

# Annual Report 2006



**CAYMAN  
NATIONAL**

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## Corporate Statement

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. This has been endorsed by the Cayman Islands Government, who require control to remain in the Cayman Islands with a Caymanian majority on the Board of Directors.

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 currently using the jurisdictions of either the Cayman Islands or the Isle of Man.



# President's Report

The Cayman National Group achieved another record Net Income or Profit for the year to 30 September 2006. This result was 22% up on the previous year and represents very solid growth for the Group, with all sectors of our diverse financial organisation contributing positively to the overall performance.

During the year we achieved a number of significant milestones. One of them was the sale of 51% of Cayman General Insurance Co Ltd (CGI) to Life of Jamaica, a member of the Sagicor Group, which was completed in November 2005. We still retain a 24.2% stake in CGI, now renamed Sagicor General Insurance (Cayman) Ltd and the company is doing well, with our investment providing good returns but with our risk at a reduced level.

During 2006 we moved ahead with our plans to have the CNC stock traded through the Cayman Islands Stock Exchange (CSX). Although this process was completed just after the financial year-end on 1 November 2006, it merits mention as an important step for the Group and its shareholders. Although we are not expecting a dramatic change in the liquidity or trading of our stock, the new trading position provides for better controls, greater transparency and also opens stock holding to some investors who were previously unable to acquire our stock.

Strategic Planning for the Group is now an important ongoing process. While it is not appropriate to publish detailed comments on our plans, we have a number of projects underway and we continue to look for opportunities to profitably expand and diversify our business.

In January 2007 we will open an office in Panama. We see this as a significant step in providing a full range of services to our clients based in Latin America. The appropriate licensing is already in place and Cayman National will take up new and well-located offices in Panama City, Panama.

In many ways 2006 was a year of consolidation after the challenges both our Group and the Cayman Islands faced in 2005 following Hurricane Ivan, which hit Grand Cayman in September 2004. Notwithstanding this we have achieved much in 2006, not least the Group's Total Shareholders' Equity has been restored to a solid level at more than C\$62,000,000. This is a very satisfying achievement following the reduction of the figure to C\$34,000,000, which prevailed at 30 September 2004. Our strategy remains to rebuild the position while still paying sensible levels of dividend for the next 12 to 18 months, following which we expect to have our Total Shareholders' Equity fully restored to former levels.

## Cayman National Bank Ltd (CNB)

Cayman National Bank Ltd continues to perform extremely well. Net income or profit for the financial year to 30 September 2006 was C\$16,338,821 an increase of 32% on the previous year.

A new branch of CNB was opened at the Countryside Shopping Village in Savannah. This branch is the first banking outlet to be established by any bank in the Eastern Districts of Grand Cayman. This initiative strongly endorses Cayman National's commitment as a community bank and we remain the only bank with representation on all three of the Cayman Islands, complemented by the most widespread network of ATMs in Grand Cayman and Cayman Brac.

Our Internet Banking offering was updated in 2006 and all our systems will be undergoing further upgrades in 2007 to ensure we continue to provide sophisticated and efficient service. Also in 2007 we will be opening a further branch of the Bank at Camana Bay, as part of the first phase of the New Town development.

## International Financial Services (IFS)

This sector of the Group combines the resources of Cayman National Trust Co Ltd (CNT) and Cayman National Securities Ltd (CNS). Through CNT, the IFS operation also embraces our Mutual Fund administration services. During 2006 we have focused on developing new systems and procedures within this sector in order to position the business for significant future growth.

During 2006 we took on Mutual Fund business at the rate predicted by our aggressive budgets and we expect this to continue. On the Trust, Corporate and Securities side we also saw business development at rates anticipated and we expect significant contributions from this sector in 2007 and beyond.

During 2006 CNT contributed C\$381,511 to the Group's net income, while CNS reported net income of C\$336,339.

**We remain the only bank with representation on all three of the Cayman islands, with the most widespread network of branches and ATMs**



Stuart J. Dack  
President and CEO.

