

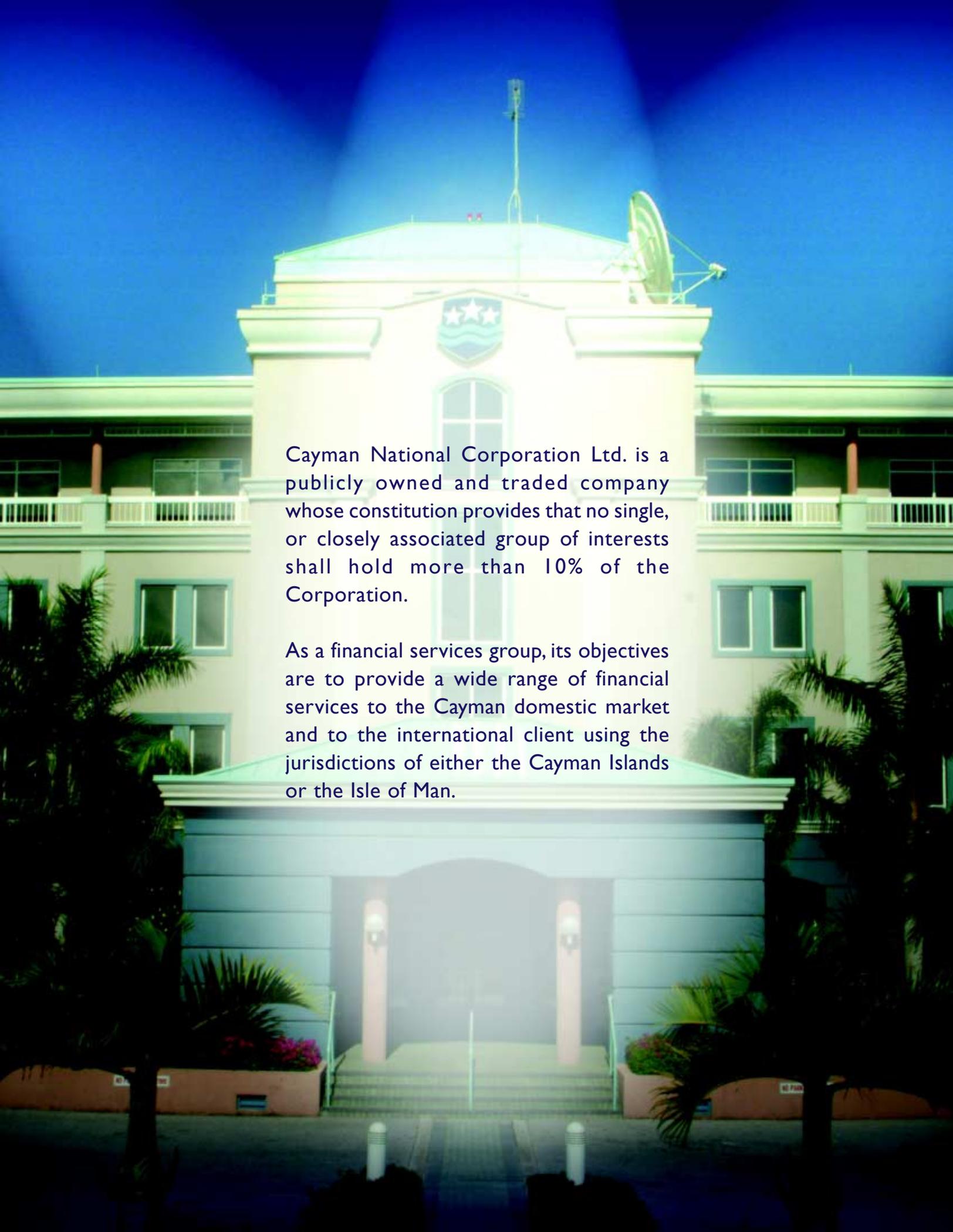


***Cayman National Corporation***



Annual Report 2002

A Financial Services Group  
[www.caymannational.com](http://www.caymannational.com)



Cayman National Corporation Ltd. is a publicly owned and traded company whose constitution provides that no single, or closely associated group of interests shall hold more than 10% of the Corporation.

As a financial services group, its objectives are to provide a wide range of financial services to the Cayman domestic market and to the international client using the jurisdictions of either the Cayman Islands or the Isle of Man.

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# President's Report

Stakeholders in Cayman National should be satisfied with the performance of the Group in achieving a net profit figure not that far short of US\$10 million, given the trading and economic conditions of the past year. Could we do better? Of course, and reflected through this report readers will see what has been achieved and what is proposed. I have to say that this year has been one of the more challenging ones under my stewardship, and when we look at the financials, we might first reflect upon some of the prevailing background conditions.

Last year we were 'Looking ahead...to meet the challenges', with the aftermath of 11 September still vivid in our minds. In 2002 we indeed had many challenges to face including the continued deterioration in world economic conditions, the roller coaster rides on the world stock markets and the uncertainties and disruptions prevailing in so many countries of the world. The Cayman Islands have suffered along with most other countries in the Caribbean region. Reduced numbers of stay-over visitors have impacted adversely upon the hospitality industry directly along with most other related business operations on the islands. This in turn has caused unemployment across the board at levels not previously experienced. There have been mergers of businesses, down sizing and restructuring, all of which have exacerbated the local situation. Throughout the banking industry bad debts have increased and no one in the retail business has escaped.

Internationally we have had to cope with the impact of the provisions of the USA Patriot Act as well as the action taken by the IRS against the credit card companies in respect of holders of credit and debit cards issued from overseas centres. Further challenges include the ongoing OECD and FATF issues and currently the uncertainties surrounding the EU Tax Savings initiative and the potential impact of this if introduced. The Cayman Islands also entered into a Tax Information Exchange Agreement with the United States. Whilst arrangements protect the privacy of account holders and implementation is not until 2004 for criminal matters and 2006 for civil and administrative issues, this has led to further uncertainty in the minds of some. The on-going retro due diligence exercise that financial institutions have been obliged to carry out continues to be costly and the authorities have granted an extension to 30 June 2003 to complete this undertaking.

**However**, arising from these challenges come a great many opportunities and we have been actively taking

advantage of these in both Cayman and the Isle of Man. On 22 November 2002, Cayman National Trust Company Ltd (CNT) and Cayman National Securities Ltd (CNS) entered into a purchase agreement with Fiduciary Trust (Cayman) Ltd (FT) and Cayman Islands Securities Ltd (CIS) to acquire their respective client portfolios. The Group considers the business purchased to be an excellent fit within its existing CNT and CNS operations. As part of the move we have taken on seven staff from FT and one staff member from CIS. Included in this number is Keith High, one of the Directors of



Mr. Eric Crutchley and his assistant Ms. Claudia Welds at Cayman National's head office in Grand Cayman.

When not at work, Mr. Crutchley participates in local fundraising events such as Cayman National Corporation's Annual Charity Golf Tournament, which supports the Pines Retirement Home.

the former business. Mr. High joins us as Executive Vice President of International Financial Services and we are delighted to welcome them all to the CNC family. Cayman National, as a cohesive financial services group, is well poised to capitalise on business opportunities as they occur. We have been active in developing our business contacts in Central and South America and see this activity increasing appreciably over the next year.

Last year we set out our views in respect of strategic development and we shall continue to pursue our objectives during the coming year. Whilst the overall 2001/2 performance of the Group is down on previous years, the core business remains strong and we were not that far short of a net US\$10 million net profit figure. We believe we have focused upon and

addressed the key issues sensibly during what can only be described as one of the most difficult years in recent memory.

Within the following pages we look at the very active year just passed and the on-going tasks and projects which will take us into 2003, which we believe will find us well positioned to take advantage of further business opportunities as they arise. We have appointed new directors to the board whom we welcome and have taken on key senior management to support the Group's direction. We therefore feel well equipped to meet the challenges of 2003 and further advance the strength of the Group.

## International

As mentioned in the opening remarks, we still have to contend with a number of international initiatives and no sooner have we complied with one, that another appears in the form of the EU Tax Savings initiative. It remains to be seen precisely what are the implications of this initiative, if implemented. In the international market, the Cayman Islands still suffer from a negative image or perception problem. Government has engaged a new public relations firm, but it is going to take a joint Government/Private Sector marketing and business drive to sell Cayman. A new Director of Tourism has been appointed and a Tourism Authority is also under consideration.

The further decline in US interest rates, mirrored by commensurate reductions in both US and Cayman Islands dollar rates, have continued to have an impact on our core banking business, as evidenced in our financials.

## Cayman Islands

Last year we began to feel the effect of the slowdown in the local economy, which experienced further deterioration during the period under review. Whilst there has been sporadic improvement in certain areas, generally the slowdown continues and has extended to the financial services area. The impact of the international initiatives, restructuring, substantially higher licence fees and the general increased cost of doing business have led to a need to seek staff reductions. Whilst Cayman National has not engaged in any formal staff



*Cayman National is the major sponsor of 'The Wall of History', which was unveiled in 2002 as part of the Islands' 500th Anniversary. The Group also donated musical instruments to the Cayman Brac High School Band as part of the country's pre-celebrations.*

reduction programmes, temporary bank staff have been let go and staff not performing to required standards will also be released. This will provide a significant reduction in personnel costs.

2003 sees the Cayman Islands celebrating 500 years of its recorded history. Government, earlier in the year, established a Quincentennial Committee to mark the occasion, and a year of activities is planned. Cayman National Bank has been named the official bank for the celebrations as a result of taking the lead sponsorship in a variety of specific projects, with opportunities throughout to promote financial services and products. Expenditure will be contained within the existing annual marketing budget.

## 2002 Review

In 2001 we had nine projects scheduled and 2002 was equally active.

### *Business opportunities:*

- ♦ Seven opportunities arose, the Fiduciary Trust and Cayman Islands Securities were concluded, three were not pursued after further enquiry and the remaining opportunity is expected to be finalised during the first quarter of 2003.
- ♦ Acquired an additional 4.11% of Cayman General Ins. minority shareholding (total share-holding 99.06%).
- ♦ Purchased land adjacent to existing Elgin Avenue property (located to the right of UBS) earlier this year.

### *Introduction of:*

- ♦ Telephone banking
- ♦ Internet banking
- ♦ Cayman National Group Website
- ♦ Self Service Banking Centres
- ♦ Staff Knowledge Web (Intranet)
- ♦ Customer Support Team
- ♦ Health Insurance Software (Plexis)
- ♦ Formal Business Disaster Recovery Plan



*Self Service Banking Centre at the Marquee Shopping Centre in Grand Cayman houses ATM, Telephone and Internet banking.*

*New Engagements:*

- ♦ Additional Board members: two Non-Executive and two Executive.
- ♦ Group Treasury Manager
- ♦ Executive Vice President, CNB
- ♦ President, International Financial Services, to head Trust, Securities and Private Banking Services.

*Identified:*

- ♦ Successor Group Internal Auditor

*Developing New Business::*

- ♦ Our focus for new growth is now on Central and South America, Europe and Southern Africa.

*Property Valuations:*

- ♦ During 2002 our main premises were revalued and this revealed property reserves of more than \$3.5 million which were not reflected in our balance sheet.

## Consolidating Business Resources

Executive Management Committee meetings have continued and centralization of key back office centres has been achieved.

## Community Support

Recognised as Cayman's Community Bank, continued local commitment and involvement is part of the

Cayman National Group corporate responsibility and culture. Staff members continue to be heavily involved in community projects, from the young to the elderly, as well as a range of sporting activities, including representing Cayman at international level sporting events. Involvement and support, both physical and monetary, included the following:

- ♦ Flower's Sea Swim, which featured world-record breaking International swimmers.
- ♦ Cayman Rugby, both senior and junior levels.
- ♦ Annual Golf Tournament for the benefit of the Pines Retirement Home.
- Fundraising to support Cayman Hospice Care and Cancer Society projects.
- Support of the Junior Achievement programme.



*Cayman National's Annual Charity Golf Tournament and Flowers Annual Sea Swim.*

## The Way Forward

In 2002 we recognised the need to focus on productivity in order to increase our overall efficiency. This has been necessary due to the continuing deterioration of economic conditions. However, we remain fully focused on this objective to ensure that profitability is maintained at acceptable, if not better than, industry levels.

During the current year John Law, President of the Trust Company, retired, and Dan Martiuk, President of the Securities Company, relocated to the US with his family. In reviewing the situation, and with International Financial Services (IFS) as our objective, we looked for an experienced person who could pull together our private banking, trust and securities operations. We have identified Kevin Atkinson to undertake this role as President IFS. Mr. Atkinson is an experienced international banker who spent many years with Lloyds Bank working

throughout the world. He joined us in November 2002. With the departure of Mrs. Lovesa Welds-Hedberg as Executive Vice President (EVP) of the bank at the end of last year, we have identified Mr. Ormond Williams, an experienced banker with a leading international bank with extensive operations in the Caribbean, to assume the position of EVP of the bank, also in November 2002. It is appropriate to thank Mrs. Welds-Hedberg, Mr. Law and Mr. Martiuk for their many years of service to the organisation and for their support during their respective terms of tenure. Group Internal Auditor, Mr. Garry Wilkins is retiring in early 2003 and we have identified Mr. Alex St. John, who undertook a similar role with a large international bank in Grand Cayman, as his successor. He joined us in January 2003.

One of the founding directors/shareholders, Mr. Norberg Thompson retires in February 2003, and a successor is currently under consideration. We would like to thank Mr. Thompson for his dedicated support over his 29 years in office, and for the support his wife, Mrs. Mary Thompson, has given him over the years.

The Group has proposed that we establish a branch of the bank in the Isle of Man to assume the existing private banking operations, which Caymanx currently undertake with the banking licence they presently hold. If satisfactorily progressed, this licence would then be surrendered upon appropriate official agreement to the establishment of Cayman National Bank, Isle of Man branch. The proposal is to develop the private banking facilities presently offered, and retail banking is not currently contemplated. With the introduction of Internet banking in Cayman, an upgrade of the IT operations in the Isle of Man is currently being undertaken. It is anticipated that

the Internet banking link with the Isle of Man should be in place during the first quarter of 2003, and the establishment of the branch in the Isle of Man is also planned during the 2002/3 fiscal year.

The Cayman Stock Exchange proposes to move from its present 'listing status' to a 'trading status' and it is proposed that Cayman National will be the first local equity participator. As mentioned in a previous report, it would then be our intention to list on an international exchange in a secondary capacity.

## President's Acknowledgement

Last year I thanked our customers for their loyalty and support and this is certainly to be extended for the past year. Although we have projected a continuation of slow economic conditions throughout 2003, we believe we are well positioned to show improved profitability, given the known opportunities available to us. The staff must be commended for their continued dedication, which has not been easy over the extended period of uncertain times. Directors and shareholders alike have been equally supportive and understanding, and I would therefore wish to thank every one of our stakeholders for their continued support.

*Eric Crutchley,  
President and Chief Executive  
Cayman National Corporation*



**L-R:** Lachlan MacTavish, Chief Operations Officer, and Daphne Ewing-Chow, Business Consultant, review Cayman National's Disaster Recovery (Business Continuity) Plan to ensure the Group's preparedness in the event of a disaster.

**L-R:** International Financial Services (IFS) Management Team: Kevin Atkinson, President IFS; Phil Sutcliffe, EVP Cayman National Trust; and Naiem Qadir, SVP Cayman National Securities.

# Board of Directors



**Benson Obadiah Ebanks, OBE, JP, Chairman**, aged 67, is a prominent local businessman and Managing Director of B.O. Ebanks & Son Ltd. He began his career with Barclays Bank PLC in 1954 by whom he was employed for 11 years. He is a former member of the Cayman Islands Legislative Assembly (Parliament). Mr. Ebanks is a member of the Cayman Islands Pension Board and a Charter Member of the Rotary Club of Grand Cayman. He is also a Founding Director of Cayman National.



**Truman Murray Bodden, OBE, JP, Deputy Chairman**, aged 57, is a well-known local Attorney-at-Law as well as a former Member of the Cayman Islands Legislative Assembly (Parliament) for 20 years during 1976-2000 and former Leader of Government Business and acting Attorney General. Mr. Bodden holds a variety of professional qualifications including ACIB., LL.B (Hons.) London, FICM., FFA., MCMI, ACIARB, and Barrister of Law. He has served on the Education Council, Civil Aviation Authority and Water

Authority and is a member of the Cayman Law Society and Bar Association. He is also a former Director of Barclays Private Bank and Trust Cayman Ltd., and a Founding Director of Cayman National and Senior Partner of the law firm of Truman Bodden and Company for 30 years.



**Eric J. Crutchley, M.B.E., FCIB, President and CEO**, aged 63, is President and Chief Executive of Cayman National Corporation. Prior to joining Cayman National, Mr. Crutchley was an overseas career banker with Barclays Bank. He has worked in many countries, including The Cayman Islands, The British Virgin Islands and Vanuatu. He was President of the Cayman Islands Bankers Association (CIBA) from 1989 - 1990 during which time the Association formalized and

introduced its original Code of Conduct in 1990. He re-joined the Executive of CIBA and was the President for 2000/1. He remains on the executive for a further period of 1 year as Immediate Past President.

Mr. Crutchley was awarded the M.B.E. (Member of the Most Excellent Order of the British Empire) in 1992 in recognition of services rendered towards the development of the Financial Services Industry in the Cayman Islands and services to the community. When relaxing, Mr. Crutchley is an enthusiastic golfer.



**John C. Bierley, BA, JD USA**, aged 66, is a Florida Bar Board Certified international lawyer based in Tampa where he has practised for 39 years. He is a member of the Council on Foreign Relations, a Director of the InterAmerican Bar Association, the Society of International Business Fellows and the University of Florida Foundation. He is also Director of the Florida Business BancGroup Inc. and Bay Cities Bank. Mr. Bierley is also a

Founding Director of Cayman National.



**Sherri Bodden-Cowan, LL.B**, aged 39, was educated in the Cayman Islands and the United Kingdom, and read law at Bristol University in South West England where she graduated with an LL.B. Hons. degree in 1985. She was subsequently called to the Bar of England & Wales in 1986. Following six-months of pupillage at the Bar in London she returned home to the Cayman Islands and was called to the Bar of the Cayman Islands in 1987. Mrs.

Bodden-Cowan has worked for the Cayman Islands Government, the law firm of Hunter & Hunter, and was an Associate and Partner in the firm of Boxalls. Earlier this year she set up her own law firm, Bodden & Bodden. Mrs. Bodden-Cowan is also a Director of Bodden Corporate Services.

Mrs. Bodden-Cowan has and continues to serve in numerous capacities as Chairman or Director of Statutory Boards and Authorities within the Cayman Islands



**Stuart Dack, ACIB, MBA, Executive Vice President - CNC**, aged 50, entered banking in 1971, and qualified as an Associate of the Chartered Institute of Bankers in 1976 with distinction in The Finance of Foreign Trade. For the first 22 years of his career Mr. Dack was employed by the Midland Bank Group in the United Kingdom where he held a number of managerial roles at Branch Banking, Area and Regional levels.

He joined Cayman National as Internal Auditor in 1992 and in 1998 was promoted to Executive Vice President of Cayman National Corporation. In 2001, he completed an MBA course at Southampton University and was awarded an MBA with Merit.



**Clarence Flowers Jr.**, aged 47, is the Managing Director of Orchid Development Ltd., and a Director of the Flowers Group and Cayman Water Company. He is a well-respected member of the business community and has spearheaded several projects in the Cayman Islands, one of the most recent projects being the construction and management of the Century Yard Building at Cricket Square on Elgin Avenue.

Mr. Flowers Jr. serves as a Councillor at the Cayman Islands Chamber of Commerce, where he is responsible for establishing company policies and procedures for the organisation.



**David J. McConney, BA (Econ), FICB, President - CNB**, aged 44, received his education in Ireland and the United States. He holds an undergraduate degree in Economics and Political Science and obtained his banking qualifications through the Institute of Canadian Bankers.

A Banker with 23 years experience, Mr. McConney began his career in 1979 with Bank of Montreal in Toronto, Canada. In

1989, he returned to Barbados to work for CIBC to establish the bank's first Commercial Banking Centre in the West Indies Region. Since that time, he has held several positions, each of increasing seniority, with CIBC in Barbados, the Bahamas and the Cayman Islands. He assumed the position of President, Cayman National Bank in June 1999 and since then has been reorganizing the Bank and upgrading its technological capabilities and its customer offerings.



**Norberg K. Thompson, OBE**, aged 77, a local business executive and property developer, is a Founding Director and Shareholder of Cayman National Corporation. After leaving school he went to sea for some 10 – 12 years prior to opening his first business, the well-known Wholesome Bakery, in 1954. He has also been very successful in real estate development and held the position of CEO and Owner of the Century 21 Franchise

for the Caribbean. Mr. Thompson took semi retirement in 2000, but still runs a small real estate development office. Mr. Thompson served on The Cayman Protection Board for 2 terms, was a Founding Member of Rotary Club and is a Past President of the Chamber of Commerce.



**Peter Adye Tomkins, M.B.E.** aged 71, Founder of Cayman National Corporation Ltd. and Subsidiaries began his working life in the Merchant Marine. After deciding against a sea-faring career he entered commercial banking with Barclays Bank International Ltd. in 1951. He took up the position of Executive Vice-President with Mercantile Bank & Trust

Co. (Cayman), Ltd in 1969 and from 1973 to 1994 held the positions of Founder, President and Chief Executive Officer of Cayman National Corporation Ltd. and Subsidiaries. Now retired, Mr. Tomkins remains on the Board of Directors of Cayman National.

Over the past 10 years he has been a Member of the Financial Secretary's Private Sector Consultative Committee, President of the Cayman Islands Bankers Association, a Member of the Housing Development Board, Treasurer for Triple C School, President of the Employees Assistance Programme, Director of the Cayman Islands Monetary Authority and a Member of the Vision 2008 Team.



**David W. Trimble, MA (Hons), Cambridge**, aged 63, was a Merchant Banker in London 1963-68, and the Bahamas 1968-73, a Director of Mercantile Bank & Trust Co (Cayman) Ltd 1969-73 and became a director of Cayman National in 1984. In 1974 he was a founder and subsequently Chairman of a quoted UK financial services company, PlanInvest Group plc, which was taken over in 1986. In

1987 he became Chairman of London Stockbrokers, Robert Wigram & Co and since 1979 has been a Registered Insurance Broker. He is presently Chairman of Jacob Cowen & Sons Ltd, manufactures of cotton wool, wadding and pollution control equipment; Chairman of H&H Group plc, with subsidiary companies in livestock auctioneering, auto finance, land and estate agency, insurance broking and fine art auctioneering; and a director of Cumbrian Newspapers Group. He is currently High Sheriff of Cumbria in the North of England.

## Financial Summary

During the financial year ended 30 September 2002, the financial results of the Group were impacted by an overall slow down in economic growth, substantial increases in Government fees, the reduction in the prime lending rate, and additional provisioning taken to conservatively reserve for any potential loan losses.

## Financial Details

The Group's Net Income for the twelve-month period ended 30 September 2002, was \$8,117,934 resulting in Earnings per Share of \$0.20, Return on Assets of 1.41%, Return on Equity of 11.07% and Price Earnings ratio of 15 times. Whilst Book Value per Share of \$1.82 increased by 5% and Dividend Yield per Share of 4% improved by 33% over last year.

## Significant Accounting Policies

In consultation with the external auditors, and based upon the adoption of International Accounting Standard number 39 in October 2001, the 2001 comparative figures have been restated:

1. To reflect the reclassification of the unrealized appreciation associated with the available-for-sale securities held by certain subsidiaries of the Corporation from earnings to a separate component of shareholders' equity as of that date.
2. Based on management's decision to adopt the more conservative approach of expensing the profit sharing bonus in the period to which it relates (historically, this had been expensed over the twelve months following the declaration of the bonus).

Please see notes 2, 19, and 20 of the Audited Financial Statements.

## Dividend and Share Details

The Board of Directors has recommended a final dividend of \$0.06 (six cents) per share to shareholders of record as of 31 December 2002, or a total dividend of \$0.12 (2001: \$0.12) for the financial year. This will be paid the first week in March 2003, immediately following the 1st March AGM, subject to shareholder approval.

During the financial year, the Corporation purchased an additional 4.11% of Cayman General Insurance (CGI) shares from minority shareholders by issuing three CNC shares for each CGI share; this brought the total ownership in CGI to 99.06% with a remaining minority shareholding of .04%.

The CNC share price held to \$3.00 to the end of the financial year. However, in December of 2002 the price declined to \$2.85 due to a slow demand, as noted in the President's report.

## Looking Ahead

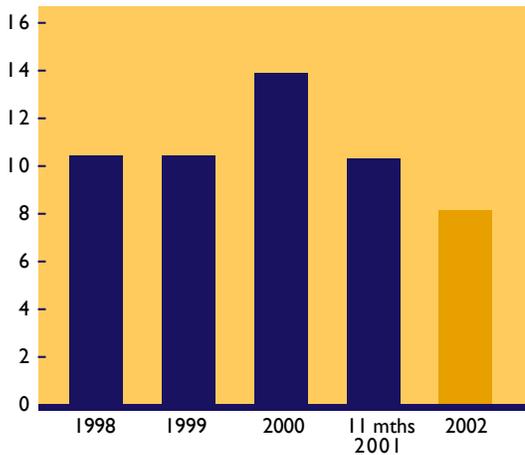
The Group will face challenges in the year to September 2003 to improve its financial results mainly because of expected slow economic growth; however, with a strong asset base, efficient services through technologically advanced computerized systems, and integrated management, our position as the leading financial services group in the Cayman Islands will be maintained.

## Summarized Financial Details

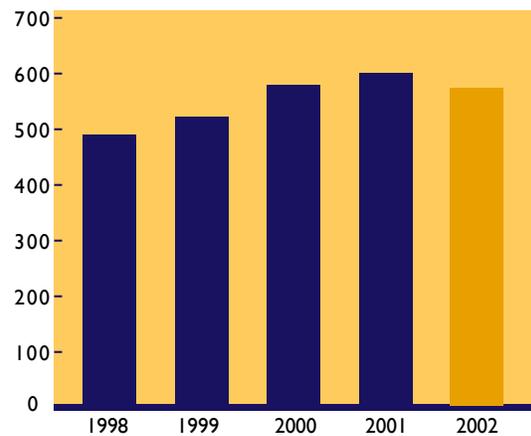
	2002	2001-11	Change
Net Income	8,117,934	10,360,632	-22%
TOTAL INCOME	36,865,916	35,326,847	4%
TOTAL ASSETS	575,550,691	603,686,603	-5%
Total Deposits	473,827,736	511,690,754	-7%
Equity	73,314,508	70,154,305	5%
Fixed Assets	23,741,702	22,638,600	5%
	2002	2001	
Earnings Per Share	\$0.20	\$0.26	
Book Value Per Share	\$1.82	\$1.74	
Return on Assets	1.41%	1.72%	
Return on Equity	11.07%	14.77%	
Price Earnings Ratio	15.00	15.38	
Dividend Yield Per Share	4.00%	3.00%	

(2001 figures relate to 11-month period from 1 November 2000 to 30 September 2001 - restated as per Notes 19 and 20 of the audited financial statements - pg. 29.)

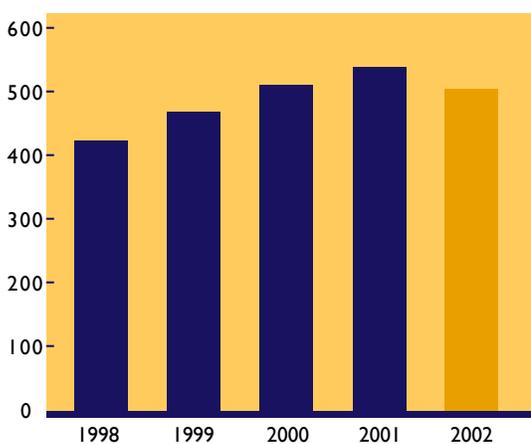
**PROFIT** in millions of dollars



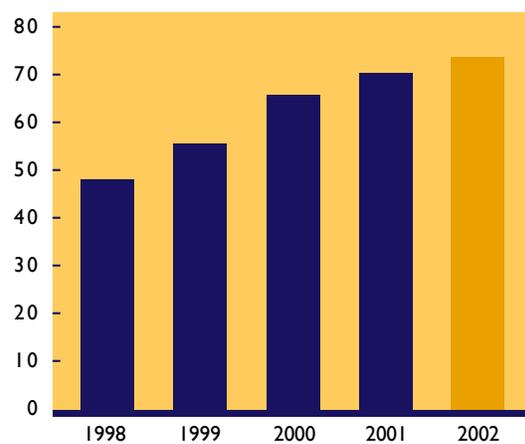
**TOTAL ASSETS** in millions of dollars



**TOTAL LIABILITIES** in millions of dollars



**SHAREHOLDERS' EQUITY** in millions of dollars



# Banking Services



David McConney,  
Cayman National Bank

In a year of significant challenges, Cayman National Bank Ltd. recorded financial results consistent with those of many other successful companies in the financial services industry. Our profitability from banking services during a particularly difficult economic period, although reduced, remained sound despite declining interest rates, a harsher employment environment locally and the increased costs associated with a more stringent regulatory environment. Notwithstanding the challenges of 2002, the Bank generated \$28,998,288 in total revenue and net income of \$5,751,593. We consider this result a testament to the underlying strength of our core business.

At Cayman National we continually strive to improve our operations in order to position ourselves for growth in the coming years. In this regard, we successfully implemented several critical initiatives during 2002 including:

- ♦ The launch of Cayman-in-Touch Telephone Banking, Cayman Global Internet Banking and our Corporate Website, [www.caymannational.com](http://www.caymannational.com).
- ♦ The development of a state-of-the-art Customer Support Centre.
- ♦ The opening of two Self-Service Banking Centres.
- ♦ The implementation of our internal



Self Service Banking Centre, Harbour Centre

intranet, which we refer to as “The Knowledge Web”.

- ♦ The formation of two strategic marketing alliances with the Cayman Islands Quincentennial Celebrations Project (Silver Partner) and the Olympic Quest Team.
- ♦ The launch of a Business Process Re-engineering Project with the goal of improving efficiency, making the organisation more customer centered and reducing costs.
- ♦ The re-design of our Treasury function and the appointment of a Chief Treasury Officer, with the objective of better managing our balance sheet risk along with developing an integrated investment strategy for the entire Corporation.

We believe that by continually responding to trends in the global financial services industry, by constantly harnessing the technological resources that are now available to us and by consistently focusing on the needs of the customer, we will continue to be a leader in the financial services industry, both locally and in the region.

## Overview of Results

In spite of a decrease in profits in the region of 30%, the Bank's balance sheet continued to provide a strong platform for future growth.

Loan balances increased by 3% in 2002, while deposit balances decreased by 6%. The decrease in deposits was due to two main factors: the current local economic decline and global political and economic climate.

In order to mitigate against the potential impact of the current local economic slowdown, the Bank increased its provisioning for loan losses, with the goal of strengthening its balance sheet going forward. This prudent decision was the primary source of a decline in both Return on Assets (from 1.6% in '01 to 1.07% in '02) and Return on Equity (from 14% in '01 to 8.95% in '02).

Net interest income was negatively impacted (-3%) by a gradual decline in interest rates (the



*Cayman National's Human Resources Team introduce a new staff member to "The Knowledge Web".*

*Janetta Myles, a Customer Support Operator, assists customers with their Cayman Global inquiries.*

prime rate fell from 5.5% in November 2001 to 4.75% in December 2001 where it stayed for the remainder of the financial year), but was offset by a significant increase in non-interest income (+12%). A higher level of non-performing loans than usual (directly attributable to local economic conditions) also negatively impacted this result. After another reduction in interest rates (by 0.5%, to 4.25% in November 2002), we do not anticipate further declines in fiscal 2003. However, the impact of the latest reduction will be such that we will need to continue to identify new sources of revenue, manage our net interest margins carefully, reduce the level of non-performing loans and seek ways to reduce our non-interest expenses. We are confident that the implementation of these strategies will also enable us to more efficiently utilise our resources to improve our performance in 2003.

Non-interest income continues to increase as a proportion of total income. It represents 31% of total income up from 28% in 2001. All categories of non-interest income showed improvement, with an overall increase of \$954,469, or 12%, to \$8,960,709. Of this total, fee and commission income increased by 14%. This increase reflected an increase in bank fees, which took place earlier in the year.

The Bank is committed to controlling its expenditure levels and improving its efficiency in 2003, through investments in technology, and promotion of self-service delivery channels, such as Internet banking.

We now offer customers a variety of ways to do business, under the slogan of "a better way to bank". We anticipate that these more

convenient ways for our customers to choose to bank with us will produce better results in 2003.

## Investment Services



*Naiem Qadir, Cayman National Securities*

Cayman National Securities Ltd. turned in a sound profit for the year despite the continued downturn in world equity markets. During the 12 month period ending 30th September 2002, gross revenues fell 22% to CI\$1,446,439 and expenses decreased by 13% to CI\$1,013,779, resulting in a 38% decline in Net Income of CI\$432,660.

At the time of writing this commentary, stock markets continue to fall for a third straight year for the first time since World War II, and interest rates remain at forty-year lows. The slowdown of the United States economy coupled with accounting and corporate governance issues at firms like Enron Corp., and WorldCom Inc., have contributed to the ongoing bear markets that we continue to experience. Past overvaluations continue to be corrected, as the Nasdaq 100 is 73% lower than its 10 March 2000 bull market peak. Interest rates range from 1.2% for one month USD Treasury Bills to 3.8% for ten year USD Treasury Bills. We fully expect that money on the sidelines will begin to re-enter the equity markets as some of the uncertainties surrounding corporate earnings and economic recovery have subsided.

Cayman National Securities Ltd. earned approximately 70% of its revenue from multiple sources of recurring fee-based income including: mutual fund trailing fees, portfolio management fees, safekeeping fees and income processing fees.

In the past few years our strategy has been to move towards fee based income and these revenue streams have provided stability in earnings during difficult times. Our client investment strategies will also continue to place a strong emphasis on diversification across asset classes and investment management styles.

During these difficult markets, clients have been eager to seek the relative safety of money market funds, short term fixed income securities, convertible bonds and conservative investment strategies.

Cayman National Securities Ltd. is currently undertaking a Retrospective Due Diligence Project, which encompasses a review of all customer files as required by legislation introduced by the Cayman Islands. It is expected that this review will be completed well ahead of the 30 June 2003 deadline and we would like to take this opportunity to thank customers for their prompt responses to our requests.



Compliance Officers work diligently to review customers' files.

## Insurance Services



Danny Scott  
Cayman General Ins.

30 September 2002 signaled the first full year of Cayman General as a subsidiary of the Cayman National Group. It is fitting that the performance of the insurance group should, at the very least, justify the decision taken by CNC to acquire the

shares in CGI that were held by the Guardian Royal Exchange/AXA.

The insurance group comprises:

- Cayman General Insurance Co.
- Cayman Insurance Brokers Ltd.
- Absit Insurance Management Ltd.

The insurance group produced a net income of \$1,274,353 from total premium income of \$21,339,600. Leading the way was CGI with a net income of \$1,105,950. This positive performance was achieved in a year that began

with the impact of Hurricane Michelle, and ended with Hurricanes Isadore and Lilly that impacted Cayman Brac and Little Cayman.

## Cayman General Insurance Co Ltd

### Property Insurance

Gross written premium for the year was \$13,735,633, up by \$2M against plan and \$4.4M against last year. This good growth was due in part to the increase in property rates, and to new business development. Losses, on the other hand, were up significantly against last year's performance as a result of Hurricane Michelle, which produced gross losses of \$14M, net \$6M. It is very unlikely that property insurance rates will reduce over the short to medium term as the global insurance and reinsurance industries struggle to come to grips with the impact of the massive claims from the September 11 terrorist attack and rating increases that have been more than offset by the adverse impact of low or non-existent investment returns. Added to already major problems facing these industries, the U.S. Supreme Court has just ruled in favor of non-injured persons who have come in contact with Asbestos to bring an action for damages. This is certainly not good news for our industry, as loss reserves that were thought adequate will now have to be revisited in light of the Supreme Court's decision.

### Motor Insurance

We are delighted to report to shareholders that our efforts to correct, and to turn around the performance of our motor portfolio have paid dividends this year. Losses for the year were \$696,517, down from \$1,156,686 incurred last year. A part of our strategy was to re-underwrite every policy on our books and those that did not meet our very strict underwriting criteria were lapsed. While this action seems harsh, we do have a responsibility not only to protect shareholder value, but to produce a profit at the end of the year.

### Miscellaneous Accident Classes

Not unlike our Motor portfolio, our accident

classes can be extremely volatile, with a single loss wiping out several years profits. As with our motor portfolio, we have been going through the process of re-underwriting these classes of business. The result has been a reduction in losses. These actions have impacted our ability to expand our portfolio in the short term. However, as a result, we are more focused and better positioned to accept more profitable, new business.

### Health Insurance

The health insurance industry in the Cayman Islands has produced underwriting losses every year since 1995. Accordingly, several reinsurers and insurers have taken the decision to withdraw from this market. At the start of 2002, our market had approximately 10 underwriting companies: by the end of 2002 that number reduced to 4. The difficulty faced by the industry was one of simple economics, far too many companies for a very limited market. This meant that most of the companies couldn't achieve the 'critical mass' allowing them to generate a positive return. With 4 players, the industry now has a more than even chance to survive with Cayman General having every opportunity for a viable future.

Written premiums for the year were up against last year, but marginally below plan. This shortfall can be attributed to the fact that we were unable to promote ourselves, as we were not at the proficiency level with our new software to provide the level of service that our clients expect from us. Our staff is now at this level with our software and along with the electronic claims adjudication and settlement system planned to be launched during 2003, we will be able to handle significantly more business, with claim settlement down to a matter of days.

We will take over the Capital Life portfolio in January 2003. This will add significantly to the number of lives we presently insure, and we anticipate being able to handle this additional business with a nominal increase in our staffing levels.

### Cayman Insurance Brokers Ltd

Business handled by CIB declined against budget last year. This was as a result of the shifting of some internal business directly to the underwriting company. Overall net income was \$113,361, down from \$226,859 last year.

### Absit Insurance Management

Fee income from our captive insurance company continues to exceed outgoings, generating \$55,042 to the Group's profit for the year. Whilst we continue to service our existing clients profitably, steps need to be taken to expand the client base. We have taken the decision to expand the division and will advise shareholders in due course of our plans.



*Dr. Trevor Stewart, SVP Group Health Insurance, reviews the company's new PLEXIS software with Kirk Collins a member of the Group's IT Department.*

## Trust Services (Cayman Islands)



*Phil Sutcliffe,  
Cayman National Trust*

For the year ended 30 September, Cayman National Trust Co. Ltd. returned an annual profit of CI\$750,541 against a budget figure of CI\$735,099 and last year's figure of CI\$789,242 annualised. This was achieved against a background of lackluster stockmarkets, which had a substantial impact on our mutual fund and company management fees.

Throughout the year the majority of our new business came from existing sources - clients and their advisors. However, we have continued our marketing efforts in Central & South America and the Caribbean. We work in a competitive market and our aim is to provide a level of service, which will attract and retain clients for the long term. This is especially true in the area of mutual funds where we see growth over the years to come.

Our "retrospective due diligence" work, whilst onerous, is continuing well and we particularly welcome the announcement by the Monetary Authority that the deadline for completing the work has been extended to June 2003. We anticipate completing this work well before that date.

Finally, we would like to pay tribute to the work of John Law, our President, who retired in December 2001 after 25 years of service. His knowledge and counsel will be missed. We will take the opportunity to reorganise the business in early 2003 so that our high net worth clients have access to a wider range of the Group's products.

## Trust Services (Isle of Man)



*Eammon Harkin  
Caymanx Trust, Isle of Man*

The team at Caymanx Trust had a busy year. An Executive Officer was recruited in November 2001 as planned, which has enabled the company proactively to address the evolving regulatory requirements of the Isle of Man financial services industry. Accordingly, a range of compliance and management accounting systems and procedures have been implemented as a direct follow-on from the enhancement made to client accounting procedures implemented two years ago.

In December 2001, the company received a Corporate Service Providers (CSP) licence in

the first round of CSP licences being issued by the Isle of Man Financial Supervision Commission. As a result, Caymanx Trust is now licensed to conduct banking, investment and corporate service provider business. At present, the company is participating in the consultative process leading to the licensing of trust service providers on the Isle of Man.

Notwithstanding the inevitable additional financial burdens associated with compliance and licensing procedures, the company maintained a healthy fiscal performance for the year. Profit before tax was just 5% down on the previous period and comfortably ahead of projections for the year, mainly on account of enhanced levels of trust and corporate services fee income. Total income for the year of £615,235, was 1% below the previous period's total annualised income. Trustee fees were marginally ahead of those for the previous period on an annualised basis while company management fees grew by 18%. Investment management fee income was in line with budget and just 4% below that of the previous period. Net interest income from banking business was maintained at budgeted levels and some 6% above the previous period's level – an encouraging performance in the present world interest rate climate.

The company continues to develop its client base in South Africa and Europe and during the year, senior management conducted client and business development visits to Sweden, Norway, North America, the United Kingdom and South Africa.

A comprehensive upgrade of the company's information technology systems was successfully implemented with technical assistance from the Group's technology support team in Cayman.

Caymanx Trust has responded positively to the demands of the rapidly changing financial services world and with its dedicated team of professionals, looks forward positively to developing its private client services business.

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**Deloitte  
& Touche**

## **INDEPENDENT AUDITORS' REPORT**

To the Shareholders of  
**Cayman National Corporation Ltd.**

We have audited the accompanying consolidated balance sheet of Cayman National Corporation Ltd. and subsidiaries as of September 30, 2002 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended (all expressed in Cayman Islands dollars). These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Corporation and its subsidiaries as of September 30, 2002, and the results of their operations and their cash flows for the year then ended, in accordance with International Accounting Standards.

*Deloitte + Touche*

November 22, 2002

**CAYMAN NATIONAL CORPORATION LTD.**  
**Consolidated Balance Sheet**

September 30, 2002

(expressed in Cayman Islands dollars)

	Sept. 30, 2002	US Dollar Equivalent 2002	Sept. 30, 2001
<b>ASSETS</b>			
Cash and due from banks (Note 3)	\$ 201,787,048	\$ 242,144,458	\$ 236,210,973
Investments (Note 4)	44,828,672	53,794,406	46,040,455
Loans and overdrafts (Note 5)	290,144,050	348,172,860	281,609,868
Interest receivable	1,612,624	1,935,149	2,697,513
Accounts receivable (Note 17 & 20)	8,466,579	10,159,897	7,611,851
Customers' liability on acceptances	3,764,564	4,517,477	5,647,034
Fixed assets (Note 6)	23,741,702	28,490,042	22,638,600
Goodwill (Note 7)	1,205,452	1,446,542	1,230,309
	<b>\$ 575,550,691</b>	<b>\$ 690,660,832</b>	<b>\$ 603,686,603</b>
<b>LIABILITIES</b>			
Depositors' accounts			
Current	\$ 62,171,760	\$ 74,606,112	\$ 65,335,128
Savings	91,141,445	109,369,734	90,498,445
Fixed deposits (Note 8)	320,514,531	384,617,437	355,857,181
	<b>473,827,736</b>	<b>568,593,283</b>	<b>511,690,754</b>
Interest payable	510,079	612,095	1,824,363
Accounts payable and accrued expenses (notes 17 and 20)	20,469,229	24,617,255	10,436,777
Reserve for unpaid claims (Note 9)	1,141,927	1,370,312	1,218,473
Taxation (Note 10)	45,148	54,175	53,504
Acceptances outstanding	3,764,564	4,517,477	5,647,985
Dividends payable	2,423,340	2,908,008	2,415,340
	<b>502,182,023</b>	<b>602,683,422</b>	<b>533,286,890</b>
<b>MINORITY INTEREST (Note 7)</b>	<b>54,160</b>	<b>64,992</b>	<b>245,408</b>
	<b>502,236,183</b>	<b>602,683,422</b>	<b>533,532,298</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital (Notes 11)	40,389,008	48,466,810	40,265,774
Share premium	3,563,348	4,276,018	3,302,610
General reserve	12,411,626	14,893,951	12,411,626
Retained earnings (Note 20)	16,518,284	19,731,359	13,321,905
Net unrealized appreciation on investments available-for-sale	421,288	505,545	991,563
Equity adjustments from foreign currency transaction (Note 12)	10,954	13,145	(124,068)
Treasury stock (Note 11)	-	-	(15,105)
	<b>73,314,508</b>	<b>87,977,410</b>	<b>70,154,305</b>
	<b>\$ 575,550,691</b>	<b>\$ 690,660,829</b>	<b>\$ 603,686,603</b>

See notes to consolidated financial statements

Approved by the Board:

B.O. Ebanks, Jr

Director

Eric J. Crutchley

Director

## CAYMAN NATIONAL CORPORATION LTD.

### Consolidated Statement of Income

for the year ended September 30, 2002

(expressed in Cayman Islands dollars)

	2002	US Dollar Equivalent 2002	2001 (Note 19)
<b>INTEREST</b>			
Interest income	\$ 26,193,085	\$ 31,423,924	\$36,515,785
Interest expense	5,620,134	6,736,382	15,440,820
<b>NET INTEREST INCOME</b>	<b>20,572,951</b>	<b>24,687,541</b>	<b>21,074,665</b>
<b>OTHER INCOME</b>			
Banking fees and commissions	5,608,869	6,730,643	4,752,343
Trust and company management fees	3,274,827	3,929,792	3,133,538
Foreign exchange fees and commissions	3,125,410	3,750,491	2,879,533
Brokerage commissions and fees	1,647,166	1,976,599	1,954,074
Net underwriting income (Note 17)	2,636,693	3,164,032	1,532,694
<b>TOTAL INCOME</b>	<b>\$ 36,865,916</b>	<b>\$ 44,239,098</b>	<b>\$ 35,326,847</b>
<b>EXPENSES</b>			
Personnel	15,805,179	18,966,215	14,276,124
Other operating expenses	6,609,252	7,931,101	5,620,405
Increase in reserve for loan losses (Note 5)	2,485,911	2,983,093	750,000
Premises	1,270,814	1,524,976	705,313
Depreciation (Note 6)	2,348,699	2,818,439	3,466,665
Amortization of goodwill (Note 7)	207,141	248,569	159,755
	<b>\$ 28,726,996</b>	<b>\$ 34,472,393</b>	<b>\$ 24,978,262</b>
<b>NET INCOME BEFORE TAXATION AND MINORITY INTEREST</b>	<b>8,138,920</b>	<b>9,766,705</b>	<b>10,348,585</b>
<b>TAXATION</b>	<b>(12,642)</b>	<b>(15,170)</b>	<b>(11,536)</b>
<b>NET INCOME BEFORE MINORITY INTEREST</b>	<b>8,126,278</b>	<b>9,751,534</b>	<b>10,337,049</b>
<b>MINORITY INTEREST IN NET (LOSS) INCOME OF SUBSIDIARY (Note 7)</b>	<b>(8,344)</b>	<b>(10,013)</b>	<b>23,583</b>
<b>NET INCOME</b>	<b>\$ 8,117,934</b>	<b>\$ 9,741,521</b>	<b>\$ 10,360,632</b>
<b>EARNINGS PER SHARE (Note 11)</b>	<b>\$ 0.20</b>	<b>\$ 0.24</b>	<b>\$ 0.26</b>

See notes to consolidated financial statements

**CAYMAN NATIONAL CORPORATION LTD.**  
**Consolidated Statement of Changes in Shareholders' Equity**  
for the year ended September 30, 2002  
*(expressed in Cayman Islands dollars)*

	Share capital	Share premium	General reserve	Retained earnings	Equity from foreign currency translation	Treasury	Net unrealized appreciation on investments	Total
<i>Balance at Oct. 31, 2000</i>	\$40,117,832	\$2,811,435	\$10,411,626	\$13,066,918	\$ (144,708)	\$ (32,825)	\$ -	\$66,230,278
Restatement of prior period results (Note 20)	-	-	-	(1,498,829)	-	-	-	(1,498,829)
Reclassification of unrealized appreciation (Note 20)	-	-	-	(1,775,577)	-	-	1,775,577	-
<i>Restated balance at Oct. 31, 2000</i>	40,117,832	2,811,435	10,411,626	9,792,512	(144,708)	(32,825)	1,775,577	64,731,449
Issue of shares	147,942	491,175	-	-	-	-	-	639,117
Gift of shares	-	-	-	-	-	17,720	-	17,720
Net income	-	-	-	10,360,632	-	-	-	10,360,632
Interim dividend	-	-	-	(2,415,254)	-	-	-	(2,415,254)
Final dividend	-	-	-	(2,415,985)	-	-	-	(2,415,985)
Appropriation to general reserve	-	-	2,000,000	(2,000,000)	-	-	-	-
Equity adjustment from foreign currency translation	-	-	-	-	20,640	-	-	20,640
Net change in unrealized appreciation on investments, restated	-	-	-	-	-	-	(784,014)	(784,014)
<i>Balance at Sept. 30, 2001</i>	40,265,774	3,302,610	12,411,626	13,321,905	(124,068)	(15,105)	991,563	70,154,305
Issue of shares	123,234	260,738	-	-	-	-	-	383,972
Gift of shares	-	-	-	-	-	15,105	-	15,105
Net income	-	-	-	8,117,934	-	-	-	8,117,934
Interim dividend	-	-	-	(2,422,731)	-	-	-	(2,422,731)
Final dividend	-	-	-	(2,423,340)	-	-	-	(2,423,340)
Cumulative effect of accounting change (Note 2)	-	-	-	(75,484)	-	-	-	(75,484)
Net change in unrealized depreciation on investments	-	-	-	-	-	-	(570,275)	(570,275)
Equity adjustments from foreign currency translation	-	-	-	-	135,022	-	-	135,022
<i>Balance at September 30, 2002</i>	\$ 40,389,008	\$ 3,563,348	\$ 12,411,626	\$ 16,518,284	\$ 10,954	\$ -	\$ 421,288	\$73,314,508

See notes to consolidated financial statements

**CAYMAN NATIONAL CORPORATION LTD.**  
**Consolidated Statement of Cash Flows**  
for the year ended September 30, 2002  
*(expressed in Cayman Islands dollars)*

	2002	US Dollar Equivalent 2002	2001 (Note 19)
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>			
Net income	\$ 8,117,934	\$ 9,741,521	\$ 10,360,632
Adjustments for items not involving cash:			
Depreciation	2,348,699	2,818,439	3,466,665
Amortization of goodwill	207,141	248,569	159,755
(Gain) loss on disposal of fixed assets	(5,555)	(6,666)	51,993
Net (decrease) increase reserve for loan losses	2,096,055	2,515,266	(210,860)
Minority interest in assets of subsidiary	(191,248)	(229,498)	323,247
Adjustments from foreign currency translation	(7,148)	(8,578)	(2,923)
	12,565,878	15,079,054	14,148,509
Changes in non-cash working capital items:			
Interest receivable	1,084,889	1,301,867	834,806
Accounts receivable	(854,728)	(1,025,674)	(284,594)
Goodwill	(182,284)	(218,741)	-
Depositors' accounts	(37,863,018)	(45,435,622)	22,686,320
Interest payable	(1,314,284)	(1,577,141)	(1,261,658)
Accounts payable and accrued expenses	10,032,452	12,038,942	746,472
Taxation	(8,356)	(10,027)	(5,574)
Reserve for unpaid claims	(76,546)	(91,855)	272,042
	(16,615,997)	(19,939,196)	37,136,323
<b>INVESTING ACTIVITIES</b>			
Changes in:			
Investments	566,024	679,229	(10,166,561)
Loans and overdrafts	(10,630,237)	(12,756,284)	(43,366,362)
Additions to fixed assets	(3,658,498)	(4,390,198)	(7,351,401)
Proceeds on disposal of fixed assets	219,400	263,280	21,000
Equity adjustment from foreign currency translation	135,022	162,026	20,640
	(13,368,289)	(16,041,947)	(60,842,684)
<b>FINANCING ACTIVITIES</b>			
Proceeds from issue of shares	381,024	457,229	639,117
Net cost of shares redeemed	18,053	21,664	17,720
Dividends paid	(4,838,716)	(5,806,459)	(4,822,015)
	(4,439,639)	(5,327,567)	(4,165,178)
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(34,423,925)</b>	<b>(41,308,710)</b>	<b>(27,871,539)</b>
<b>CASH AND CASH EQUIVALENTS, Beginning of Year/Period</b>	<b>236,210,973</b>	<b>283,453,168</b>	<b>264,082,512</b>
<b>CASH AND CASH EQUIVALENTS, End of Year/Period</b>	<b>\$ 201,787,048</b>	<b>\$ 242,144,458</b>	<b>\$ 236,210,973</b>

See notes to consolidated financial statements

# CAYMAN NATIONAL CORPORATION LTD.

## NOTES TO FINANCIAL STATEMENTS

for the year ended September 30, 2002  
(expressed in Cayman Islands dollars)

### 1. INCORPORATION AND BACKGROUND INFORMATION

Cayman National Corporation Ltd. (the "Corporation" or "CNC") was incorporated on October 4, 1976 and operates subject to the provisions of the Companies Law of the Cayman Islands. The Corporation is a holding company for the companies referred to in Note 2, 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, stockbroking general (property & casualty) and health insurance, insurance brokerage and captive insurance management services in the Cayman Islands. The Corporation is listed on the Cayman Islands Stock Exchange.

The Corporation is not liable for taxation as there are currently no income, profits or capital gains taxes in the Cayman Islands. One of the Corporation's subsidiaries is liable for Isle of Man income tax, which is reflected in these consolidated financial statements.

The Company owns the entire issued share capital of Cayman National Investments Ltd. ("CNI"), a company incorporated on November 15, 1996 and operating subject to the provisions of the Companies Law of the Cayman Islands. The principal business of CNI is to hold an investment in a merchant banking limited partnership.

Effective March 24, 2001, the Corporation changed its fiscal year end from October 31 to September 30.

### 2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with International Accounting Standards and the significant accounting policies adopted by the Corporation are as follows:

#### *Basis of consolidation*

The financial statements consolidate those of the Corporation and the following subsidiaries:

#### **OPERATING COMPANIES:**

Wholly owned:

Cayman National Bank Ltd. ("CNB") and its subsidiary Cayman National Property Holdings Ltd. ("CNP")  
Cayman National Trust Co. Ltd. ("CNT")  
Cayman National Securities Ltd. ("CNS")  
Caymanx Trust Company Limited (incorporated in the Isle of Man) ("Caymanx")  
Cayman National Investments Ltd. ("CNI")

99.06% owned:

Cayman General Insurance ("CGI") (Note 7) and its subsidiaries Cayman Insurance Brokers Limited and Absit Insurance Management Limited.

#### **NOMINEE COMPANIES:**

Cayman National (Nominees) Ltd.  
CNT (Nominees) Ltd.  
Caymanx Nominees Limited  
Caymanx Secretarial Limited

Significant intercompany transactions and balances are eliminated on consolidation.

**CAYMAN NATIONAL CORPORATION LTD.**  
**NOTES TO FINANCIAL STATEMENTS**

for the year ended September 30, 2002  
(expressed in Cayman Islands dollars)

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Basis of consolidation*** (continued)

***Foreign currency translation***

Revenue and expense transactions involving currencies other than the Cayman Islands dollar have been translated at exchange rates ruling at the date of those transactions. All assets and liabilities originating in other currencies have been translated at mid-market rates ruling at the balance sheet date. Gains and losses on exchange are credited or charged in the statement of income.

The financial statements of the foreign subsidiary are translated at the mid-market rate ruling at the balance sheet date for purposes of incorporation in these consolidated financial statements. The exchange gain or loss is deferred and included as a separate component of shareholders' equity.

***Investment in subsidiary***

During the year, the Corporation purchased an additional 4.11% holding in CGI, bringing the total holding to 99.06%. The consolidated method of accounting is used for the results of operations of CGI (Note 7).

***Depreciation and amortization***

Fixed assets are depreciated by the straight line method at the following rates, estimated to write off the cost of the assets over the period of their expected useful lives:

Computer hardware and software	Variously over 4 years or 7 years
Freehold land	Nil
Freehold building	Over 50 years
Leasehold property	Over 20 years
Leasehold improvements	Over the terms of the leases
Furniture and equipment	Variously at 10%, 20% to 33%, or 50% p.a.
Motor vehicles	25% p.a.
Goodwill	Variously over 5 years or 10 years

***Reserve for possible loan losses***

Loan losses are charged and reserved loan recoveries credited to the reserve for possible loan losses. Additions to the reserve 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.

Loans which are over 90 days (2001: 180 days) in arrears are provided against where there is a shortfall in security. Interest is not accrued on these loans. Loans are written off when there is no realistic expectation of recovery.

***Interest income***

Interest income is recorded on the accrual basis. The Company's policy is to cease accruing interest on loans when the principal and interest payments are contractually past due by more than 90 days.

***Premiums and commissions***

Insurance premiums written and reinsurance premiums ceded are accounted for on a pro-rata basis over the periods covered by the underlying policies, and any unearned or unamortised portions at the financial period end are carried forward as unearned premiums on the consolidated balance sheet.

Commissions relating to these underwriting contracts are also treated on a pro-rata basis, and unearned or unamortised portions at the financial period end are similarly carried forward on the consolidated balance sheet.

# CAYMAN NATIONAL CORPORATION LTD.

## NOTES TO FINANCIAL STATEMENTS

for the year ended September 30, 2002  
(expressed in Cayman Islands dollars)

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Reserve for unpaid claims*

Reserve for unpaid claims and claims incurred are stated net of amounts relating to reinsurance ceded. Reserve for unpaid claims includes amounts for all losses reported but not settled, and further amounts estimated by management for losses incurred but not reported.

#### *Reinsurance*

The Corporation, through its 99.06% owned subsidiary CGI, cedes reinsurance to other companies by way of individual facultative placements, proportional treaties and excess of loss coverages. These reinsurance arrangements minimize CGI's exposures arising from large risks or from hazards of an unusual or catastrophic nature.

In the event that CGI's reinsurers are unable to meet their obligations under the reinsurance agreements, CGI would be liable to pay all claims made under the insurance policies it issues but would only receive reimbursement to the extent that the reinsurers can meet their obligations.

#### *Investments*

In March 1999, the International Accounting Standards Board issued *International Accounting Standard 39: Financial Instruments: Recognition and Measurement* ("IAS 39"), effective for fiscal years beginning on or after January 1, 2001. IAS 39 establishes standards for recognizing, measuring and disclosing information about financial instruments. The Corporation adopted IAS 39 effective October 1, 2001. In accordance with IAS 39, on October 1, 2001, the Corporation remeasured its investments classified as available for sale from lower of cost or fair value to fair value. Accordingly, the Corporation adjusted retained earnings by \$75,485 on October 1, 2001.

The Corporation also decided to recognize the unrealized appreciation or diminution in value of its available for sale securities as a separate component of shareholder's equity. This represents a change in accounting policy, as the certain subsidiaries of the Corporation have historically accounted for the unrealized appreciation or diminution in value of their available for sale securities through investment income. Accordingly, the financial statements for the period ended September 30, 2001 have been restated to reflect the unrealized appreciation as a separate component of shareholder's equity. Retained earnings at October 31, 2000 have been restated to reflect the reclassification of the unrealized appreciation associated with the available for sale securities held by the Group as of that date. This amount of \$1,775,577 is included as a separate component within shareholder's equity as of that date, and subsequent adjustments have been recorded against that balance representing the change in value during each subsequent period.

Available for sale investments are carried at estimated market value. Gains and losses on disposal are calculated on gross proceeds less the original cost of securities sold on a specific identification basis, and are included in investment income. Unrealized appreciation and depreciation on available for sale investments are excluded from income and reported as a separate component of shareholders' equity. In cases where there is no quoted market price and the Corporation is not able to estimate the value, the investment is valued at cost subject to impairment recognition.

Held to maturity investments are carried at amortized cost, less any impairment loss recognized to reflect unrecoverable amounts. Interest income is recorded as earned.

The Corporation may purchase options for hedging purposes, for which premiums are paid and are recorded as assets, and are subsequently adjusted to the current value of the options purchased. Premiums paid from purchasing options which expire are treated as realized losses. Unrealized gains and losses are included in equity.

# CAYMAN NATIONAL CORPORATION LTD.

## NOTES TO FINANCIAL STATEMENTS

for the year ended September 30, 2002

(expressed in Cayman Islands dollars)

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Cash and cash equivalents*

For the purposes of the statement of cash flows, the Corporation considers all cash at banks and in hand as cash or cash equivalents.

#### *Pension fund*

Payments to a defined contribution retirement benefit plan are charged as an expense as they fall due.

#### *Assets under administration*

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

#### *Fair value of financial instruments*

The carrying value of loans and overdrafts approximates their fair value as they are at variable rates of interest and therefore reflect current market conditions. The fair value of investments is disclosed in Note 4. The carrying value of the remainder of financial instruments approximates their fair value principally because of the short term nature of the instruments.

### 3. CASH AND DUE FROM BANKS

	2002	2001
Cash in hand and current accounts	\$24,470,673	\$ 24,486,191
Short term placements with banks	177,316,375	211,724,782
	<u>\$201,787,048</u>	<u>\$ 236,210,973</u>

**CAYMAN NATIONAL CORPORATION LTD.**  
**NOTES TO FINANCIAL STATEMENTS**

for the year ended September 30, 2002  
(expressed in Cayman Islands dollars)

**4. INVESTMENTS**

The investments comprise both available-for-sale and held-until-maturity securities. The cost and estimated fair value of investments held as available-for-sale are as follows:

	Cost	Gross unrealized holding gains (losses)	Estimated fair value
<i>September 30, 2002</i>			
U.S. Government Agency bonds	\$ 2,169,375	\$ -	\$ 2,169,375
International bonds	8,333,333	121,969	8,455,292
Ordinary shares	554,959	201,881	756,840
Preference shares	657,654	-	657,654
Options	233,353	-	233,353
Mutual funds	2,671,198	59,690	2,730,888
Convertible securities	250,000	37,758	287,758
	<b>\$ 14,869,872</b>	<b>\$ 421,288</b>	<b>\$ 15,291,656</b>
<i>September 30, 2001</i>			
Ordinary shares	\$ 593,214	\$ 149,728	\$ 742,942
Preference shares	1,274,422	-	1,274,422
Mutual funds	2,724,531	779,718	3,504,249
Convertible securities	250,000	62,117	312,117
	<b>4,842,167</b>	<b>991,563</b>	<b>5,833,730</b>
International bonds (Note 2)	8,333,333	75,484	8,408,817
	<b>\$ 13,175,500</b>	<b>\$ 1,067,047</b>	<b>\$ 14,242,547</b>
The amortized cost of investments held until maturity is as follows:			
		2002	2001
U.S. Government Agency bonds		\$25,554,045	\$25,705,392
International bonds		3,983,467	6,092,516
		<b>\$29,537,512</b>	<b>\$31,797,908</b>

Estimated fair value of the above investments at September 30, 2002 was \$30,698,674 (2001: \$32,862,082).

**CAYMAN NATIONAL CORPORATION LTD.**  
**NOTES TO FINANCIAL STATEMENTS**

for the year ended September 30, 2002  
(expressed in Cayman Islands dollars)

**5. LOANS AND OVERDRAFTS**

Mortgages are primarily for owner occupants. Substantially all of the Corporation's loans and overdrafts are advanced to customers in the Cayman Islands. Composition and aging of the loan portfolio are as follows:

Period from year end to maturity

	Under 1 year	Within 2-5 years	Within 6-10 years	Over 10 years	Total
(All figures in \$000's)					
<i>At September 30, 2002</i>					
Commercial	\$ 34,705	\$ 19,255	\$ 34,220	\$ 13,801	\$ 101,981
Personal	13,394	37,741	47,767	58,878	157,780
Corporate	14,152	7,412	11,900	1,554	35,018
<b>Total</b>	<b>\$ 62,251</b>	<b>\$ 64,408</b>	<b>\$ 93,887</b>	<b>\$ 74,233</b>	<b>294,779</b>
Reserve for possible loan losses					(4,635)
					<b>\$ 290,144</b>
<i>At September 30, 2001</i>					
Commercial	\$ 21,396	\$ 12,610	\$ 31,408	\$ 17,310	\$ 83,344
Personal	24,252	23,950	43,898	74,420	166,520
Corporate	16,634	4,701	10,929	2,021	34,285
<b>Total</b>	<b>\$ 62,902</b>	<b>\$ 41,261</b>	<b>\$ 86,235</b>	<b>\$ 93,751</b>	<b>284,149</b>
Reserve for possible loan losses					(2,539)
					<b>\$ 281,610</b>

Movements in the reserve for possible loan losses are as follows:

	2002	2001
Balance at beginning of year/period	\$ 2,539,140	\$ 2,750,000
Increase charged to expenses	2,485,911	750,000
Loans written off	(389,857)	(960,860)
	<b>\$ 4,635,194</b>	<b>\$ 2,539,140</b>

Included in the reserve are specific loss reserves of \$3,457,268. The aggregate amount included in the balance sheet for loans and overdrafts in arrears by more than 90 days on which interest is not being accrued is \$19,593,794 (2001: \$10,225,162).

In 2001, included in the reserve are specific loss reserves of \$1,414,139 based on loans classified after 180 days delinquent (Note 2).

**CAYMAN NATIONAL CORPORATION LTD.**  
**NOTES TO FINANCIAL STATEMENTS**

for the year ended September 30, 2002  
(expressed in Cayman Islands dollars)

**6. FIXED ASSETS**

	Freehold land and building	Leasehold property improvements	Furniture and equipment	Motor vehicles	Total
<b>Cost:</b>					
At September 30, 2001	\$ 14,584,706	\$ 3,775,547	\$ 13,667,161	\$ 663,258	\$32,690,672
Fully depreciated assets	-	-	(4,773)	-	(4,773)
Additions	1,499,322	101,945	2,037,336	19,895	3,658,498
Disposals	-	(176,718)	(188,945)	(570,034)	(935,697)
Foreign currency translation adjustment	16,274	-	(113,744)	1,201	(96,269)
At September 30, 2002	16,100,302	3,700,774	15,397,035	114,320	35,312,431
<b>Accumulated depreciation</b>					
At September 30, 2001	1,077,141	1,414,322	7,194,631	365,978	10,052,072
Fully depreciated assets	-	-	(4,773)	-	(4,773)
Charge for period	339,662	253,151	1,674,528	81,358	2,348,699
Disposals	-	(141,047)	(195,447)	(385,358)	(721,852)
Foreign currency translation adjustment	3,284	-	(107,288)	587	(103,417)
At September 30, 2002	1,420,087	1,526,426	8,561,651	62,565	11,570,729
<b>Net book value:</b>					
At September 30, 2002	\$ 14,680,215	\$ 2,174,348	\$ 6,835,384	\$ 51,755	\$23,741,702
At September 30, 2001	\$ 13,507,565	\$ 2,361,225	\$ 6,472,530	\$ 297,280	\$22,638,600

Included in depreciation expense for the period ended September 30, 2001 is an amount of \$1,355,599, which represents the elimination of the undepreciated software cost of the Bankmaster system, which was replaced during the period.

**7. ACQUISITION OF ADDITIONAL HOLDING IN CAYMAN GENERAL INSURANCE**

Effective February 11, 2000 the Corporation purchased an additional 45% holding in the issued share capital of CGI, bringing the total holding to 90%. Accordingly, as of that date the method for recording the Corporation's investment in CGI changed from equity accounting to the consolidation method. The acquisition was accounted for by the purchase method of accounting with the total purchase price of the additional 45% holding being recorded at a cost of \$3,278,459. The goodwill arising on the acquisition is being amortized on a straight line basis over a period of 10 years.

During the eleven month period ended September 30, 2001 the Corporation purchased an additional 4.95% holding in the issued share capital of CGI, increasing its total holding to 94.95%. The purchase was effected by exchanging CNC shares for CGI shares on a 3:1 basis. The total purchase price of the additional 4.95% holding was \$639,117. The goodwill arising from the purchase was \$361,432 and is being amortized on a straight line basis over a period of 10 years.

During the year ended September 30, 2002 the Corporation purchased an additional 4.11% holding in the issued share capital of CGI, increasing its total holding to 99.06%. The purchase was effected by exchanging CNC shares for CGI shares on a 3:1 basis. The total purchase price of the additional 4.11% holding was \$381,024. The goodwill arising from the purchase was \$160,400 and is being amortized on a straight line basis over a period of 10 years.

**8. FIXED DEPOSITS**

Substantially all fixed deposits have a maturity of less than one year and bear fixed rates of interest.

**CAYMAN NATIONAL CORPORATION LTD.**  
**NOTES TO FINANCIAL STATEMENTS**

for the year ended September 30, 2002  
 (expressed in Cayman Islands dollars)

**9. RESERVE FOR UNPAID CLAIMS**

The reserve for unpaid claims is comprised as follows:

	2002	2001
Gross reserve	\$ 10,669,846	\$ 3,631,771
Reinsurer's share	(9,527,919)	(2,413,298)
Net reserve	\$ 1,141,927	\$ 1,218,473
Claims incurred for the year/period:		
	2002	2001
Gross paid claims	\$ 15,668,914	\$ 3,750,726
Reinsurer's share	(13,829,286)	(2,358,218)
Net paid claims	1,839,628	1,392,508
Increase (decrease) in reserve for unpaid claims	(76,546)	272,042
Net claims incurred (Note 17)	\$ 1,763,082	\$ 1,664,550

**10. TAXATION**

	2002	2001
Provision for deferred tax	\$ 2,471	\$ 4,631
Manx income tax	42,677	48,873
	\$ 45,148	\$ 53,504

**11. SHARE CAPITAL**

	2002	2001
<i>Authorised:</i>		
200,000,000 shares of \$1 par value each (2001: 200,000,000)		
<i>Issued and fully paid:</i>		
40,389,008 shares (2001: 40,263,124)	\$ 40,389,008	\$ 40,263,124
<i>Held in Treasury:</i>		
Nil shares (2001: 2,650)	-	2,650
	\$ 40,389,008	\$ 40,265,774

Basic earnings per share have been calculated on the basis of the weighted average number of common shares outstanding for the year, totalling 40,312,454 shares (2001: 40,239,221 shares). There are no share options granted to directors and so no separate disclosure of diluted earnings per share has been made.

During the year ended September 30, 2002 the Corporation purchased 1,100 shares (2001: nil) and issued 3,350 (2001: 2,300) shares of treasury stock with a cost of \$5.70 (2001: \$5.70) per share to employees as gifts and 400

# CAYMAN NATIONAL CORPORATION LTD.

## NOTES TO FINANCIAL STATEMENTS

for the year ended September 30, 2002  
(expressed in Cayman Islands dollars)

### 11. SHARE CAPITAL (continued)

(2001: 200) shares to customers as part of a customer promotion. At September 30, 2002, no shares remain in treasury (2001: 2,650 shares).

### 12. EQUITY ADJUSTMENTS FROM FOREIGN CURRENCY TRANSLATION

Equity adjustments from foreign currency translation represent the unrealised exchange gain or loss arising from the translation of the financial statements of Caymanx from pounds sterling to Cayman Islands dollars.

### 13. RELATED PARTY BALANCES AND TRANSACTIONS

Included in loans and overdrafts and depositors' accounts are the following related party balances:

	2002	2001
<i>Loans and overdrafts:</i>		
Directors	\$ 11,503,695	\$ 8,813,621
<i>Depositors' accounts:</i>		
Directors	\$ 3,175,257	\$ 4,863,505

Directors include individual directors of Cayman National Corporation Ltd. and its subsidiaries and also corporations, partnerships, trusts or other entities in which a director, or directors collectively, have direct and indirect significant shares or interest in such entities.

All transactions with related parties, other than staff loans and overdrafts, are conducted on normal commercial terms and at non-preferential interest rates. Staff loans, which totalled \$24,121,688 (2001: \$22,967,796) at the balance sheet date, are at preferential rates varying between 5.0% and 6.0% p.a. (2001: 5.0% and 9.0% p.a.) with the exception of loans granted in respect of the Staff Share Purchase Scheme and Staff Computer Purchase Scheme, where loans have been granted at 0% p.a. These loans totalled \$78,512 at September 30, 2002 (2001: \$50,350).

The Corporation owns 100% of the sponsor's shares totaling US\$100, in Cayman National Mortgage Fund, a fund for which CNT acts as the manager and receives a fee amounting to 1.5% p.a. of the daily net assets of such fund. In the year ended September 30, 2002, CNT earned \$301,979 (2001: \$364,756) of commission under this arrangement, of which \$77,834 (2001: \$102,143) was receivable at September 30, 2002. In addition, CNB acts as the banker and mortgage advisor to the fund and is remunerated by way of commitment fees negotiated between CNB and the individual mortgagors. CNS acts as the principal distributor and receives a commission from CNT amounting to 0.5% p.a. of the daily net assets attributable to those investors subscribing to the fund through CNS. In the year ended September 30, 2002 CNS earned \$115,989 (2001: \$102,934) of commissions under this arrangement, \$28,459 (2001: \$29,273) of which was outstanding at September 30, 2002.

### 14. COMMITMENTS

In the normal course of business there are various commitments on behalf of customers to extend credit, which are not reflected in these financial statements. Commitments to extend credit totaled \$4,790,082 at September 30, 2002 (2001: \$14,285,406). No material losses are anticipated by management as a result of these transactions.

CNB has entered into various commitments in respect of its equipment and leased premises. The total annual commitments are as follows:

# CAYMAN NATIONAL CORPORATION LTD.

## NOTES TO FINANCIAL STATEMENTS

for the year ended September 30, 2002

(expressed in Cayman Islands dollars)

### 14. COMMITMENTS (continued)

Year ended September 30	Annual commitment
2003	\$ 334,602
2004	307,110
2005	239,355
2006	186,600
2007	Nil

### 15. PENSION FUND

The Cayman National Corporation Pension Fund (the "Fund") is a defined contribution pension scheme which became effective on July 1, 1997. Membership is mandatory for all employees between the ages of 18 and 60, with contributions from both employer and employees. Included in personnel expense is an amount of \$444,711 (2001: \$403,916) representing the Corporation's portion of contribution required under the scheme.

### 16. CONTINGENT LIABILITIES

Guarantees of \$200,000 have been issued by CNB to the Government of the Cayman Islands in support of the Corporation's wholly owned subsidiary, Cayman National (Nominees) Ltd. In addition, CNB has issued guarantees totaling \$653,250 to various outside entities in support of customers.

### 17. NET UNDERWRITING INCOME

Net underwriting income for the year/period:

	2002	2001 (Note 19)
Premiums written	\$ 20,351,316	\$13,681,364
Reinsurance premiums ceded	(17,855,342)	(12,023,642)
Movement in unearned premiums	(166,155)	(41,322)
Net premiums earned	2,329,819	1,616,400
Reinsurance commissions	3,273,634	2,308,884
Claims incurred (Note 9)	(1,763,082)	(1,664,550)
Policy acquisition commissions	(1,203,678)	(728,040)
	<u>\$ 2,636,693</u>	<u>\$ 1,532,694</u>

Accounts receivable at September 30, 2002 include premiums receivable of \$2,064,337 (2001: \$1,734,024) and deferred policy acquisition commissions of \$643,725 (2001: \$547,587).

Accounts payable and accrued expenses at September 30, 2002 include reinsurance premiums payable of \$1,543,865 (2001: \$1,926,970) unearned premiums of \$1,807,836 (2001: \$1,641,681) and unearned commissions on reinsurance policies of \$1,495,757 (2001: \$1,047,097).

### 18. SUBSEQUENT EVENT

On November 22, 2002, CNT and CNS (referred to collectively as the "Purchasers") entered into a purchase agreement with Fiduciary Trust (Cayman) Limited and Cayman Islands Securities Ltd. (referred to collectively as the "Vendors"). Under the terms of the purchase agreement, on November 29, 2002 (the "Completion Date"), the sale and purchase of

**CAYMAN NATIONAL CORPORATION LTD.**  
**NOTES TO FINANCIAL STATEMENTS**

for the year ended September 30, 2002  
 (expressed in Cayman Islands dollars)

**18. SUBSEQUENT EVENT** (continued)

the Business and Assets is to be completed in accordance with certain obligations to be delivered by both the Vendors and the Purchasers by the Completion Date. The consideration to be paid by the Purchasers is US\$2,250,000, allocated as US\$1,800,000 to be paid by CNT and US\$450,000 to be paid by CNS. The sum of US\$1,125,000 will be due at the Completion Date with a second payment due on May 1, 2003 of US\$675,000. A final payment of US\$450,000 is due on May 1, 2004.

**19. COMPARATIVE FIGURES**

Comparative figures are as of September 30, 2001 and for the eleven month period ended September 30, 2001 of which certain balances have been restated as discussed in Note 20. Prior period disclosures have been adjusted to conform with the current year's presentation.

**20. RESTATEMENT OF PRIOR PERIOD RESULTS**

Retained earnings have been restated by \$3,274,406 as follows:

As discussed in Note 2, retained earnings at October 31, 2000 have been restated to reflect a reclassification of the unrealized appreciation associated with the available-for-sale securities held by certain subsidiaries of the Corporation from earnings to a separate component of shareholders' equity as of that date. This amount of \$1,775,577 is included as a separate component within shareholders' equity as of October 31, 2000, and subsequent adjustments have been recorded against that balance representing the change in value during each subsequent period. The net effect of the change on the current year's consolidated net income was an increase of \$645,760 (2001: \$784,014). The aggregate effect of this change to periods prior to November 1, 2000 was a decrease in net income of \$1,775,577.

The Company also restated retained earnings with regard to its profit sharing bonus. The Company declares a profit sharing bonus each December based on the performance of the prior fiscal year. Historically, this has been expensed over the twelve months following the declaration of the bonus. However, in the current year management decided to adopt the more conservative approach of expensing the bonus in the period to which it relates. Accordingly, the financial statements have been restated for periods prior to November 1, 2000 by restating retained earnings at October 31, 2000 by \$1,498,829. The net effect of the change on the current year's consolidated net income was an increase of \$415,053 (2001: \$678,831). The aggregate effect of this change to periods prior to November 1, 2000 was a decrease in net income of \$1,498,829.

In addition, as a result of adjustments made to accrue for the bonus to be paid in December 2002 in relation to the period ended September 30, 2002, accounts payable and accrued liabilities increased by \$363,157 (2001: \$497,461) and accounts receivable decreased by \$109,643 (2001: \$322,537).

The net effect of the above restatements was an increase of consolidated net income of \$1,060,813 (2001: \$1,462,845).

**21. SHAREHOLDER INFORMATION**

*Director's Interest in Shares*

	Sept. 30, 2002	Sept. 30, 2001	%Issued Sept. 30, 2002
John C. Bierley	1,332,396	1,330,420	3.30
Truman Bodden	40,639	61,381	0.10
Sherri Bodden-Cowan	1,000	-	0.02
Eric J. Crutchley	187,469	181,634	0.46
Stuart Dack	30,000	-	0.07
Benson O. Ebanks, Jr.	1,214,536	1,211,573	3.01
David J. McConney	3,528	-	0.01
Norberg K. Thompson	1,956,256	1,953,293	4.84
Peter A. Tomkins	1,609,067	1,606,104	3.98
David W. Trimble	81,600	80,000	0.20

# CAYMAN NATIONAL BANK LTD.

## Consolidated Balance Sheet

September 30, 2002

(expressed in Cayman Islands dollars)

	2002	US Dollar Equivalent 2002	2001 (Note 14)
<b>ASSETS</b>			
Cash and due from banks (Note 3)	\$ 179,813,833	\$ 215,776,600	\$ 215,401,436
Investments (Note 4)	39,656,804	47,588,165	39,842,645
Loans and overdrafts (Note 5)	288,042,137	345,650,564	279,498,080
Interest receivable	1,499,961	1,799,953	2,510,063
Accounts receivable	4,172,914	5,007,497	4,347,088
Customers' liability on acceptances	3,764,564	4,517,477	5,647,034
Fixed assets (Note 6)	21,867,819	26,241,383	20,604,316
	<b>\$ 538,818,032</b>	<b>\$ 646,581,639</b>	<b>\$ 567,850,662</b>
<b>LIABILITIES</b>			
Depositors' accounts			
Current	\$ 74,275,451	\$ 89,130,542	\$ 66,694,116
Savings	86,881,326	104,257,592	82,510,910
Fixed deposits (Note 7)	304,839,051	365,806,861	345,346,860
	<b>465,995,828</b>	<b>559,194,994</b>	<b>494,551,886</b>
Interest payable	465,936	559,123	1,758,599
Accounts payable and accrued expenses (Note 15)	2,571,430	3,085,716	2,326,855
Acceptances outstanding	3,764,564	4,517,477	5,647,034
Dividends payable	1,723,340	2,068,008	1,415,985
	<b>\$ 474,521,098</b>	<b>\$ 569,425,318</b>	<b>\$ 505,700,359</b>
<b>SHAREHOLDER'S EQUITY</b>			
Share capital (Note 8)	\$ 2,436,585	\$ 2,923,902	\$ 2,436,585
Share premium	1,695,816	2,034,979	1,695,816
General reserve	39,500,000	47,400,000	39,500,000
Retained earnings (Note 15)	20,447,939	24,537,527	18,517,902
Net unrealized appreciation on investments available for sale	216,594	259,913	-
	<b>64,296,934</b>	<b>77,156,321</b>	<b>62,150,303</b>
	<b>\$ 538,818,032</b>	<b>\$ 646,581,639</b>	<b>\$ 567,850,662</b>

See notes to consolidated financial statements

Approved by the Board:

B.O. Ebanks, Jr

Director

Eric J. Crutchley

Director

CAYMAN NATIONAL BANK LTD.

Consolidated Statement of Income

for the year ended September 30, 2002  
(expressed in Cayman Islands dollars)

	2002	US Dollar Equivalent 2002	2001 (Note 19)
<b>INTEREST</b>			
Interest income	\$ 25,160,396	\$ 30,192,475	\$ 35,533,258
Interest expense	5,122,817	6,147,380	14,805,654
<b>NET INTEREST INCOME</b>	<b>20,037,579</b>	<b>24,045,095</b>	<b>20,727,604</b>
<b>FOREIGN EXCHANGE FEES AND COMMISSIONS</b>	<b>3,125,409</b>	<b>3,750,491</b>	<b>2,879,533</b>
<b>OTHER FEES AND COMMISSIONS</b>	<b>5,835,300</b>	<b>7,002,360</b>	<b>5,126,707</b>
<b>TOTAL INCOME</b>	<b>28,998,288</b>	<b>34,797,946</b>	<b>28,733,844</b>
<b>EXPENSES</b>			
Depreciation (Note 6)	1,937,689	2,325,227	3,120,634
Adjustment in reserve for loan losses (Note 5)	2,485,911	2,983,093	750,000
Other operating expenses	5,691,476	6,829,771	4,829,239
Personnel (Notes 11 and 15)	12,214,941	14,657,929	10,833,735
Premises	916,678	1,100,014	517,876
	<b>23,246,695</b>	<b>27,896,034</b>	<b>20,051,484</b>
<b>NET INCOME</b>	<b>\$ 5,751,593</b>	<b>\$ 6,901,912</b>	<b>\$ 8,682,360</b>

See notes to consolidated financial statements

Approved by the Board:

Eric J. Crutchley

Director

David McConney

Director

## Directory to Cayman National Corporation Ltd.

### Cayman National Corporation Ltd.

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e-mail: [cnc@caymannational.com](mailto:cnc@caymannational.com)  
Website: [www.caymannational.com](http://www.caymannational.com)

#### Directors

Benson O. Ebanks, Jr., OBE, JP, *Chairman*  
Truman M. Bodden, OBE, LLB (Hons),  
*ACIB, JP Deputy Chairman*  
Eric J. Crutchley, MBE, FCIB,  
*President & Chief Executive*  
John C. Bierley, BA, JD (USA)  
Sherrri Bodden-Cowan, LLB  
Stuart J. Dack, ACIB, MBA  
Clarence Flowers, Jr.  
David J. McConney, BA (Econ), FICB  
Norberg K. Thompson, OBE  
Peter A. Tomkins, MBE  
David W. Trimble, MA (Cantab)

#### Officers & Management

Eric J. Crutchley, MBE, FCIB,  
*President & Chief Executive Officer*  
Stuart J. Dack, ACIB, MBA,  
*Executive Vice President*  
Kevin Atkinson, BA(Hons),  
*President, International Financial Services*  
Keith M. High, ACIB, MBIM, TEP  
*Exe. Vice President, International Financial Services*  
Dorette Brown, *Senior Vice President,*  
*Administration & Human Resources*  
Patricia Estwick, BA (Hons) CPA, MBA,  
*Group Financial Controller*  
Lachlan MacTavish, *Chief Operations Officer*  
Alex St. John, CFSA, *Senior Vice President,*  
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