CAYMAN NATIONAL CORPORATION LTD.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

SEPTEMBER 30, 2019

CAYMAN NATIONAL CORPORATION LTD.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2019

C O N T E N T S

CAYMAN NATIONAL CORPORATION LTD.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2019

C O N T E N T S (Continued)

EY
Building a better working world

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Independent Auditors' Report

The Board of Directors
Cayman National Corporation Ltd.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Cayman National Corporation Ltd. and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at September 30, 2019, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at September 30, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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 *Auditors' responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of Cayman National Corporation Ltd. for the year ended September 30, 2018, were audited by another auditor who expressed an unmodified opinion on those statements on December 19, 2018.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

Building a better working world

We have fulfilled the responsibilities described in the *Auditors' responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion of the accompanying consolidated financial statements.

Key Audit Matter	How our Audit Addressed the Key Audit Matter
Allowance for Expected Credit Losses (ECL)	
Refer to Notes 2.3, 4, 5 and 18.2. The Group adopted IFRS 9 Financial Instruments which has changed the accounting for financial asset impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all advances and other financial assets not held at fair value through profit or loss (FVPL), together with loan commitments. Advances (loans) and other financial assets held at amortised cost comprise 98% of the Group's total assets. The estimation of ECLs on financial assets is inherently uncertain and is subject to significant judgment. Furthermore, models used to determine credit impairments are complex, and certain inputs used are not fully observable. Management compensates for any model and data deficiencies by applying overlays to these outputs, which adjusts the ECLs.	We assessed and tested the modelling techniques and methodologies developed by the Group in order to estimate ECLs, and evaluated its compliance with the requirements of IFRS 9. We assessed the ECL impact separately for the Group's consolidated financial position as at October 1, 2018, as well as at September 30, 2019. We reviewed the completeness and accuracy of data from underlying systems through to the models used to determine the ECLs. We considered the methodologies applied in determining Probabilities of Default (PDs) and the data used to estimate Loss Given Defaults (LGDs), and tested the Exposures At Default (EADs) against asset subledgers and amortisation schedules. We tested the aging of the portfolios as a key input in the staging of the portfolios. We concluded on the accuracy of the staging applied against the methodologies, and assessed the reasonableness of all assumptions and overlays used to determine whether the Group appropriately reflected additional risks where identified.

Key Audit Matter	How our Audit Addressed the Key Audit Matter

Allowance for Expected Credit Losses (ECL)

Key areas of judgment included:

- the interpretation of the requirements to determine impairment under the application of IFRS 9, which is reflected in the Group's ECL models;
- the application of assumptions where there was limited or incomplete data;
- the identification of exposures with a significant deterioration in credit quality;
- assumptions used in the ECL model such as the financial condition of the counterparty or valuation of security; and
- the need to apply overlays, the quantification of which can be highly subjective, to reflect current or future external factors that are not appropriately captured by the ECL model.

These factors, individually and collectively, result in a higher judgmental risk and thus are considered a significant matter in the context of the consolidated financial statements.

We also ensured that the definition of a significant deterioration in credit risk and staging adopted by the Group was in compliance with IFRS 9.

For ECLs calculated on an individual basis, we tested the factors underlying the impairment identification and quantification including forecasts of the amount and timing of future cash flows, valuation of assigned collateral and estimates of recovery on default.

We utilised our EY valuation specialists to assess the appropriateness of the models and assumptions used by the Group, including model build and its mathematical accuracy.

Finally, we assessed the disclosures in the consolidated financial statements considering whether they satisfy the requirements of IFRSs.

Responsibilities of Management and the Board of Directors 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.

The Board of Directors is responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

This report is made solely to the Board of Directors, as a body. Our audit work has been undertaken so that we might state to the Board of Directors those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Board of Directors as a body, for our audit work, for this report, or for the opinions we have formed.

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 auditors' 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 skepticism 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 auditors' 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 auditors' 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 the Board of Directors 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.

Ernst & Young Ltd.

November 28, 2019

CAYMAN NATIONAL CORPORATION LTD.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT SEPTEMBER 30, 2019
Expressed in thousands of Cayman Islands dollars ($'000)

	Notes	2019	2018
ASSETS			
Cash and cash equivalents	10	104,609	151,718
Due from banks		112,467	109,155
Advances	4	750,401	746,879
Investment securities	5	438,886	399,418
Investment interest receivable		3,288	2,918
Investment property	6	60	910
Premises and equipment	7	23,859	23,902
Intangible assets	8	27	256
Other assets	9	6,230	27,867
TOTAL ASSETS		**1,439,827**	**1,463,023**

The accompanying notes form an integral part of these consolidated financial statements.

CAYMAN NATIONAL CORPORATION LTD.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT SEPTEMBER 30, 2019
Expressed in thousands of Cayman Islands dollars ($'000) (Continued)

	Notes	2019	2018
LIABILITIES & EQUITY			
LIABILITIES			
Customers' current, savings and deposit accounts	11	1,286,853	1,306,120
Accrued interest payable		3,871	3,170
Other liabilities	12	12,164	36,343
TOTAL LIABILITIES		**1,302,888**	**1,345,633**
EQUITY			
Stated capital and Share premium	13	47,383	47,383
Other reserves	14	5,218	5,333
Retained earnings		84,338	64,674
TOTAL EQUITY		**136,939**	**117,390**
TOTAL LIABILITIES & EQUITY		**1,439,827**	**1,463,023**

The accompanying notes form an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors on November 28th, 2019 and signed on its behalf by:

Stuart Dack, *Director* **Nigel Wardle,** *Director*

CAYMAN NATIONAL CORPORATION LTD.

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED SEPTEMBER 30, 2019
Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated

	Notes	2019	2018
Interest income	15 (a)	61,580	53,777
Interest expense	15 (b)	(10,053)	(6,820)
Net interest income		51,527	46,957
Other income	15 (c)	24,549	22,489
		76,076	69,446
Operating expenses	15 (d)	(48,882)	(43,371)
Operating profit		27,194	26,075
Credit loss expense on financial assets	16	(1,551)	(2,855)
Net profit before taxation		25,643	23,220
Taxation expense	17	(36)	(34)
Net Income from Continuing Operations		25,607	23,186
Net loss from discontinued operations	27	(995)	(864)
Net Income		**24,612**	**22,322**
Earnings per share (expressed in $ per share)			
Basic		$0.58	$0.53
Diluted		$0.60	$0.55
Weighted average number of shares ('000)			
Basic	13	42,347	42,347
Diluted	13	42,347	42,347

The accompanying notes form an integral part of these consolidated financial statements.

CAYMAN NATIONAL CORPORATION LTD.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED SEPTEMBER 30, 2019
Expressed in thousands of Cayman Islands dollars ($'000)

	2019	2018
Net Income	**24,612**	**22,322**
Other comprehensive income:		
Other comprehensive income that will be reclassified to the consolidated statement of income in subsequent periods:		
Change in fair value of available-for-sale financial assets	–	(443)
Change in fair value of available-for-sale financial assets reclassified to Statement of Income	–	42
Total items that will be reclassified to the consolidated statement of income in subsequent periods	**-**	**(401)**
Other comprehensive income that will not be reclassified to the consolidated statement of income in subsequent periods:		
Foreign Currency translation differences	(550)	(177)
Total items that will not be reclassified to the consolidated statement of income in subsequent periods	**(550)**	**(177)**
Other comprehensive loss for the year, net of tax	**(550)**	**(578)**
Total comprehensive income for the year, net of tax	**24,062**	**21,744**

CAYMAN NATIONAL CORPORATION LTD.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED SEPTEMBER 30, 2019
Expressed in thousands of Cayman Islands dollars ($'000)

	Stated capital	Share premium	Other reserves (Note 14)	Retained earnings	Total equity
Balance at September 30, 2017	**42,351**	**5,032**	**5,911**	**47,010**	**100,304**
Net income for the year	–	–	–	22,322	22,322
Other comprehensive income	–	–	(578)	–	(578)
Total comprehensive income for the year	–	–	(578)	22,322	21,744
Transfer to share premium	(3)	3	–	–	–
Dividends (Note 24)	–	–	–	(4,658)	(4,658)
Balance at September 30, 2018	**42,348**	**5,035**	**5,333**	**64,674**	**117,390**
Balance at October 1, 2018 as previously reported	**42,348**	**5,035**	**5,333**	**64,674**	**117,390**
Net impact of adopting IFRS 9 (Note 2.3)	–	–	435	(785)	(350)
Restated opening balance under IFRS 9	**42,348**	**5,035**	**5,768**	**63,889**	**117,040**
Bonuses *	–	–	–	(1,622)	(1,622)
Net income for the year	–	–	–	24,612	24,612
Other comprehensive income	–	–	(550)	–	(550)
Total comprehensive income for the year	–	–	(550)	24,612	24,062
Dividends (Note 24)	–	–	–	(2,541)	(2,541)
Balance at September 30, 2019	**42,348**	**5,035**	**5,218**	**84,338**	**136,939**

* Included in the retained earnings on the Consolidated Statement of Changes in Equity bonuses is an amount of $1.622 million relating to bonuses paid to employees for the year ended September 30, 2018.

The accompanying notes form an integral part of these consolidated financial statements.

CAYMAN NATIONAL CORPORATION LTD.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2019
Expressed in thousands of Cayman Islands dollars ($'000)

	Notes	2019	2018
Operating activities			
Net Income		24,612	22,322
Adjustments for:			
Depreciation	7	2,642	2,605
Credit loss expense on financial assets	16	1,551	2,855
Amortisation of intangibles	8 (b)	15	15
Amortisation premium / discount		(511)	401
Goodwill impairment		215	254
Translation difference		4,234	709
(Gain)/loss on sale of premises and equipment		(29)	130
Gain on revaluation of investment property		–	(221)
Realised (gain)/loss on investment securities		(10)	42
Increase in advances		(5,475)	(33,157)
Decrease in customers' deposits		(19,266)	(32,870)
Decrease/(Increase) in other assets and investment interest receivable		21,266	(24,276)
(Decrease)/Increase in other liabilities and accrued interest payable		(23,489)	25,041
Bonus paid in current period		(1,622)	–
Taxes paid, net of refund		(26)	–
Cash provided by / (used in) operating activities		**4,107**	**(36,150)**
Investing activities			
Purchase of investment securities		(143,750)	(191,028)
Proceeds from investment securities		103,173	144,438
Proceeds from sale of investment property		851	2,568
Additions to premises and equipment	7	(2,648)	(3,438)
Proceeds from sale of premises and equipment		53	5
Cash used in investing activities		**(42,321)**	**(47,455)**

The accompanying notes form an integral part of these consolidated financial statements.

CAYMAN NATIONAL CORPORATION LTD.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2019
Expressed in thousands of Cayman Islands dollars ($'000) (Continued)

	Notes	2019	2018
Financing activities			
Dividends paid to shareholders	24	(2,871)	(4,819)
Cash used in financing activities		**(2,871)**	**(4,819)**
Net decrease in cash and cash equivalents		(41,085)	(88,424)
Net foreign exchange difference		(2,712)	(1,604)
Cash and cash equivalents at beginning of year		260,873	350,901
Cash and cash equivalents at end of year		**217,076**	**260,873**
Cash and cash equivalents at end of year are represented by:			
Cash on hand		104,609	151,718
Due from banks		112,467	109,155
		217,076	**260,873**
Supplemental information:			
Interest received during the year		60,416	51,504
Interest paid during the year		9,352	5,164
Dividends received		8	8

The accompanying notes form an integral part of these consolidated financial statements.

1. Corporate 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 principal place of business for the Corporation is 200 Elgin Avenue, George Town, Grand Cayman, Cayman Islands.

The Corporation is a holding company for the companies referred to in Note 28 (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.

As announced on August 6, 2018, the Corporation received an unsolicited proposal from Republic Bank Trinidad & Tobago (Barbados) Limited ("RBTTBL") to acquire a minimum of 51% and up to 74.99% of the ordinary shares of the Corporation by way of a tender offer to Cayman National shareholders. RBTTBL was and is a subsidiary of Republic Financial Holdings Limited ("RFHL"), whose shares are publicly listed, and trade on the Trinidad and Tobago Stock Exchange.

As announced on September 12, 2018, RBTTBL offered a price of US$6.25 per CNC share, which represented a premium of US$3.25 per CNC share as compared to the closing price of US$3.00 per CNC share on 3 August 2018 (being the last trading date before the date of the announcement of the receipt of the unsolicited proposal).

Following all regulatory approvals and all conditions to the offer being met, as announced on March 13, 2019, RBTTBL acquired 31,755,842 CNC shares, being 74.989% of the total issued share capital. As a result of this acquisition, there were no other holders of CNC shares holding in aggregate more than 5% of the total issued share capital.

The shares of the Corporation are listed and its shares trade on the Cayman Islands Stock Exchange.

The Corporation is not liable for taxation in the Cayman Islands as there are currently no income, profits or capital gains taxes in the Cayman Islands. Only two (2018 : two) of the Corporation's subsidiaries are liable for taxation which are those in the Isle of Man and which is reflected in these consolidated financial statements.

2. Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied across the Group.

2.1 Basis of preparation

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS), and are stated in Cayman Islands dollars. These consolidated financial statements have been prepared on a historical cost basis, except for the measurement at fair value of investment securities classified as available-for-sale under IAS 39 before October 1, 2018 and at fair value through profit or loss and investment property. The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions. The financial statements are prepared on an accrual basis. Actual results could differ from those estimates. Significant accounting judgements and estimates in applying the Group's accounting policies have been described in Note 3.

