

***Cayman National Corporation
Ltd.***

Consolidated Financial Statements

for the year ended September 30, 2015
and Independent Auditor's Report



Independent auditor's report

To the Board of Directors of Cayman National Corporation Ltd.

We have audited the accompanying consolidated financial statements of Cayman National Corporation Ltd. and its subsidiaries on pages 2 to 61, which comprise the consolidated statement of financial position as at September 30, 2015 and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cayman National Corporation Ltd. and its subsidiaries as at September 30, 2015, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in dark ink that reads 'PricewaterhouseCoopers' in a cursive, flowing script.

January 22, 2016

CAYMAN NATIONAL CORPORATION LTD.

Consolidated Statement of Financial Position

September 30, 2015

(expressed in Cayman Islands dollars)

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash and due from banks (Note 3)	\$ 256,021,204	\$ 183,795,553
Short term placements	221,321,393	229,753,510
Investments (Notes 4 and 13)	77,283,838	55,429,131
Loans and overdrafts (Notes 5 and 13)	655,830,772	604,750,657
Interest receivable (Note 13)	3,568,330	3,243,310
Accounts receivable (Notes 13)	5,283,302	6,969,980
Fixed assets (Note 6)	19,692,709	19,221,691
Investment Property (Note 7 and 30)	7,368,000	8,390,000
Goodwill (Note 8)	<u>2,752,197</u>	<u>2,849,929</u>
TOTAL ASSETS	<u>\$ 1,249,121,745</u>	<u>\$ 1,114,403,761</u>
LIABILITIES		
Customers' accounts (Note 13)		
Current	\$ 322,731,609	\$ 256,808,911
Savings	284,594,908	272,394,231
Fixed deposits (Note 9)	<u>534,714,806</u>	<u>488,258,070</u>
TOTAL DEPOSITS	1,142,041,323	1,017,461,212
Interest payable	638,860	618,272
Accounts payable and other liabilities (Note 27)	23,023,254	12,169,018
Deferred revenue	<u>3,552,107</u>	<u>3,379,180</u>
TOTAL LIABILITIES	1,169,255,544	1,033,627,682
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT		
Share capital (Note 11)	\$ 42,350,731	\$ 42,350,731
Treasury stock (Note 11)	(400,153)	(6,323)
Share option reserve (Note 18)	163,849	148,739
Share premium (Note 11)	5,031,898	5,031,898
General reserve (Note 11)	7,486,050	7,486,050
Accumulated retained earnings	24,905,097	24,049,829
Reserve for dividends (Note 17)	-	2,117,366
Net unrealized holding (loss)/gain		
Investments available-for-sale (Note 4)	1,099,960	(68,541)
Equity adjustments from foreign currency translation (Note 12)	<u>(771,231)</u>	<u>(333,670)</u>
	<u>79,866,201</u>	<u>80,776,079</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 1,249,121,745</u>	<u>\$ 1,114,403,761</u>

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

Truman Bodden
Director

Stuart Dack
Director

January 22, 2016
Date

CAYMAN NATIONAL CORPORATION LTD.

Consolidated Statement of Comprehensive Income

For the year ended September 30, 2015

(expressed in Cayman Islands dollars)

	2015	2014
INTEREST		
Interest income (Note 13 and 24)	\$ 31,953,455	\$ 28,604,912
Interest expense (Note 13 and 24)	<u>2,264,903</u>	<u>2,434,783</u>
NET INTEREST INCOME	29,688,552	26,170,129
OTHER INCOME		
Banking fees and commissions	13,246,702	11,638,199
Trust and company management fees	5,013,119	6,010,669
Foreign exchange fees and commissions (Note 25)	6,398,151	6,252,246
Brokerage commissions and fees	1,343,788	1,524,632
Rental Income (Note 7)	491,700	488,103
Gain on sale of assets held for sale (Note 7 and 29)	-	207,114
Gain on disposal of investment available-for-sale	5,571	-
Gain on sale of fixed assets (Note 6)	<u>47,689</u>	<u>33,234</u>
TOTAL INCOME	<u>56,235,272</u>	<u>52,324,326</u>
EXPENSES		
Personnel (Note 26)	23,859,932	24,065,942
Other operating expenses (Note 7)	17,501,857	17,036,878
Penalties/fines incurred (Note 27)	5,000,000	-
Increase in loan impairment provision (Note 5)	2,636,459	1,116,396
Premises	3,101,858	3,460,350
Depreciation (Note 6)	2,173,595	2,217,821
Change in fair value of investment property (Note 7)	1,022,000	1,025,000
Impairment of goodwill (Note 8)	<u>97,732</u>	<u>24,085</u>
	<u>55,393,433</u>	<u>48,946,472</u>
NET INCOME BEFORE TAXATION	841,839	3,377,854
TAXATION (Note 10)	<u>(24,408)</u>	<u>(3,110)</u>
NET INCOME	<u>\$ 817,431</u>	<u>\$ 3,374,744</u>
NET INCOME ATTRIBUTABLE TO:		
Equity Holders of the Parent	\$ 817,431	\$ 3,374,744
Non-Controlling Interests (Note 28)	<u>-</u>	<u>-</u>
	<u>\$ 817,431</u>	<u>\$ 3,374,744</u>
OTHER COMPREHENSIVE INCOME:		
Items that may subsequently be reclassified to net income:		
Change in unrealized appreciation / (depreciation) (Note 4)	\$ 1,168,501	\$ (438,452)
Net reclassification adjustment for realised net gains	<u>-</u>	<u>-</u>
Net gain/(loss) on available-for-sale investments	1,168,501	(438,452)
Items that will not be reclassified to net income:		
Foreign currency translation differences (Note 12)	<u>\$ (437,561)</u>	<u>\$ 218,242</u>
*Total Other Comprehensive Income/(Loss)	<u>\$ 730,940</u>	<u>\$ (220,210)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 1,548,371</u>	<u>\$ 3,154,534</u>
EARNINGS PER SHARE (Note 11)	<u>\$ 0.02</u>	<u>\$ 0.08</u>
DILUTED EARNINGS PER SHARE (Note 11)	<u>\$ 0.02</u>	<u>\$ 0.08</u>

*There is no other comprehensive income attributable to Non-controlling interests.

CAYMAN NATIONAL CORPORATION LTD.

Consolidated Statement of Changes in Shareholders' Equity

For the year ended September 30, 2015
(expressed in Cayman Islands dollars)

	Attributable to equity holders of the Parent:										Non Controlling Interests	Total
	Share capital	Share premium	Treasury stock	Share option reserve	General reserve	Accumulated Retained earnings	Reserve for dividends	Net unrealized holding (loss)/gain on investments available-for-sale	Equity adjustments from foreign currency translation	Total		
Balance at September 30, 2013	\$ 42,350,731	\$ 5,031,898	\$ -	\$ 122,342	\$ 7,486,050	\$ 27,027,183	-	\$ 369,911	\$ (551,912)	\$ 81,836,203	\$ -	\$ 81,836,203
Sale of Treasury shares	-	-	-	-	-	-	-	-	-	-	-	-
Share Option expense (Note 18)	-	-	-	26,397	-	-	-	-	-	26,397	-	26,397
Net income	-	-	-	-	-	3,374,744	-	-	-	3,374,744	-	3,374,744
Other Comprehensive Gain/(Loss)	-	-	-	-	-	-	-	(438,452)	218,242	(220,210)	-	(220,210)
Total Comprehensive Income	\$ -	\$ -	\$ -	\$ 26,397	\$ -	\$ 3,374,744	\$ -	\$ (438,452)	\$ 218,242	\$ 3,180,931	\$ -	\$ 3,180,931
2013 proposed dividend paid (Note 17)	-	-	-	-	-	(2,117,366)	-	-	-	(2,117,366)	-	(2,117,366)
2014 interim dividend paid (Note 17)	-	-	-	-	-	(2,117,366)	-	-	-	(2,117,366)	-	(2,117,366)
Final dividend proposed (Note 17)	-	-	-	-	-	(2,117,366)	2,117,366	-	-	-	-	-
Treasury stock	-	-	(6,323)	-	-	-	-	-	-	(6,323)	-	(6,323)
Balance at September 30, 2014	\$ 42,350,731	\$ 5,031,898	\$ (6,323)	\$ 148,739	\$ 7,486,050	\$ 24,049,829	\$ 2,117,366	\$ (68,541)	\$ (333,670)	\$ 80,776,079	\$ -	\$ 80,776,079
Treasury shares (Note 27)	-	-	(393,830)	-	-	37,837	-	-	-	(355,993)	-	(355,993)
Share Option Expense (Note 18)	-	-	-	15,110	-	-	-	-	-	15,110	-	15,110
Net income	-	-	-	-	-	817,431	-	-	-	817,431	-	817,431
Other Comprehensive Gain/(Loss)	-	-	-	-	-	-	-	1,168,501	(437,561)	730,940	-	730,940
Total Comprehensive Income	\$ -	\$ -	\$ (393,830)	\$ 15,110	\$ -	\$ 855,268	\$ -	\$ 1,168,501	\$ (437,561)	\$ 1,207,488	\$ -	\$ 1,207,488
2014 proposed dividend paid (Note 17)	-	-	-	-	-	-	(2,117,366)	-	-	(2,117,366)	-	(2,117,366)
Balance at September 30, 2015	\$ 42,350,731	\$ 5,031,898	\$ (400,153)	\$ 163,849	\$ 7,486,050	\$ 24,905,097	\$ -	\$ 1,099,960	\$ (771,231)	\$ 79,866,201	\$ -	\$ 79,866,201

See notes to consolidated financial statements

CAYMAN NATIONAL CORPORATION LTD.

Consolidated Statement of Cash Flows

For the year ended September 30, 2015

(expressed in Cayman Islands dollars)

	2015	2014
CASH (USED IN) / PROVIDED BY:		
OPERATING ACTIVITIES		
Net income (including non controlling interest)	\$ 817,431	\$ 3,374,744
Adjustments for items not involving cash:		
Depreciation (Note 6)	2,173,595	2,217,821
Impairment of goodwill (Note 8)	97,732	24,085
Amortization of premium/discount on investments held-to-maturity (Note 4)	743,970	531,560
Gain on sale of asset held for sale (Note 7)	-	(207,114)
Change in fair value of Investment property (Note 7)	1,022,000	1,025,000
Increase in loan impairment provision (Note 5)	2,636,459	1,116,396
Gain on disposal of investment available-for-sale	(5,571)	-
Gain on sale of fixed assets (Note 6)	(47,689)	(33,234)
Share option expense (Note 18)	15,110	26,397
Foreign exchange loss investments	266,483	-
	<u>7,719,520</u>	<u>8,075,655</u>
Changes in non-cash working capital items:		
Interest receivable	(325,020)	(786,668)
Accounts receivable	1,686,678	(2,353,573)
Depositors' accounts	124,580,111	35,044,999
Interest payable	20,588	(492,246)
Accounts payable and other liabilities and deferred revenue*	10,762,550	4,006,934
Adjustments from foreign currency translation	(437,561)	218,242
Net advances for loans and overdrafts	<u>(53,716,574)</u>	<u>(51,323,501)</u>
	<u>90,290,292</u>	<u>(7,610,158)</u>
INVESTING ACTIVITIES		
Changes in:		
Short term placements	8,432,117	12,868,378
Proceeds on redemption of investments available-for-sale	8,880,263	7,715,279
Purchase of investments available-for-sale	(6,975,665)	(39,250,315)
Purchase of investments held-to-maturity	(30,048,262)	(6,137,469)
Proceeds on maturity of investments held-to-maturity	6,452,576	337,950
Proceeds from sale of asset held for sale (Note 29)	-	1,740,000
Purchase of additions to fixed assets (Note 6)	(2,669,707)	(1,304,852)
Proceeds on disposal of fixed assets (Note 6)	72,783	194,697
	<u>(15,855,895)</u>	<u>(23,836,332)</u>
FINANCING ACTIVITIES		
Dividends paid (Note 17 and 27)	(2,208,746)	(4,241,426)
Treasury shares (Note 11 and 27)*	-	(6,323)
	<u>(2,208,746)</u>	<u>(4,247,749)</u>
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	72,225,651	(35,694,239)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>183,795,553</u>	<u>219,489,792</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 256,021,204</u>	<u>\$ 183,795,553</u>
Supplemental information:		
Interest received	<u>\$ 31,628,435</u>	<u>\$ 28,349,804</u>
Interest paid	<u>\$ 2,244,315</u>	<u>\$ 2,927,029</u>

* Net of non-cash transactions related to purchase of treasury shares (Note 27)

See notes to consolidated financial statements

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2015

(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.

Through its subsidiary, International Banking Group (TCI) Ltd., the Corporation provided full banking services in the Turks and Caicos Islands ("TCI") up until July 2012 (see Note 28). International Banking Group (TCI) Ltd was fully liquidated in 2015.

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 two of the Corporation's subsidiaries are liable for taxation which are those in the Isle of Man and which is reflected in these consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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

Standards and amendments to existing standards effective October 1, 2014

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, 2014 that had a material impact on the Group.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2015
(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

New standards, amendments and interpretations issued but not effective for the financial year beginning October 1, 2014 and not early adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after October 1, 2014, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

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. It 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 OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. 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 standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Group is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2017 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a significant impact on the Group.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2015
(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

(a) Subsidiaries

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

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

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

Changes in ownership interests in subsidiaries without change of control

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

Disposal of subsidiaries

When the Group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in the consolidated statement of comprehensive income.

The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2015
(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

(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, 2015 and 2014. The non-operating companies of the Corporation are:

- CNT (Nominees) Ltd. and its wholly owned subsidiary Green Pilgrim.
- Cayman National (Nominees) Ltd and its wholly owned subsidiary CNT Director Ltd.
- CN Director Limited, Cayman National Nominees Ltd., Cayman National Secretarial Ltd., Beeston Management Limited, and Beeston Secretarial Limited are wholly owned subsidiaries of Cayman National Bank and Trust Company (Isle of Man) Ltd.

(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 & Trust Company (Isle of Man) Ltd. ("CNB&T" (IOM)), (incorporated and regulated in the Isle of Man) and its wholly owned subsidiary Global Life Trust Company Ltd.	100%	Banking, company and trust management
Cayman National Fund Services (Isle of Man) Ltd. ("CNFS" (IOM)), (incorporated and regulated in the Isle of Man)	100%	Mutual fund administration
International Banking Group (TCI) Ltd. ("IBG") (incorporated and regulated in Turks and Caicos*)	80.71%	Banking services (operations commenced July 2010 until July 2012) (See Note 1 and 28)
Cayman National (Dubai) Ltd. (incorporated in Dubai, UAE)	100%	Representative Office

* 19.29% non-controlling interest was subscribed as of September 30, 2014 (See Note 28). This entity was fully liquidated in September 2015 (See Note 23).

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2015
(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 13. 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. 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.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2015
(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill (continued)

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.

(b) Transactions and balances

Revenue and expense transactions involving currencies other than the functional currency have been translated at exchange rates ruling at the date of those transactions. Monetary assets are translated at bid-market rates and monetary liabilities are translated at the closing rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Gains and losses on exchange are credited or charged in the consolidated statement of comprehensive income.

(c) Group Companies

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

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

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2015
(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and software	Variously over 3 to 7 years
Freehold buildings	Up to 50 years
Freehold land	N/A
Furniture and equipment	Variously over 2 to 15 years
Leasehold improvements	Over the terms of the leases
Leasehold property	Shorter of terms of leases or 20 years
Motor vehicles	Over 4 years

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

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 in Note 2 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

Accounts receivable 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 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, 2015
(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts receivable (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, 2015
(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 statement of comprehensive income, with a corresponding adjustment to equity.

When the options are exercised, the company will purchase shares in the market. The proceeds received net of any transaction costs are credited to share capital (par value) and the surplus to share premium.

Non-current assets (or disposal groups) held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. Non-current assets held for sale comprise of land previously recognized as investment property. In accordance with IFRS 5, non-current assets held for sale are recognized initially at fair value and subsequently measured at the lower of their carrying amount and fair value less costs to sell.

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 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.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2015
(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, the Group considers all cash at banks, cash in hand and short term placements with original maturities of 90 days or less from date of placement as cash or cash equivalents.

Short term placements

Short term placements principally represent deposits and placements with other banks with original maturities of greater than 90 days.

Assets under administration

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

Share Purchase Scheme

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

Leases

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

Investments

The Group classifies its investments in the following categories: available for sale, held to maturity and financial assets at fair value through profit and loss. Management determines the classification of its investments at initial recognition. Purchases and sales of investments available for sale, held to maturity and at fair value through profit or loss are recognized on trade date basis, which is the date the Group commits to purchase or sell the investment. Investments are initially recognized at fair value plus transaction costs for all investments not carried at fair value through profit or loss.

Investments carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the consolidated statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

Available-for-sale

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

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2015
(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

Available-for-sale (continued)

For publicly traded securities fair value is based on quoted bid prices of these securities. The fair value of non-exchange traded mutual funds is determined based on the net asset value per share provided by the administrators of the funds. In cases where there is no quoted market price for equity securities, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions and reference to other instruments that are substantially the same. The fair value of bonds and other debt securities are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining maturity.

Gains and losses on disposal are calculated on gross proceeds less the original cost of securities sold on a specific identification basis, and are included in income. Unrealized appreciation and depreciation on available-for-sale investments is reported as a separate component of shareholders' equity, until the investment is derecognized or impaired. At this time, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the consolidated statement of comprehensive income.

Held-to-maturity

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

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

Financial assets at fair value through profit and loss

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

- Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss; and
- Financial instruments, such as debt securities held, contain one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit and loss.

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

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2015
(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

Financial liabilities

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

Financial liabilities at fair value through profit or loss

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

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

Other financial liabilities

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

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2015
(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Offsetting financial instruments

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

Critical Accounting Estimates and Judgments

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

Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis or when an indicator of impairment is present. In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income on these loans, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the discounted collateral and estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group or local economic conditions that correlate with defaults on assets in the group.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of recoverable collateral differs by +/-10 percent, the provision would change by +/- \$1,447,080 (2014: \$1,199,430). 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.

Investment property

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

Estimated goodwill impairment

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

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2015
(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Critical Accounting Estimates and Judgments (continued)

Estimated goodwill impairment (continued)

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 (a) its intention and ability to hold the assets to maturity and (b) whether the assets are quoted in an active market. 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 \$78,664 (2014: \$111,736) 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 21 for discussion of fair value estimation for investments.

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, the Group estimates that the loans granted in the current year have an average maturity period of 18 years (2014: 15 years). Loans granted prior to this have an average maturity period of 13 years. The Group also estimates that annually, 3% (2014: 3%) of loan balances are repaid before the maturity date. The effect of this change in estimate is immaterial to income. 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 1 year increase in average maturity periods result in a decrease in loan origination fee revenue recognized of approximately \$74,498 (2014: \$69,551). A 1 year decrease in average maturity periods result in an increase in loan origination fee revenue recognized of approximately \$49,707 (2014: \$46,413). A 1% change in the level of loans repaid prior to the scheduled maturity date has an effect of approximately +/- \$9,021 (2014: \$9,051) on loan origination fees revenue recognized.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2015
(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Critical Accounting Estimates and Judgments (continued)

Structured entities

The Group is associated with certain investments entities which it sponsors and from which it earns fees (see Note 13) and these investment vehicles are considered structured entities. In determining whether the group has control of these structured entities, and accordingly, whether or not it must consolidate any of them, management have necessarily applied significant judgment.

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

- Service fees based on a percentage of Net Asset Value ("NAV"): all of the investment vehicles pay the Group service fees based on a percentage of NAV. Management have concluded that the fees for those services are arms length arrangements at normal market rates that are commensurate with the services provided and accordingly have concluded that these do not significantly change the Group's exposure to variability of returns and therefore are not significant enough to give the Group control.
- The Group has voluntarily provided financial support to the CNB Money Market Fund during the year ended September 30, 2014 (see Note 13). These actions have resulted in the Group beginning to absorb variability of returns for this investment fund, however, as the support only occurred for a 6 month period and ceased subsequent to September 30, 2014, management have concluded that the circumstances were temporary and accordingly do not significantly change the Group's exposure to variability of returns.
- Management have determined that this exposure is not significant enough to give them control. In the event that this financial support reoccurred and a pattern of absorbing variability emerged, management's judgment around this conclusion would likely change and may result in the Group consolidating the CNB Money Market Fund.

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.

	<u>2015</u>	<u>2014</u>
Cash in hand and current accounts	\$ 97,894,922	\$ 82,464,928
Operating accounts	29,738,909	17,884,455
Money market accounts	252,899	2,860,756
Deposits with other banks	<u>128,134,474</u>	<u>80,585,414</u>
	<u>\$ 256,021,204</u>	<u>\$ 183,795,553</u>

Deposits with other banks attracted interest rates ranging from 0.01% to 2.59% (2014: 0.01% to 2.70%) during the financial year.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2015
(expressed in Cayman Islands dollars)

(continued)

4. INVESTMENTS

Investments comprise:	2015	2014
Available-for-sale, at fair value	\$ 48,375,604	\$ 49,620,276
Held-to-maturity, at amortized cost	28,908,234	5,808,855
Total	<u>\$ 77,283,838</u>	<u>\$ 55,429,131</u>

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

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

	Market	Cost	Gross unrealized holding gains (losses)	Estimated fair value
<u>September 30, 2014</u>				
Ordinary shares	Unlisted	\$ 555,558	\$ -	\$ 555,558
Preference Shares	Unlisted	40,885	42,448	83,333
Mutual Funds	Unlisted	48,317	840	49,157
Government agency bonds	Listed	22,164,113	30,319	22,194,432
Regional corporate & government bonds	Listed	\$ 2,360,977	\$ (73,435)	2,287,542
	Unlisted	833,333	-	833,333
International corporate bonds	Listed	23,685,634	(68,713)	23,616,921
		<u>\$ 49,688,817</u>	<u>\$ (68,541)</u>	<u>\$ 49,620,276</u>

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2015
(expressed in Cayman Islands dollars)

(continued)

4. INVESTMENTS (CONTINUED)

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

Government agency bonds are issued by government sponsored enterprises mainly comprised of 18% (2014: 39%) supranational bonds, 5% (2014: 15%) United States government bonds and 76% (2014: 46%) in other jurisdictions all with a Moody's rating of A1 or greater.

International corporate bonds are issued by multi-national corporations mainly domiciled in the United States 42% (2014: 41%), Canada 19% (2014: 21%) and other jurisdictions 39% (2014: 37%) with all bonds having a Moody's rating of A1 or greater.

The issuers of the regional, corporate and government bonds are domiciled in Barbados and the Cayman Islands. Yield to maturity for the above debt instruments range from 0.25% to 6.50% (2014: 0.17% to 7.70%).

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:	2015	2014
International corporate bonds	\$ 22,135,750	\$ 5,125,809
Government and multi development bank	<u>6,772,484</u>	<u>683,046</u>
Total	<u>\$ 28,908,234</u>	<u>\$ 5,808,855</u>

Net amortization of discounts/premiums on purchase of debt securities of \$743,970 (2014: \$531,560) is included within interest income.

Subsequent to year end September 2014, Standard & Poor's lowered Barbados long-term sovereign credit ratings from BB- to B, with potential further downgrade. The carrying value of the Barbados bonds held by the Group at September, 30, 2015 was \$1,524,750 with a fair value of \$1,524,750 (2014: \$1,416,495 with a fair value of \$1,416,495).

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2015
(expressed in Cayman Islands dollars)

(continued)

5. LOANS AND OVERDRAFTS

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

	Period from year end to maturity				Total
	Under one year	Within two to five years	Within six to ten years	Over ten years	
(All figures in \$000's)					
<u>At September 30, 2015</u>					
Commercial	\$ 45,484	\$ 16,435	\$ 40,105	\$ 92,490	\$ 194,514
Personal	44,134	17,311	45,572	351,702	\$ 458,719
Corporate	5,770	4	-	2,594	\$ 8,368
Total	<u>\$ 95,388</u>	<u>\$ 33,750</u>	<u>\$ 85,677</u>	<u>\$ 446,786</u>	\$ 661,601
Provision for loan impairment					<u>(5,770)</u>
					<u>\$ 655,831</u>

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)					
<u>At September 30, 2014</u>					
Commercial	\$ 40,877	\$ 23,289	\$ 34,090	\$ 107,297	\$ 205,553
Personal	25,957	22,789	39,402	304,377	\$ 392,525
Corporate	4,794	6	2,585	3,165	\$ 10,550
Total	<u>\$ 71,628</u>	<u>\$ 46,084</u>	<u>\$ 76,077</u>	<u>\$ 414,839</u>	\$ 608,628
Provision for loan impairment					<u>(3,877)</u>
					<u>\$ 604,751</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%.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2015
(expressed in Cayman Islands dollars)

(continued)

5. LOANS AND OVERDRAFTS (CONTINUED)

	<u>2015</u>	<u>2014</u>
Provision for loan impairment, beginning of year	\$ 3,877,425	\$ 3,403,980
Increase charged to expenses (net of recoveries)	2,636,459	1,116,396
Loans written off	<u>(744,157)</u>	<u>(642,951)</u>
Provision for loan impairment, end of year	<u>\$ 5,769,727</u>	<u>\$ 3,877,425</u>

Recoveries for loans previously written-off were \$119,348 (2014: \$98,949) recognized in the increase in loan impairment provision in the consolidated statement of comprehensive income. See Note 19 for discussion on credit risk.

6. FIXED ASSETS

September 30 2015	Freehold land and buildings	Leasehold property and improvements	Computers, software, furniture and equipment	Motor Vehicles	<u>Total</u>
<u>Cost:</u>					
At September 30, 2014	\$ 20,047,823	\$ 4,825,036	\$ 20,114,661	\$ 302,512	\$ 45,290,032
Additions	299,966	2,480	2,341,361	25,900	\$ 2,669,707
Disposals	<u>(33,040)</u>	<u>-</u>	<u>(1,111,912)</u>	<u>(19,000)</u>	<u>\$ (1,163,952)</u>
At September 30, 2015	<u>\$ 20,314,749</u>	<u>\$ 4,827,516</u>	<u>\$ 21,344,110</u>	<u>\$ 309,412</u>	<u>\$ 46,795,787</u>
<u>Accumulated depreciation:</u>					
At September 30, 2014	\$ 6,813,599	\$ 3,192,532	\$ 15,834,073	\$ 228,137	\$ 26,068,341
Charge for year	510,704	267,534	1,358,347	37,010	\$ 2,173,595
Disposals	<u>(33,040)</u>	<u>-</u>	<u>(1,086,818)</u>	<u>(19,000)</u>	<u>\$ (1,138,858)</u>
At September 30, 2015	<u>\$ 7,291,263</u>	<u>\$ 3,460,066</u>	<u>\$ 16,105,602</u>	<u>\$ 246,147</u>	<u>\$ 27,103,078</u>
<u>Net book value:</u>					
At September 30, 2015	<u>\$ 13,023,486</u>	<u>\$ 1,367,450</u>	<u>\$ 5,238,508</u>	<u>\$ 63,265</u>	<u>\$ 19,692,709</u>

During the year ended September 30, 2015, fully depreciated fixed assets that were obsolete and/or no longer exist with a cost of \$1,005,066 (2014: \$4,664,092) and accumulated depreciation of \$1,005,066 (2014: \$4,664,092) were written off. Total proceeds received from the sale of assets during 2015 were \$72,783 (2014: \$194,697), resulting in a gain on sale of \$47,689 (2014: \$33,234) in the consolidated statement of comprehensive income.

Also, during the year assets with a cost of \$76,421 (2014: \$21,413) and accumulated depreciation of \$51,329 (2014: \$20,224) were disposed resulting in a loss of \$25,092 (2014: \$1,189) in the consolidated statement of comprehensive income.

The opening balances as of September 30, 2014 for cost and accumulated depreciation were adjusted to reflect impairment.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2015
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(continued)

6. FIXED ASSETS (CONTINUED)

September 30 2014	Freehold land and buildings	Leasehold property and improvements	Computers, software, furniture and equipment	Motor Vehicles	Total
<u>Cost:</u>					
At September 30, 2013	\$ 20,219,050	\$ 5,745,705	\$ 22,917,888	\$ 300,021	\$ 49,182,664
Additions	73,521	23,555	1,189,876	17,900	\$ 1,304,852
Disposals	<u>(244,748)</u>	<u>(944,224)</u>	<u>(3,993,103)</u>	<u>(15,409)</u>	<u>\$ (5,197,484)</u>
At September 30, 2014	<u>\$ 20,047,823</u>	<u>\$ 4,825,036</u>	<u>\$ 20,114,661</u>	<u>\$ 302,512</u>	<u>\$ 45,290,032</u>
<u>Accumulated depreciation:</u>					
At September 30, 2013	\$ 6,391,442	\$ 3,773,384	\$ 18,524,390	\$ 197,325	\$ 28,886,541
Charge for year	506,632	363,372	1,301,596	46,221	\$ 2,217,821
Disposals	<u>(84,475)</u>	<u>(944,224)</u>	<u>(3,991,913)</u>	<u>(15,409)</u>	<u>\$ (5,036,021)</u>
At September 30, 2014	<u>\$ 6,813,599</u>	<u>\$ 3,192,532</u>	<u>\$ 15,834,073</u>	<u>\$ 228,137</u>	<u>\$ 26,068,341</u>
<u>Net book value:</u>					
At September 30, 2014	<u>\$ 13,234,224</u>	<u>\$ 1,632,504</u>	<u>\$ 4,280,588</u>	<u>\$ 74,375</u>	<u>\$ 19,221,691</u>

7. INVESTMENT PROPERTY

Investment property at fair value is as follows:

	2015		2014	
	Rental property	Land	Rental property	Land
Beginning Balance	\$ 8,330,000	\$ 60,000	\$ 9,355,000	\$ 60,000
Sales	-	-	-	-
Purchases	-	-	-	-
Transfer In	-	-	-	-
Impairment charge	(1,022,000)	-	(1,025,000)	-
Reversal of provision	-	-	-	-
Transfers from / (to) assets held for sale	-	-	-	-
Ending Balance	<u>\$ 7,308,000</u>	<u>\$ 60,000</u>	<u>\$ 8,330,000</u>	<u>\$ 60,000</u>

CAYMAN NATIONAL CORPORATION LTD.

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7. INVESTMENT PROPERTY (CONTINUED)

Rental property represents a single property apartment block in Grand Cayman. The Group has entered into operating leases with third parties for substantially all of the units in the apartment block. During fiscal 2015, the Group earned rental income of \$491,700 (2014: \$488,100) recognized in rental income in the consolidated statement of comprehensive income. The rental income for fiscal 2015 represented partial occupancy; fully occupied and based on rental agreements the annual gross rental income is estimated to be approximately \$508,400 (2014: \$497,800). The direct operating expenses arising from the investment property was \$404,414 (2014: \$371,509) 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 fair value of investment property as of September 30, 2015 was \$7,368,000 (2014: \$8,390,000) reflecting a change in fair value of \$1,022,000; this change is recorded in the consolidated statement of comprehensive income. 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 management with the support of 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 \$736,800 (2014: \$839,000).

8. GOODWILL

The purchase method has been applied to the acquisition of three 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:

	<u>2015</u>	<u>2014</u>
Annual revenue change p.a.	2%	2% to 3.75%
Annual cost change p.a.	2%	2%
Overheads allocation factor	5.72% to 6.31%	-
Annual discount rate	3.87%	2.50%
Attrition rate	3.14% to 7.5%	1.8% to 7.8%

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2015
(expressed in Cayman Islands dollars)

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8. GOODWILL (CONTINUED)

Goodwill is summarized as follows:

Goodwill is summarized as follows:

	<u>2015</u>	<u>2014</u>
Cost:	6,910,119	6,910,119
Balance at beginning of year		
Purchase consideration paid in year	-	-
Balance at end of year	<u>6,910,119</u>	<u>6,910,119</u>
<u>Accumulated impairment:</u>		
Balance at beginning of year	4,060,190	4,036,105
Impairment charge for the year	<u>97,732</u>	<u>24,085</u>
Balance at end of year	<u>4,157,922</u>	<u>4,060,190</u>
Goodwill at end of year	<u>\$ 2,752,197</u>	<u>\$ 2,849,929</u>

Goodwill comprises the following business combinations:

Business acquired:	<u>Year of acquisition</u>	<u>Original cost</u>	<u>Cumulative impairment charge</u>	<u>Carrying value</u>
Fiduciary Trust (Cayman) Limited	2003	1,543,550	(550,356)	993,194
Cayman Islands Securities Ltd.	2003	378,011	(378,011)	-
Aall Trust & Bank ("ATB")	2005-2008	<u>4,988,558</u>	<u>(3,229,555)</u>	<u>1,759,003</u>
		<u>\$ 6,910,119</u>	<u>\$ (4,157,922)</u>	<u>\$ 2,752,197</u>

As at September 30, 2014 goodwill arising from the acquisition of the CIS business was considered to be fully impaired and was written off during 2014.

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

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

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.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

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(expressed in Cayman Islands dollars)

(continued)

8. GOODWILL (CONTINUED)

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

As of September 30, 2015, the recoverable amount of the ATB business in CNT was lower than the carrying value therefore impairment was recorded for the difference of \$97,732 (2014: \$Nil). There was no impairment recorded for ATB business in CNS or FT business in CNT in the current year (2014: impairment for ATB in CNS of \$2,951 and \$21,134 for CIS which was then fully impaired).

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

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

	<u>2015</u>		<u>2014</u>	
	<u>ATB</u>	<u>Fiduciary Trust</u>	<u>ATB</u>	<u>Fiduciary Trust</u>
Revenue change				
+5%	\$ 156,017	\$ 136,251	\$ 71,314	\$ 83,338
-5%	\$(156,017)	\$(136,251)	\$(71,314)	\$(83,338)
Cost change				
+ 1%	\$(20,426)	\$(16,653)	\$(1,875)	\$(2,700)
- 1%	\$ 20,426	\$ 16,653	\$ 1,875	\$ 2,700
Overheads allocation factor change				
+300 bps	\$(470,765)	\$(348,078)	-	-
- 300 bps	\$ 470,765	\$ 348,078	-	-
Discount rate change				
+25bps	\$(51,221)	\$(38,327)	\$(12,151)	\$(13,667)
- 25bps	\$ 56,601	\$ 41,315	\$ 12,151	\$ 13,901
Attrition rate change				
+100 bps	\$(162,091)	\$(148,291)	\$(75,862)	\$(88,653)
- 100 bps	\$ 242,939	\$ 200,670	\$ 80,931	\$ 94,575

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

	<u>2015</u>	<u>2014</u>
	<u>ATB</u>	<u>ATB</u>
Revenue change		
+/-5% (2014: +/-5%)	\$+/-55,946	\$+/-39,482
Cost change		
+/-1% (2014: +/-1%)	\$ -/+4,956	\$-/+1,083
Discount rate change		
+/-25bps (2014: +/-25bps)	\$ -/+4,397	\$-/+8,754
Attrition rate change		
+100 bps	\$ (63,420)	\$ (41,920)
- 100 bps	\$ 78,631	\$ 44,632
Overheads allocation factor change		
+300 bps	\$ (177,002)	-
- 300 bps	\$ 177,018	-

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Notes to Consolidated Financial Statements

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8. GOODWILL (CONTINUED)

There are 3 clients representing 36% (2014: 37%) of the ongoing revenues of ATB business in CNT. The unexpected loss of one or more of these relationships will result in an additional impairment of the ATB goodwill balance, as follows:

	<u>Annual revenue</u>	<u>Additional impairment in the event of loss of client</u>
Client A	\$ 41,667	\$ (790,124)
Client B	\$ 10,417	\$ (197,531)
Client C	\$ 8,333	\$ (158,025)

An increased attrition rate was assumed for 2016 for the ATB business in CNT due to the potential loss of Client B which is still uncertain.

9. 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.

10. 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.

11. SHARE CAPITAL, GENERAL RESERVE AND EARNINGS PER SHARE

	<u>2015</u>	<u>2014</u>
<u>Authorized:</u>		
Shares of \$1 par value each (2015 and 2014: 200,000,000)		
<u>Issued and fully paid:</u>		
Shares (2015 and 2014: 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.

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.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2015
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(continued)

11. SHARE CAPITAL, GENERAL RESERVE AND EARNINGS PER SHARE (CONTINUED)

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>2015</u>	<u>2014</u>
Net income attributable to equity holders of the Corporation	\$ 817,431	\$ 3,374,744
Weighted average number of shares in issue	42,350,731	42,350,731
Diluted weighted average number of shares in issue	42,350,731	42,318,552
Earnings per share	\$ 0.02	\$ 0.08
Diluted earnings per share	\$ 0.02	\$ 0.08
Dividend per share	\$ 0.05	\$ 0.10

12. EQUITY ADJUSTMENTS FROM FOREIGN CURRENCY TRANSLATION

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

13. 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.

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13. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

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

	<u>2015</u>	<u>2014</u>
Accounts receivable:		
Affiliated companies	\$ 208,358	\$ 161,839
Loans and overdrafts:		
Affiliated companies	\$ 2,564,601	\$ 2,481,583
Directors and key management	21,854,669	14,701,032
	<u>\$ 24,419,270</u>	<u>\$ 17,182,615</u>
Investments (Note 4):		
Directors	\$ 1,444,452	\$ 555,558
Customers' accounts:		
Affiliated companies	\$ 26,387,881	\$ 43,941,187
Directors and key management	2,479,410	2,251,845
Other related parties	321,842	-
	<u>\$ 29,189,133</u>	<u>\$ 46,193,032</u>
Accounts payable and other liabilities (Note 27):		
Affiliated companies	\$ -	\$ 179,192

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

Included within interest income is interest of \$439,894 (2014: \$279,591) on loans and overdrafts to directors and key management (see Note 24).

Included within interest expense is interest of \$138,177 (2014: \$412,555) on deposits to affiliated companies.

Staff loans, which totaled \$44,351,315 (2014: \$45,346,593) at the consolidated statement of financial position date, are primarily at rates varying between 3.25% and 10.25% p.a. (2014: 3.25% and 8.25% p.a.).

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

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

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Notes to Consolidated Financial Statements

for the year ended September 30, 2015
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13. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

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

	<u>2015</u>	<u>2014</u>
Cayman National Mortgage Fund	\$328,063	\$357,668
CNB Money Market Fund	131,712	292,567
Cayman National Securities Mutual Funds	192,210	187,178
Cayman National Pension Fund	<u>307,667</u>	<u>288,268</u>
	<u>\$ 959,652</u>	<u>\$ 1,125,681</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.
- Cayman National Securities US Equity Fund Segregated Portfolio: to invest in a concentrated portfolio of large cap US stocks and sector exchange traded funds.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2015
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13. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

The affiliated fund's assets are:

	<u>2015</u>		<u>2014</u>	
	<u>Net Asst Value</u>	<u>Fair Value</u>	<u>Net Asst Value</u>	<u>Fair Value</u>
CNB Money Market Fund	51,433,222	51,433,222	52,457,808	52,457,808
Cayman National Mortgage Fund Ltd.	16,966,229	17,390,721	19,089,389	19,533,590
Cayman National Pension Fund	44,780,619	44,780,619	45,750,411	45,750,411
Cayman National Securities US Bond Fund Segregated Portfolio	3,681,987	3,681,987	3,161,113	3,161,113
Cayman National Securities International Equity Fund Segregated Portfolio	2,205,962	2,205,962	2,528,679	2,528,679
Cayman National Securities US Equity Fund Segregated Portfolio	1,750,745	1,750,745	1,844,525	1,844,525

During the years ended September 30, 2015 and 2014, the Cayman National Group of companies, through Cayman National Trust Co Ltd. supplemented the yield of Cayman National Money Market Fund (the "MMF") by approximately \$8,000 (2014: \$180,000) for the purpose of enabling the MMF to achieve at least an annualised 3 basis points return until July 2015 when this guarantee was cancelled by the Trustees of the MMF. During the year ended September 30, 2015 certain fees due by the MMF to companies within the Group were recorded and settled on a net basis as allowed by the fund's Trustee resolutions.

During the year ended September 30, 2015, \$447,924 of the loans held by Cayman National Mortgage Fund were sold to CNB at amortized cost which approximated their fair value. No such transactions occurred in 2014.

In 2015, CNC entered into a guarantee with two subsidiaries, Cayman National Trust Co. Ltd. ("CNT") and Cayman National Securities Ltd. ("CNS"), limited to \$3,800,000 and \$2,700,000 respectively, for a period of 12 months from December 11, 2015. If required this guarantee will be funded through a dividend from CNB to CNC. In 2015, CNB funded a dividend to CNC for \$8,000,000 of which \$3,000,000 was used to repay intercompany loans at the Bank and \$5,000,000 was used for operating expenses incurred by the subsidiaries.

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

14. COMMITMENTS

In the normal course of business there are various commitments on behalf of customers to extend credit. Commitments to extend credit totaled \$30,155,506 at September 30, 2015 (2014: \$40,511,514) of which \$1,012,750 (2014: \$1,944,305) are commitments to staff members. No material losses are anticipated by management as a result of these transactions.

The Group has entered into various commitments in respect of operating leases for equipment and premises. The total lease expense for the year was \$2,122,853 (2014: \$2,330,783). The total annual commitments are as follows:

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14. COMMITMENTS (CONTINUED)

<u>Year ended September 30</u>	<u>Annual commitment</u>
2016	\$ 2,356,449
2017	\$ 1,994,052
2018	\$ 1,841,436
2019	\$ 1,889,032
2020	\$ 1,334,298
Beyond 2020	\$ 2,656,383

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.

15. 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 between the ages of 18 and 60, with contributions from both employer and employees. Employees contribute 5% of their salary up to 5% of a maximum salary of \$60,000 per annum and the Group contributes 5% on the employees' total annual salary. Included in personnel expense is an amount of \$861,978 (2014: \$870,651) representing the Group's contribution to the Fund.

16. 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 \$6,055,535 (2014: \$6,655,794) on behalf of customers.

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17. 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>2015</u>
2014 proposed dividend paid in 2015	<u>\$2,117,366</u>
Total dividend paid out of 2015 earnings	<u>\$2,117,366</u>
	<u>2014</u>
2013 proposed dividend paid in 2014	\$2,117,366
Interim 2014 dividend declared and paid in 2014	<u>2,117,366</u>
Total dividend paid out of 2014 earnings	<u>\$4,234,732</u>
2014 final proposed dividend - \$ 0.05 per share	<u>\$2,117,366</u>

18. DIRECTORS AND OFFICERS REMUNERATION

During the year ended September 30, 2015, the Corporation had a total of 7 directors (2014: 7) of whom 1 is an executive officer (2014: 1). For the financial year ended September 2015, the aggregate compensation for directors' services was \$325,812 (2014: \$331,312).

Salaries and other short term employee benefits for key management (being those executives with the authority to direct the Group's operating policy) of \$1,754,883 (2014: \$1,821,943) 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 expire five years after the authorization date of each director's option agreement. The options vest immediately as each year of service is performed, however, a minimum of 1,000 options could be exercised at any one time and a maximum, ranging between 10,000 to 20,000 options, could be exercised per director per year, cumulative.

During the year ended September 30, 2015, no share options were granted. At September 30, 2015, 640,000 (2014: 512,000) options were exercisable. Movements in the number of share options outstanding were as follows:

	<u>2015</u>	<u>2014</u>
Beginning balance	640,000	640,000
Granted	-	-
Exercised	-	-
Forfeited	-	-
<u>At September 30,</u>	<u>640,000</u>	<u>640,000</u>
Exercisable	640,000	512,000

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18. DIRECTORS AND OFFICERS REMUNERATION (CONTINUED)

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

A stepped approach to determine the expense associated with the options was calculated and a total of \$15,110 (2014: \$26,397) was expensed in the consolidated statement of comprehensive income within other operating expenses with a credit to equity.

Directors held 5,001,368 (2014: 4,976,288) of the Corporation shares as at September 30, 2015 of which 3,634,954 (2014: 3,609,874) were beneficially owned and 1,366,414 (2014: 1,366,414) were non-beneficially owned.

19. 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.

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.

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19. FINANCIAL RISK MANAGEMENT (CONTNUED)

Interest rate risk (continued)

There has been no change in management's policies and procedures for managing interest rate risk in 2015 and 2014. 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, 2015

	1-3 Months	3 - 6 Months	6 - 12 Months	1 - 5 Years	Over 5 Years	Non Interest Bearing	Total
Cash and bank balances	\$ 245,799,911	\$ -	\$ -	\$ -	\$ -	\$ 10,221,293	\$ 256,021,204
Short term placements	-	97,568,398	96,004,938	27,748,057	-	-	\$ 221,321,393
Available-for-sale investments	4,456,093	1,682,383	8,740,344	30,396,154	1,524,750	1,575,880	\$ 48,375,604
Held-to-maturity investments	5,105,444	4,100,298	8,387,158	11,315,334	-	-	\$ 28,908,234
Loans and Overdrafts	610,183,898	670,540	2,970,075	3,192,735	38,813,130	394	\$ 655,830,772
Other assets	-	-	-	-	-	8,186,843	\$ 8,186,843
TOTAL	<u>865,545,346</u>	<u>104,021,619</u>	<u>116,102,515</u>	<u>72,652,280</u>	<u>40,337,880</u>	<u>19,984,410</u>	<u>1,218,644,050</u>
LIABILITIES							
Demand & Term Deposits	\$ 741,432,994	\$ 98,726,977	\$ 75,376,542	\$ 5,742,054	\$ -	\$ 220,762,756	\$ 1,142,041,323
Other Liabilities	-	-	-	-	-	23,306,122	\$ 23,306,122
TOTAL	<u>741,432,994</u>	<u>98,726,977</u>	<u>75,376,542</u>	<u>5,742,054</u>	<u>-</u>	<u>244,068,878</u>	<u>\$ 1,165,347,445</u>
Total Interest Sensitivity Gap	<u>124,112,352</u>	<u>5,294,642</u>	<u>40,725,973</u>	<u>66,910,226</u>	<u>40,337,880</u>		

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19. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk (continued)

At September 30, 2014

	1-3 Months	3 - 6 Months	6 - 12 Months	1 - 5 Years	Over 5 Years	Non Interest Bearing	Total
Cash and bank balances	\$ 173,446,719	\$ -	\$ -	\$ -	\$ -	\$ 10,348,834	\$ 183,795,553
Short term placements	1,503,045	84,263,148	122,945,069	21,042,248	-	-	\$ 229,753,510
Available-for-sale investments	3,487,886	-	3,394,567	39,762,232	2,287,542	688,049	\$ 49,620,276
Held-to-maturity investments	1,038,860	-	1,547,255	3,222,740	-	-	\$ 5,808,855
Loans and Overdrafts	553,796,573	1,651,124	486,180	11,589,999	37,225,495	1,286	\$ 604,750,657
Other assets	-	-	-	-	-	9,030,783	\$ 9,030,783
TOTAL	733,273,083	85,914,272	128,373,071	75,617,219	39,513,037	20,068,952	1,082,759,634
LIABILITIES							
Demand & Term Deposits	\$ 644,154,726	\$ 97,508,764	\$ 91,926,769	\$ 3,881,170	\$ -	\$ 180,089,783	\$ 1,017,561,212
Other Liabilities	-	-	-	-	-	12,787,290	\$ 12,787,290
TOTAL	644,154,726	97,508,764	91,926,769	3,881,170	-	192,877,073	\$ 1,030,348,502
Total Interest Sensitivity Gap	<u>89,118,357</u>	<u>(11,594,492)</u>	<u>36,446,302</u>	<u>71,736,049</u>	<u>39,513,037</u>		

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 (2014: 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 (2014: 25 basis points) higher/lower and all other variables remained constant, the Group's profit and equity for the year ended 2015 would increase/decrease by \$693,453 (2014: increase/decrease by \$563,298). This is mainly attributable to the Group's exposure to interest rates in its fixed rate liabilities and variable rate loans. If interest rates had been 25 basis points (2014: 25 basis points) higher/lower and all other variables remained constant, the Group's net unrealized (depreciation)/appreciation for the year ended 2015 would increase/decrease by \$218,925 (2014: increase/decrease by \$114,636). This is mainly attributable to the Group's exposure to debt securities held in available-for-sale investments.

Equity price sensitivity analysis

Other price risk

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

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19. FINANCIAL RISK MANAGEMENT (CONTINUED)

Equity price sensitivity analysis (continued)

Other price risk (continued)

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 \$229,168 (2014: \$95,834) 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. Moreover the Cayman Islands Dollar is pegged at a fixed rate of exchange to the United States Dollar (see Note 2), thus this is not considered to pose a significant foreign exchange risk. The Group does however have exposure to fluctuations of exchange rates on unhedged foreign currency assets (see table below). The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily by management. Management believes that these policies mitigate the Group's exposure to significant currency risks. There has been no change in management's policies and procedures for managing currency risk in 2015 and 2014. The following table presents, by major currency, the Group's exposure to foreign currency risk at September 30, 2015:

2015	KYD	USD	GBP	CAD	EURO	CHF	OTHER	TOTAL
Assets								
Cash & Due From Banks	12,339,073	168,800,368	46,186,202	6,105,835	12,226,114	6,229,293	4,134,319	256,021,204
Short term placements	-	207,826,545	3,762,939	9,559,980	-	-	171,929	221,321,393
Available for sale Investments	-	48,375,604	-	-	-	-	-	48,375,604
Held to maturity investments	-	1,250,462	27,657,772	-	-	-	-	28,908,234
Interest Receivable	2,989,511	545,586	16,244	16,689	-	-	300	3,568,330
Loans & Overdrafts	446,337,731	184,263,659	25,229,382	-	-	-	-	655,830,772
Total Assets	\$ 461,666,315	\$ 611,062,224	\$ 102,852,539	\$ 15,682,504	\$ 12,226,114	\$ 6,229,293	\$ 4,306,548	\$ 1,214,025,537
Liabilities								
Depositors Accounts								
Current	103,393,739	157,122,506	49,525,024	2,346,737	6,612,140	-	3,731,463	322,731,609
Savings	77,612,206	172,808,359	18,826,008	5,366,206	3,638,537	6,219,897	123,695	284,594,908
Fixed Deposits	152,439,237	357,291,719	16,149,955	7,895,159	524,022	-	414,714	534,714,806
Sub Total	333,445,182	687,222,584	84,500,987	15,608,102	10,774,699	6,219,897	4,269,872	1,142,041,323
Interest Payable	116,977	466,504	48,853	5,907	-	-	619	638,860
Accounts Payable & Other Liabilities	11,131,538	11,159,263	341,673	23,967	10,821	-	-	22,667,262
Total Liabilities	\$ 344,693,697	\$ 698,848,351	\$ 84,891,513	\$ 15,637,976	\$ 10,785,520	\$ 6,219,897	\$ 4,270,491	\$ 1,165,347,445
Net on Balance Sheet position								
	\$ 116,972,618	\$ (87,786,127)	\$ 17,961,026	\$ 44,528	\$ 1,440,594	\$ 9,396	\$ 36,057	

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(continued)

19. 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, 2014:

2014	KYD	USD	GBP	CAD	EURO	CHF	OTHER	TOTAL
Assets								
Cash & Due From Banks	9,445,443	97,665,830	54,333,322	6,889,102	6,901,897	7,335,674	1,224,285	183,795,553
Short term placements	-	217,404,286	5,168,068	6,147,075	815,068	-	219,013	229,753,510
Available for sale Investments	-	49,620,276	-	-	-	-	-	49,620,276
Held to maturity investments	-	1,710,654	4,098,201	-	-	-	-	5,808,855
Interest Receivable	2,613,485	588,139	16,327	24,059	805	-	495	3,243,310
Loans & Overdrafts	393,339,125	187,910,765	23,500,767	-	-	-	-	604,750,657
Total Assets	\$ 405,398,053	\$ 554,899,950	\$ 87,116,685	\$ 13,060,236	\$ 7,717,770	\$ 7,335,674	\$ 1,443,793	\$ 1,076,972,161
Liabilities								
Depositors Accounts								
Current	83,687,056	129,185,125	40,401,809	25,010	1,947,202	810,213	752,497	256,808,912
Savings	70,081,048	167,078,728	16,584,889	9,084,111	2,909,761	6,511,652	144,042	272,394,231
Fixed Deposits	116,247,058	354,020,734	12,669,864	3,823,845	968,383	-	528,185	488,258,069
Sub Total	270,015,162	650,284,587	69,656,562	12,932,966	5,825,346	7,321,865	1,424,724	1,017,461,212
Interest Payable	91,295	509,375	8,983	7,820	(249)	1	1,047	618,272
Accounts Payable & Other Liabilities	10,531,611	1,156,761	446,320	22,161	12,165	-	-	12,169,018
Total Liabilities	\$ 280,638,068	\$ 651,950,723	\$ 70,111,865	\$ 12,962,947	\$ 5,837,262	\$ 7,321,866	\$ 1,425,771	\$ 1,030,248,502
Net on Balance Sheet position	\$ 124,759,985	\$ (97,050,773)	\$ 17,004,820	\$ 97,289	\$ 1,880,508	\$ 13,808	\$ 18,022	

Accounts receivables 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

The Cayman Islands dollar is currently pegged to the United States dollar at 1.00 to 1.20 as such that exposure is fixed. 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 2015 and 2014 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% (2014: 10%) there would \$1,949,160 (2014: \$1,700,482) 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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19. 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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19. 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 table are the contractual undiscounted cash flows including interest for the disclosed liabilities but excluding expected interest for assets. Accounts receivable and payable and accrued expenses are classified as current assets and liabilities, respectively as they are expected to settle within one year or less.

Liquidity risk (2015)

	1-3 Months	3 - 6 Months	6 - 12 Months	1 - 5 Years	Over 5 Years	Total
Cash and bank balances	\$ 256,021,204	\$ -	\$ -	\$ -	\$ -	\$ 256,021,204
Short term placements	-	97,568,398	96,004,938	27,748,057	-	\$ 221,321,393
Available-for-sale investments	6,031,973	1,682,383	8,740,344	30,396,154	1,524,750	\$ 48,375,604
Held-to-maturity investments	5,105,444	4,100,298	8,387,158	11,315,334	-	\$ 28,908,234
Interest receivable	3,568,330	-	-	-	-	\$ 3,568,330
Loans	51,124,375	18,901,976	17,673,903	40,389,869	527,740,649	\$ 655,830,772
Total Assets	\$ 321,851,326	\$ 122,253,055	\$ 130,806,343	\$ 109,849,414	\$ 529,265,399	\$ 1,214,025,537
LIABILITIES						
Depositors accounts						
Current	\$ 322,731,609	\$ -	\$ -	\$ -	\$ -	\$ 322,731,609
Savings	284,057,862	537,046	-	-	-	\$ 284,594,908
Fixed Deposits	355,454,527	98,297,850	75,914,139	6,361,457	-	536,027,973
Subtotal	962,243,998	98,834,896	75,914,139	6,361,457	-	1,143,354,490
Other Liabilities	22,667,261	-	-	-	-	\$ 22,667,261
Total Liabilities	\$ 984,911,259	\$ 98,834,896	\$ 75,914,139	\$ 6,361,457	\$ -	\$ 1,166,021,751
Loan Commitments	30,155,506	-	-	-	-	\$ 30,155,506
Net exposure	\$ (693,215,439)	\$ 23,418,159	\$ 54,892,204	\$ 103,487,957	\$ 529,265,399	\$ 17,848,280

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19. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Liquidity risk (2014)

	1-3 Months	3 - 6 Months	6 - 12 Months	1 - 5 Years	Over 5 Years	Total
Cash and bank balances	\$ 183,795,553	\$ -	\$ -	\$ -	\$ -	\$ 183,795,553
Short term placements	1,503,045	84,263,148	122,945,069	21,042,248	-	\$ 229,753,510
Available-for-sale investments	4,175,935	-	3,394,567	39,762,232	2,287,542	\$ 49,620,276
Held-to-maturity investments	1,038,860	-	1,547,254	3,222,741	-	\$ 5,808,855
Interest receivable	3,243,310	-	-	-	-	\$ 3,243,310
Loans	44,233,481	12,084,656	14,902,452	46,074,517	487,455,551	\$ 604,750,657
	<u>237,990,184</u>	<u>96,347,804</u>	<u>142,789,342</u>	<u>110,101,738</u>	<u>489,743,093</u>	<u>1,076,972,161</u>
LIABILITIES						
Depositors accounts						
Current	\$ 256,808,911	\$ -	\$ -	\$ -	\$ -	\$ 256,808,911
Savings	271,671,551	722,680	-	-	-	\$ 272,394,231
Fixed Deposits	293,375,698	99,915,590	92,261,524	4,063,810	-	\$ 489,616,622
Subtotal	821,856,160	100,638,270	92,261,524	4,063,810	-	\$ 1,018,819,764
Other Liabilities	9,416,138	-	-	-	-	\$ 9,416,138
Total Liabilities	<u>831,272,298</u>	<u>100,638,270</u>	<u>92,261,524</u>	<u>4,063,810</u>	<u>-</u>	<u>\$ 1,028,235,902</u>
Loan Commitments	40,511,514	-	-	-	\$ 40,511,514	
Net exposure	<u>(593,282,114)</u>	<u>(4,290,466)</u>	<u>50,527,818</u>	<u>106,037,928</u>	<u>489,743,093</u>	<u>\$ 48,736,259</u>

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

Credit risk

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

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

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19. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

(i) Credit risk measurement

Loans and advances

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

An allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans. The operational measurements are consistent with impairment allowances required under IAS 39, which are based on losses that have been incurred at the consolidated statement of financial position date (the 'incurred loss model') rather than expected losses. The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in net income in the consolidated statement of comprehensive income.

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

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

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

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

Debt securities and other bills

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

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19. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

(i) Credit risk measurement (continued)

Other assets

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

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

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

(ii) Risk limit control and mitigation policies

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

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

Exposure Policy

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

Other specific control and mitigation measures are outlined below:

Adequate collateralization

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

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

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

CAYMAN NATIONAL CORPORATION LTD.

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(continued)

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

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

Credit-related commitments

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

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

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

Bank's rating	2015		2014	
	Loans and advances (\$000s)	Impairment provision (\$000s)	Loans and advances (\$000s)	Impairment provision (\$000s)
1. Excellent	609,529	-	554,466	-
2. Good	8,382	-	7,201	-
3. Average	1,346	-	2,844	-
4. Fair	17,508	-	26,007	-
5. Watch List	9,952	-	9,822	-
6. Substandard	7,051	2,068	372	90
7. Non Accrual	7,589	2,385	7,477	1,895
8. Doubtful / Loss	243	269	439	603
	661,600	4,722	608,628	2,588

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.

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19. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

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

Impairment and provisioning policies (continued)

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

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

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

The Group's cash and due from banks balances, short term placements and term deposits are primarily placed at institutions and/or subsidiaries of institutions with Standard & Poor's short term ratings of A-1 or above. Mortgage, consumer and other loans are presented net of provisions for loan losses. Whilst the majority of loans are secured by first mortgages upon single family residences or by chattel mortgages, credit card receivables and certain overdrafts advanced in the normal course of business are unsecured. Credit risk with respect to mortgage, consumer and other loans is limited due to the large number of customers comprising the Group's customer base. The majority of other assets consist of prepayments, interest receivable and other fees from related entities, which minimizes the credit risk of the Group.

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for the year ended September 30, 2015
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19. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

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

Impairment and provisioning policies (continued)

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

	2015 (\$000's)	2014 (\$000's)
Credit risk exposures relating to on-balance sheet assets are as follows:		
Placements with banks	466,851	403,484
Loans and advances to customers:		
Loans to individuals:		
Overdrafts	19,082	16,228
Credit cards	9,979	9,914
Term loans	59,415	49,651
Mortgages	385,286	336,361
Loans to corporate entities:	187,336	196,475
Investment securities		
Available-for-sale debt securities (Bonds)	46,800	48,932
Held-to-maturity debt securities (Bonds)	28,908	5,809
Interest receivables and other assets	7,555	9,031
Credit risk exposures relating to off-balance sheet items are as follows:		
Financial guarantees and letter of credits	6,056	6,656
Loan commitments and other credit related liabilities	<u>30,001</u>	<u>40,511</u>
At 30 September	<u>\$1,247,269</u>	<u>\$1,123,052</u>

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

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19. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

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

Impairment and provisioning policies (continued)

The above table represents a worst case scenario of credit risk exposure to the Group at September 30, 2015 and 2014, 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-15		30-Sep-14	
	Loans and advances to customers	Placements with banks	Loans and advances to customers	Placements with banks
Neither past due nor impaired	620,729	466,851	564,437	403,484
Past due but not impaired	25,987	-	35,909	-
Individually impaired	14,884	-	8,282	-
Gross	661,600	466,851	608,628	403,484
Less: allowance for impairment	5,769	-	3,877	-
Net	655,831	466,851	604,751	403,484

(a) Loans and advances neither past due nor impaired

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

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

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19. 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, 2015	Individual (retail customers) and Corporate entities (\$000)					Total
	Overdrafts	Credit cards	Term loans	Mortgages	Large corporate customers	
Past due up to 30 days	-	426	523	2,860	4,340	8,149
Past due 30 - 60 days	-	29	12	477	-	518
Past due 60-90 days	-	17	442	2,130	345	2,934
Over 91 days	-	-	1,047	8,508	4,831	14,386
Total	-	472	2,024	13,975	9,516	25,987
Fair value of collateral	-	-	3,813	25,236	23,685	52,734

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, 2014	Individual (retail customers) and Corporate entities (\$000)					Total
	Overdrafts	Credit cards	Term loans	Mortgages	Large corporate customers	
Past due up to 30 days	-	527	1,470	4,301	760	7,058
Past due 30 - 60 days	-	60	162	2,335	287	2,844
Past due 60-90 days	-	35	179	2,060	149	2,423
Over 91 days	-	-	786	9,829	12,969	23,584
Total	-	622	2,597	18,525	14,165	35,909
Fair value of collateral	-	-	7,118	33,708	25,709	66,535

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2015
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(continued)

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

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

(c) Loans and advances individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is \$14,884,000 (2014: \$8,282,000).

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

September 30, 2015	Individual (retail customers) and Corporate entities (\$000)					Total
	Overdrafts	Credit cards	Term loans	Mortgages	Large corporate customers	
Individually impaired loans	117	89	426	7,230	7,022	14,884
Provision	81	80	196	2,010	2,355	4,722
Fair value of collateral	-	0	292	7,243	6,111	13,646
<hr/>						
September 30, 2014						
Individually impaired loans	64	84	490	5,044	2,600	8,282
Provision	64	78	342	1,098	1,006	2,588
Fair value of collateral	37	-	265	5,312	2,569	8,183

Investment securities and other investments

The table below presents an analysis of investment securities by rating agency designation at September 30, 2015 and September 30, 2014, based on Moody's ratings or their equivalent:

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

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Notes to Consolidated Financial Statements

for the year ended September 30, 2015
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19. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Investment securities and other investments (continued)

(\$'000)	<u>Investment Securities</u>	<u>Total</u>
2014		
Aaa	17,773	17,773
Aa1 to Aa3	22,841	22,841
A1 to A3	12,711	12,711
Lower than A3	1,416	1,416
Unrated	-	-
Total	54,741	54,741

Concentration of risks

Geographical sectors

The Group has a concentration of risk in respect of geographical area as both customers and assets held as collateral on loans are primarily based in the Cayman Islands. 3% (2014: 6%) of deposits with other banks at September 30, 2015 are placed within the United States and 64% (2014: 54%) are placed with banks within Canada. Another 32% (2014: 37%) of deposits with other banks are placed within the United Kingdom. See also Note 4.

Deposit concentration

As at September 30, 2015, the Group also has concentration of risk with respect to depositors as 35% (2014: 28%) of total deposits were held by five (2013: five) depositors; three (2014: three) of the five depositors, each held in excess of 5% of total deposits with maturities of one year or less.

20. REGULATORY REQUIREMENTS

CNC does not have a regulatory capital adequacy requirement however certain subsidiaries are subject to regulatory requirements established by Cayman Islands Monetary Authority ("CIMA"), the primary regulator for the Group's subsidiaries domiciled in the Cayman Islands and the Group's home regulator responsible for Consolidated Supervision. The significant regulatory requirements are:

CNB, CNT, CNFS and CNS are required to meet minimum capital requirements. Failure to meet minimum capital requirements can initiate certain actions by the regulators, that if undertaken could have a direct material effect on the Group's financial statements. The subsidiaries must meet specific capital guidelines that involve quantitative measures of the subsidiaries assets and liabilities. The subsidiaries' capital amount and classifications are also subject to qualitative analysis by CIMA. Quantitative measures established by CIMA to ensure capital adequacy requires that subsidiaries maintain a minimum amount of capital and/or a minimum ratio of risk-weighted assets to capital.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2015
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20. REGULATORY REQUIREMENTS (CONTINUED)

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

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

Management believes, as of September 30, 2015 and 2014 that all regulated subsidiaries met the respective regulatory capital adequacy requirements established by the Isle of Man Financial Supervision Commission and the Dubai Financial Services Authority.

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

In finalising the Groups accounting records, the transactions to accrue the provision for the settlement of the US Department of Justice (DOJ) estimated penalty (see Note 27) were recorded and are reflected in these financial statements as at September 30, 2015. The recording of these adjustments temporarily put the capital requirement of CNS and CNT in breach of their minimum capital requirements. The CNS and CNT deficits were remedied through a recapitalisation funded by CNC which in turn was funded by a dividend from CNB. The payment of this dividend (and other adjustments recorded during the finalisation of the accounting records) resulted in the CNB capital adequacy ratio temporarily falling below the prescribed minimum of 15%. Management's plan is to remediate this de minimis breach in early 2016, and the Bank submitted a plan to CIMA. Management notified CSX and CIMA of the position. See also Note 13.

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

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

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

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

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

CAYMAN NATIONAL CORPORATION LTD.

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20. 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 intends to meet the requirement to submit a Board approved Internal Capital Adequacy Assessment Process (ICAAP) to CIMA by January 31, 2016 in accordance with CIMA's Pillar II requirement. An updated ICAAP will need to be submitted annually to CIMA.

21. FAIR VALUE

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

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

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

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

The determination of what constitutes 'observable' requires significant judgment by the Group. The Group considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The Group has assessed the sensitivity of investment valuation to changes in related indices as well as the impact of sudden price movements in fair valued investments in Notes 2 and 19.

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Notes to Consolidated Financial Statements

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21. FAIR VALUE (CONTINUED)

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

September 30, 2015

Financial Assets	FV Hierarchy	Carrying Amount	Fair Value	Appreciation/ (depreciation)
Cash and cash equivalents	2	256,021,204	256,021,204	-
Short term placements	2	221,321,393	221,321,393	-
Investments held-to-maturity	2	28,908,234	28,908,234	-
Loans net of allowance for credit	2	655,830,772	655,830,772	-
Accounts receivable	2	3,898,010	3,898,010	-
Investment property	2	7,368,000	7,368,000	-
Financial Liabilities				
Customer deposits:				
Current and savings	2	600,955,176	600,955,176	-
Fixed deposits	2	527,195,338	527,195,338	-
Deposits with banks	2	13,890,810	13,890,810	-

September 30, 2014

Financial Assets	FV Hierarchy	Carrying Amount	Fair Value	Appreciation/ (depreciation)
Cash and cash equivalents	2	183,795,553	183,795,553	-
Short term placements	2	229,753,510	229,753,510	-
Investments held-to-maturity	2	5,808,855	5,808,855	-
Loans net of allowance for credit	2	604,750,657	604,750,657	-
Accounts receivable	2	6,969,980	6,969,980	-
Investment property	2	8,390,000	8,390,000	-
Financial Liabilities				
Customer deposits:				
Current and savings	2	529,203,142	529,203,142	-
Fixed deposits	2	456,831,949	456,831,949	-

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement.

CAYMAN NATIONAL CORPORATION LTD.

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21. FAIR VALUE (CONTINUED)

Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability. The determination of what constitutes 'observable' requires significant judgment by the Group. The Group considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The carrying amounts of the Group's financial assets and liabilities at the balance sheet date approximated their fair value due to the relative short term nature of the balances and/or fact that interest rates on loans reflect rates for new similar loans.

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

September 30, 2015:

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

September 30, 2014:

<u>Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total balance</u>
Investments in securities, at fair value:				
Equities	-	-	638,892	638,892
Bonds	-	48,932,227	-	48,932,227
Mutual Funds	-	-	49,157	49,157
Total	\$ -	\$ 48,932,227	\$ 688,049	\$49,620,276

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.

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21. FAIR VALUE (CONTINUED)

Investments classified within level 3 have significant unobservable inputs, as they trade infrequently or not at all. In 2015, level 3 instruments is predominantly comprised of equity in a private company and mutual funds (2014: 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.

In 2014, in Level 3 equities are ordinary shares with a fair value of \$885,000. Significant unobservable inputs include the book value of the company and price-to-book multiple of a comparable company to derive a fair value price. Changing one or more of the inputs to reasonably possible alternative assumptions would not significantly change fair value. The Group adjusts the model as deemed necessary. In 2015, an offer by a public company to purchase the company's shares was used by management to determine the value of the financial assets. A 40% (2014: 40%) fluctuation of the inputs used to determine the fair value of equities would have an impact on the net unrealized (depreciation)/appreciation on the investments available-for-sale of \$611,114 (2014: \$255,556).

The following table presents the movement in level 3 instruments for the year ended September 30, 2015 by class of financial instrument.

	<u>Equity securities</u>	<u>Bonds</u>	<u>Total</u>
Balance as at September 30, 2014	\$ 688,049	\$ -	\$ 688,049
Purchases	-	-	-
Sales	-	-	-
Gains and losses recognized	<u>887,830</u>	<u>-</u>	<u>887,830</u>
Balance as at September 30, 2015	<u>\$ 1,575,880</u>	<u>\$ -</u>	<u>\$ 1,575,880</u>

	<u>Equity securities</u>	<u>Bonds</u>	<u>Total</u>
Balance as at September 30, 2013	\$ 996,843	\$ -	\$ 996,843
Purchases	-	-	-
Sales	-	-	-
Gains and losses recognized	<u>(308,794)</u>	<u>-</u>	<u>(308,794)</u>
Balance as at September 30, 2014	<u>\$ 688,049</u>	<u>\$ -</u>	<u>\$ 688,049</u>

There were no transfers between levels during the 2015 and 2014 financial years.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

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22. FIDUCIARY ACTIVITIES

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

23. GEOGRAPHICAL AND SEGMENTAL INFORMATION

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

For the year ended September 30, 2015 and 2014, summary financial data for CNB&T (IOM), CNFS (IOM).

	2015	2014
Gross Assets	154,609,457	117,090,213
Total Liabilities	148,062,806	110,325,685
Gross Revenue	3,722,536	3,260,411
Net Income	492,326	(174,218)
Capital Expenditure	57,760	18,466
Depreciation charge	43,177	76,492
Interest expense	410,556	292,978
Interest income	1,208,838	1,048,531

For the year ended September 30, 2015 and 2014, summary financial data for IBG.

	2015	2014
Gross Assets	\$ -	\$ 39,180
Total Liabilities	\$ 8,333	\$ 8,361
Gross Revenue	\$ -	\$ -
Net Income (Loss)	\$ (39,152)	\$ -

In 2015, net loss of \$39,152 for IBG mainly consisted of remaining liquidating expenses although operations were suspended in July 2012 (see Note 28). Prior to September 30, 2014 the property lease was assigned, with the permission of the lessor, to a third party; accordingly, the Group has no further obligations relating to IBG.

Management identifies their operating segments based on the nature of products and services provided. The Group's primary business segment includes domestic and offshore retail and corporate banking; secondary operations include trust and company management, mutual fund administration and asset management services. Other operations include the holding company accounts which hold the investment in each subsidiary and, have been adjusted to reflect inter-company and consolidation adjustments.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2015
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23. GEOGRAPHICAL AND SEGMENTAL INFORMATION (CONTINUED)

	Banking	Trust and Company Management	Asset Management	Other*	Group
<u>September 30, 2015</u>					
Gross Assets	1,249,356,050	2,313,094	3,607,478	(6,301,318)	1,248,975,304
Total Liabilities	1,167,026,430	3,549,788	4,009,480	(5,686,147)	1,168,899,551
Gross Revenue	48,349,475	5,130,004	3,545,090	(789,297)	56,235,272
Net Income	8,813,412	(2,349,208)	(2,366,874)	(3,279,899)	817,431
Capital Expenditure	2,592,946	61,697	15,064	-	2,669,707
Depreciation charge	2,029,320	80,492	61,842	1,941	2,173,595
Goodwill impairment	-	97,732	-	-	97,732
Interest expense	1,854,462	410,556	-	(115)	2,264,903
Interest income	31,005,333	1,208,862	1,019	(261,759)	31,953,455
<u>September 30, 2014</u>					
Gross Assets	1,118,816,832	2,642,167	4,697,230	(11,752,468)	1,114,403,761
Total Liabilities	1,031,133,468	1,160,895	2,483,984	(1,150,665)	1,033,627,682
Gross Revenue	44,047,338	5,275,883	4,156,552	(1,155,447)	52,324,326
Net Income	6,860,429	(842,947)	594,088	(3,236,826)	3,374,744
Capital Expenditure	1,260,020	29,256	11,788	3,789	1,304,853
Depreciation charge	2,031,732	113,841	69,813	2,435	2,217,821
Goodwill impairment	-	-	24,085	-	24,085
Interest expense	2,154,563	292,978	-	(12,758)	2,434,783
Interest income	27,978,550	1,048,561	15,616	(437,815)	28,604,912

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

24. INTEREST INCOME AND EXPENSE

Interest income comprises of the following:

	<u>2015</u>	<u>2014</u>
Cash and short term funds	874,764	948,392
Investment securities	802,480	421,782
Loans and advances	30,276,211	27,234,738
	<u>\$ 31,953,455</u>	<u>\$ 28,604,912</u>

Substantially all interest expense is attributable to customer deposits.

25. FOREIGN EXCHANGE

Included within foreign exchange fees and commissions are foreign exchange transaction gains of \$5,297,037 (2014: \$5,079,228) and realized foreign exchange losses of \$Nil (2014: loss of \$453).

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26. PERSONNEL

Personnel costs comprise of the following:

	<u>2015</u>	<u>2014</u>
Salaries and overtime	\$ 19,738,245	\$ 20,013,197
Pension	972,687	986,820
Health insurance	1,362,699	1,312,182
Bonus	354,542	558,254
Training	408,225	324,954
Other	<u>1,023,533</u>	<u>870,535</u>
	<u>\$23,859,932</u>	<u>\$24,065,942</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 \$105,727 (2014: \$112,280) which is included within personnel costs in the consolidated statement of comprehensive income.

At September 30, 2015, the Group employed a total of 325 personnel (2014: 331).

27. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	<u>2015</u>	<u>2014</u>
Managers cheques	13,134,162	5,821,038
Due to customers	1,778,224	2,693,332
Accounts payable and accrued expenses	6,027,732	1,572,792
Clients monies borrowed	355,993	-
Other liabilities	<u>1,727,141</u>	<u>2,081,856</u>
Accounts payable and other liabilities	<u>\$ 23,023,254</u>	<u>\$12,169,018</u>

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

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

Cayman National Trust Co. Ltd. and Cayman National Securities Ltd. are under investigation by the US Department of Justice (DOJ) with respect to potential violations of United States criminal laws relating to the evasion of tax by US taxpayers. The DOJ investigation focuses on mainly past wrongdoing by Cayman National Trust Co. Ltd. and Cayman National Securities Ltd.

CAYMAN NATIONAL CORPORATION LTD.

Notes to Consolidated Financial Statements

for the year ended September 30, 2015

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(continued)

27. ACCOUNTS PAYABLE AND OTHER LIABILITIES (CONTINUED)

No issues, and no wrong-doing, have been alleged with respect to CNB (Cayman National Bank Ltd.), or the parent company, Cayman National Corporation Ltd.

As a result of on-going discussions and negotiations with the DOJ, the Directors have determined that it is necessary to establish a provision at September 30, 2015 for the settlement/penalty costs amount that the DOJ will levy. Although the matter is not yet finally resolved, and all terms may be subject to change, the Directors expect to conclude a final settlement in early 2016 and the Directors best estimate of the total settlement/penalty is CI\$5,000,000. Accordingly, Cayman National Trust Co. Ltd. and Cayman National Securities Ltd. have each established a provision at September 30, 2015 for CI\$2,500,000.

28. NON-CONTROLLING INTEREST

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

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

As of September 30, 2015, total shares issued to minority shareholders were 258,200 (2014: 258,200) with CNC maintaining majority shareholding of 80.71% (2014: 80.71%) and minority shareholding or non-controlling interest was 19.29% (2014: 19.29%) (Note 2). As of September 30, 2015, IBG was fully liquidated.

29. NON-CURRENT ASSETS HELD FOR SALE

During the fiscal year 2013, the Group decided to actively seek to sell a piece of investment property (land). An interested party made a purchase offer of \$1,740,000 and a sales agreement was concluded on March 31, 2014.

In 2014, the asset held for sale was sold with gross proceeds received of \$1,740,000 resulting in a gain on sale of \$207,114 which is recorded in the consolidated statement of comprehensive income (see Note 7). There were no similar transaction in 2015.