Cayman National Corporation Ltd.

Consolidated Financial Statements

for the year ended September 30, 2018
and Independent Auditor's Report

Independent auditor's report

To Cayman National Corporation Ltd.

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Cayman National Corporation Ltd. and its subsidiaries (together 'the Group') as at September 30, 2018, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

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

- the consolidated statement of financial position as at September 30, 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in shareholders' equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies.

Basis for opinion

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

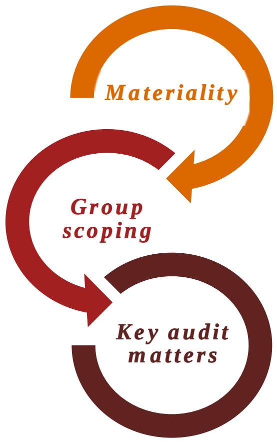
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our audit approach

Overview



- Overall group materiality: CI$1,161,000, which represents 1% of equity and was calculated as the lower of 1% of equity and 5% of net income.

- We planned and scoped our audit for 2018 reflecting the Group structure. This consisted of:
  - two individual financially significant components.
  - four full scope components based on our professional judgment.
  - audit of specific financial statement line items for three components.

- Provision for impairment of loans

Audit scope

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

How we tailored our group audit scope

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

As a result we defined Cayman National Bank Ltd. and Cayman National Bank (Isle of Man) Limited as individual financially significant components, subject to an audit of their complete financial information. Full scope audits were also performed over Cayman National Securities Ltd., Cayman National Fund Services Ltd., Cayman National Trust Co. Ltd and Cayman National Trust Company (Isle of Man) Limited. For the holding company Cayman National Corporation Ltd., CNFS (IOM) Limited and Cayman National (Dubai) Limited, audits of specific financial statement line items were performed.

We were assisted by a PwC network member firm in the capacity of component auditor for the audits of Cayman National Bank (Isle of Man) Limited and Cayman National Trust Company (Isle of Man) Limited. Our involvement in the work of the component auditor consisted of review of the results of their audit procedures and frequent communications to corroborate that our audit plan was appropriately executed. The nature, timing and extent of the work impacting the audit opinion on the consolidated financial statements is set and monitored by the Group audit team in the Cayman Islands, with input from the component audit team at the risk assessment stage.

Materiality

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

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

Overall group materiality	CI$1,161,000
How we determined it	The lower of 1% of equity and 5% of net income
Rationale for the materiality benchmark applied	We calculated materiality based on a combined assessment of equity and net income, as, in our view, these are the most relevant benchmarks to the users of the financial statements.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above CI$58,050 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Provision for impairment of loans *Refer to Note 5 to the consolidated financial statements for the results of the Group's impairment analysis and Notes 2 and 20, Credit risk, for qualitative considerations and assessment methods.* Total loans and overdrafts as at September 30, 2018 were CI$746.9 million, net of associated provision for loan impairment of CI$11.7 million. The increase in loan impairment provision for the year ended September 30, 2018 was CI$2.8 million. We focused on the individual impairment assessment as the assumptions used for estimating both the amount and timing of future cash flows are complex and involve significant judgment by management, including: ▪ Classification of loans as impaired: we focused on the completeness of the customer accounts that are included in the impairment assessment. ▪ Modified loans: approximately CI$42 million were modified during the reporting period	▪ We evaluated and tested the design and operating effectiveness of the key controls over the identification of impaired credit balances as well as the monitoring of the impaired and higher risk balances. We determined that we could rely on these controls for the purposes of our audit. ▪ We tested the credit monitoring system's calculation of the ageing of loans by testing the repayment history of a sample of loan accounts and re-calculating the delinquency days. ▪ We obtained an understanding of the types of modifications applied to loans during the reporting period and tested the classification of modified loans as restructured or renegotiated. ▪ We challenged management's process for identifying potentially impaired loans by examining a sample of loans and advances which had not been identified by management as potentially impaired and formed our own judgement as to whether management's determination was appropriate including using external evidence where available.

due to increased market competition. We focused on the appropriate classification of modifications between restructures and renegotiations.

- Valuation of real estate property pledged as collateral: this is the most significant repayment source for impaired mortgages and impaired commercial loans. The estimation of collateral values is impacted by market trends as well as the circumstances of the specific property and involves judgment and specialised skills. Management uses valuation experts to support their estimate of future cash flows from foreclosure of real estate properties including residential and commercial properties.

- Key assumptions and judgments made by management when calculating the provision for individually impaired loans. Key assumptions and judgments include the estimated costs to foreclose the collateral, time to liquidate the pledged collateral and the amount and timing of collection of cash flows from sources other than pledged collateral.

- Management's post model adjustments in response to certain internal factors, such as limitations of available system data (e.g. multiple loans with common collateral), and external factors, such as recent changes in repayment behaviour or known issues with the ability to enforce collateral foreclosure.

- We engaged an auditor's expert to assist with the estimation of future cash flows recoverable from a sample of residential and commercial properties which are collateral for impaired loans, including those where, in our judgement, the value was more challenging to assess.

- We performed back-testing of the key assumptions and judgments made by management in estimating the specific provisions based on the history of net amounts collected from foreclosed collateral, including history of real estate agency fees, legal fees and other costs (e.g. outstanding strata fees) incurred to foreclose the pledged collateral, the average number of months to foreclose the property and the history of client repayments made other than from foreclosure of collateral.

- We evaluated the performance of the loan portfolio subsequent to the end of the reporting period to identify significant adjusting subsequent events.

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

- We tested a sample of post model adjustments, including considering the rationale for the adjustment, tested the sources of data used and evaluated the reasonableness of the assumptions applied.

No material adjustments to the carrying value of loans at September 30, 2018 were made as a result of the procedures we performed.

Other information

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible

for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

PricewaterhouseCoopers

December 19, 2018

CAYMAN NATIONAL CORPORATION LTD.
Consolidated Statement of Financial Position
September 30, 2018
(expressed in Cayman Islands dollars)

	2018	2017
ASSETS		
Cash and due from banks (Note 3)	$ 260,872,814	$ 350,900,548
Short term placements	251,220,576	166,051,726
Investments (Note 4)	148,198,080	188,087,102
Loans and overdrafts (Notes 5 and 14)	746,878,779	716,577,218
Interest receivable	2,917,869	1,330,062
Accounts receivable and other assets (Note 14)	27,909,026	5,220,552
Fixed assets (Note 6)	18,284,052	19,700,946
Investment Property (Note 8)	910,950	3,257,694
Goodwill (Note 9)	213,875	467,955
Intangible Assets (Note 7)	5,617,897	3,503,870
TOTAL ASSETS	$ 1,463,023,918	$ 1,455,097,673
LIABILITIES		
Customers' accounts (Note 14)		
Current	$ 319,312,854	$ 389,876,267
Savings	352,804,803	346,737,022
Fixed deposits (Note 10)	634,003,128	603,546,995
TOTAL DEPOSITS	1,306,120,785	1,340,160,284
Interest payable	3,170,278	1,514,769
Accounts payable and other liabilities (Note 28)	36,343,096	13,118,432
TOTAL LIABILITIES	1,345,634,159	1,354,793,485
EQUITY		
Share capital and share premium (Note 12)	$ 47,382,629	$ 47,382,629
Accumulated retained earnings	64,674,336	47,010,326
Other reserves (Note 13)	5,332,794	5,911,233
TOTAL EQUITY	117,389,759	100,304,188
TOTAL LIABILITIES AND EQUITY	$ 1,463,023,918	$ 1,455,097,673

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

Truman Bodden
Director

Stuart Dack
Director

December 19, 2018
Date

See notes to consolidated financial statements

CAYMAN NATIONAL CORPORATION LTD.
Consolidated Statement of Comprehensive Income
For the year ended September 30, 2018
(expressed in Cayman Islands dollars)

	2018	2017
CONTINUING OPERATIONS		
INTEREST		
Interest income (Notes 14 and 25)	$ 53,777,093	$ 42,548,348
Interest expense (Notes 14 and 25)	(6,819,823)	(3,314,792)
NET INTEREST INCOME	46,957,270	39,233,556
OTHER INCOME		
Banking fees and commissions	4,820,763	4,512,518
Credit card fees and commissions	12,105,319	10,395,738
Trust and company management fees	2,985,921	2,822,536
Foreign exchange fees and commissions (Note 26)	8,096,203	7,629,750
Brokerage commissions and fees	1,814,735	1,781,926
Rental Income (Note 8)	147,655	370,932
Gain on revaluation of investment property	220,986	-
Loss on disposal of investment available-for-sale	(42,009)	-
Gain on sale of fixed assets (Note 6)	5,434	7,500
TOTAL INCOME	77,112,277	66,754,456
EXPENSES		
Personnel (Note 27)	26,489,767	24,905,325
Credit card costs	7,666,291	5,937,895
Other operating expenses	11,087,629	10,086,819
Increase in loan impairment provision (Note 5)	2,855,256	3,271,088
Premises	2,933,665	2,871,738
Depreciation and amortization (Note 6 and 7)	2,604,786	2,268,711
Impairment of goodwill (Note 9)	254,080	213,412
	53,891,474	49,554,988
NET INCOME BEFORE TAXATION	23,220,803	17,199,468
Taxation (Note 11)	(34,460)	(48,277)
NET INCOME FROM CONTINUING OPERATIONS	$ 23,186,343	$ 17,151,191
Net income/ (loss) from discontinued operations (Note 29)	(864,128)	314,076
NET INCOME	$ 22,322,215	$ 17,465,267
OTHER COMPREHENSIVE INCOME:		
Items that may subsequently be reclassified to net income:		
Change in fair value of available-for-sale financial assets	(443,442)	(513,110)
Change in fair value of available-for-sale financial assets reclassified to Net Income (Note 4)	42,009	-
Items that will not be reclassified to net income:		
Foreign currency translation differences (Note 13)	$ (177,006)	$ 180,773
*Total Other Comprehensive (Loss)/Income	$ (578,439)	$ (332,337)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	$ 21,743,776	$ 17,132,930
EARNINGS PER SHARE (Note 12)	$ 0.53	$ 0.41
DILUTED EARNINGS PER SHARE (Note 12)	$ 0.53	$ 0.41

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

CAYMAN NATIONAL CORPORATION LTD.
Consolidated Statement of Changes in Shareholders’ Equity
For the year ended September 30, 2018
(expressed in Cayman Islands dollars)

	Attributable to equity holders of the Parent:									
	Share capital	Share premium	Treasury stock	Share option reserve	General reserve	Accumulated Retained earnings	Reserve for dividends	Net unrealized holding (loss)/gain on investments available-for-sale	Equity adjustments from foreign currency translation	Total
Balance at September 30, 2016	$ 42,350,731	$ 5,031,898	$ (359,940)	$ 163,849	$ 7,486,050	$ 33,660,103	$ 2,117,366	$ 479,084	$ (1,721,564)	$ 89,207,577
Treasury shares issued	-	-	359,940	-	-	(44,161)	-	-	-	315,779
Share Option cancelled	-	-	-	(163,849)	-	163,849	-	-	-	-
Net income	-	-	-	-	-	17,465,267	-	-	-	17,465,267
Foreign currency translation	-	-	-	-	-	-	-	-	180,773	180,773
Change in fair value of available-for-sale financial assets	-	-	-	-	-	-	-	(513,110)	-	(513,110)
Change in fair value of available-for-sale financial assets reclassified to Net Income (Note 4)	-	-	-	-	-	-	-	-	-	-
Other Comprehensive Gain/(Loss)	-	-	-	-	-	-	-	(513,110)	180,773	(332,337)
Total Comprehensive Income	-	-	-	-	-	17,584,955	-	(513,110)	180,773	17,132,930
2016 final dividend paid (Note 18)	-	-	-	-	-	(2,117,366)	-	-	-	(2,117,366)
2017 interim dividend paid	-	-	-	-	-	(2,117,366)	-	-	-	(2,117,366)
2016 interim dividend proposed and paid	-	-	-	-	-	-	(2,117,366)	-	-	(2,117,366)
Balance at September 30, 2017	$ 42,350,731	$ 5,031,898	$ -	$ -	$ 7,486,050	$ 47,010,326	$ -	$ (34,026)	$ (1,540,791)	$ 100,304,188
Treasury shares issued	-	-	-	-	-	-	-	-	-	-
Transfers	(3,420)	3,420	-	-	-	-	-	-	-	-
Net income	-	-	-	-	-	22,322,215	-	-	-	22,322,215
Current year retained earnings adjustment	-	-	-	-	-	-	-	-	-	-
Foreign currency translation	-	-	-	-	-	-	-	-	(177,006)	(177,006)
Change in fair value of available-for-sale financial assets	-	-	-	-	-	-	-	(443,442)	-	(443,442)
Change in fair value of available-for-sale financial assets reclassified to Net Income (Note 4)	-	-	-	-	-	-	-	42,009	-	42,009
Other Comprehensive Gain/(Loss)	-	-	-	-	-	-	-	(401,433)	(177,006)	(578,439)
Total Comprehensive Income	-	-	-	-	-	22,322,215	-	(401,433)	(177,006)	21,743,776
2017 final dividend paid (Note 18)	-	-	-	-	-	(2,117,366)	-	-	-	(2,117,366)
2018 interim dividend paid	-	-	-	-	-	(2,540,839)	-	-	-	(2,540,839)
2018 final dividend proposed	-	-	-	-	-	-	-	-	-	-
Balance at September 30, 2018	$ 42,347,311	$ 5,035,318	-	$ -	$ 7,486,050	$ 64,674,336	$ -	$ (435,459)	$ (1,717,797)	$ 117,389,759

See notes to consolidated financial statements

CAYMAN NATIONAL CORPORATION LTD.
Consolidated Statement of Cash Flows
For the year ended September 30, 2018
(expressed in Cayman Islands dollars)

	2018	2017
CASH (USED IN) / PROVIDED BY:		
OPERATING ACTIVITIES		
Net income	$ 22,322,215	$ 17,465,267
Adjustments for items not involving cash:		
Depreciation and amortization (Notes 6 and 7)	2,604,786	2,268,711
Impairment of goodwill (Note 9)	254,080	213,412
Amortization of premium/discount on investments held-to-maturity and available for sale (Note 4)	400,830	1,643,385
Increase in loan impairment provision (Note 5)	2,855,256	3,271,088
Loss on disposal of fixed assets	-	135,308
Loss on disposal of investment available-for-sale	42,009	-
Gain on revaluation of investment property	(220,986)	-
Loss on disposal of fixed assets (Note 6)	130,204	(7,500)
	28,388,394	24,989,671
Changes in non-cash working capital items:		
Interest receivable	(1,587,807)	(88,841)
Accounts receivable and other assets	(22,688,474)	60,029
Depositors' accounts	(32,870,042)	105,882,826
Interest payable	1,655,509	345,928
Accounts payable and other liabilities (excluding dividends payable)	23,385,892	(967,208)
Adjustments from foreign currency translation on investments	1,341,665	(1,603,168)
Adjustments from foreign currency translation	(618,514)	(896,713)
Net advances for loans and overdrafts	(33,156,817)	(44,328,196)
	(36,150,194)	83,394,328
INVESTING ACTIVITIES		
Changes in:		
Short term placements	(85,168,850)	41,815,277
Proceeds on redemption of investments available-for-sale	117,421,095	130,217,500
Purchase of investments available-for-sale and FVTPL	(97,756,046)	(146,388,608)
Purchase of investments held-to-maturity	(8,102,618)	(25,049,591)
Proceeds on maturity of investments held-to-maturity	27,015,695	33,263,020
Proceeds from sale of investments property (Note 8)	2,567,730	3,710,406
Proceeds on sale of investment available for sale	1,231	-
Purchase of fixed assets (Note 6)	(979,665)	(1,962,128)
Proceeds on disposal of fixed assets (Note 6)	5,434	7,500
Purchase of intangible assets (Note 7)	(2,457,892)	(2,936,682)
Proceeds from sale of business (Note 29)	-	2,250,000
	(47,453,886)	34,926,694
FINANCING ACTIVITIES		
Dividends paid (Note 18)	(4,819,433)	(5,775,079)
Proceeds from issue of treasury shares	-	315,779
	(4,819,433)	(5,459,300)
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	(88,423,513)	112,861,722
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	350,900,548	235,277,395
Exchange gains/(losses) on cash and cash equivalents	(1,604,221)	2,761,431
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 260,872,814	$ 350,900,548
Supplemental information:		
Interest received	$ 51,504,282	$ 43,830,559
Interest paid	$ 5,164,314	$ 2,968,864

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

See notes to consolidated financial statements

1. INCORPORATION AND BACKGROUND INFORMATION

Cayman National Corporation Ltd. (the "Corporation" or "CNC") was incorporated on October 4, 1976 and operates subject to the provisions of the Companies Law of the Cayman Islands. The Corporation is a holding company for the companies referred to in Note 2 (collectively, the "Group"), all of which are incorporated in the Cayman Islands except where otherwise indicated. Through these companies the Corporation conducts full service banking, company and trust management, mutual fund administration, and stock brokering in the Cayman Islands and the Isle of Man. The Corporation also operates a representative office in Dubai.

The Corporation is listed and its shares trade on the Cayman Islands Stock Exchange. The principal place of business for the Corporation is 200 Elgin Avenue, George Town, Grand Cayman.

The Corporation is not liable for taxation in the Cayman Islands as there are currently no income, profits or capital gains taxes in the Cayman Islands. Only one (2017: one) of the Corporation's subsidiaries are liable for taxation which are those in the Isle of Man and which is reflected in these consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

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

Standards and amendments to existing standards effective October 1, 2017

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, 2017 that had a material impact on the Group.

New standards, amendments and interpretations issued but not effective for financial years beginning on or after October 1, 2017 and not early adopted

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

IFRS 9 replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit and loss. The basis of classification depends on

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

New standards, amendments and interpretations issued but not effective for financial years beginning on or after October 1, 2017 and not early adopted (continued)

the entity's business model and the contractual cash flow characteristics of the financial asset.