**The Cayman National Group achieved another record net income or profit for the year to 30 September 2006.**

## **Cayman National Isle of Man**

Our business operations in the Isle of Man now embrace two main companies, Cayman National Bank and Trust Company (Isle of Man) Ltd and Cayman National Fund Services (Isle of Man) Ltd. During 2006 we re-branded our business in the Isle of Man to better reflect the Cayman National Group, dropping the former name, Caymanx. In addition we have established the new fund services business, which is now fully licensed and equipped to provide quality fund services in the Isle of Man, supported by an excellent team of professional staff. We have already secured a number of new fund services clients in the Isle of Man and are anticipating significant growth in this sector.

During 2006 we also disposed of our former premises in Athol Street, Douglas and moved the business to more suitable and prestigious offices at 4–8 Hope Street, Douglas. Although during 2006 we invested heavily in establishing the fund services operations the business in the Isle of Man still turned in a modest profit equivalent to C\$11,045.

## **Cayman National Insurance Brokers Ltd. (CNIB)**

Cayman National Insurance Brokers Ltd had an exceptional year turning in a record profit of C\$295,057. Insurance brokerage within the Cayman Islands has taken on increased importance since the catastrophic losses which occurred in 2004 as a result of Hurricane Ivan. CNIB is a well-respected brokerage operation and has continued to provide valuable services to its existing and new clients, particularly at this time of increased awareness of insurance products and services.

During the year we have been in discussions with AON, the world’s largest brokerage house, regarding a partnership within the Cayman Islands, which would combine the attributes of CNIB and AON. Although the deal was finalised after our financial year end it is appropriate that we mention it in this report. We concluded negotiations with AON on 29 November 2006, whereby they will now hold 50% of the shares in CNIB. In future this business will be a joint venture between AON and Cayman National giving brokerage clients the benefit of the resources of both organisations. We see this as a very exciting and beneficial opportunity for all stakeholders and we look forward to reporting on the success of this new venture in the forthcoming months.



Launch Dinner for Cayman National Fund Services, Isle of Man. Left to Right: Ian Bancroft, managing director; The Hon Allan Bell MHK, treasury minister; keynote speaker Hamish McRae, economist and associate editor of The Independent, London; Stuart Dack, president and CEO, Cayman National

# Convenient locations

Right: Cayman National Bank opened its seventh Customer Service Center in the Countryside Shopping Village Retail Centre in Savannah.

Below: Cayman National Corporation will open new corporate offices in the Business Centre of Camana Bay in mid 2007.



CAMANA BAY



CAMANA BAY WELCOMES CAYMAN NATIONAL

TWENTY FIVE THOUSAND SQUARE FEET OF CLASS A OFFICE SPACE. FIVE THOUSAND SQUARE FOOT STATE-OF-THE-ART RETAIL BANK. A WATERFRONT SETTING WITH VIEWS OF NORTH SOUND. LUSH LANDSCAPED COURTYARDS. DEDICATED PARKING. SHOPPING, DINING AND ENTERTAINMENT JUST STEPS AWAY. ALL AT THE TOWN CENTRE. ALL AT CAMANA BAY.

Cayman National gives all areas of risk control very close attention with our procedures and systems under frequent review.

## Risk Control

Risk control within the financial sector is an increasingly important aspect of business. Cayman National gives all areas of risk control very close attention with our procedures and systems under frequent review.

We have well developed Internal Audit, Compliance and Accounting divisions within the Group and close reporting is maintained between these central functions and our Audit Committee. The Group’s Audit Committee is comprised of non-executive directors and they maintain regular contact with our external auditors.

The Group has extensive and regularly updated business resumption plans. The experience gained during and after Hurricane Ivan in 2004 ensures that these plans are robust and workable.

## Community Support

Over the past 30 years, Cayman National has been a major corporate contributor of donations and sponsorship. We have supported many community activities and initiatives, including sponsorship of major events, sporting activities, charity organisations and the arts.

Staff volunteers are key to the continued community relationships to which we are committed and many of them continue to volunteer their time in support of deserving charities and community events.

The following are just some of the projects which received support during the year: Cayman Islands Red Cross, Central Caribbean Marine Institute, