-	-	213,412	-	213,412
Interest expense	3,467,952	-	41	(153,201)	3,314,792
Interest income	42,789,727	-	1,109	(242,488)	42,548,348
<u>September 30, 2016</u>					
Gross Assets	1,338,399,267	2,327,596	3,741,852	(6,577,806)	1,337,890,909
Total Liabilities	1,250,054,390	1,109,836	1,436,143	(3,917,037)	1,248,683,332
Gross Revenue	56,863,241	1,102,318	3,503,507	(438,757)	61,030,309
Net Income	11,167,560	(272,062)	159,336	(30,217)	11,024,617
Capital Expenditure	2,721,843	36,827	74,968	(1,792)	2,831,846
Depreciation charge	2,179,999	-	63,407	1,165	2,244,571
Goodwill impairment	-	-	-	-	-
Interest expense	2,722,271	-	-	(34,414)	2,687,857
Interest income	36,365,184	-	35,638	(174,502)	36,226,320

* "Other" primarily relates to intra-segment transactions and balances.

25. INTEREST INCOME AND EXPENSE

Interest income comprises of the following:

	<u>2017</u>	<u>2016</u>
Cash and short term funds	3,191,438	1,650,318
Investment securities	1,746,631	1,230,487
Loans and advances	<u>37,610,279</u>	<u>33,345,515</u>
	<u>\$ 42,548,348</u>	<u>\$ 36,226,320</u>

Substantially all interest expense is attributable to customer deposits.

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26. FOREIGN EXCHANGE FEES AND COMMISSIONS

Included within foreign exchange fees and commissions are net transaction gains and realized foreign exchange translation losses of \$5,684,960 (2016: \$5,296,997) and wire commissions of \$1,944,790 (2016: \$1,855,734).

27. PERSONNEL

Personnel costs comprise of the following:

	<u>2017</u>	<u>2016</u>
Salaries and overtime	\$ 20,201,807	\$ 19,627,596
Pension	929,914	797,056
Health insurance	1,490,745	1,333,944
Bonus	981,022	953,269
Training	456,472	406,417
Other	<u>845,366</u>	<u>876,307</u>
	<u>24,905,325</u>	<u>23,994,589</u>

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 \$96,294 (2016: \$91,790) which is included within personnel costs in the consolidated statement of comprehensive income.

At September 30, 2017, the Group employed a total of 325 personnel (2016: 333).

28. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	<u>2017</u>	<u>2016</u>
Managers cheques	6,784,996	7,913,768
Due to customers	2,106,137	2,477,073
Accounts payable and accrued expenses	956,531	1,590,796
Deferred revenue	133,222	344,651
Other liabilities	<u>3,137,546</u>	<u>965,466</u>
Accounts payable and other liabilities	<u>\$ 13,118,432</u>	<u>\$13,291,754</u>

Other liabilities increase at September 30, 2017 is due to amounts due to brokers for securities purchased but not yet settled by year end on behalf of clients.

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28. ACCOUNTS PAYABLE AND OTHER LIABILITIES (CONTINUED)

Accounts receivable and payable resulting from financial transactions settled through clearing systems with the credit card providers subject to enforceable master netting arrangements are offset daily. The relevant amounts have therefore been presented net in the statement of financial position.

The following table presents the effects of offsetting on the statement of financial position:

Financial assets/ liabilities	Gross amounts	Gross amounts offset	Net amounts presented
Accounts receivable and other assets	6,317,358	(1,096,806)	5,220,552
Accounts payable and accrued expenses	14,215,238	(1,096,806)	13,118,432

29. DISCONTINUED OPERATIONS

a. Description

During the period the Group decided to exit the Trust business in the Cayman Islands and initiated an active program to locate a buyer.

The Group signed a set of agreements with a buyer on September 7, 2017 to sell its Cayman Trust business with effect from September 29, 2017 (Note 2) and this division is reported in the current period as a discontinued operation. Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

b. Financial performance and cash flow information

The financial performance and cash flow information presented are for the period from October 1, 2016 to September 29, 2017 (2017 column) and for the year ended September 30, 2016 (2016 column).

	2017	2016
Trust and company management fees	1,718,215	1,437,618
Other income (revaluation of contingent consideration receivable)	-	-
Expenses	(1,575,724)	(1,581,231)
Net income/(loss) before income tax	142,491	(143,613)
Income tax expense	-	-
Net income/(loss) after income tax of discontinued operations	142,491	(143,613)
Gain on sale of the business after income tax (see (c) below)	171,585	-
Net income from discontinued operations	\$ 314,076	\$ (143,613)
Changes in fair value of contingent consideration payable, see (c) below	-	-
Other comprehensive income from discontinued operations	-	-

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29. DISCONTINUED OPERATIONS (CONTINUED)

	2017	2016
Net cash inflow/(outflow) from operating activities	63,351	(2,549,943)
Net cash inflow/(outflow) from investing activities (2017 includes an inflow of CI\$2,250,000 from the sale of the business)	2,244,584	(36,827)
Net cash inflow/(outflow) from financing activities	-	2,500,000
Net increase/(decrease) in cash generated by the division	2,307,936	(86,770)

c. Details of the sale of the trust and company management business

The full CI\$2,250,000 consideration was received in cash on or before September 29, 2017. The sales proceeds have both a fixed and a variable component:

	2017
Fixed consideration	\$1,250,000
Variable consideration	\$1,000,000

The fixed component is not refundable under any circumstances. The variable component is dependent on the performance of the revenue from the Trust business for the period ending September 28, 2018. The Group is contractually obliged to return any shortfall between actual revenue for this period and CI\$1,000,000.

At the time of the sale the fair value of the liability to return the variable proceeds was determined to be CI\$250,000 based on management's projections of revenue. Given the transaction happened so close to year end, the change in the value of the liability (see analysis in (a) above) was \$Nil.

The most significant input in determining the value of this liability is the forecasted fee income from the transferred customer contracts. Management believes no reasonable change in the forecasted fee income could result in a significant change in the value of the liability.

	2017	2016
Consideration received (cash)	2,250,000	-
Fair value of contingent consideration	(250,000)	-
Carrying amount of net assets sold	(1,828,415)	-
Gain on sale before income tax	171,585	-
Income tax expense on gain	-	-
Gain on sale after income tax	171,585	-

The carrying amounts of assets and liabilities as at the date of sale (September 29, 2017) was:

	2017
Goodwill	2,033,133
Total assets	2,033,133
Fees received in advance	(204,718)
Total liabilities	(204,718)
Net assets	1,828,415