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

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

IFRS 9 implementation project started in August 2017. An Implementation Committee was created to oversee the implementation project. The project involves three phases:

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

New standards, amendments and interpretations issued but not effective for financial years beginning on or after October 1, 2017 and not early adopted (continued)

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

In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39. The Group is in the process of assessing the full impact of the impairment requirements of IFRS 9. An Implementation Committee was established and is currently finalising stage migration, cure rates and prepayment factors for financial assets and will continue focusing on collateral haircuts and recovery rates modelling. During the project’s gap analysis phase, a high level impact assessment was performed which applied simplified approaches e.g. for macro factors incorporation. Based on preliminary impact assessment results calculated on June 30, 2018 loan portfolio, the provision level for the portfolio is not expected to increase significantly. However the final impact may be different when the Group's models and methodologies are finalised and the macro outlook is determined.

A consequential amendment to IFRS 7 ‘Financial instruments: Disclosures’ was issued in July 2014. The amendment contains additional disclosure requirements in the reporting period that includes the date of initial application of IFRS 9, including the following information for each class of financial assets and financial liabilities as at the date of initial application:

(a) the original measurement category and carrying amount determined in accordance with IAS 39;

(b) the new measurement category and carrying amount determined in accordance with IFRS 9;

(c) the amount of any financial assets and financial liabilities in the statement of financial position that were previously designated as measured at fair value through profit or loss but are no longer so designated, distinguishing between those that IFRS 9 requires an entity to reclassify and those that an entity elects to reclassify at the date of initial application.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

New standards, amendments and interpretations issued but not effective for financial years beginning on or after October 1, 2017 and not early adopted (continued)

(d) Information that would permit the reconciliation of the ending impairment allowances in accordance with IAS 39 and the provisions in accordance with IAS 37 to the opening loss allowances determined in accordance with IFRS 9. For financial assets, this disclosure shall be provided by the related financial assets' measurement categories in accordance with IAS 39 and IFRS 9, and shall show separately the effect of the changes in the measurement category on the loss allowance at that date.

(e) Qualitative information to enable users to understand (a) how it applied the classification requirements in IFRS 9 to those financial assets whose classification has changed as a result of applying IFRS 9 and (b) the reasons for any designation or de-designation of financial assets or financial liabilities as measured at fair value through profit or loss at the date of initial application.

Management is currently assessing the impact of this consequential amendment and intends to apply the amendments for the period starting October 1, 2018, the year of the adoption of the new standard.

IFRS 9 also introduced a consequential amendment to paragraph IAS 1 ‘Presentation of Financial Statements’, under which interest revenue calculated using the effective interest method is required to be presented separately on the face of the income statement. The IFRS Interpretations Committee has issued an agenda decision which concludes that this separate line item can be used only for interest on those financial assets that are measured at amortised cost or fair value through other comprehensive income. This consequential amendment is not expected to signficantly impact the Group’s financial statements.

IFRS 15, ‘Revenue from contracts with customers’ deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognized when the Group has satisfied its performance obligations. The standard replaces IAS 18 ‘Revenue’ and IAS 11 ‘Construction contracts’ and related interpretations and establishes a more systematic approach for revenue measurement and recognition by introducing a five-step model governing revenue recognition. The five-step model includes 1) identifying the contract with the customer, 2) identifying each of the performance obligations included in the contract, 3) determining the amount of consideration in the contract, 4) allocating the consideration to each of the identified performance obligations and 5) recognizing revenue as each performance obligation is satisfied. The standard is effective for annual periods. beginning on or after January 1, 2018, with earlier application permitted. The Group is currently assessing the impact of IFRS 15 and does not expect it to have a significant impact on the consolidated financial statements, other than enhanced disclosures to comply with the requirements of the standard. Management has established an inventory of all impacted transactions, including details of how revenue is currently being earned, and has performed an assessment whether there are any contracts which include multiple performance obligations and whether any of these performance obligations are performed over time. The assessment indicated that the financial impact of IFRS 15 is not expected to be material.

IFRS 16 "Leases" was issued in January 2017 and effective for annual periods on or after January 1, 2019. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. Firstly, IFRS 16 requires an entity to assess whether an arrangement contains

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

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

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

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

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated.

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

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

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

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, 2018 and 2017. The non-operating companies of the Corporation are:

CNT (Nominees) Limited.

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

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

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

***(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 (Isle of Man) Limited. ("CNB" (IOM)), (incorporated and regulated in the Isle of Man)	100%	Banking, company and trust management
Cayman National Trust Company (Isle of Man) Limited ("CNT (IOM)")	100%	Company and trust management
Cayman National (Dubai) Ltd. (incorporated in Dubai, UAE)	100%	Representative Office

***(d)* Structured entities:**

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (continued)

***(d)* Structured entities: (continued)**

A structured entity often has some or all of the following features or attributes; (a) restricted activities, (b) a narrow and well-defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors, (c) insufficient equity to permit the structured entity to finance its activities without subordinated financial support and (d) financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

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

Business Combinations

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred.

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 acquire 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of preparation (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 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Intangible Assets

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

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

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

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

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

Computer software	Variously over 2 to 7 years

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans and provision for loan impairment (continued)

If the terms of an impaired loan are restructured or otherwise modified because of financial difficulties of the borrower, impairment is measured using the original effective interest rate before the modification of terms. Renegotiated loans for reasons other than financial difficulties of the borrower are discounted with the current effective interest rate.

Loan impairment provisions are charged and impairment recoveries credited to the provision for loan impairment and are presented as a loss within the consolidated statement of comprehensive income. Additions to the provision are charged to expenses in order to maintain the reserve at a level deemed appropriate by management to absorb known and inherent risks in the loan portfolio. See critical accounting estimates and judgments below.

When a financial asset is uncollectible, it is written off against the related allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of comprehensive income.

Accounts receivable and other assets

Accounts receivable and other assets are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of accounts receivable and other assets is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows.

The carrying amount of the asset is reduced through use of an allowance account, and the amount of the loss is recognized in the consolidated statement of comprehensive income. When an account receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the consolidated statement of comprehensive income.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions (continued)

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

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

Share capital

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

Dividend distribution

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

Director benefits

Share options are, from time to time, offered to directors as an incentive in consideration for the carrying out of their duties in addition to directors' fees or other emoluments. The fair values of the options are recorded as compensation costs on the date at grant with a corresponding credit to equity.

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest income and expense

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

Fees and commissions

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

Pension obligations

The Group’s employees participate in a defined contribution plan. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no further payment obligations once the contributions have been paid. Payments to defined contribution retirement plans are charged as and when the service is provided by the employee. The Group does not operate any defined benefit plans.

Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, the Group considers all cash at banks, cash in hand and short term placements with original maturities of 90 days or less from date of placement as cash or cash equivalents. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Short term placements

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

Assets under administration

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

Share Purchase Scheme

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

Leases

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The Group classifies its investments in the following categories: available for sale, held to maturity and financial assets at fair value through profit or 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.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale

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

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (continued)

Financial assets at fair value through profit or loss

A financial asset is classified into the financial assets at fair value through profit or loss category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking, or if so designated by management. Financial assets designated as at fair value through profit or loss at inception are those that are managed and whose performance is evaluated on a fair value basis, and are intended to be held for an indefinite period of time but may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investment Properties at fair value

Investment properties that are not occupied by the Group and are held for long term rental yields or capital appreciation or both are classified as investment property. Investment property comprises principally of rental property and land.

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

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

Financial liabilities

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

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.

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 (Note 28).

Critical Accounting Estimates and Judgments

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

Impairment losses on loans and advances

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

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of recoverable collateral increases by 10 percent, the provision would decrease by $1,849,675 (2017: $1,869,075), and if the net present value of the recoverable collateral decreases by 10 percent, the provision would increase by $1,039,833 (2017: $1,938,741). 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 units within the same complex.

Estimated goodwill impairment

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

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 its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would, therefore, be measured at fair value rather than amortized cost. If the entire class of held-to-maturity investments is tainted, the carrying amount would increase by $138,739 (2017: $433,330) with a corresponding entry in other comprehensive income. An active market exists if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The Group considers a market for a particular financial instrument as active if trades in the instrument occur on more than 90% of trading days.

Impairment and valuation of available-for-sale equity investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price/fair value. In addition, impairment may be appropriate when there is evidence of a significant deterioration in the financial health of the investee, industry and sector performance and operational and financing cash flows. See Note 22 for discussion of fair value estimation for investments.

Loan origination fees

There are significant balances in the financial statements relating to loan origination fees which require management to exercise judgment in determining the estimates which impact these balances. Based on current data and management's knowledge and experience of the current portfolio, management estimates that the loans granted in the current year have an average maturity period of 14 years (2017: 15 years). The average maturity period of loans is 13 years. Management also estimates that annually, 8% (2017: 5%) of loan balances are repaid before the maturity date. These estimates have an impact on loan origination fees recorded within interest income in the consolidated statement of comprehensive income and deferred loan origination fees recorded in the consolidated statement of financial position.

A one year increase in average maturity periods result in a decrease in loan origination fee revenue recognized of approximately $7,717 (2017: $57,976). An one year decrease in average maturity periods result in an increase in loan origination fee revenue recognized of approximately $53,073 (2017: $54,426). A 1% change in the level of loans repaid prior to the scheduled maturity date has an effect of approximately +/- $8,724 (2017: $58,509) on loan origination fees revenue recognized.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Critical Accounting Estimates and Judgments (continued)

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

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

Structured entities

- 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.

Disctontinued operations

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

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

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

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

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

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.

	2018	2017
Cash in hand and current accounts	$ 71,958,303	$ 93,620,440
Operating accounts	79,759,727	49,536,048
Deposits with other banks	109,154,784	207,744,060
	$ 260,872,814	$ 350,900,548

Deposits with other banks attracted interest rates ranging from 0.05% to 2.65% (2017: 0.01% to 1.80%) during the financial year.

4. INVESTMENTS

Investments comprise:	2018	2017
Available-for-sale, at fair value	$ 119,831,867	$ 141,076,104
Held-to-maturity, at amortized cost	27,696,775	47,010,998
Financial assets designated at fair value	669,438	-
Total	$ 148,198,080	$ 188,087,102

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
September 30, 2018				
Preference Shares	Unlisted	40,885	42,448	83,333
Mutual Funds	Unlisted	43,707	(5,237)	38,470
Government agency bonds	Publicly traded	82,261,441	(321,072)	81,940,369
Regional corporate & government bonds	Publicly traded	6,286,808	(52,625)	6,234,183
International corporate bonds	Publicly traded	31,634,485	(98,973)	31,535,512
		$ 120,267,326	$ (435,459)	$ 119,831,867

4. INVESTMENTS (CONTINUED)

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

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

Government agency bonds included in Available-for-sale and Held-to-maturity investments are issued by government sponsored enterprises mainly comprised of 55% (2017: 56%) supranational bonds, 31% (2017: 27%) United States government bonds and 14% (2017: 17%) in other jurisdictions all with a Moody's rating of A2 or greater.

International corporate bonds included in Available-for-sale and Held-to-maturity investments are issued by multi-national corporations mainly domiciled in United States 49% (2017: 59%), other jurisdictions 51% (2017: 41%), with all bonds having a Moody's rating of A2 or greater.

The issuers of the regional corporate & government bonds are domiciled in the Cayman Islands.

Yield to maturity for the above debt instruments range from 0.76% to 3.19% (2017: 0.68% to 4.76%).

During the year ended September 30, 2018, an available-for-sale investment was disposed of resulting in a loss of $42,009 (2017: $nil) which is included in the consolidated statement of comprehensive income.

4. INVESTMENTS (CONTINUED)

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

Investments comprise:	2018	2017
International corporate bonds	$ -	$ 1,175,542
Government and multi development bank	27,696,775	45,835,456
Total	$ 27,696,775	$ 47,010,998

Net amortization of discounts/premiums on purchase of debt securities of $400,830 (2017: $1,643,386) is included within interest income.

5. LOANS AND OVERDRAFTS

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

	Period from year end to maturity				
	Under one year	Within two to five years	Within six to ten years	Over ten years	Total
	(All figures in $000's)				
At September 30, 2018					
Commercial	$ 81,768	$ 17,399	$ 34,017	$ 77,459	$ 210,643
Personal	33,038	28,435	59,519	407,519	$ 528,511
Corporate	8,058	171	10,877	-	$ 19,106
Total	$ 122,864	$ 46,005	$ 104,413	$ 484,978	$ 758,260
Provision for loan impairment					(11,740)
Deferred Revenue					(3,909)
Interest Receivable					4,268
Total Loans and Overdrafts					$ 746,879

5. LOANS AND OVERDRAFTS (CONTINUED)

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

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

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

Movements in the provision for loan impairment are as follows:	-	3271088
	2018	2017
Provision for loan impairment, beginning of year	$ 8,844,838	$ 7,425,775
Net Increase charged to expenses	2,855,256	3,271,088
Loans written off, net of recoveries	39,995	(1,852,025)
Provision for loan impairment, end of year	$ 11,740,089	$ 8,844,838

Included in Loans written off, net of recoveries above are recoveries for loans previously written-off of $508,849 (2017: $86,162) recognized in the consolidated statement of comprehensive income. See Note 20 for discussion on credit risk.

6. FIXED ASSETS

September 30 2018	Freehold land and buildings	Leasehold property and improvements	Furniture and equipment	Motor Vehicles	Total
Cost:					
At September 30, 2017	$ 21,518,550	$ 4,599,492	$ 22,268,197	$ 285,863	$ 48,672,102
Additions	-	419,672	533,609	26,384	$ 979,665
Disposals	(61,905)	-	(493,878)	(15,999)	$ (571,782)
At September 30, 2018	$ 21,456,645	$ 5,019,164	$ 22,307,928	$ 296,248	$ 49,079,985
Accumulated depreciation:					
At September 30, 2017	$ 8,318,272	$ 3,665,562	$ 16,848,588	$ 138,734	$ 28,971,156
Charge for year	532,363	237,917	1,432,566	58,075	$ 2,260,921
Disposals	-	-	(420,145)	(15,999)	$ (436,144)
At September 30, 2018	$ 8,850,635	$ 3,903,479	$ 17,861,009	$ 180,810	$ 30,795,933
Net book value:					
At September 30, 2018	$ 12,606,010	$ 1,115,685	$ 4,446,919	$ 115,438	$ 18,284,052

During the year ended September 30, 2018, fully depreciated fixed assets that were obsolete and/or no longer exist with a cost of $411,167 (2017: $297,071) and accumulated depreciation of $411,167 (2017: $297,071) were written off. Total proceeds received from the sale of assets during 2018 were $5,434 (2017: $7,500), resulting in a gain on sale of $5,434 (2017: $7,500) in the consolidated statement of comprehensive income.

6. FIXED ASSETS (CONTINUED)

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

7. INTANGIBLE ASSETS

	2018	2017
Cost		
Beginning Balance	$ 4,490,634	$ 1,553,952
Additions	2,457,892	2,936,682
Disposals	-	-
Ending Balance	$ 6,948,526	$ 4,490,634
Accumulated Depreciation		
Beginning Balance	$ 986,764	$ 809,756
Charge for the year	343,865	177,008
Disposals	-	-
Ending Balance	$ 1,330,629	$ 986,764
Net Book Value		
Ending Balance	$ 5,617,897	$ 3,503,870

Substantially all intangible assets are computer software. During the year ended September 30, 2018, amortization of computer software totaling $343,865 (2017: $177,008) was included in depreciation and amortization expense in the consolidated statement of comprehensive income.

8. INVESTMENT PROPERTY

Investment property at fair value is as follows:

	2018		2017	
	Rental property	**Land**	**Rental property**	**Land**
Beginning Balance	$ 3,197,694	$ 60,000	$ 6,908,100	$ 60,000
Sales	(2,567,730)	-	(3,710,406)	-
Purchases	-	-	-	-
Change in fair value	220,986	-	-	-
Ending Balance	$ 850,950	$ 60,000	$ 3,197,694	$ 60,000
Total		$ 910,950		$ 3,257,694

Rental property represents a single property apartment block on Grand Cayman. The Group and the Receiver have entered into operating leases with third parties for some of the units in the apartment block. During fiscal 2018, the Group sold units within the apartment block, which resulted in proceeds received of $2,567,730 (2017: $3,710,406). $220,986 of unrealised appreciation was recognized in relation to the investment property and during fiscal 2018, the Group earned rental income of $147,655 (2017: $370,932) recognized in rental income in the consolidated statement of comprehensive income. The rental income for fiscal 2018 represented partial occupancy.

The direct operating expenses arising from the investment property was $132,130 (2017: $215,889) which is recorded in other operating expenses in the consolidated statement of comprehensive Income. Tenants enter into a 12 month rental agreement but can terminate with 45 days written notice if the tenants are leaving Grand Cayman.

The carrying value of investment property as of September 30, 2018 was $910,950 (2017: $3,257,694); this change is due to the sale of six units in the apartment block during 2018.

9. GOODWILL

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

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

9. GOODWILL (CONTINUED)

The key assumptions used in the assessment of the carrying value of the goodwill are as follows:

	2018	2017
Annual revenue change p.a.	2%	2%
Annual cost change p.a.	2%	2%
Overheads allocation factor	2.19%	1.95%
Annual discount rate	5.44%	3.57%
Attrition rate	8.00%	8.00%

Goodwill is summarized as follows:

	2018	2017
Cost:		
Balance at beginning of year	$ 1,337,182	$ 4,599,244
Less cost for businesses fully impaired before October 1, 2017	-	-
Less cost for businesses disposed during the year	-	(3,262,062)
Purchase consideration paid in year	-	-
Balance at end of year	1,337,182	1,337,182
Accumulated impairment:		
Balance at beginning of year	$ 869,227	$ 1,884,744
Less impairment for businesses fully impaired before October 1, 2017	-	-
Less impairment for businesses disposed during the year	-	(1,228,929)
Impairment charge	254,080	213,412
Balance at end of year	1,123,307	869,227
Goodwill at end of year	$ 213,875	$ 467,955

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 2018.

9. GOODWILL (CONTINUED)

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

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

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

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

During prior year 2017, the Group divested of the Cayman Islands Trust business (Note 29) and the goodwill previously recorded in CNT for FT and ATB was extinguished.

As of September 30, 2018, the recoverable amount of the ATB business in CNS was $213,875 (2017: $467,955) which is lower than the carrying value therefore an impairment loss of $254,080 was recognized in the business (2016: $213,412).

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

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

	2018 ATB	2017 ATB
Revenue change		
+/-5% (2017: +/-5%)	$+/-19,840	$+/-35,297
Cost change		
+/-1% (2017: +/-1%)	$ +/-1,818	$ +/-2,387
Discount rate change		
+25bps (2017: +/-25bps)	$ (537)	$ (11,900)
-25bps	$ 537	$ 12,538
Attrition rate change		
+100 bps	$ (17,291)	$ (48,721)
- 100 bps	$ 20,123	$ 60,095
Overheads allocation factor change		
+300 bps	$ (127,112)	$ (177,000)
- 300 bps	$ (127,112)	$ (177,000)

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

10. FIXED DEPOSITS

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

11. TAXATION

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

12. SHARE CAPITAL, SHARE PREMIUM AND EARNINGS PER SHARE

	2018	2017
Share capital	42,347,311	42,350,731
Share premium	5,035,318	5,031,898
	$ 47,382,629	$47,382,629

	2018	2017
Authorized:		
Shares of $1 par value each		
(2018 and 2017: 200,000,000)		
Issued and fully paid:		
Shares (2018: 42,347,311 and 2017: 42,350,731)	$ 42,347,311	$ 42,350,731

Share Premium:

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

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.

		2018		2017
Net income attributable to equity holders of the Corporation	$	22,322,215	$	17,465,267
Weighted average number of shares in issue		42,350,281		42,324,014
Diluted weighted average number of shares in issue		42,350,281		42,324,014
Earnings per share	$	0.53	$	0.41
Diluted earnings per share	$	0.53	$	0.41
Dividend per share	$	0.11	$	0.10

13. OTHER RESERVES

	2018	2017
General reserve	7,486,050	7,486,050
Net unrealized gain Investments available-for-sale (Note 4)	(435,459)	(34,026)
Equity adjustments from foreign currency translation	(1,717,797)	(1,540,791)
	$5,332,794	$5,911,233

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

Equity adjustments from foreign currency transalation
Equity adjustments from foreign currency translation represent the unrealized exchange gain or loss arising from the translation of the financial statements of Isle of Man based subsidiaries from pounds sterling to Cayman Islands dollars.

14. RELATED PARTY BALANCES AND TRANSACTIONS

The Group enters into various transactions with related parties in the normal course of business. Directors include individual directors of CNC and its subsidiaries and also corporations, partnerships, trusts or other entities in which a director or directors collectively, have direct or indirect significant shares or interest in such entities.

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

	2018	2017
Accounts receivable and other assets:		
Affiliated companies	$ 185,111	$ 160,681
Loans and overdrafts:		
Affiliated companies	$ 2,008,601	$ 1,243,010
Directors and key management	20,802,088	15,361,206
	$ 22,810,689	$ 16,604,216
Customers' accounts:		
Affiliated companies	$ 4,587,998	$ 8,163,793
Directors and key management	7,447,983	3,564,648
Other related parties	-	730,177
	$ 12,035,981	$ 12,458,618

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

Included within interest income is interest of $835,894 (2017: $709,181) on loans and overdrafts to directors and key management (see Note 25).

14. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

Included within interest expense is interest of $57,509 (2017: $39,591) on deposits to affiliated companies.

Staff loans, which totaled $39,083,928 (2017: $40,369,410) at the consolidated statement of financial position date, are primarily at rates varying between 4.00% and 12.00% p.a. (2017: 4.00% and 11.25% p.a.).

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

The Group acts as investment manager and custodian for the following affiliated funds. The Group also holds an insignificant investment in CNB Money Market Fund (less than 1.5% (2017: 1.5%)). The Group has no other interests in these affiliated funds.

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

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

	2018	2017
Cayman National Mortgage Fund	$171,339	$207,334
CNB Money Market Fund	305,288	124,362
Cayman National Securities Mutual Funds	207,209	187,702
Cayman National Pension Fund	372,655	339,872
	$ 1,056,431	$ 859,270

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.

14. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

- Cayman National Securities US Equity Fund Segregated Portfolio: to invest in a concentrated portfolio of large cap US stocks and sector exchange traded funds.

The affiliated fund's assets are:

	2018		2017	
	Net Asst Value	Fair Value	Net Asst Value	Fair Value
CNB Money Market Fund	30,075,899	30,075,899	37,206,969	37,206,969
Cayman National Mortgage Fund Ltd.	9,719,982	9,610,093	9,748,211	9,706,686
Cayman National Pension Fund	65,396,866	65,396,866	59,160,272	59,160,272
Cayman National Securities US Bond Fund Segregated Portfolio	5,316,188	5,316,188	4,775,983	4,775,983
Cayman National Securities International Equity Fund Segregated Portfolio	2,071,034	2,071,034	2,159,809	2,159,809
Cayman National Securities US Equity Fund Segregated Portfolio	1,934,637	1,934,637	1,774,565	1,774,565

Cayman National Bank Ltd. ("CNB") acts as the investment advisor for the Cayman National Mortgage Fund (the "Mortgage Fund") and certain related party transfers of loans to and from CNB (the sole market maker for the loans held by Mortgage Fund) are executed in connection with this relationship. During the year ended September 30, 2018 no loans were transferred from the Mortgage Fund to CNB (2017: $3,572,313) or from CNB to the Mortgage Fund (2017: $3,601,468). Notwithstanding the conflicts of interests inherent in such related party transactions, the Directors are satisfied that they appropriately fulfilled their fiduciary duties and that the Manager appropriately fulfilled its duties under its investment management mandate.

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

15. COMMITMENTS

In the normal course of business there are various commitments on behalf of customers to extend credit. Commitments to extend credit totaled $59,522,450 at September 30, 2018 (2017: $55,925,592) of which $720,931 (2017: $721,961) are commitments to staff members. No material losses are anticipated by management as a result of these transactions.

15. COMMITMENTS (CONTINUED)

The Group has entered into various commitments in respect of operating leases for equipment and premises. The total lease expense for the year was $2,074,049 (2017: $2,208,005). The total annual commitments are as follows:

Year ended September 30	Annual commitment
2019	2,567,403
2020	2,300,535
2021	2,146,829
2022	1,291,629
Beyond 2022	-

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

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

16. PENSION OBLIGATIONS

The Cayman National Corporation Pension Fund (“the Fund” or “CNPF”) is a defined contribution pension scheme which became effective on July 1, 1997. The Fund is administered by Cayman National Trust Co. Ltd. and is available for participation by Group and third party employees. Membership is mandatory for all Group employees of pensionable age, with contributions from both employer and employees. Cayman based employees, including key management, contribute 5% of their salary up to 5% of a maximum salary of $87,000 (2017: $87,000) per annum and the Group contributes 5% on the employees’ total annual salary. Included in personnel expense is an amount of $951,926 (2017: $961,894) representing the Group's contribution to the Fund. The Isle of Man based employees participate in a defined contribution scheme and included in personnel expense is an amount of $87,580 (2017: $43,641) representing the Group’s contribution to this scheme.

17. CONTINGENT LIABILITIES

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

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

The Group has issued letters of credit, acceptances and guarantees to third parties totaling $8,427,897 (2017: $8,463,201) on behalf of customers.

18. DIVIDENDS

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

	2018
2017 final dividend paid in 2018	$2,117,366
2018 interim dividend proposed and paid - $0.06 per share	$2,540,839
2018 final proposed dividend	$ nil
Total dividend paid out of 2018 earnings	$4,658,205

	2017
2016 interim dividend proposed and paid in 2017	$2,117,366
2016 final dividend paid - $0.05 per share	$2,117,366
2017 interim dividend proposed and paid - $0.05 per share	$2,117,366
Total dividend paid out of 2017 earnings	$4,234,732

19. DIRECTORS AND OFFICERS REMUNERATION

During the year ended September 30, 2018, the Corporation had a total of 7 directors (2017: 7) of whom one is an executive officer (2017: one). For the financial year ended September 2018, the aggregate compensation for directors' services was $323,812 (2017: $368,441).

Salaries and other short term employee benefits for key management (being those executives with the authority to direct the Group's operating policy) of $1,738,066 (2017: $1,604,459) are included within personnel expenses.

19. DIRECTORS AND OFFICERS REMUNERATION (CONTINUED)

Directors held 2,655,377 (2017: 2,441,211) of the Corporation shares as at September 30, 2018 of which 1,518,299 (2017: 790,905) were beneficially owned and 1,137,078 (2017: 1,650,306) were non-beneficially owned.

	2018		2017	
Board of Directors	**Directly held ***	**Indirectly held****	**Directly held***	**Indirectly held****
Truman Bodden	1,125,135	-	434,937	-
A. Nominee Ltd.	-	-	-	479,548
Waide Ltd.	-	-	-	33,680
Sherri Bodden-Cowan	125,639	-	116,109	-
Bryan Hunter	69,338	-	63,936	-
Nigel Wardle	65,479	-	57,956	-
Clarence Flowers	47,455	1,137,078	42,053	1,137,078
Stuart Dack	21,031	-	19,174	-
Leonard Ebanks	64,222	-	56,740	-
Total	**1,518,299**	**1,137,078**	**790,905**	**1,650,306**

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

20. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial services business, and operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

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

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

Market risk

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

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk

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

There has been no change in management's policies and procedures for managing interest rate risk in 2018 and 2017. 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, 2018

	1-3 Months	3 - 6 Months	6 - 12 Months	1 - 5 Years	Over 5 Years	Non Interest Bearing	Total
Cash and bank balances	$ 250,794,994	$ -	$ -	$ -	$ -	$ 10,077,820	$ 260,872,814
Short term placements	836,112	11,932,607	238,451,857	-	-	-	$ 251,220,576
Available-for-sale investments	41,027,260	12,886,663	18,139,140	43,484,150	-	4,294,654	$ 119,831,867
Held-to-maturity investments	5,948,742	2,288,347	9,276,962	10,182,724	-	-	$ 27,696,775
Assets held at fair value PL	669,438	-	-	-	-	-	$ 669,438
Loans and Overdrafts	698,536,639	2,170,495	485,462	7,786,716	37,899,204	263	$ 746,878,779
Other assets						$ 28,929,180	$ 28,929,180
TOTAL	997,813,185	29,278,112	266,353,421	61,453,590	37,899,204	43,301,917	1,436,099,429
LIABILITIES							
Demand & Term Deposits	$ 769,436,468	$ 184,552,659	$ 113,738,354	$ 3,339,237	$ -	$ 235,054,067	$ 1,306,120,785
Other Liabilities	-	-	-	-	-	39,513,374	$ 39,513,374
TOTAL	769,436,468	184,552,659	113,738,354	3,339,237	-	274,567,441	$ 1,345,634,159
Total Interest Sensitivity Gap	228,376,717	(155,274,547)	152,615,067	58,114,353	37,899,204		

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk

At September 30, 2017

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

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 (2017: 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 (2017: 25 basis points) higher/lower and all other variables remained constant, the Group's profit and equity for the year ended 2018 would increase/decrease by $813,083 (2017: increase/decrease by $815,299). This is mainly attributable to the Group's exposure to interest rates in its fixed rate liabilities and variable rate loans. Additionally, if interest rates had been 25 basis points (2017: 25 basis points) higher/lower and all other variables remained constant, the Group's net unrealized (depreciation)/appreciation for the year ended 2018 would increase/decrease by $458,653 (2017: increase/decrease by $331,838). This is mainly attributable to the Group's exposure to debt securities held in available-for-sale investments.

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Equity price sensitivity analysis

Other price risk

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

If equity prices had been 15% higher/lower:

- net profit for the year would have been unaffected as the equity investments are classified as available-for-sale.

- equity would increase/decrease by $12,500 (2017: $12,500) for the Group as a result of the change in fair value of available-for-sale equity investments.

Currency Risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign currency deposits accepted from customers are generally matched with corresponding foreign currency deposits placed with correspondent banks such that the foreign currency risk is substantially economically hedged. It has been the long term policy of the Cayman Islands Monetary Authority to maintain the Cayman Islands exchange rate fixed to the United States dollar at CI$1.00 to US$1.20, accordingly, there is currently no foreign currency exposure between these two currencies. The Group does however have exposure to fluctuations of exchange rates on unhedged foreign currency assets (see table below). The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily by management. Management believes that these policies mitigate the Group's exposure to significant currency risks. There has been no change in management's policies and procedures for managing currency risk in 2018 and 2017. The following table presents, by major currency, the Group's exposure to foreign currency risk at September 30, 2018:

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency Risk (continued)

2018	KYD	USD	GBP	CAD	EURO	CHF	OTHER	TOTAL
Assets								
Cash & Due From Banks	9,371,812	167,471,231	56,860,959	6,795,335	9,663,018	130,588	10,579,871	260,872,814
Short term placements	-	240,423,011	9,740,905	1,056,660	-	-	-	251,220,576
Available for sale Investments	-	116,579,641	3,252,226	-	-	-	-	119,831,867
Held to maturity investments	-	10,944,131	16,752,638	-	-	-	-	27,696,768
Investments - FVTPL	-	669,444	-	-	-	-	-	669,444
Interest Receiveable	-	2,879,192	36,817	1,860	-	-	-	2,917,869
Loans & Overdrafts	560,248,491	163,291,069	23,339,219	-	-	-	-	746,878,779
Total Assets	$ 569,620,303	$ 702,257,719	$ 109,982,764	$ 7,853,855	$ 9,663,018	$ 130,588	$ 10,579,871	$ 1,410,088,118
Liabilities								
Depositors Accounts								
Current	136,242,942	110,723,213	53,703,809	1,748,193	6,437,332	-	10,457,365	319,312,854
Savings	109,941,505	201,312,617	35,042,511	3,211,326	3,144,022	87,036	65,797	352,804,814
Fixed Deposits	205,807,849	411,264,085	14,074,892	2,856,302	-	-	-	634,003,128
Sub Total	451,992,296	723,299,915	102,821,212	7,815,821	9,581,354	87,036	10,523,162	1,306,120,796
Interest Payable	1,319,100	1,830,946	19,989	243	-	-	-	3,170,278
Accounts Payable & Other Liabilities	33,262,095	1,544,911	1,501,936	25,274	8,880	-	-	36,343,096
Total Liabilities	$ 486,573,491	$ 726,675,772	$ 104,343,137	$ 7,841,338	$ 9,590,234	$ 87,036	$ 10,523,162	$ 1,345,634,170
Net on Balance Sheet position	$ 83,046,812	$ (24,418,053)	$ 5,639,627	$ 12,517	$ 72,784	$ 43,552	$ 56,709	

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency Risk (continued)

The following table presents, by major currency, the Group's exposure to foreign currency risk at September 30, 2017:

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

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

Currency sensitivity analysis

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

Although the Group is exposed to the fluctuations in GBP, the net on balance sheet exposure in 2018 and 2017 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% (2017: 10%) there would be a $558,370 (2017: $658,759) 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).

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk

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

Liquidity risk management process

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

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

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are the key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets. The monitoring of debt security maturities are diarized and re-assessed and reported on a quarterly basis.

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

To mitigate exposure to liquidity risk, the Board of Directors of CNB have established a maximum ratio of loans to total customers' deposits of 75% which is continuously monitored by management. Actual maturities could differ from contractual maturities because the counterparty may have the right to call or prepay obligations with or without call or prepayment penalties. Examples of this include: mortgages, which are shown at contractual maturity but which often repay earlier; certain term deposits, which are shown at contractual maturity but which sometimes cashed before their contractual maturity and certain investments which may have call or prepayment features.

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Funding approach

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

The table below presents the cash flows payable and receivable by and to the Group for financial assets and liabilities remaining as at the consolidated statement of financial position date. The amounts disclosed in the net maturity gap table are the discounted cash flows, including a maturity analysis for financial assets held for managing liquidity risk. The additional table presents the maturity analysis for financial liabilities on a contractual undiscounted basis. Accounts receivable and other assets and accounts payable and accrued expenses are classified as current assets and liabilities, respectively as they are expected to settle within one year or less.

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Liquidity risk (2018)

	1-3 Months	3 - 6 Months	6 - 12 Months	1 - 5 Years	Over 5 Years	Total
Cash and bank balances	$ 250,794,994	$ -	$ -	$ -	10,077,820	$ 260,872,814
Short term placements	836,112	11,932,607	238,451,857	-	-	$ 251,220,576
Available-for-sale investments	11,042,039	21,229,152	21,391,366	61,892,840	4,276,470	$ 119,831,867
Held-to-maturity investments	5,948,742	2,288,347	9,276,962	10,182,724	-	$ 27,696,775
Investments - FVTPL	669,438	-	-	-	-	$ 669,438
Interest receivable	2,917,869	-	-	-	-	$ 2,917,869
Loans	69,505,434	21,374,774	21,257,272	46,004,195	588,737,104	$ 746,878,779
Total Assets	$ 341,714,628	$ 56,824,880	$ 290,377,457	$ 118,079,759	$ 603,091,394	$ 1,410,088,118
LIABILITIES						
Depositors accounts						
Current	319,312,854	-	-	-	$ -	$ 319,312,854
Savings	352,557,907	246,896	-	-	-	$ 352,804,803
Fixed Deposits	332,619,773	184,305,764	113,738,354	3,339,237	-	634,003,128
Subtotal	1,004,490,534	184,552,660	113,738,354	3,339,237	-	1,306,120,785
Other Liabilities	36,343,096	-	-	-	-	$ 36,343,096
Total Discounted Financial Liabilities	$ 1,040,833,630	$ 184,552,660	$ 113,738,354	$ 3,339,237	$ -	$ 1,342,463,881
Loan Commitments (Note 15)	59,522,450					$ 59,522,450
Total Discounted Maturity Gap	$ (758,641,452)	$ (127,727,780)	$ 176,639,103	$ 114,740,522	$ 603,091,394	$ 8,101,787
Undiscounted Financial Liabilities						
Depositors accounts						
Current	$ 319,312,854	$ -	$ -	$ -	$ -	$ 319,312,854
Savings	352,557,907	246,896	-	-	-	$ 352,804,803
Fixed Deposits	334,185,628	186,923,974	115,713,116	3,453,326	-	640,276,044
Subtotal	1,006,056,389	187,170,870	115,713,116	3,453,326	-	1,312,393,701
Other Liabilities	36,343,096	-	-	-	-	$ 36,343,096
Total Undiscounted Financial Liabilities	$ 1,042,399,485	$ 187,170,870	$ 115,713,116	$ 3,453,326	$ -	$ 1,348,736,797
Loan Commitments (Note 15)	59,522,450					$ 59,522,450
Total Undiscounted Financial Liabilities	$ 1,101,921,935	$ 187,170,870	$ 115,713,116	$ 3,453,326	$ -	$ 1,408,259,247

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Liquidity risk (2017)

	1-3 Months	3 - 6 Months	6 - 12 Months	1 - 5 Years	Over 5 Years	Total
Cash and bank balances	$ 350,900,548	-	-	-	-	$ 350,900,548
Short term placements	-	30,857,732	118,527,327	16,666,667	-	$ 166,051,726
Available-for-sale investments	25,828,290	40,783,837	47,308,935	27,027,634	127,408	$ 141,076,104
Held-to-maturity investments	5,914,794	7,843,864	11,804,839	21,447,501	-	$ 47,010,998
Interest receiveable	1,330,062	-	-	-	-	$ 1,330,062
Loans	48,290,666	25,195,082	11,241,492	38,340,506	593,509,472	$ 716,577,218
Total Assets	$ 432,264,360	$ 104,680,515	$ 188,882,593	$ 103,482,308	$ 593,636,880	$ 1,422,946,656
LIABILITIES						
Depositors accounts						
Current	$ 389,870,067	-	$ -	$ -	$ -	$ 389,870,067
Savings	346,316,085	420,937	-	-	-	$ 346,737,022
Fixed Deposits	426,499,881	94,879,952	78,475,889	3,691,273	-	603,546,995
Subtotal	1,162,686,033	95,300,889	78,475,889	3,691,273	-	1,340,154,084
Other Liabilities	13,114,058	-	-	-	-	$ 13,114,058
Total Liabilities	$ 1,175,800,091	$ 95,300,889	$ 78,475,889	$ 3,691,273	$ -	$ 1,353,268,142
Loan Commitments (Note 15)	55,907,762					$ 55,907,762
Total Discounted Maturity Gap	(799,443,493)	9,379,626	110,406,704	99,791,035	593,636,880	$ 13,770,752
Undiscounted Financial Liabilities						
Depositors accounts						
Current	$ 389,870,067	$ -	$ -	$ -	$ -	$ 389,870,067
Savings	346,316,085	420,937	-	-	-	$ 346,737,022
Fixed Deposits	427,739,801	95,380,279	79,481,790	3,790,826	-	606,392,696
Subtotal	1,163,925,953	95,801,216	79,481,790	3,790,826	-	1,342,999,785
Other Liabilities	13,114,058	-	-	-	-	$ 13,114,058
Total Undiscounted Financial Liabilities	$ 1,177,040,011	$ 95,801,216	$ 79,481,790	$ 3,790,826	$ -	$ 1,356,113,843
Loan Commitments (Note 15)	55,907,762					$ 55,907,762
Total Undiscounted Financial Liabilities	1,232,947,773	95,801,216	79,481,790	3,790,826	-	1,412,021,605

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

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk

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

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

(i) Credit risk measurement

Loans and advances

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

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

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

(i) Credit risk measurement (continued)

Loans and advances (continued)

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

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

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

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

Debt securities and other bills

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

Other assets

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

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

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

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Other assets (continued)

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.

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

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Credit-related commitments (continued)

Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Impairment and provisioning policies

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

Group's rating

	2018		2017	
	Gross Loans and advances excluding interest ($000s)	Impairment provision on Gross Loans and Interest ($000s)	Gross Loans and advances excluding interest ($000s)	Impairment provision on Gross Loans and Interest ($000s)
1. Excellent	708,838	-	665,722	-
2. Good	11,824	-	12,753	-
3. Average	3,183	-	3,724	-
4. Fair	9,441	-	9,706	-
5. Watch List	8,079	253	16,319	1,327
6. Substandard	4,502	1,054	2,344	407
7. Non Accrual	11,893	7,833	14,902	5,175
8. Doubtful / Loss	500	652	488	488
	758,260	9,792	725,957	7,397

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.

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (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 Moody's short term ratings of P-1 or above. Mortgage, consumer and other loans are presented net of provisions for loan losses. Whilst the majority of loans are secured by first mortgages upon single family residences or by chattel mortgages, credit card receivables and certain overdrafts advanced in the normal course of business are unsecured. Credit risk with respect to mortgage, consumer and other loans is limited due to the large number of customers comprising the Group's customer base. The majority of other assets consist of prepayments, interest receivable and other fees from related entities, which minimizes the credit risk of the Group. Maximum exposure to credit risk before collateral held or other credit enhancements, presented in thousands of dollars is as follows:

	2018 ($000's)	**2017** ($000's)
Credit risk exposures relating to on-balance sheet assets are as follows:		
Placements with banks	501,988	505,485
Loans and advances to customers	746,879	716,577
Investment securities:		
Available-for-sale debt securities (Bonds)	119,710	140,949
Held-to-maturity debt securities (Bonds)	27,697	47,011
Investments - FVTPL	669	-
Interest receivables and other assets	28,929	4,843
Credit risk exposures relating to off-balance sheet items are as follows:		
Financial guarantees and letter of credits	8,428	8,463
Loan commitments and other credit related liabilities	59,522	55,925
At 30 September	$1,493,822	$1,479,253

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

The above table represents a worst case scenario of credit risk exposure to the Group at September 30, 2018 and 2017, 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-18		30-Sep-17	
	Loans and advances to customers	Placements with banks	Loans and advances to customers	Placements with banks
Neither past due nor impaired	719,569	501,152	681,367	505,485
Past due but not impaired	21,795	-	24,590	-
Individually impaired	16,896	-	20,000	-
Gross	758,260	501,152	725,957	505,485
Less: allowance for impairment	11,741	-	8,845	-
Net	746,519	501,152	717,112	505,485

(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.

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (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, 2018	Individual (retail customers) and Corporate entities ($000)					
	Overdrafts	Credit cards	Term loans	Mortgages	Large corporate customers	Total
Past due up to 30 days	-	667	561	6,471	1,786	9,485
Past due 30 - 60 days	-	61	390	2,419	-	2,870
Past due 60-90 days	-	17	396	1,558	2	1,973
Over 91 days	-	-	471	6,977	19	7,467
Total	-	745	1,818	17,425	1,807	21,795
Fair value of collateral	-	-	5,166	27,819	3,725	36,710

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, 2017	Individual (retail customers) and Corporate entities ($000)					
	Overdrafts	Credit cards	Term loans	Mortgages	Large corporate customers	Total
Past due up to 30 days	-	438	433	6,368	4,486	11,724
Past due 30 - 60 days	-	74	342	2,316	-	2,732
Past due 60-90 days	-	18	373	1,930	708	3,029
Over 91 days	-	-	468	6,637	-	7,105
Total	-	530	1,616	17,250	5,194	24,590
Fair value of collateral	-	-	6,067	28,920	16,422	51,408

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

(b) Loans and advances individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is $16,896,000 (2017: $20,000,000).

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

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

September 30, 2018	Individual (retail customers) and Corporate entities ($000)					Total
	Overdrafts	Credit cards	Term loans	Mortgages	Large corporate customers	
Individually impaired loans	132	119	963	11,051	4,631	16,896
Provision	136	161	653	4,073	4,477	9,500
Fair value of collateral	-	-	907	11,653	3,903	16,463
September 30, 2017						
Individually impaired loans	138	98	845	8,871	10,047	20,000
Provision	115	1	543	2,841	3,593	7,094
Fair value of collateral	-	-	745	9,141	10,475	20,361

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

Investment securities and other investments

The table below presents an analysis of debt securities by rating agency designation at September 30, 2018 and September 30, 2017, based on Moody's ratings or their equivalent:

($'000)	Investment Securities	Total
2018		
Aaa	107,645	107,645
Aa1 to Aa3	38,132	39,762
A1 to A3	1,630	-
Lower than A3	-	-
Total	**147,407**	**147,407**

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

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

Concentration of risks

Geographical sectors

The Group has a concentration of risk in respect of geographical area as both customers and assets held as collateral on loans are primarily based in the Cayman Islands. 21% (2017: 8%) of deposits with other banks at September 30, 2018 are placed within the United States and 50% (2017: 46%) are placed with banks within Canada. Another 29% (2017: 44%) of deposits with other banks are placed within the United Kingdom. See also Note 4.

Deposit concentration

As at September 30, 2018, the Group also has concentration of risk with respect to depositors as 33% (2017: 29%) of total deposits were held by five (2017: five) depositors; two (2017: two) of the five depositors, each held in excess of 5% of total deposits with maturities of one year or less.

21. CAPITAL MANAGEMENT AND REGULATORY REQUIREMENTS

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

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

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

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

21. CAPITAL MANAGEMENT AND REGULATORY REQUIREMENTS (CONTINUED)

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

Similar capital adequacy requirements by the Isle of Man Financial Services Authority are imposed on the Group's subsidiaries in the Isle of Man.

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

Management believes, as of September 30, 2018 and 2017 that all regulated subsidiaries met the respective regulatory capital adequacy requirements established by the Isle of Man Financial Supervision Authority and the Dubai Financial Services Authority.

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

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

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

Capital adequacy and the use of subsidiary regulatory capital are monitored daily by the Group's management, employing techniques based on the guidelines developed by the Basel Committee,

CIMA, the Isle of Man Financial Services Authority and the European Community Directives as implemented by the chief regulator for supervisory purposes. The required information is filed with regulators on a quarterly basis.

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

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

21. CAPITAL MANAGEMENT AND REGULATORY REQUIREMENTS (CONTINUED)

The second phase of the CIMA Basel II implementation will be considered for implementation after the introduction of Pillar III. It will include considering the implementation of advanced approaches, specifically Pillar 1 – Credit Risk – Advanced Approaches (IRB), Operations Risk – Advanced Measurement Approaches (AMA) and Market Risk – Internal Risk Management Models.

The Group has complied with all filings in accordance with Pillar 1 and annually submits a Board approved Internal Capital Adequacy Assessment Process (ICAAP) to CIMA in accordance with CIMA's Pillar II requirement.

22. FAIR VALUE

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

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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

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

22. FAIR VALUE (CONTINUED)

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

September 30, 2018

Financial Assets	FV Hierarchy	Carrying Amount	Fair Value	Appreciation/ (depreciation)
Cash and cash equivalents	2	260,872,814	260,872,914	-
Short term placements	2	251,220,576	250,384,464	-
Investments held-to-maturity	2	27,696,775	27,558,029	(138,746)
Loans net of allowance for credit	2	746,878,779	746,878,779	-
Accounts receivable and other assets	2	27,909,026	27,909,026	-
Investment property	2	910,950	910,950	-
Financial Liabilities				
Customer deposits:				
Current and savings	2	668,372,251	668,372,251	-
Fixed deposits	2	631,377,631	631,377,631	-
Deposits from banks	2	6,370,903	6,370,903	-

September 30, 2017

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

22. FAIR VALUE (CONTINUED)

Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability. The 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, 2018:

Assets	Level 2	Level 3	Total balance
Investments in securities, at fair value:			
Equities	-	83,333	83,333
Bonds	119,710,064	-	119,710,064
Mutual Funds	669,438	38,470	707,908
Total	$ 126,379,502	$ 121,803	$126,501,305

September 30, 2017:

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

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.

22. FAIR VALUE (CONTINUED)

As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on comparable market information.

Investments classified within level 3 have significant unobservable inputs, as they trade infrequently or not at all. In 2018, level 3 instruments is predominantly comprised of equity in a private company and mutual funds (2017: equity in a private company and mutual funds). As observable prices are not available for these securities, the Group has used valuation techniques to derive the fair value. The main inputs into the Group's valuation methods for level 3 assets may include: discounted cash flow projections, original transaction price, recent transactions in the same or similar instruments and completed third party transactions in comparable instruments and information obtained from investment manager of the fund. The Group adjusts the model as deemed necessary.

The following table presents the movement in level 3 instruments for the year ended September 30, 2018 by class of financial instrument.

	Equity securities
Balance as at September 30, 2017	$ 127,408
Additions	-
Sales	-
Gains and losses recognized	(5,604)
Balance as at September 30, 2018	$ 121,803

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

There were no transfers between levels during the 2018 and 2017 financial years.

23. FIDUCIARY ACTIVITIES

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

24. GEOGRAPHICAL AND SEGMENTAL INFORMATION

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

For the year ended September 30, 2018, summary financial data:

	2018	2017
Gross Assets	121,302,233	177,184,267
Total Liabilities	114,175,466	170,306,902
Gross Revenue	4,400,558	2,399,034
Net Income	552,700	546,328
Capital Expenditure	137,007	69,881
Depreciation charge	53,385	36,180
Interest expense	257,888	159,662
Interest income	1,739,714	1,520,240

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

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

24. GEOGRAPHICAL AND SEGMENTAL INFORMATION (CONTINUED)

	Banking	Trust and Company Management	Asset Management	Other*	Group
September 30, 2018					
Gross Assets	1,438,193,028	2,391,204	25,730,772	(3,291,086)	1,463,023,918
Total Liabilities	1,323,188,885	1,231,844	23,534,521	(2,321,091)	1,345,634,159
Gross Revenue	73,390,572	1,012,971	3,817,839	(1,109,105)	77,112,277
Net Income	22,344,625	(795,379)	765,431	7,538	22,322,215
Capital Expenditure	3,421,310	5,416	10,831	-	3,437,557
Depreciation charge	2,556,440	-	48,279	67	2,604,786
Goodwill impairment		-	254,079	-	254,079
Interest expense	6,968,711	-	-	(148,888)	6,819,823
Interest income	53,904,657	-	49,138	(176,702)	53,777,093
September 30, 2017					
Gross Assets	1,455,868,404	2,392,695	4,538,409	(7,701,835)	1,455,097,673
Total Liabilities	1,356,668,366	425,009	2,107,590	(4,407,480)	1,354,793,485
Gross Revenue	62,545,758	825,821	3,655,432	(272,555)	66,754,456
Net Income	16,839,632	(223,141)	475,110	59,590	17,151,191
Capital Expenditure	1,976,715	5,416	10,831	-	1,992,962
Depreciation charge	2,204,349	-	63,693	669	2,268,711
Goodwill impairment	-	-	213,412	-	213,412
Interest expense	3,467,952	-	41	(153,201)	3,314,792
Interest income	42,789,727	-	1,109	(242,488)	42,548,348

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

25. INTEREST INCOME AND EXPENSE

Interest income comprises of the following:

	2018	2017
Cash and short term funds	7,418,313	3,191,438
Investment securities	2,379,425	1,746,631
Loans and advances	43,979,355	37,610,279
	$ 53,777,093	$ 42,548,348

Substantially all interest expense is attributable to customer deposits.

26. FOREIGN EXCHANGE FEES AND COMMISSIONS

Included within foreign exchange fees and commissions are net transaction gains and realized foreign exchange translation losses of $6,168,143 (2017: $5,684,960) and wire commissions of $1,928,060 (2017: $1,944,790).

27. PERSONNEL

Personnel costs comprise of the following:

	2018	2017
Salaries and overtime	$ 21,026,305	$ 20,201,807
Pension	1,039,422	929,914
Health insurance	1,642,945	1,490,745
Bonus	1,306,033	981,022
Training	498,486	456,472
Other	976,576	845,366
	$ 26,489,767	24,905,325

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 $98,715 (2017: $96,294) which is included within personnel costs in the consolidated statement of comprehensive income.

At September 30, 2018, the Group employed a total of 355 personnel (2017: 325).

28. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2018	2017
Managers cheques	6,923,211	6,784,996
Due to customers	22,138,379	2,106,137
Accounts payable and accrued expenses	1,434,089	956,531
Deferred revenue	156,029	133,222
Other liabilities	5,691,358	3,137,546
Accounts payable and other liabilities	$ 36,343,096	$13,118,432

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

The increase in due to customers at September 30, 2018 is attributable to amounts due from brokers for securities purchased but not yet settled by year end on behalf of clients.

28. ACCOUNTS PAYABLE AND OTHER LIABILITIES (CONTINUED)

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

Financial assets/ liabilities	Gross amounts	Gross amounts offset	Net amounts presented
Accounts receivable and other assets	30,129,672	(2,220,646)	27,909,026
Accounts payable and accrued expenses	38,563,742	(2,220,646)	36,343,096

29. DISCONTINUED OPERATIONS

a. Description

During the year ended Setpember 30, 2017 the Group decided to exit the Trust business in the Cayman Islands and initiated an active program to locate a buyer.

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

b. Financial performance and cash flow information

The financial performance and cash flow information presented are for the year ended September 30, 2018 (2018 column)for the period from October 1, 2016 to September 29, 2017 (2017 column) and.

	2018	2017
Trust and company management fees	125,037	1,718,215
Other income (revaluation of contingent consideration receivable, see (c) below)	140,000	-
Expenses	(1,129,165)	(1,575,724)
Net income/(loss) before income tax	**(864,128)**	**142,491**
Income tax expense	-	-
Net income/(loss) after income tax of discontinued operations	**-**	**142,491**
Gain on sale of the business after income tax (see (c) below)	-	171,585
Net income from discontinued operations	**$(864,128)**	**$ 314,076**
Changes in fair value of contingent consideration payable, see (c) below	-	**-**
Other comprehensive income from discontinued operations	-	-

29. DISCONTINUED OPERATIONS (CONTINUED)

	2018	2017
Net cash inflow/(outflow) from operating activities	(798,207)	63,351
Net cash inflow/(outflow) from investing activities (2017 includes an inflow of CI$2,250,000 from the sale of the business)	-	2,244,584
Net cash inflow/(outflow) from financing activities	-	-
Net increase/(decrease) in cash generated by the division	(798,207)	2,307,936

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

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

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

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

At the time of the sale the fair value of the liability to return the variable proceeds was determined to be CI$250,000 based on management's projections of revenue. Given the transaction happened so close to year end, the change in the value of the liability as at September 30, 2017 was $Nil. As at September 30, 2018 the value of the liability was $110,000, resulting in a gain of $140,000 (see analysis in (b) above).

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

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

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

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

30. SUBSEQUENT EVENTS

On September 14, 2018, Republic Bank Trinidad and Tobago (Barbados) Limited ("Republic") issued an unsolicited offer to acquire a majority of the issued shares of CNC. The consummation of the Partial Offer remains subject to certain other conditions including, without limitation, receipt of necessary government and regulatory approvals.