The financial statements have been prepared on the basis that the company is able to continue as a going concern, including to meet its obligations in the ordinary course of business.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of Cayman National Corporation Limited and its subsidiaries as at September 30 each year. The financial statements of subsidiaries are prepared for the same reporting year as the parent company using consistent accounting policies.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are all entities over which the Group has the power to direct the relevant activities, have exposure or rights to the variable returns and the ability to use its power to affect the returns of the investee, generally accompanying a shareholding of more than 50% of the voting rights.

2. Significant accounting policies (continued)

2.2 Basis of consolidation (continued)

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

• The contractual arrangement with the other vote holders of the investee
• Rights arising from other contractual arrangements
• The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases and any resultant gain or loss is recognised in the consolidated statement of income. Any investment retained is recognised at fair value.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.3 Changes in accounting policies

New accounting policies/improvements adopted

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended September 30, 2018, except for the adoption of new standards and interpretations below.

2. Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

New accounting policies/improvements adopted (continued)

IFRS 15 Revenue from Contracts with Customers (effective January 1, 2018)

IFRS 15 replaces all existing revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers. It also provides a model for the recognition and measurement of disposal of certain non-financial assets including property, equipment and intangible assets.

The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The standard will affect entities across all industries. Adoption will be a significant undertaking for most entities with potential changes to an entity's current accounting, systems and processes.

As a result of the adoption of this standard, credit card fees are being recorded net of amounts paid, the expenses for the direct cost of satisfying the performance obligation is netted against the revenues received. (Note 15c). In 2018, $7.6 million of credit card expenses previously reported under operating expenses was reclassified to be netted against other income. Credit card fees and commissions are now presented within Note 15 (c) on a net basis. The comparative information has also been amended to reflect this change. This amendment had no effect on the operating profit, net profit after taxation, earnings per share, net cash flows or net assets of the Group for 2018.

2. Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

New accounting policies/improvements adopted (continued)

IAS 40 Investment Property: Transfers of Investment Properties - Amendments to IAS 40 (effective January 1, 2018)

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of the property does not provide evidence of a change in use. The adoption and amendment to this standard had no impact on the Group.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective January 1, 2018)

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The adoption and amendment to this standard had no impact on the Group.

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

(i) The beginning of the reporting period in which the entity first applies the interpretation.

OR

(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

2. Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

New accounting policies/improvements adopted (continued)

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 for annual periods on or after January 1, 2018. The Group has not restated comparative information for 2018 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2018 is reported under IAS 39 and is not comparable to the information presented for 2019. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of October 1, 2018 and are disclosed in this Note.

Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available-for-sale (AFS), held-to-maturity and amortised cost and loans and receivables) have been replaced by:

- Debt instruments at amortised cost (AC)
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets at FVPL

The accounting for financial liabilities remains largely the same as it was under IAS 39.

The Group's classification of its financial assets and liabilities is explained in Notes 2.6d (iii) and 2.6e. The quantitative impact of applying IFRS 9 as at October 1, 2018, is disclosed in the transition disclosures in this Note.

2. Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

New accounting policies/improvements adopted (continued)

IFRS 9 Financial Instruments (continued)

Changes to impairment calculation

The adoption of IFRS 9 has fundamentally changed the Group's accounting for financial asset impairment by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments, letters of credits and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

Details of the Group's impairment methodology are disclosed in Note 2.6h. The quantitative impact of applying IFRS 9 as at October 1, 2018, is disclosed in this Note.

IFRS 7R Financial Instruments: Disclosures Revised

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures Revised was updated and the Group has adopted it, together with IFRS 9, for the year beginning October 1, 2018. Changes include transition disclosures as shown in this Note.

Reconciliations from opening to closing ECL allowances are presented in Notes 4b and 5e.

Transition disclosures

The following sets out the impact of adopting IFRS 9 on the consolidated statement of financial position and retained earnings, including the effect of replacing the incurred credit loss calculations under IAS 39 with the ECL calculation under IFRS 9.

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

2. Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

New accounting policies / improvements adopted (continued)

IFRS 9 Financial Instruments (continued)

Transition disclosures (continued)

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of October 1, 2018, is as follows:

	IAS 39 measurement	Re-	Remeasurement		IFRS 9	
Financial assets	Amount	classification	ECL	Other	Amount	Category [4]
Cash and cash equivalents [5]	151,718	–	–	–	151,718	AC
Due from banks [6]	109,155	–	–	–	109,155	AC
Investment interest receivable	2,918	–	–	–	2,918	AC
Other assets [8]	27,867	–	–	–	27,867	AC
Advances - L&R [4 & 7]	746,879	–	(861)	–	746,018	AC
Debt instruments - amortised cost [4]		–	–	–	–	
From investment securities - AFS [1]	–	119,709	–	–	119,709	
From investment securities - HTM [2]	–	278,918	–	511	279,429	
	–	398,627	-	511	399,138	AC
Investment securities - AFS [4]	–	–	–	–	–	
To debt instruments - amortised cost [1]	119,709	(119,709)	–	–	–	
To equity instruments - FVPL [3]	122	(122)	–	–	–	
	119,831	(119,831)	–	–	–	
Investment securities - HTM [4]	–	–	–	–	–	
To debt instruments - amortised cost [2]	278,918	(278,918)	–	–	–	
	278,918	(278,918)	–	–	–	
Financial assets at FVPL [4]	669	–	–	–	669	
From investment securities - AFS [3]	–	122	–	–	122	
	669	122	–	–	791	FVPL
Total Financial Assets	1,437,955	–	(861)	511	1,437,605	
Non-financial assets						
Deferred tax assets	-	-	-	-	-	
Total Adjusted Assets	**1,437,955**	**-**	**(861)**	**511**	**1,437,605**	

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

2. Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

New accounting policies / improvements adopted (continued)

IFRS 9 Financial Instruments (continued)

Transition disclosures (continued)

	IAS 39 measurement		Remeasurement		IFRS 9	
Financial liabilities	Amount	Re-classification	ECL	Other	Amount	Category [4]
Customers' current, savings and deposit accounts	1,306,120	-	-	-	1,306,120	AC
Accrued interest payable	3,170	-	-	-	3,170	AC
Other Liabilities	36,343	-	-	-	36,343	AC
Total Financial Liabilities	1,345,633	–	–	–	1,345,633	
Non-financial liabilities						
Deferred tax liabilities	-	-	-	-	-	
Total Adjusted Liabilities	**1,345,633**	–	–	-	**1,345,633**	

[1] As of October 1, 2018, the Group has re-classified a portion of its previous AFS portfolio as debt instruments at amortised cost. These instruments met the solely payments of principal and interest (SPPI) criterion, were not actively traded and were held with the intention to collect cash flows and without the intention to sell.

[2] As of October 1, 2018, the Group did not have any debt instruments that did not meet the SPPI criterion within its held-to-maturity portfolio. Therefore, it elected to classify all of these instruments as debt instruments measured at amortised cost.

[3] The Group has elected the option to irrevocably designate some of its previous AFS equity instruments as equity instruments at FVPL since the portfolio is small and there would be minimal differences when accounting for these at FVOCI.

2. Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

New accounting policies / improvements adopted (continued)

IFRS 9 Financial Instruments (continued)

Transition disclosures (continued)

[4] IAS 39 categories include Loans and receivables (L&R), Available-for-sale (AFS), Held-to-maturity (HTM) and Fair Value through profit or loss (FVPL). IFRS 9 categories include Amortised cost (AC) and Fair Value through profit or loss (FVPL).

[5] All classes of cash and due from banks as disclosed in Note 2.6 were reclassified from loans and receivables ("L&R") measurement category under IAS 39 to AC measurement category under IFRS 9 at the adoption date of the standard. The ECLs for cash and cash equivalents balances were insignificant.

[6] All classes of short term placement balances were reclassified from L&R measurement category under IAS 39 to AC measurement category under IFRS 9.

[7] All classes of loans and overdraft balances disclosed in Note 4 were reclassified from L&R measurement category under IAS 39 to AC measurement category under IFRS 9. The Group does not hold such kind of portfolio of loans and overdrafts that failed to meet the SPPI requirement.

[8] All classes of accounts receivables' balances were reclassified from L&R measurement category under IAS 39 to AC measurement category under IFRS 9.

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

2. Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

New accounting policies / improvements adopted (continued)

IFRS 9 Financial Instruments (continued)

Transition disclosures (continued)

The impact of transition to IFRS 9 on reserves and retained earnings is, as follows:

	Stated capital and Statutory reserves	Other reserves (Note 14)	Retained earnings	Total
Closing balance under IAS 39 (September 30, 2018)	47,383	5,333	64,674	117,390
Translation adjustment	–	–	–	-
Reclassification of investment securities from available-for-sale to amortised cost net of deferred taxation	–	511	–	511
Transfer of General contingency reserves to Retained earnings	–	–	–	–
Reclassification of investment securities from available-for-sale to FVPL	–	(76)	76	–
Initial recognition of IFRS 9 ECLs	–	–	(861)	(861)
Opening balance under IFRS 9 (October 1, 2018)	47,383	5,768	63,889	117,040

The following table reconciles the aggregate opening financial asset impairments under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions Contingent Liabilities and Contingent Assets to the ECL allowances for financial assets under IFRS 9. Further details are disclosed in Notes 4b and 5e.

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

2. Significant accounting policies (continued)

2.3 Changes in accounting policies (continued)

New accounting policies / improvements adopted (continued)

IFRS 9 Financial Instruments (continued)

Transition disclosures (continued)

	Financial asset impairment under IAS 39 at September 30, 2018	Remeasurement	ECLs under IFRS 9 at October 1, 2018
Impairment allowance for:			
Loans and receivables per IAS 39/ financial assets at amortised cost under IFRS 9	11,740	691	12,431
	11,740	691	12,431
Financial guarantees	–	18	18
Letters of credit for customers	–	8	8
Other commitments	–	144	144
	–	170	170
	11,740	861	12,601

2. Significant accounting policies (continued)

2.4 Standards in issue not yet effective

The following is a list of standards and interpretations that are not yet effective up to the date of issuance of the Group's consolidated financial statements. These standards and interpretations will be applicable to the Group at a future date and will be adopted when they become effective. The Group is currently assessing the impact of adopting these standards and interpretations.

IFRS 16 Leases (effective January 1, 2019)

IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (effective January 1, 2019)

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately.
- The assumptions an entity makes about the examination of tax treatments by taxation authorities.
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

2. Significant accounting policies (continued)

2.4 Standards in issue not yet effective (continued)

IFRS 9 Financial Instruments - Amendments to IFRS 9 (effective January 1, 2019)

The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments must be applied retrospectively; earlier application is permitted. The amendment provides specific transition provisions if it is only applied in 2019 rather than in 2018 with the rest of IFRS 9.

The amendments are intended to apply where the prepayment amount approximates to unpaid amounts of principal and interest plus or minus an amount that reflects the change in a benchmark interest rate. This implies that prepayments at current fair value or at an amount that includes the fair value of the cost to terminate an associated hedging instrument, will normally satisfy the SPPI criterion only if other elements of the change in fair value, such as the effects of credit risk or liquidity, are small. Most likely, the costs to terminate a 'plain vanilla' interest rate swap that is collateralised, so as to minimise the credit risks for the parties to the swap, will meet this requirement.

2. Significant accounting policies (continued)

2.4 Standards in issue not yet effective (continued)

IAS 19 Employee Benefits - Amendments to IAS 19 (effective January 1, 2019)

The amendments to IAS 19 Employee Benefits address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period.

The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.

- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

This clarification provides that entities might have to recognise a past service cost, or a gain or loss on settlement, that reduces a surplus that was not recognised before. Changes in the effect of the asset ceiling are not netted with such amounts. This standard is not applicable to the Group.

2. Significant accounting policies (continued)

2.4 Standards in issue not yet effective (continued)

IAS 1 Presentation of Financial Statements and IAS 8 Accounting policies , Changes in Accounting Estimates (effective January 1, 2020)

The new definition states that, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments clarify that materiality will depend on the nature and magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments must be applied prospectively. Early application is permitted and must be disclosed.

Although the amendments to the definition of material is not expected to have a significant impact on an entity's financial statements, the introduction of the term 'obscuring information' in the definition could potentially impact how materiality judgements are made in practice, by elevating the importance of how information is communicated and organised in the financial statements.

IFRS 3 Business combinations - Amendments to IFRS 3 (effective January 1, 2020)

The IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. Consequently, entities do not have to revisit such transactions that occurred in prior period. Earlier application is permitted and must be disclosed.

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

2. Significant accounting policies (continued)

2.5 Improvements to International Financial Reporting Standards

The annual improvements process of the International Accounting Standards Board deals with non-urgent but necessary clarifications and amendments to IFRS. The following amendments are applicable to annual periods beginning on or after January 1, 2019:

IFRS	**Subject of Amendment**
IFRS 3 -	Business Combinations - Previously held Interests in a joint operation *(effective January 1, 2019)*
IFRS 11 -	Joint Arrangements - Previously held Interests in a joint operation *(effective January 1, 2019)*
IAS 12 -	Income Taxes - Income tax consequences of payments on financial instruments classified as equity *(effective January 1, 2019)*
IAS 23 -	Borrowing Costs - Borrowing costs eligible for capitalisation *(effective January 1, 2019)*

2.6 Summary of significant accounting policies

a) Cash and cash equivalents

For the purposes of presentation in the consolidated statement of cash flows, cash and cash equivalents consist of highly liquid investments, cash on hand and at bank.

b) Due from Banks

Within due from banks are short term placements with original maturities of three months or less from date of placement. This category was originally included in Cash and cash equivalents in prior years; as a result of adoption of the RFHL financial statement format; due from banks has been spilt from cash and cash equivalents.

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

c) 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.

d) Financial instruments - initial recognition

i) Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Group recognises balances due to customers when funds are transferred to the Group.

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies

d) Financial instruments - initial recognition (continued)

ii) Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Note 2.6e (i). Financial instruments are initially measured at their fair value, except in the case of financial assets recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

iii) Measurement categories of financial assets and liabilities

From October 1, 2018, the Group classifies all of its financial assets based on the business model for managing the assets and the assets' contractual terms, measured at either:
• Amortised cost, as explained in Note 2.6e (i)
• FVPL, as explained in Note 2.6e (ii)

Before October 1, 2018, the Group classified its financial assets as loans and receivables (amortised cost), FVPL, available-for-sale or held-to-maturity (amortised cost), as explained in Notes 2.6e (i), 2.6e (iv) and 2.6e (v).

Financial liabilities, other than loan commitments and financial guarantees are measured at amortised cost.

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

e) Financial assets and liabilities

Under IFRS 9 (Policy applicable from October 1, 2018)

i) Due from banks, Advances and Investment securities

Before October 1, 2018, Due from banks, Advances to customers and Investment securities included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Group intended to sell immediately or in the near term.
- That the Group, upon initial recognition, designated as at FVPL or as available-for-sale for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale.

From October 1, 2018, the Group only measures Due from banks, Advances to customers and Investment securities at amortised cost if both of the following conditions are met:

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding and
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

The details of these conditions are outlined below.

The SPPI test

For the first step of its classification process, the Group assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

e) Financial assets and liabilities (continued)

Under IFRS 9 (Policy applicable from October 1, 2018) (continued)

i) Due from banks, Advances and Investment securities (continued)

The SPPI test (continued)

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium / discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL or FVOCI without recycling.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel.

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

e) Financial assets and liabilities (continued)

Under IFRS 9 (Policy applicable from October 1, 2018) (continued)

i) Due from banks, Advances and Investment securities (continued)

Business model assessment (continued)

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.

- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

ii) Financial assets at fair value through profit or loss

Financial assets in this category are those that are designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

e) Financial assets and liabilities (continued)

Under IFRS 9 (Policy applicable from October 1, 2018) (continued)

ii) Financial assets at fair value through profit or loss (continued)

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis, or
- The assets (until September 30, 2018 under IAS 39) are part of a group of financial assets under IAS 39, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Financial assets at FVPL are recorded in the consolidated statement of financial position at fair value. Interest earned or incurred on instruments designated at FVPL is accrued in interest income, using the Effective Interest Rate (EIR), taking into account any discount/premium and qualifying transaction costs being an integral part of the instrument. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other income when the right to the payment has been established.

iii) Undrawn loan commitments

Undrawn loan commitments and letters of credit are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. These contracts are in the scope of the ECL requirements but no ECL was determined based on historical observation of defaults.

The nominal contractual value of undrawn loan commitments are not recorded in the consolidated statement of financial position. The nominal values of this instrument together with the corresponding ECLs are disclosed in Note 18.

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

e) Financial assets and liabilities (continued)

Under IAS 39 (Policy applicable before October 1, 2018)

iv) Available-for-sale financial investments

Available-for-sale investments are securities 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. Securities held as available-for-sale are initially recognised at fair value plus transaction costs and are continuously remeasured at fair value based on quoted market prices where available or discounted cash flow models. Unquoted equity instruments are recognised at cost, being the fair value of the consideration paid for the acquisition of the investment.

Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in other comprehensive income net of applicable deferred tax. When the securities are disposed of, the related accumulated fair value adjustments are included in other income. When securities become impaired, the related accumulated fair value adjustments previously recognised in equity are included in the consolidated statement of income as an impairment expense on investment securities.

v) Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the EIR less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in interest and similar income in the consolidated statement of income. The losses arising from impairment of such investments are recognised in the consolidated statement of income within credit loss expense.

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

e) Financial assets and liabilities (continued)

Under IAS 39 (Policy applicable before October 1, 2018) (continued)

v) Held-to-maturity financial investments (continued)

If the Group were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

f) Reclassification of financial assets and liabilities

From October 1, 2018, the Group does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Group acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Group did not reclassify any of its financial assets or liabilities in 2019, except on the initial adoption of IFRS 9 as required. On adoption, the Group classified its financial assets and liabilities in accordance with its existing business models.

g) Derecognition of financial assets and liabilities

Derecognition due to substantial modification of terms and conditions

The Group derecognises a financial asset, such as a loan to a customer, to facilitate changes to the original loan agreement or arrangement due to weaknesses in the borrower's financial position and/or non-repayment of the debt as arranged and terms and conditions have been restructured to the extent that, substantially, it becomes a new loan, with the difference recognised as an impairment loss. The newly recognised loans are classified as Stage 2 for ECL measurement purposes.

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

g) Derecognition of financial assets and liabilities (continued)

Derecognition due to substantial modification of terms and conditions (continued)

When assessing whether or not to derecognise a loan to a customer, amongst others, the Group considers the following factors:

- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original rate, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Derecognition other than for substantial modification

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Group also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Group has transferred the financial asset if, and only if, either:

- The Group has transferred its contractual rights to receive cash flows from the financial asset, or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

Pass-through arrangements are transactions whereby the Group retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

g) Derecognition of financial assets and liabilities (continued)

Derecognition other than for substantial modification (continued)

Financial assets (continued)

- The Group has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates

- The Group cannot sell or pledge the original asset other than as security to the eventual recipients

- The Group has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Group is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Group has transferred substantially all the risks and rewards of the asset, or

- The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Group considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Group has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Group's continuing involvement, in which case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Group could be required to pay.

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

g) Derecognition of financial assets and liabilities (continued)

Derecognition other than for substantial modification (continued)

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

h) Impairment of financial assets (Policy applicable from October 1, 2018)

i) Overview of the ECL principles

As described in Note 2.3 New accounting policies / improvement adopted, the adoption of IFRS 9 has fundamentally changed the Group's financial assets impairment methodologies by replacing the incurred loss approach under IAS 39 with a forward-looking ECL approach. From October 1, 2018, the Group has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments, letter of credits and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The Group uses the simiplified approach when calculating ECLs for credit cards and investments. The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Group's policies for determining if there has been a significant increase in credit risk are set out in Note 18.2.5.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

h) Impairment of financial assets (Policy applicable from October 1, 2018) (continued)

i) Overview of the ECL principles (continued)

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the size and nature of the underlying portfolio of financial instruments. The Group's policy for grouping financial assets measured on a collective basis is explained in Note 18.2.6.

The Group has established a policy to perform an assessment, at the end of each quarter, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Group classifies its financial assets into Stage 1, Stage 2 and Stage 3, as described below:

Stage 1

When financial assets are first recognised and continue to perform in accordance with the contractual terms and conditions after initial recognition, the Group recognises an allowance based on 12mECLs. Stage 1 financial assets also include facilities where the credit risk has improved and the financial asset has been reclassified from Stage 2.

Stage 2

When a financial asset has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. Stage 2 financial assets also include facilities where the credit risk has improved and the financial asset has been reclassified from Stage 3.

Stage 3

Financial assets considered credit-impaired (as outlined in Note 18.2.3). The Group records an allowance for the LTECLs.

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

h) Impairment of financial assets (Policy applicable from October 1, 2018) (continued)

i) Overview of the ECL principles (continued)

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

ii) The calculation of ECLs

The Group discounts expected credit losses using nominal interest rate as an approximation of effective interest rate considering specific characteristics of the product.

In addition to the historical measure of cash shortfalls, a cash shortfall is the difference between the cash flows that are due to an entity in accordnace with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are as follows:

PD - The Probability of Default is an estimate of the likelihood of default over a given period of time. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PDs is further explained in Note 18.2.4.

EAD - The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

h) Impairment of financial assets (Policy applicable from October 1, 2018) (continued)

ii) The calculation of ECLs (continued)

Each of these is associated with different PDs, EADs and LGDs. When relevant, it also incorporates how defaulted financial assets are expected to be recovered, including the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards, overdrafts and other revolving facilities, for which the treatment is separately set out, the maximum period for which the credit losses are determined is the contractual life of a financial instrument.

Impairment losses and recoveries are accounted for and disclosed separately.

Provisions for ECLs for undrawn loan commitments are assessed as set out in Note 18.2.4 The calculation of ECLs (including the ECLs related to the undrawn element) of revolving facilities such as credit cards is explained below.

The mechanics of the ECL method are summarised below:

Stage 1

The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Group calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD which are derived as explained under Stage 3 for loans and using Global Credit Loss tables for traded investments and modified with management overlays when not traded.

Stage 2

When a financial asset has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. The mechanics are similar to those explained above, but PDs and LGDs are estimated over the lifetime of the instrument. The LGDs are derived as explained under Stage 3 for loans and using Global Credit Loss tables for traded investments and modified with management overlays when not traded.

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

h) Impairment of financial assets (Policy applicable from October 1, 2018) (continued)

ii) The calculation of ECLs (continued)

Stage 3

For financial assets considered credit-impaired (as defined in Note 18.2), the Group recognises the lifetime expected credit losses for these financial assets. The method is similar to that for Stage 2 assets, with the PD set at 100%.

For LGD, the Group considers changes in fair value of collateral over time, additional haircut from the collateral sales, removes effects of indirect costs associated with recoveries. No guarantees are considered as collaterals, real estate collaterals and deposits are allocated proportionally to the loans and advances based on the outstanding exposure as of the reporting period.

In limited circumstances within the Group, where portfolios were small and the products homogenous with minimal history of defaults, a simplified ECL approach was applied using historical loss rates and for investments the global credit loss tables.

Loan commitments

When estimating LTECLs for undrawn loan commitments, the Group estimates the expected portion of the loan commitment that will be drawn down over its expected life.

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

h) Impairment of financial assets (Policy applicable from October 1, 2018) (continued)

iii) Credit cards, overdrafts and other revolving facilities

The Group's product offering includes a variety of corporate and retail overdraft and credit card facilities, in which the Group has the right to cancel and/or reduce the facilities. The Group limits its exposure on these revolving facilities to the outstanding balance for non-performing facilities.

The Group calculates ECL on credit cards using a forecast model based on historical loss experience for portfolios with shared credit risk characteristics. Migration matrices model is used for loss rate forecasting, which is built at the portfolio level instead of at the individual account level. The loss rate is applied to gross credit card exposures and are discounted. Group discounted ECL using nominal interest rate as an approximation of effective interest rate considering specific characteristics of the products. The whole portfolio is segmented by delinquency buckets. The purpose is to track the behaviour (migration) of performing credit cards.

As a primary approach for the calculation of expected credit losses of Overdrafts, the Group decides to apply estimate parameters for PD, LGD and exposure measures for individual exposure. For PD, the Group used borrower's probability of default as the naturally fitting matrix for estimating the risk of default occurring and applied cohort approach. ECL is calculated used forecasting balances and expected cash flows based on expected behaviour and the contractual terms of the instruments by applying Credit Conversion Factor on undrawn limits. The Group's estimation of LGD on Overdrafts is similar to the one incorporated in Loans.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's ability to make payments but emphasis is also given to qualitative factors such as changes in usage and repayment patterns.

The calculation of ECLs, including the estimation of the expected period of exposure and discount rate is made, is explained in Note 18. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

h) Impairment of financial assets (Policy applicable from October 1, 2018) (continued)

iv) Short term placements

Short term placements principally represent deposits and placements with other banks with original maturities greater than 90 days or less. The ECL on short term placements is calculated using the same methodlogy as investments.

v) Financial guarantees, letters of credit and undrawn loan commitments

The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees, letters of credit and loan commitments are off-balance sheet instruments and have no history of default. The Group applies the simplified approach in recognizing ECL (average PD, Cure Rate factor and LGD).

vi) Forward looking information

In its ECL models, the Group considers below forward looking information as economic inputs, such as:

- Interest rates
- Residential mortgage foreclosures
- Asset Quality

Consideration of these macro economic inputs were used across the locations of the Group. The correlation between changes in prime rates and average probability of defaults is around 90%, thus management decided to use regression analysis to predict probability of default in the subsequent years. Due to the strong relationship to the prime lending rate, this input was used to determine forward looking PD.

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

h) Impairment of financial assets (Policy applicable from October 1, 2018) (continued)

vi) Forward looking information (continued)

The Group however recognised that the inputs and models used for calculating ECLs may not always capture all characteristics and expectations of the market at the date of the consolidated financial statements. To reflect this, management adjustments or overlays are occasionally made based on judgements as temporary adjustments when such differences are significantly material.

i) Collateral valuation

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's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under IAS 39. Collateral, unless repossessed, is not recorded on the Group's consolidated statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed at inception and re-assessed on a periodic basis.

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:

- Retail lending sector, comprising of motor vehicles, education, vacation loans, etc., these are normally micro loans either colletarlised by real estate or in some cases unsecured;
- Commercial and corpoarte sector, highly collateralized by cash, business assets and real estate;
- Mortgages sector, highly collateralized with land and real estate which is being financed.
- Overdarfts - revolving credit limits which are attached to current accounts.
- Credit Cards - revolving credit limits generally unsecured or in some cases secured by cash.

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

i) Collateral valuation (continued)

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Non-financial collateral, such as real estate, is valued based on independent valuations and other data provided by third parties.

j) Collateral repossessed

The Group's accounting policy under IFRS 9 remains the same as it was under IAS 39. The Group's policy is for a repossessed asset to be sold. Assets to be sold are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date, in line with the Group's policy.

In its normal course of business, should the Group repossess properties or other assets in its retail portfolio, it sometimes engages external agents to assist in the sale of these assets to settle outstanding debt. Any surplus funds are returned to the customers/obligors.

k) Write-offs

The Group's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. The write-off represents a dercognition event. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to other income.

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

l) Impairment of financial assets (Policy applicable before October 1, 2018)

Loans and provision for loan impairment

Loans are recognized when cash is advanced to the borrowers. Loans are carried at amortized cost using the effective interest yield method.

An allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

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

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.

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

m) 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.

n) Leases

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of income on a straight-line basis over the period of the lease. Renewal of operating leases is based on mutual agreement between parties prior to the expiration date.

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

o) Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation.

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
Computer Software	-	Variously over 2 to 7 years
Freehold buildings	-	Up to 50 years
Freehold land	-	Not applicable
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

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of income during the financial period in which they are incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each consolidated statement of financial position date. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the consolidated statement of income.

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

p) Impairment of non-financial assets

Further disclosures relating to impairment of non-financial assets are also provided in the following notes:
• Disclosures for significant assumptions (Note 3)
• Premises and equipment (Note 7)
• Intangible assets (Note 8)

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value-in-use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value-in-use, the estimated future cash flows available to shareholders are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount.

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

q) Business combinations and goodwill

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects to measure the non-controlling interests in the acquiree at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in the consolidated statement of income.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the consolidated statement of income.

As at acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

r) Employee benefits

i) 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.

ii) **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.

s) Taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the consolidated statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

t) Fiduciary assets

The Group provides custody, trustee and investment management services to third parties. All related assets are held in a fiduciary capacity and are not included in these consolidated financial statements as they are not the assets of the Group.

u) 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.

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.

For the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group currently has no dilutive potential ordinary shares.

v) Foreign currency translation

The individual financial statements of each group entity is presented in the currency of the primary economic environment, in which the entity operates (its functional currency). The consolidated financial statements are expressed in Cayman Islands (KYD) dollars, which is the functional and presentation currency of the parent.

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

v) Foreign currency translation (continued)

Monetary assets and liabilities of the parent, which are denominated in foreign currencies are expressed in Cayman Islands dollars at rates of exchange ruling on September 30. Non-monetary assets and liabilities denominated in foreign currencies are translated at historic rates. All revenue and expenditure transactions denominated in foreign currencies are translated at mid-exchange rates and the resulting profits and losses on exchange from these trading activities are dealt with in the consolidated statement of income.

The assets and liabilities of subsidiary companies are translated into Cayman Islands dollars at the mid-rates of exchange ruling at the consolidated statement of financial position date and all resulting exchange differences are recognised in the consolidated statement of comprehensive income. All revenue and expenditure transactions are translated at an average rate.

w) Intangible assets

The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

The useful lives of intangible assets are assessed as finite and are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expense category that is consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised.

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

x) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to credit risks.

The specific recognition criteria described below must also be met before revenue is recognised.

The effective interest rate method

Under both IFRS 9 and IAS 39, interest income and expense is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount/premium on acquisition, fees and costs that are an integral part of the EIR. The Group recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk. The adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the statement of financial position with an increase or reduction in interest income. The adjustment is subsequently amortised through interest and similar income in the income statement.

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

x) Revenue recognition (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.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their AC, net of the ECL provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the AC.

Fee and commission income

Unless included in the effective interest calculation, fees and commissions are recognised on an accruals basis as the service is provided. Fees and commissions not integral to effective interest arising from negotiating, or participating in the negotiation of a transaction from a third party are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts. Asset management fees related to investment funds are recognised over the period the service is 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.

Dividends

Dividend income is recognised when the right to receive the payment is established.

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

y) Fair value

The Group measures financial instruments at fair value at each consolidated statement of financial position date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value, where fair values are disclosed, are shown in Note 21 to the consolidated financial statements.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

i) In the principal market for the asset or liability, or
ii) In the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1

Included in the Level 1 category are financial assets and liabilities that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market 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.

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

y) Fair value (continued)

Level 2

Included in the Level 2 category are financial assets and liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions and for which pricing is obtained via pricing services, but where prices have not been determined in an active market. This includes financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Group's own models whereby a significant amount of assumptions are market observable.

Level 3

Included in the Level 3 category are financial assets and liabilities that are not quoted as there are no significant market observable inputs to determine a price. These financial instruments are held at cost, being the fair value of the consideration paid for the acquisition of the investment, and are regularly assessed for impairment.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Where the Group's investments are not actively traded in organised financial markets, the fair value is determined using discounted cash flow analysis, which requires considerable judgement in interpreting market data and developing estimates. Accordingly, estimates contained herein are not necessarily indicative of the amounts that the Group could realise in a current market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair values. The fair value information for investments classified at fair value through profit and loss is based on information available to management as at the dates presented. Management is not aware of any factors that would significantly affect the estimated fair value amounts.

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

y) Fair value (continued)

Financial instruments where carrying value is equal to fair value:- Due to their short-term maturity, the carrying value of certain financial instruments is assumed to approximate their fair values. These include cash and cash equivalents, investment interest receivable, customers' deposit accounts, other fund raising instruments, other assets and other liabilities.

Advances are net of specific and other provisions for impairment. The fair values of advances is based on a current yield curve appropriate for the remaining term to maturity.

The fair values of the floating rate debt securities in issue is based on quoted market prices where available and where not available is based on a current yield curve appropriate for the remaining term to maturity. For balances due to banks, where the maturity period is less than one year, the fair value is assumed to equal carrying value. Where the maturity period is in excess of one year, these are primarily floating rate instruments, the interest rates of which reset with market rates, therefore the carrying values are assumed to equal fair values.

The fair value of fixed rate debt securities carried at amortised cost is estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money market interest rates for facilities with similar credit risk and maturity.

z) Segment reporting

A geographical segment is engaged in providing products, or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

A business segment is a group of assets and operations engaged in providing similar products and services that are subject to risks and returns that are different from those of other business segments.

The Group analyses its operations by both geographic and business segments. The primary format is geographic, reflecting its management structure. Its secondary format is that of business segments, reflecting retail and commercial banking and merchant banking.

2. Significant accounting policies (continued)

2.6 Summary of significant accounting policies (continued)

aa) Customers' liabilities under acceptances, guarantees and letters of credit

These represent the Group's potential liability, for which there are equal and offsetting claims against its customers in the event of a call on these commitments. These amounts are not recorded on the Group's consolidated statement of financial position but are detailed in Note 25b of these consolidated financial statements.

ab) Equity reserves

The reserves recorded in equity on the Group's consolidated statement of financial position include:

Stated capital - Ordinary stated capital is classified within equity and is recognised at the fair value of the consideration received by the Group.

Translation reserves - used to record exchange differences arising from the translation of the net investment in foreign operations.

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 the capital adequacy requirements of regulated entities.

Net unrealised gains - prior to October 1, 2018, net unrealised gains comprised changes in fair value of available-for-sale investments.

Other statutory reserves that qualify for treatment as equity are discussed in Note 14.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Group’s consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Group's exposure to risks and uncertainties include:

a. Risk management (Note 18)
b. Capital management (Note 20)

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment losses on financial assets (Policy applicable under IFRS 9)

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group’s ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The estimation of the amount and timing of future cash flows and collateral values when determining impairment losses;

3. Significant accounting judgements, estimates and assumptions (continued)

Impairment losses on financial assets (Policy applicable under IFRS 9) (continued)

- The Group's criteria for assessing if there has been a significant increase in credit risk and if so, allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The group of financial assets where ECL is assessed on a collective basis
- Development of ECL models, including the various formulae and the choice of inputs;
- Determination of the existence of associations between macro economic scenarios and economic inputs, such as unemployment levels and collateral values and the effect on PDs, EADs and LGDs; and
- The inclusion of overlay adjustments based on judgement and future expectations.

Impairment losses and investment valuation (Policy applicable under IAS 39)

Under IAS 39, financial assets are determined impaired when the carrying value is greater than the recoverable amount and there is objective evidence of impairment. The recoverable amount is the present value of the future cash flows.

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Inherent provisions on advances (Note 4)

Inherent provisions on advances are calculated on an estimate of impairment incurred but not reported, existing in assets as at the consolidated statement of financial position date. Estimated impairment incurred is determined by applying against performing loan balances, the average loan default rates and adjusting this balance for current economic factors that affect loan performance. An anticipated recovery rate (determined from historical average) is then applied to determine the value that is recoverable. This calculation is computed by product type.

Valuation of investments (Note 5)

The Group has applied IAS 39 in its classification of investment securities which requires measurement of securities at fair value. For unlisted securities, fair values are estimated using price/earnings or price/cash flow ratios which have been refined to accommodate the specific circumstances of the issuer.

3. Significant accounting judgements, estimates and assumptions (continued)

Other assumptions

Goodwill (Note 8a)

The Group's consolidated financial statements include goodwill arising from acquisitions. In accordance with IFRS 3, goodwill was reviewed for impairment, as at September 30, 2019 using the 'value in use' method. This requires the use of estimates for determination of future cash flows expected to arise from each cash-generating unit and an appropriate perpetuity discount rate to calculate present value.

Deferred taxes

In calculating the provision for deferred taxation, management uses judgement to determine the probability that future taxable profits will be available to facilitate utilisation of temporary tax differences which may arise.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Premises and equipment (Note 7)

Management exercises judgement in determining whether costs incurred can accrue sufficient future economic benefits to the Group to enable the value to be treated as a capital expense. Further judgement is used upon annual review of the residual values and useful lives of all capital items to determine any necessary adjustments to carrying value.

Assessment of control

Management uses judgement in performing a control assessment review on all mutual funds and retirement plans sponsored by the Group and its subsidiaries. This assessment revealed that the Group is unable to exercise power over the activities of the funds/plans and is therefore not deemed to be in control of any of the mutual funds and retirement plans.

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

4. Advances

	September 30, 2019					
a) Advances	**Retail lending**	**Commercial & Corporate lending**	**Mortgages**	**Overdrafts**	**Credit Cards**	**Total**
Performing advances	32,437	193,381	487,239	19,372	11,622	744,051
Non-performing advances	1,704	2,633	13,351	675	137	18,500
	34,141	196,014	500,590	20,047	11,759	762,551
Accrued interest	428	1,478	3,156	–	–	5,062
	34,569	197,492	503,746	20,047	11,759	767,613
Allowance for ECLs - Note 4b	(1,429)	(3,932)	(5,957)	(1,607)	(295)	(13,220)
	33,140	193,560	497,789	18,440	11,464	754,393
Unearned loan origination fees	(185)	(1,057)	(2,750)	–	–	(3,992)
Net advances	**32,955**	**192,503**	**495,039**	**18,440**	**11,464**	**750,401**

	October 1, 2018					
Advances						
Performing advances	26,746	194,013	483,118	19,807	11,526	735,210
Non-performing advances	2,437	3,580	16,458	456	119	23,050
	29,183	197,593	499,576	20,263	11,645	758,260
Accrued interest	277	1,441	2,550	–	–	4,268
	29,460	199,034	502,126	20,263	11,645	762,528
Allowance for ECLs - Note 4b	(1,431)	(3,981)	(5,317)	(1,528)	(344)	(12,601)
	28,029	195,053	496,809	18,735	11,301	749,927
Unearned loan origination fees	(157)	(1,064)	(2,688)	-	-	(3,909)
Net advances	**27,872**	**193,989**	**494,121**	**18,735**	**11,301**	**746,018**

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

4. Advances (continued)

b) Impairment allowance for advances to customers

The table below shows the staging of advances and the related ECLs based on the Group's criteria as explained in Note 18.2. Policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 18.2.6.

	September 30, 2019					
	Retail lending	Commercial & Corporate lending	Mortgages	Overdrafts	Credit Cards	Total
Gross loans	34,384	196,435	500,996	20,047	11,759	763,621
Stage 1: 12 Month ECL	(65)	(103)	(1,048)	(1,442)	(118)	(2,776)
Stage 2: Lifetime ECL	(2)	(8)	(35)	(15)	(49)	(109)
Stage 3: Credit Impaired Financial Assets - Lifetime ECL	(1,362)	(3,821)	(4,874)	(150)	(128)	(10,335)
	32,955	**192,503**	**495,039**	**18,440**	**11,464**	**750,401**

	October 1, 2018					
	Retail lending	Commercial & Corporate lending	Mortgages	Overdrafts	Credit Cards	Total
Gross loans	29,303	197,970	499,438	20,263	11,645	758,619
Stage 1: 12 Month ECL	(60)	(151)	(977)	(1,222)	(112)	(2,522)
Stage 2: Lifetime ECL	(2)	(7)	(53)	(170)	(56)	(288)
Stage 3: Credit Impaired Financial Assets - Lifetime ECL	(1,369)	(3,823)	(4,287)	(136)	(176)	(9,791)
	27,872	**193,989**	**494,121**	**18,735**	**11,301**	**746,018**

Stage 1: 12 Month ECL						
ECL allowance as at October 1, 2018 under IFRS 9	60	151	977	1,222	112	2,522
ECL on new instruments issued during the year	30	59	779	136	18	1,022
Other Credit Loss movements, repayments etc.	(25)	(107)	(708)	84	(12)	(768)
At September 30, 2019	65	103	1,048	1,442	118	2,776

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

4. Advances (continued)

b) Impairment allowance for advances to customers (continued)

Stage 2: Lifetime ECL	**Retail lending**	**Commercial & Corporate lending**	**Mortgages**	**Overdrafts**	**Credit Cards**	**Total**
ECL allowance as at October 1, 2018 under IFRS 9	2	7	53	170	56	288
ECL on new instruments issued during the year	–	1	–	–	–	1
Other Credit Loss movements, repayments etc.	–	–	(18)	(155)	(7)	(180)
At September 30, 2019	2	8	35	15	49	109
Stage 3: Credit Impaired Financial Assets - Lifetime ECL						
ECL allowance as at October 1, 2018 under IFRS 9	1,369	3,823	4,287	136	176	9,791
Translation adjustments	–	–	–	–	–	–
Charge-offs and write-offs	–	(259)	(566)	(38)	(45)	(908)
Credit Loss Expense	17	288	1,183	52	11	1,551
Recoveries	(24)	(31)	(30)	–	(14)	(99)
At September 30, 2019	1,362	3,821	4,874	150	128	10,335
Total	**1,429**	**3,932**	**5,957**	**1,607**	**295**	**13,220**

Of the Total ECL of $13.220 million, 22% was on a collective basis and 78% was on an individual basis.

c) Restructured/Modified Loans

The Group occasionally makes modifications to the original terms of large commercial and corporate loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. These modifications are made only when the Group believes the borrower is likely to meet the modified terms and conditions. Indicators of financial difficulties include defaults on covenants, overdue payments or significant concerns raised by the Credit Risk Department. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms.

Restructured loans are carefully monitored. Restructured commercial and corporate loans are classified as Stage 2 and amounted to $20 million as at September 30, 2019.

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

5. Investment securities

	2019	2018
a) Available-for-sale		
Government securities	–	88,175
Corporate bonds/debentures	–	31,534
Equities and mutual funds	–	122
	–	**119,831**
b) Held to maturity		
State-owned company securities	–	27,697
Placements, over 3 months	–	251,221
	–	**278,918**
c) Designated at fair value through profit or loss		
Equities, mutual funds and money market accounts	2,502	669
	2,502	**669**
d) Debt instruments at amortised cost		
Government securities	137,272	–
Corporate bonds/debentures	27,816	–
Placements, over 3 months	271,296	–
	436,384	**–**
Total investment securities	**438,886**	**399,418**

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

5. Investment securities (continued)

e) Financial investment securities subject to impairment assessment

Debt instruments measured at amortised cost

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit rating system, aging and year-end stage classification.

	September 30, 2019			
	Stage 1 12 Month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Credit Impaired Financial Assets - Lifetime ECL**	**Total**
Gross exposure	436,384	–	–	436,384
ECL	–	–	–	–
Net exposure	436,384	–	–	436,384

	October 1, 2018			
	Stage 1 12 Month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Credit Impaired Financial Assets - Lifetime ECL**	**Total**
Gross exposure	398,627	–	–	398,627
ECL	–	–	–	–
Net exposure	398,627	–	–	398,627
ECL allowance as at October 1, 2018 under IFRS 9	–	–	–	–
Translation adjustments	–	–	–	–
ECL on new instruments issued during the year	–	–	–	–
Other Credit Loss movements, repayments and maturities	–	–	–	–
At September 30, 2019	–	–	–	–

The calculated ECL on the investments was considered immaterial and approximated to zero.

f) Designated at fair value through profit or loss

Mutual fund securities are quoted and fair value is determined to be the quoted price at the reporting date. Holdings in unquoted equities are insignificant for the Group.

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

6. Investment property

	2019	
	Rental Property	**Land**
Balance at beginning of year	850	60
Sales	(850)	–
Change in fair value	–	–
	–	60
Balance at end of year		**60**

	2018	
	Rental Property	**Land**
Balance at beginning of year	3,198	60
Sales	(2,568)	–
Change in fair value	220	–
	850	60
Balance at end of year		**910**

Rental property represented a single property apartment block on Grand Cayman. The Group and the Receiver had entered into operating leases with third parties for some of the units in the apartment block. During fiscal 2019, the Bank sold all the remaining units within the apartment block, which resulted in proceeds received of $851 (2018: $2,568). During fiscal 2019, the Bank earned no rental income (2018: $148). The direct operating expenses arising from the investment property was $nil (2018: $132).

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

7. Premises and equipment

2019	**Capital works in progress**	**Freehold premises**	**Leasehold premises**	**Equipment, furniture & fittings**	**Total**
Cost					
At beginning of year	3,915	21,457	5,019	25,638	56,029
Exchange and other adjustments	–	(680)	860	(487)	(307)
Additions at cost	1,389	99	13	1,147	2,648
Disposal of assets	(12)	(1,023)	–	(691)	(1,726)
Transfer of assets	(72)	–	–	72	–
	5,220	**19,853**	**5,892**	**25,679**	**56,644**
Accumulated depreciation					
At beginning of year	–	8,850	3,904	19,373	32,127
Exchange and other adjustments	–	48	108	(504)	(348)
Charge for the year	–	511	212	1,919	2,642
Disposal of assets	–	(1,023)	–	(613)	(1,636)
	–	**8,386**	**4,224**	**20,175**	**32,785**
Net book value	**5,220**	**11,467**	**1,668**	**5,504**	**23,859**

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

7. Premises and equipment (continued)

2018	**Capital works in progress**	**Freehold premises**	**Leasehold premises**	**Equipment, furniture & fittings**	**Total**
Cost					
At beginning of year	3,915	21,519	4,599	23,130	53,163
Additions at cost	–	–	420	3,018	3,438
Disposal of assets	–	(62)	–	(510)	(572)
Transfer of assets	–	–	–	–	–
	3,915	**21,457**	**5,019**	**25,638**	**56,029**
Accumulated depreciation					
At beginning of year	–	8,318	3,666	17,974	29,958
Charge for the year	–	532	238	1,835	2,605
Disposal of assets	–	–	–	(436)	(436)
	–	**8,850**	**3,904**	**19,373**	**32,127**
Net book value	**3,915**	**12,607**	**1,115**	**6,265**	**23,902**

During the year there was a movement between accumulated depreciation of $348 and furniture and equipment of $454 with a net change effect of $103.

During the year there was a movement between freehold premises and leasehold premises of $680 and $860 with net change effect of $180 to furniture and equipment.

Capital commitments	**2019**	**2018**
Contracts for outstanding capital expenditure not provided for in the consolidated financial statements	241	15
Other capital expenditure authorised by the Directors but not yet contracted for	4,384	5,089

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

8. Intangible assets

		2019	2018
a)	Goodwill	–	214
b)	Core deposits	27	42
		27	**256**

a) Goodwill

	2019	2018
Goodwill on acquisition brought forward	214	468
Goodwill written off during the year	(214)	(254)
	–	**214**

Goodwill arising from business combinations was primarily generated from acquisitions 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. Goodwill was fully written off in 2019.

b) Core deposits

	2019	2018
Cost		
At beginning and end of year	**42**	**57**
Accumulated amortisation		
Amortisation	15	15
	15	**15**
Net book value	**27**	**42**

On September 29, 2017, a subsidiary of the Group accepted the administrative responsibilities of fiduciary clients which included a book of clients. The original useful economic life of the intangible assets was determined to be 8 years.

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

9. Other assets

	2019	**2018**
Accounts receivable and prepayments	6,230	27,867
	6,230	**27,867**

10. Cash and cash equivalents

	2019	**2018**
Cash on hand	10,736	9,885
Operating accounts	93,873	141,833
	104,609	**151,718**

11. Customers' current, savings and deposit accounts

Concentration of customers' current, savings and deposit accounts	**2019**	**2018**
Government	186,984	230,017
Corporate and commercial	643,483	654,317
Personal	424,648	379,622
Other financial institutions	31,738	42,164
	1,286,853	**1,306,120**

12. Other liabilities

	2019	**2018**
Accounts payable and accruals	5,277	1,434
Managers cheques	3,239	6,923
Due to customers	2,308	22,138
Deferred income	372	156
Other	968	5,692
	12,164	**36,343**

13. Stated capital and share premium

Authorised
Shares of $1 par value each (2019 and 2018: 200,000,000)

Issued and fully paid:

Shares (2019 and 2018: 42,347,311)

	2019	2018
	Value of ordinary shares ($000)	
Issued and fully paid		
Share capital	42,347	42,347
Share premium	5,036	5,036
At end of year	**47,383**	**47,383**

The following reflects the calculation of the effect of the issue of stock options on the weighted average number of ordinary shares.

	2019	2018
Weighted average number of ordinary shares	42,347	42,347
Effect of dilutive stock options	–	–
Weighted average number of ordinary shares adjusted for the effect of dilution	**42,347**	**42,347**

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

14. Other reserves

	Translation reserves	General contingency reserve	Net unrealised gains	Total
Balance at October 1, 2017	**(1,541)**	**7,486**	**(34)**	**5,911**
Revaluation of available-for-sale investments	–	–	(443)	(443)
Translation adjustments	(177)	–	42	(135)
Total income and expense for the year recognised directly in equity	(177)	–	(401)	(578)
Transfer to retained earnings	–	–	–	–
Balance at September 30, 2018	**(1,718)**	**7,486**	**(435)**	**5,333**
Balance at September 30, 2018	**(1,718)**	**7,486**	**(435)**	**5,333**
Reclassification of debt securities from available-for-sale to amortised cost	–	–	435	435
Opening balance under IFRS 9 (October 1, 2018)	(1,718)	7,486	–	5,768
Translation adjustments	(550)	–	–	(550)
Balance at September 30, 2019	**(2,268)**	**7,486**	**–**	**5,218**

Expressed in thousands of Cayman Islands dollars ($’000) except where otherwise stated (Continued)

14. Other reserves (continued)

General contingency reserves/Other reserves

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 the capital adequacy requirements as per regulated entities.

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.

15. Operating profit

		2019	**2018**
a)	**Interest income**		
	Advances	48,994	43,980
	Investment securities	3,238	2,379
	Liquid assets	9,348	7,418
		61,580	**53,777**
b)	**Interest expense**		
	Customers’ current accounts	13	–
	Customers’ savings accounts	86	46
	Customers’ deposit accounts	9,954	6,774
		10,053	**6,820**

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

15. Operating profit (continued)

c) Other income

	2019	2018
Fees and commission from trust and other fiduciary activities	5,014	4,801
Other fees and commission income	7,178	5,140
Foreign Exchange fees and commissions	8,637	8,096
Credit card fees and commissions, net	3,684	4,439
Dividends	8	8
Gain on disposal of fixed assets	28	5
	24,549	**22,489**

d) Operating expenses

	2019	2018
Staff costs	29,986	26,166
General administrative expenses	12,201	10,575
Operating lease payments	1,621	2,074
Property related expenses	1,234	860
Depreciation expense - Note 7	2,642	2,590
Advertising and public relations expenses	533	513
Intangible amortisation expense	15	15
Goodwill impairment expense	214	254
Directors' fees	436	324
	48,882	**43,371**

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

15. Operating profit (continued)

e) 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 (2018: $87,000) per annum and the Group contributes 5% on the employees' total annual salary.

Included in personnel expense is an amount of $1,035 (2018: $952) 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 $102 (2018: $88) representing the Group's contribution to this scheme.

f) Non-cancellable operating lease commitments

Within one year	1,733	2,567
One to five years	3,932	5,739
Over five years	–	–
	5,665	**8,306**

16 Credit loss expense

Advances (Note 4b)	1,551	2,855
	1,551	**2,855**

17. Taxation expense

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.

	2019	**2018**
Corporation tax	36	34
	36	**34**

18. Risk management

18.1 General

The Group's prudent banking practices are founded on solid risk management. In an effort to keep apace with its dynamic environment, the Group has established a comprehensive framework for managing risks, which is continually evolving as the Group's business activities change in response to market, credit, product and other developments.

The basic principles of risk management followed by the Group include:

- Managing risk within parameters approved by the Board of Directors and Executives;
- Assessing risk initially and then consistently monitoring those risks through their life cycle;
- Abiding by all applicable laws, regulations and governance standards in every country in which we do business;
- Applying high and consistent ethical standards to our relationships with all customers, employees and other stakeholders; and
- Undertaking activities in accordance with fundamental control standards. These controls include the disciplines of planning, monitoring, segregation, authorisation and approval, recording, safeguarding, reconciliation and valuation.

The Board of Directors has ultimate responsibility for the management of risk within the Group. Acting with authority delegated by the Board, the Credit, Audit, Asset/Liability Committee and Other Risks Committees, review specific risk areas.

18. Risk management (continued)

18.1 General (continued)

In 2019, the Group appointed a Chief Risk Officer who has overall responsibility for ensuring compliance with all risk management policies, procedures and limits. Additionally, the Group commenced its alignment with Republic Financial Holdings Limited's Enterprise Risk Management framework.

The Internal Audit function audits Risk Management processes throughout the Group by examining both the adequacy of the procedures and the Group's compliance with these procedures. Internal Audit discusses the results of all assessments with Management and reports its findings and recommendations to the Audit Committees of the Group and respective subsidiaries.

The Group's activities are primarily related to the use of financial instruments. The Group accepts funds from customers and seeks to earn above average interest margins by investing in high quality assets such as government and corporate securities as well and seeks to increase these margins by lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The main risks arising from the Group's financial instruments are credit risk, interest rate and market risk, liquidity risk, foreign currency risk and operational risk. The Group reviews and agrees policies for managing each of these risks as follows:

18.2 Credit risk

Credit risk is the potential that a borrower or counterparty will fail to meet its stated obligations in accordance with agreed terms. The objective of the Group's credit risk management function is to maximise the Group's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. The effective management of credit risk is a key element of a comprehensive approach to risk management and is considered essential to the long-term success of the Group.

The Group's credit risk management process operates on the basis of a hierarchy of discretionary authorities. A Board Credit Committee, including executive and non-executive directors, is in place, with the authority to exercise the powers of the Board on all risk management decisions.

18 Risk management (continued)

18.2 Credit risk (continued)

The Senior Vice President, Personal and Business Banking is accountable for the general management and administration of the Group's credit portfolio, ensuring that lendings are made in accordance with current legislation, sound banking practice and in accordance with the applicable general policy of the Board of Directors.

The Group uses a risk rating system at the origination of advances which groups loans and overdrafts into various risk categories to facilitate the management of risk on both an individual account and Stage 1 and 2 portfolio basis. Retail, commercial and corporate, mortgages, overdrafts and credit cards are managed by product type. Preset risk management criteria is in place to facilitate decision-making for all categories of loans including credit cards.

The debt securities within the Group's investment security portfolio are exposed to credit risk and are managed by investment grading or country exposure with preset exposure limits as approved by the Board of Directors. The credit quality of each individual security is assessed based on the financial strength, reputation and market position of the issuing entity and the ability of that entity to service the debt.

The Group avoids exposure to undue concentrations of risk by placing limits on the amount of risk accepted from a number of borrowers engaged in similar business activities, or activities in the same geographic region or with similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

The Group's credit control processes emphasis early detection of deterioration and prompt implementation of remedial action and where it is considered that recovery of the outstanding balance may be doubtful or unduly delayed, such accounts are transferred from performing to non-performing status.

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

18 Risk management (continued)

18.2 Credit risk (continued)

18.2.1 Analysis of risk concentration

The Group's concentrations of risk are managed by client/counterparty, geographical region and industry sector. The table below shows the Group's maximum exposure to any client or counterparty before taking into account collateral or other credit enhancements.

	Gross maximum exposure	
	2019	**2018**
Due from banks	112,467	109,155
Advances	750,401	746,879
Investment securities	438,886	399,418
Investment interest receivable	3,288	2,918
Total	**1,305,042**	**1,258,370**
Undrawn commitments	133,320	59,522
Guarantees and indemnities	5,801	5,731
Letters of credit	2,693	2,697
Total	**141,814**	**67,950**
Total credit risk exposure	**1,446,856**	**1,326,320**

Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

18. Risk management (continued)

18.2 Credit risk (continued)

18.2.1 Analysis of risk concentration (continued)

(a) Industry sectors

The following table shows the risk concentration by industry for the components of the consolidated statement of financial position. Additional disclosures for the maximum exposure for credit risk per category based on year-end stage classification are further disclosed in Notes 4a.

	2019	**2018**
Government and Statutory Bodies	146,508	111,791
Financial sector	498,249	424,564
Energy and mining	4,768	8,476
Agriculture	390	1,298
Electricity and water	38	85
Transport, storage and communication	12,050	15,492
Retail / Distribution	51,698	49,201
Real estate	607,374	599,444
Manufacturing	8,159	7,145
Construction	18,220	16,259
Hotel and restaurant	1,130	1,096
Personal	58,208	44,809
Other services	40,064	46,660
	1,446,856	**1,326,320**

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

18 Risk management (continued)

18.2 Credit risk (continued)

18.2.1 Analysis of risk concentration (continued)

(b) Geographical sectors

The Group's maximum credit exposure, after taking account of credit loss provisions established but before taking into account any collateral held or other credit enhancements, can be analysed by the following geographical regions based on the country of domicile of its counterparties:

	2019	**2018**
Canada	203,703	189,247
Cayman Islands	874,772	788,254
Europe	213,549	175,348
Trinidad and Tobago	556	635
United States	123,093	137,302
Other Countries	31,183	35,534
	1,446,856	**1,326,320**

18.2.2 Impairment assessment (Policy applicable from October 1, 2018)

Financial asset provisions are reviewed quarterly in accordance with established guidelines and recommended provisions arising out of this review are submitted to the Board for approval. Non-performing debts recommended for write-off are also reviewed quarterly and action taken in accordance with prescribed guidelines. The Group's impairment assessment and measurement approach is set out below.

18 Risk management (continued)

18.2 Credit risk (continued)

18.2.3 Default and recovery

The Group considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in cases when the borrower becomes 90 days past due on its contractual payments.

As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate.

It is the Group's policy to consider a financial instrument as 'recovered' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months.

18.2.4 The Group's internal rating and PD estimation process

Retail lending, mortgages, commercial and corporate lending

Product types were selected as cohort for PD analyses for retail lending, mortgages, commercial and corporate loans. A vintage approach was applied looking at the number of defaults by segment over a period of time. Historical PDs were developed and there being no strong correlation between macro economic trends, management applied judgemental overlays based on expectations. For LGD, the Group considers changes in fair value of collateral over time, additional haircut from the collateral sales, removes effects of indirect costs associated with recoveries. No guarantees are considered as collaterals, real estate collaterals and deposits are allocated proportionally to the loans and advances based on the outstanding exposure as of the reporting period. EAD equals the loan balance outstanding plus accrued interest.

18 Risk management (continued)

18.2 Credit risk (continued)

18.2.4 The Group's internal rating and PD estimation process (continued)

Overdrafts and credit cards

The Group calculates ECL on credit cards using a forecast model based on historical loss experience for portfolios with shared credit risk characteristics. Migration matrices model is used for loss rate forecasting, in credit cards portfolio which is built at the portfolio level instead of at the individual account level. The loss rate is applied to gross credit card exposures and are discounted. Group discounted expected credit losses using nominal interest rate as an approximation of effective interest rate considering specific characteristics of the product. The whole portfolio is segmented by delinquency buckets. The purpose is to track the behaviour (migration) of performing credit cards.

As a primary approach for the calculation of expected credit losses of overdrafts, the group decides to apply Approach 1 - estimate parameters for PD, LGD and exposure measures for individual exposure. For PD, the group used borrower's probability of default as the naturally fitting metrics for estimating the risk of default occuring and applied cohort approach. ECL is calculated using forecasted balances and expected cash flows based on expected behaviour and the contractual terms of the instruments by applying Credit Conversion Factor on undrawn limits. The Group's estimation of LGD on overdrafts is similar to the one incorporated in loans.

Management judgementally applied overlays as required as there was no strong correlation between macro economic trends and historical default rates.

18 Risk management (continued)

18.2 Credit risk (continued)

18.2.4 The Group's internal rating and PD estimation process (continued)

Investment securities

PDs and LGDs for traded instruments were based on the global credit ratings assigned to the instruments or the country for sovereign exposures. PDs and LGDs for non-traded instruments were based on one notch below the credit rating of the sovereign in which the instrument is issued or on company ratings where they existed. Management applied judgemental overlays on local debt instruments. EAD equals the amortised security balance plus accrued interest.

Due from banks and Accounts Receiveables

Due from banks are short term funds placed with correspondent banks and the Group therefore considers the risk of default to be very low. These facilities are highly liquid and without restriction and based on management's review of the underlying instruments the ECL on these instruments were determined to approximate zero and no adjustment taken.

Accounts receivables have limited or no history of default; the Group therefore considers the risk of default to be very low.

Financial guarantees, letters of credit and undrawn loan commitments

The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees, letters of credit and loan commitments are off-balance sheet instruments and have no history of default. As a result, the Group considers the risk of default to be very low and the ECLs on these instruments were determined to be $360.

18 Risk management (continued)

18.2 Credit risk (continued)

18.2.5 Significant increase in credit risk

The Group continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Group assesses whether there has been a significant increase in credit risk since initial recognition.

The Group also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset. If contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets (as set out in Note 18.2.6), the Group applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

18.2.6 Grouping financial assets measured on a collective basis

As explained in Note 2.6h (i) dependent on the factors below, the Group calculates ECLs either on a collective or an individual basis. Asset classes where the Group calculates ECL on an individual basis include:

- All Stage 3 assets, regardless of the class of financial assets

Asset classes where the Group calculates ECL on a collective basis include:

- The commercial and corporate lending
- The mortgage portfolio
- The retail lending portfolio
- The credit card portfolio
- The overdraft portfolio

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

18 Risk management (continued)

18.2 Credit risk (continued)

18.2.7 Analysis of gross carrying amount and corresponding ECLs are as follows:

Advances	**2019**	**2018**
Stage 1	94.9%	94.4%
Stage 2	1.1%	2.2%
Stage 3	4.0%	3.4%
	100.0%	100.0%

	Retail lending	Commercial & Corporate lending	Mortgages	Overdrafts	Credit Cards	Total
Stage 1	**September 30, 2019**					
Gross loans	31,295	191,955	479,174	19,114	10,630	732,168
ECL	(65)	(103)	(1,048)	(1,442)	(118)	(2,776)
	31,230	191,852	478,126	17,672	10,512	729,392
ECL as a % of Gross loans	0.2%	0.1%	0.2%	7.5%	1.1%	0.4%
Stage 1	**October 1, 2018**					
Gross loans	26,066	192,649	469,557	17,221	10,573	716,066
ECL	(60)	(151)	(977)	(1,222)	(112)	(2,522)
	26,006	192,498	468,580	15,999	10,461	713,544
ECL as a % of Gross loans	0.2%	0.1%	0.2%	7.1%	1.1%	0.4%

The increase in ECLs of Stage 1 portfolios was driven by a 2% increase in the gross size of the portfolio, movements between stages as a result of increases in credit risk.

	Retail lending	Commercial & Corporate lending	Mortgages	Overdrafts	Credit Cards	Total
Stage 2	**September 30, 2019**					
Gross loans	976	483	5,541	258	991	8,249
ECL	(2)	(8)	(35)	(15)	(49)	(109)
	974	475	5,506	243	942	8,140
ECL as a % of Gross loans	0.2%	1.7%	0.6%	5.8%	4.9%	1.3%

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

18 Risk management (continued)

18.2 Credit risk (continued)

18.2.7 Analysis of gross carrying amount and corresponding ECLs are as follows: (continued)

	Retail lending	Commercial & Corporate lending	Mortgages	Overdrafts	Credit Cards	Total
Stage 2			**October 1, 2018**			
Gross loans	578	705	11,831	2,586	953	16,653
ECL	(2)	(7)	(53)	(170)	(56)	(288)
	576	698	11,778	2,416	897	16,365
ECL as a % of Gross loans	0.3%	1.0%	0.4%	6.6%	5.9%	1.7%

The decrease in ECLs of Stage 2 portfolios was driven by a 51% decrease in the gross size of the portfolio, movements between stages as a result of increases in credit risk.

	Retail lending	Commercial & Corporate lending	Mortgages	Overdrafts	Credit Cards	Total
Stage 3			**September 30, 2019**			
Gross loans	2,113	3,997	16,281	675	138	23,204
ECL	(1,362)	(3,821)	(4,874)	(150)	(128)	(10,335)
	751	176	11,407	525	10	12,869
ECL as a % of Gross loans	64.5%	95.6%	29.9%	22.2%	92.8%	44.5%
Stage 3			**October 1, 2018**			
Gross loans	2,659	4,616	18,050	456	119	25,900
ECL	(1,369)	(3,823)	(4,287)	(136)	(176)	(9,791)
	1,290	793	13,763	320	(57)	16,109
ECL as a % of Gross loans	51.5%	82.8%	23.8%	29.8%	147.9%	37.8%

The change in ECLs of Stage 3 portfolios was driven by 10% decrease in gross size of the portfolio, movement between stages as a result of movement in credit risk.

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

18 Risk management (continued)

18.2 Credit risk (continued)

18.2.7 Analysis of gross carrying amount and corresponding ECLs are as follows: (continued)

Investment securities	**2019**	**2018**
Stage 1	100.0%	100.0%
Stage 2	0.0%	0.0%
Stage 3	0.0%	0.0%
	100.0%	100.0%

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	September 30, 2019			
Gross balance	438,886	–	–	438,886
ECL	–	–	–	–
	438,886	–	–	438,886
ECL as a % of Gross investments	0.0%			0.0%
	October 1, 2018			
Gross balance	399,418	–	–	399,418
ECL	–	–	–	–
	399,418	–	–	399,418
ECL as a % of Gross investments	0.0%			0.0%

The ECL calculation on the investment portfolio was calculated and approximated to zero, therefore no adjustment was taken to Retained Earnings on the date of transition to IFRS 9.

18 Risk management (continued)

18.3 Liquidity risk

Liquidity risk is defined as the risk that the Group either does not have sufficient financial resources available to meet all its obligations and commitments as they fall due, or can access these only at excessive cost.

Liquidity management is therefore primarily designed to ensure that funding requirements can be met, including the replacement of existing funds as they mature or are withdrawn, or to satisfy the demands of customers for additional borrowings. Liquidity management focuses on ensuring that the Group has sufficient funds to meet all of its obligations.

The group is subjected to regulatory requirements as it pertains to Basel III ratios for liquidity purposes namely the Liquidity Coverage Ratio and the Net Stable Funding Ratio. The ratios ensure that a high level of unencumbered high quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day liquidity stress scenario and promotes resilience over a longer-term horizon by requiring funding its activities with stable sources of funding on an ongoing basis.

Two primary sources of funds are used to provide liquidity – personal and commercial deposits. A substantial portion of the Group is funded with 'core deposits'. Facilities are also established with correspondent banks, which can provide additional liquidity as conditions demand.

While the primary asset used for short-term liquidity management is the short term placements. The Group also holds significant investments in other Government securities, which can be used for liquidity support. The Group continually balances the need for short-term assets, which have lower yields, with the need for higher asset returns.

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

18 Risk management (continued)

18.3 Liquidity risk (continued)

18.3.1 Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at September 30 based on contractual undiscounted repayment obligations, over the remaining life of those liabilities. These balances include interest to be paid over the remaining life of the liabilities and will therefore be greater than the carrying amounts on the consolidated statement of financial position. Refer to Note 23 for a maturity analysis of assets and liabilities.

Financial liabilities - on consolidated statement of financial position

2019	**On demand**	**Up to one year**	**1 to 5 years**	**Over 5 years**	**Total**
Customers' current, savings and deposit accounts	672,340	596,751	17,762	–	1,286,853
Other liabilities	5,547	10,488	–	–	16,035
Total un-discounted financial liabilities	**677,887**	**607,239**	**17,762**	**–**	**1,302,888**
2018					
Customers' current, savings and deposit accounts	672,118	630,664	3,338	–	1,306,120
Other liabilities	8,845	30,668	–	–	39,513
Total un-discounted financial liabilities	**680,963**	**661,332**	**3,338**	**–**	**1,345,633**

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

18 Risk management (continued)

18.3 Liquidity risk (continued)

18.3.1 Analysis of financial liabilities by remaining contractual maturities (continued)

Financial liabilities - off consolidated statement of financial position

	On demand	Up to one year	1 to 5 years	Over 5 years	Total
2019					
Guarantees	–	5,801	–	–	5,801
Letters of credit	–	2,693	–	–	2,693
Total	**–**	**8,494**	**–**	**–**	**8,494**
2018					
Guarantees	–	5,731	–	–	5,731
Letters of credit	–	2,697	–	–	2,697
Total	**–**	**8,428**	**–**	**–**	**8,428**

The Group expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

18 Risk management (continued)

18.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

18.4.1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Asset and Liability management is a vital part of the risk management process of the Group. The mandate of the Committee is to approve strategies for the management of the non-credit risks of the Group, including interest rate, foreign exchange, liquidity and market risks.

The primary tools currently in use are interest rate sensitivity analysis and exposure limits for financial instruments. The limits are defined in terms of amount, term, issuer, depositor and country. The Group is committed to refining and defining these tools to be in line with international best practice.

The table below summarises the interest-rate exposure of the Group's consolidated statement of financial position. Interest on financial instruments classified as floating is repriced at intervals of less than one year while interest on financial instruments classified as fixed excluding advances is fixed until the maturity of the instrument. Non interest bearing advances include fixed rate loans of $51,716 of which the fixed rates will be repriced as per contractual terms.

An interest rate sensitivity analysis was performed to determine the impact on net profit and equity of a reasonably possible change in the interest rates prevailing as at September 30, with all other variables held constant. The impact on net profit is the effect of changes in interest rates on the floating interest rates of financial assets and liabilities. Prior to October 1, 2018, the impact on net unrealised gains is the effect of changes in interest rates on the fair value of available-for-sale financial assets. This impact is illustrated on the following table:

18 Risk management (continued)

18.4 Market risk (continued)

18.4.1 Interest rate risk (continued)

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 2019 and 2018. The table below summarizes the Group's exposure to interest rate risks based on contractual repricing dates. Substantially all financial assets contractually re-price when the market rate resets, the timing of which is driven by market forces.

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

18 Risk management (continued)

18.4 Market risk (continued)

18.4.1 Interest rate risk (continued)

	Up to one year	1 to 5 years	Over 5 years	Non interest	Total
2019					
Assets					
Cash and cash equivalents	93,564	-	-	11,045	104,609
Due from banks	112,467	-	-	-	112,467
Advances	133,850	59,621	505,214	51,716	750,401
Investment securities	375,069	57,107	4,207	2,503	438,886
Other assets	-	-	-	9,518	9,518
Total	**714,950**	**116,728**	**509,421**	**74,782**	**1,415,881**
Liabilities					
Customer current, savings and deposit accounts	1,017,588	17,760	-	251,505	1,286,853
Other liabilities	-	-	-	16,035	16,035
Total	**1,017,588**	**17,760**	**-**	**267,540**	**1,302,888**
Total Interest Sensitivity Gap	**(302,638)**	**98,968**	**509,421**		

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

18 Risk management (continued)

18.4 Market risk (continued)

18.4.1 Interest rate risk (continued)

2018	Up to one year	1 to 5 years	Over 5 years	Non interest	Total
Assets					
Cash and cash equivalents	141,640	-	-	10,078	151,718
Due from banks	109,155	-	-	-	109,155
Advances	701,195	7,787	37,897	-	746,879
Investment securities	341,456	53,667	-	4,295	399,418
Other assets	-	-	-	30,785	30,785
Total	**1,293,446**	**61,454**	**37,897**	**45,158**	**1,437,955**
Liabilities					
Customer current, savings and deposit accounts	1,067,727	3,340	-	235,053	1,306,120
Other liabilities	-	-	-	39,513	39,513
Total	**1,067,727**	**3,340**	**-**	**274,566**	**1,345,633**
Total Interest Sensitivity Gap	**225,719**	**58,114**	**37,897**		

The sensitivity analysis below has been determined based on the exposure to interest rates for financial assets and liabilities at the balance sheet date. A 25 basis points (2018: 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 (2018: 25 basis points) higher/lower and all other variables remained constant, the Group's other comprehensive income and equity for the year ended 2019 would increase/decrease by $764 (2018: increase/decrease by $813). This is mainly attributable to the Group's exposure to interest rates in its fixed rate deposit liabilities and variable rate loans.

There will be no impact (2018: increase / decrease by $459) on the Group's net unrealized (depreciation)/appreciation for the year ended 2019 as the Group's debt securities are held at amortised cost.

18 Risk management (continued)

18.4 Market risk (continued)

18.4.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. 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.

Changes in foreign exchange rates affect the Group's earnings and equity through differences on the re-translation of the net assets, from the foreign currency to KYD dollars. Gains or losses on foreign currency investment in subsidiary and associated undertakings are recognised in reserves. Gains or losses on related foreign currency funding are recognised in the consolidated statement of income.

The principal currencies of the Group's subsidiary and associated company investments are USD, GBP, CAD, EUR, JPY and CHF.

The tables below indicate the currencies to which the Group had significant exposure at September 30 on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis also calculates the effect of a reasonably possible movement of each currency rate against the Cayman Islands dollar, with all other variables held constant.

Expressed in thousands of Cayman Islands dollars ($’000) except where otherwise stated (Continued)

18 Risk management (continued)

18.4 Market risk (continued)

18.4.2 Currency risk (continued)

2019	**KYD**	**USD**	**GBP**	**CAD**	**EUR**	**Other**	**Total**
Financial assets							
Cash and cash equivalents	11,411	37,248	51,836	2,092	1,887	135	104,609
Due from banks	–	104,820	5,131	2,516	–	–	112,467
Advances	561,809	169,038	19,554	–	–	–	750,401
Investment securities	–	411,265	26,961	660	–	–	438,886
Investment interest receivable	–	3,154	132	2	–	–	3,288
Total financial assets	**573,220**	**725,525**	**103,614**	**5,270**	**1,887**	**135**	**1,409,651**
Financial liabilities							
Customers’ current, savings and deposit accounts	440,706	768,797	70,281	5,244	1,750	75	1,286,853
Other liabilities	9,250	1,557	1,334	22	1	–	12,164
Accrued interest payable	1,276	2,558	37	–	–	–	3,871
Total financial liabilities	**451,232**	**772,912**	**71,652**	**5,266**	**1,751**	**75**	**1,302,888**
Net currency risk exposure		**(47,387)**	**31,962**	**4**	**136**	**60**	
Reasonably possible change in currency rate		1%	1%	1%	1%	1%	
Effect on profit before tax		**(474)**	**320**	**–**	**1**	**1**	

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

18 Risk management (continued)

18.4 Market risk (continued)

18.4.2 Currency risk (continued)

2018	**KYD**	**USD**	**GBP**	**CAD**	**EUR**	**Other**	**Total**
Financial assets							
Cash and cash equivalents	9,372	85,869	48,647	4,361	3,281	188	151,718
Due from banks	–	81,602	8,214	2,434	6,382	10,523	109,155
Advances	560,249	163,291	23,339	–	–	–	746,879
Investment securities	–	368,615	29,746	1,057	–	–	399,418
Investment interest receivable	–	2,879	37	2	–	–	2,918
Total financial assets	**569,621**	**702,256**	**109,983**	**7,854**	**9,663**	**10,711**	**1,410,088**
Financial liabilities							
Customers' current, savings and deposit accounts	451,992	723,300	102,821	7,816	9,581	10,610	1,306,120
Other Liabilities	33,262	1,545	1,502	25	9	–	36,343
Accrued interest payable	1,320	1,830	20	–	–	–	3,170
Total financial liabilities	**486,574**	**726,675**	**104,343**	**7,841**	**9,590**	**10,610**	**1,345,633**
Net currency risk exposure		**(24,419)**	**5,640**	**13**	**73**	**101**	
Reasonably possible change in currency rate		1%	1%	1%	1%	1%	
Effect on profit before tax		**(244)**	**56**	**–**	**1**	**1**	

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

18 Risk management (continued)

18.5 Operational risk

The growing sophistication of the financial industry has made the Group's operational risk profile more complex. Operational risk is inherent within all business activities and is the potential for financial or reputational loss arising from inadequate or failed internal controls, operational processes or the systems that support them. It includes errors, omissions, disasters and deliberate acts such as fraud.

The Group recognises that such risk can never be entirely eliminated and manages the risk through a combination of systems and procedures to monitor and document transactions.

The Group has developed contingency arrangements and established facilities to support operations in the event of disasters. Independent checks on operational risk issues are also undertaken by the internal audit function.

19. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions. A number of banking transactions are entered into with related parties in the normal course of business. These transactions are both secured and unsecured and were carried out on commercial terms and conditions, at market rates.

	2019	2018
Advances, investments and other assets		
Directors and key management personnel	25,650	20,802
Other related parties	–	2,194
	25,650	22,996
Deposits and other liabilities		
Directors and key management personnel	4,484	7,448
Other related parties	5,674	4,588
	10,158	12,036

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

19. Related parties (continued)

	2019	2018
Interest and other income		
Directors and key management personnel	819	836
Other related parties	–	-
	819	836
Interest and other expense		
Directors and key management personnel	36	15
Other related parties	43	58
	79	73

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group.

Key management compensation	**2019**	**2018**
Short-term benefits	1,328	1,738
	1,328	1,738

Cayman National Mortgage Fund

The Bank acts as the investment advisor for the Cayman National Mortgage Fund (the "Mortgage Fund") and certain related party transfers of loans to and the Bank (the sole market maker for the loans held by Mortgage Fund) are executed in connection with this relationship. During the year ended September 30, 2019, $2.830 million in loans were transferred from CNB to the Mortgage Fund (2018: $nil); no loans were transferred from the Mortgage Fund to CNB (2018: $nil). 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.

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

19. **Related parties** (continued)

Directors held 1,276,248 (2018: 2,655,377) of the Corporation shares as at September 30, 2019 of which 139,170 (2018: 1,518,299) were beneficially owned and 1,137,078 (2018: 1,137,078) were non-beneficially owned. (Actual figures are disclosed within this note)

Actual figures disclosed	2019		2018	
Board of Directors	Directly held *	Indirectly held**	Directly held*	Indirectly held**
Truman Bodden ***	-	-	1,125,135	-
Sherri Bodden-Cowan	29,646		125,639	-
Bryan Hunter	15,690		69,338	-
Nigel Wardle	19,304		65,479	-
Clarence Flowers	51,009	1,137,078	47,455	1,137,078
Stuart Dack	3,518		21,031	-
Leonard Ebanks	18,003		64,222	-
Nigel M. Baptiste	1,000		-	-
Roopnarine O. Singh	1,000		-	-
Total	139,170	1,137,078	1,518,299	1,137,078

*Legal and beneficial rights. **Held by another entity, legally with non-beneficial rights. ***No longer a director as at September 30, 2019.

20. Capital management

The Group's policy is to diversify its sources of capital, to allocate capital within the Group efficiently and to maintain a prudent relationship between capital resources and the risk of its underlying business. Equity increased by $19.5 million to $137 million during the year under review.

Capital adequacy is monitored by each member of the Group, employing techniques based on the guidelines developed by the Basel Committee on Banking Regulations and Supervisory Practice (the Basel Committee), as implemented by the respective Regulatory Authorities for supervisory purposes. Each subsidiary are required to meet minimun 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.

Management believes, as of September 30, 2019 and 2018 that all regulated subsidiaries met the respective regulatory capital adequacy requirements established by the Isle of Man Financial Supervision Authority, the Dubai Financial Services Authority and the Cayman Islands Monetary Authority. With the exception of one of the subsidiary companies, CNT, was in liquidation as of September 30, 2019.

The Isle of Man has fully implemented Basel III and the Cayman National Bank (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.

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

21. Fair value

21.1 Carrying values and fair values

The following table summarises the carrying amounts and the fair values of the Group's financial assets and liabilities:

2019	**Carrying value**	**Fair value**	**Unrecognised gain/(loss)**
Financial assets			
Cash, cash equivalents and due from banks	217,076	217,076	–
Advances	750,401	750,401	-
Investment securities	438,886	439,117	231
Investment interest receivable	3,288	3,288	–
Other financial assets	6,230	6,230	–
Financial liabilities			
Customers' current, savings and deposit accounts	1,286,853	1,286,853	–
Accrued interest payable	3,871	3,871	–
Other financial liabilities	12,164	12,164	–
Total unrecognised change in unrealised fair value			**231**

2018	**Carrying value**	**Fair value**	**Unrecognised gain/(loss)**
Financial assets			
Cash, cash equivalents and due from banks	260,873	260,873	–
Advances	746,879	746,879	-
Investment securities	399,418	399,279	(139)
Investment interest receivable	2,918	2,918	–
Other financial assets	27,867	27,867	–
Financial liabilities			
Customers' current, savings and deposit accounts	1,306,120	1,306,120	–
Accrued interest payable	3,170	3,170	–
Other financial liabilities	36,343	36,343	–
Total unrecognised change in unrealised fair value			**(139)**

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

21. Fair value (continued)

21.2 Fair value and fair value hierarchies

21.2.1 Determination of fair value and fair value hierarchies

The following table shows the fair value measurement hierarchy of the Group's assets and liabilities:

	Level 1	Level 2	Level 3	Total
2019				
Financial assets measured at fair value				
Investment securities	–	2,381	121	2,502
Financial assets for which fair value is disclosed				
Advances	–	–	750,401	750,401
Investment securities	–	436,615	–	436,615
Financial liabilities for which fair value is disclosed				
Customers' current, savings and deposit accounts	–	–	1,286,853	1,286,853

	Level 1	Level 2	Level 3	Total
2018				
Financial assets measured at fair value				
Investment securities	–	120,378	122	120,500
Financial assets for which fair value is disclosed				
Advances	–	–	746,879	746,879
Investment securities	–	278,779	–	278,779
Financial liabilities for which fair value is disclosed				
Customers' current, savings and	–	–	1,306,120	1,306,120

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

21. Fair value (continued)

21.2 Fair value and fair value hierarchies (continued)

21.2.2 Description of significant unobservable inputs to valuation

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy as at September 30, 2019, are as shown below:

	Valuation technique	Significant unobservable inputs	Range
Advances	Discounted Cash Flow Method	Growth rate for cash flows for subsequent years	3.52% -18%
Customers' current, savings and deposit accounts	Discounted Cash Flow Method	Growth rate for cash flows for subsequent years	0.0% - 3.3%

21.2.3 Transfers between Level 1 and 2

For the year ended September 30, 2019, no assets were transferred between Levels.

21.2.4 Reconciliation of movements in Level 3 financial assets measured at fair value

	Balance at beginning of year	Additions	Disposals /Transfers to Level 2	Balance at end of year
Financial assets designated at fair value through profit or loss	122	-	(1)	121
	122	**–**	**(1)**	**121**

Investments classified within level 3 have significant unobservable inputs, as they trade infrequently or not at all. In 2019, level 3 instruments is predominantly comprised of equity in a private company and mutual funds (2018: 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.

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

22. Segmental information

The Group is organised into two main business segments: retail and commercial banking and merchant banking. The Group's primary reporting format comprises geographical segments, reflecting its management structure and the secondary segment is by class of business. The following is an analysis by respective segments:

i) By geographic segment

	Cayman Islands	Isle of Man	Eliminations	Total
2019				
Interest income	59,829	1,751	–	61,580
Interest expense	(9,706)	(347)	–	(10,053)
Net interest income	50,123	1,404	–	51,527
Other income	22,685	1,864	–	24,549
Operating income	72,808	3,268	–	76,076
Other operating expenses	(45,994)	(2,888)	–	(48,882)
Operating profit	26,814	380	–	27,194
Credit loss expenses on financial assets	(1,520)	(31)	–	(1,551)
Net profit before taxation	**25,294**	**349**	**–**	**25,643**
Taxation	–	(36)	–	(36)
Net profit after taxation	**25,294**	**313**	**–**	**25,607**
Net loss from discontinued operations	(995)	–	–	(995)
Net Profit	**24,299**	**313**	**–**	**24,612**
Total assets	1,322,009	120,229	(2,411)	1,439,827
Total liabilities	1,189,734	113,210	(56)	1,302,888
Depreciation	2,575	67	–	2,642
Capital expenditure on premises and equipment	2,551	97	–	2,648
Cash flow from operating activities	(4,422)	8,529	–	4,107
Cash flow from investing activities	(48,868)	6,547	–	(42,321)
Cash flow from financing activities	(2,871)	–	–	(2,871)

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

22. Segmental information (continued)

i) By geographic segment (continued)

	Cayman Islands	Isle of Man	Eliminations	Total
2018				
Interest income	52,037	1,740	–	53,777
Interest expense	(6,562)	(258)	–	(6,820)
Net interest income	45,475	1,482	–	46,957
Other income	20,532	1,957	–	22,489
Operating income	66,007	3,439	–	69,446
Other operating expenses	(40,629)	(2,742)	–	(43,371)
Operating profit	25,378	697	–	26,075
Credit loss expense on financial assets	(2,745)	(110)	–	(2,855)
Net profit before taxation	**22,633**	**587**	**–**	**23,220**
Taxation	–	(34)	–	(34)
Net profit after taxation	**22,633**	**553**	**–**	**23,186**
Net loss from discontinued operations	(864)	–	–	(864)
Net Profit	**21,769**	**553**	**–**	**22,322**
Total assets	1,344,279	121,302	(2,558)	1,463,023
Total liabilities	1,231,458	114,221	(46)	1,345,633
Depreciation	2,552	53	–	2,605
Capital expenditure on premises and equipment	3,301	137	–	3,438
Cash flow from operating activities	15,007	(51,157)	–	(36,150)
Cash flow from investing activities	26,515	20,939	–	(47,455)
Cash flow from financing activities	4,819	–	–	(4,819)

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated

22. Segmental information (continued)

ii) By class of business

	Retail and Commercial banking and financial services
2019	
Interest income	61,580
Interest expense	(10,053)
Net interest income	51,527
Other income	24,549
Operating income	76,076
Other operating expenses	(48,882)
Operating profit	27,194
Credit loss expense on financial assets	(1,551)
Net profit before taxation	**25,643**
Taxation	(36)
Net profit after taxation	**25,607**
Net loss from discontinued operations	(995)
Net Profit	**24,612**
Total assets	1,439,827
Total liabilities	1,302,888
Depreciation	2,642
Capital expenditure on premises and equipment	2,648
Cash flow from operating activities	4,107
Cash flow from investing activities	(42,321)
Cash flow from financing activities	(2,871)

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated

22. Segmental information (continued)

ii) By class of business (continued)

	Retail and Commercial banking and financial services
2018	
Interest income	53,777
Interest expense	(6,820)
Net interest income	46,957
Other income	22,489
Operating income	69,446
Operating expenses	(43,371)
Operating profit	26,075
Credit loss expense on financial assets	(2,855)
Net profit before taxation	**23,220**
Taxation	(34)
Net profit after taxation	23,186
Net loss from discontinued operations	(864)
Net Profit	**22,322**
Total assets	1,463,023
Total liabilities	1,345,633
Depreciation	2,605
Capital expenditure on premises and equipment	3,438
Cash flow from operating activities	(36,150)
Cash flow from investing activities	(47,455)
Cash flow from financing activities	(4,819)

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

23. Maturity analysis of assets and liabilities

The table below analyses the discounted assets and liabilities of the Group based on the remaining period at September 30 to the contractual maturity date. See Note 18.3 - 'Liquidity risk' - for an analysis of the financial liabilities based on contractual undiscounted repayment obligations.

2019	**Within one year**	**After one year**	**Total**
ASSETS			
Cash and cash equivalents	104,609	–	104,609
Due from banks	112,467	–	112,467
Advances	134,715	615,686	750,401
Investment securities	355,990	82,896	438,886
Investment interest receivable	3,288	–	3,288
Premises and equipment	–	23,859	23,859
Intangible assets	–	27	27
Investment Property	–	60	60
Other assets	6,230	–	6,230
	717,299	**722,528**	**1,439,827**
LIABILITIES			
Customers' current, savings and deposit accounts	1,269,093	17,760	1,286,853
Accrued interest payable	3,871	–	3,871
Other liabilities	12,164	–	12,164
	1,285,128	**17,760**	**1,302,888**

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

23. Maturity analysis of assets and liabilities (continued)

	Within one year	**After one year**	**Total**
2018			
ASSETS			
Cash and cash equivalents	141,640	10,078	151,718
Due from banks	109,155	–	109,155
Advances	112,138	634,741	746,879
Investment securities	323,066	76,352	399,418
Investment interest receivable	2,918	–	2,918
Premises and equipment	–	23,902	23,902
Intangible assets	–	256	256
Investment Property	–	910	910
Other assets	27,867	–	27,867
	716,784	**746,239**	**1,463,023**
LIABILITIES			
Customers' current, savings and deposit accounts	1,302,781	3,339	1,306,120
Accrued interest payable	3,170	–	3,170
Other liabilities	36,343	–	36,343
	1,342,294	**3,339**	**1,345,633**

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

24. Dividends paid and proposed

	2019	2018
Declared and paid during the year		
Equity dividends on ordinary shares:		
Final dividend for 2018: 0.06 cents (2017: 0.05 cents)	2,541	2,117
Interim dividend for 2019: $nil (2018: 0.06 cents)	–	2,541
Total dividends paid	**2,541**	**4,658**

25. Contingent liabilities

a) Litigation

As at September 30, 2019, there were certain legal proceedings outstanding against the Group. No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise or that it would be premature at this stage of the action to determine the eventuality.

During the year ended, September 30, 2019, a sum that is not material to the Group's accounts was paid as a Payment into Court under the Cayman Islands Grand Court Rules into Cayman Islands Courts in satisfaction of litigation against the Group. This amount is included in the Statement of Income.

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

25. Contingent liabilities (continued)

b) Customers' liability under acceptances, guarantees, indemnities and letters of credit

	2019	**2018**
Guarantees	5,801	5,731
Letters of credit	2,693	2,697
	8,494	**8,428**
Sectoral information		
Corporate and commercial	8,454	8,388
Personal	40	40
	8,494	**8,428**

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.

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

26. Structured entities

The group sponsors several structured entities which are not consolidated as the Group is not deemed to be in control of those entities. The Group considers itself to be sponsor of a structured entity when it facilitates the establishment of the structured entity. The Group may hold an interest in some of these entities but does not provide any financial support to these entities.

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

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

	2019	**2018**
Cayman National Mortgage Fund	170	171
CNB Money Market Fund	301	305
Cayman National Pension Fund	390	373
Cayman National Securities Mutual Funds	218	207
	1,079	1,056

27. Discontinued Operations

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 and this division is reported as a discontinued operation. Financial information relating to the discontinued operation is set out below.

	2019	**2018**
Trust and company management fees	654	265
Expenses	(1,649)	(1,129)
Net Loss from discontinued operations	(995)	(864)

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

27. Discontinued Operations (Continued)

The impact of the discontinued operations net loss on the Group's earnings per share was as follows:

Earnings per share (expressed in $ per share)	**2019**	**2018**
Basic (with Net loss from discontinued operations)	$0.58	$0.53
Diluted (without Net loss from discontinued operations)	$0.60	$0.55

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

The full CI$2.25 million consideration was received in cash on or before September 29, 2017. The sales proceeds have both a fixed and a variable component:

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

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, 2019. Cayman National Corporation Ltd is contractually obliged to return any shortfall between actual revenue for this period and C$1 million. The fair value of the liability to return the variable proceeds was determined to be CI$26 (2018: $109) based on management's projections of revenue for the period ending September 30, 2019. This amount is payable to CNC (who is the party contractually obliged to refund the variable consideration).

	2018
Consideration received (cash)	2,250
Fair value of contingent consideration payable to CNC	(109)
Carrying amount of net assets extinguished in the sale	(1,828)
Gain on sale of business	313

The carrying amounts of assets and liabilities extinguished through the disposal was:

	2019	**2018**
Goodwill	-	2,033
Fees received in advance	-	(205)
Net assets extinguished	-	1,828

Expressed in thousands of Cayman Islands dollars ($'000) except where otherwise stated (Continued)

28. Subsidiary companies

a) Name of Operating Companies	Principal activity	% equity interest
Cayman National Bank Ltd. ("CNB") and its wholly owned subsidiary Cayman National Property Holdings Ltd. ("CNP")	Banking and property holding subsidiaries respectively	100.00%
Cayman National Trust Co. Ltd. ("CNT")	Company and trust management	100.00%
Cayman National Fund Services Ltd. ("CNFS")	Mutual fund administration	100.00%
Cayman National Securities Ltd. ("CNS")	Securities brokerage and wealth management	100.00%
Cayman National Investments Ltd. ("CNI")	Investment management	100.00%
Cayman National Bank (Isle of Man) Limited. ("CNB" (IOM)), (incorporated and regulated in the Isle of Man)	Banking and company management	100.00%
Cayman National Trust Company (Isle of Man) Limited ("CNT (IOM)") (incorporated and regulated in the Isle of Man)	Company and trust management	100.00%
Cayman National (Dubai) Ltd. (incorporated in Dubai, UAE)	Representative Office	100.00%

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, 2019 and 2018. The non-operating companies of the Corporation are:

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

CNT (Nominees) Limited

28. Subsidiary companies (continued)

b) Non-Operating Companies (continued)

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.

There was no change in ownership and no retrictions have been placed on any assets or liabilities of these companies.

29. Events after the reporting period

As announced by the Company on 18 November 2019, the Company's subsidiaries Cayman National Bank (Isle of Man) Limited and Cayman National Trust Company (Isle of Man) Limited experienced a data hack. The Company is aware that confidential client data has been posted online. The confidential data released online includes personal and financial data, such as the names, addresses, account numbers, and account balances of clients of Cayman National Bank (Isle of Man) Limited and Cayman National Trust Company (Isle of Man) Limited. At this time, the Company is not aware of any evidence of identity theft or fraud relating to clients of Cayman National Bank (Isle of Man) Limited and Cayman National Trust Company (Isle of Man) Limited. Cayman National Bank (Isle of Man) Limited and Cayman National Trust Company (Isle of Man) Limited have informed clients about the data breach by correspondence and via its website, and will continue to keep clients informed.

The operations in the Cayman Islands do not share common systems, databases, client information, or email platforms with those in the Isle of Man. The Company is confident that the hack is contained within the Isle of Man. The Company is unable to estimate reliably any potential liability as of 28 November 2019.

No other subsequent events requiring disclosure have occurred since 30 September 2019.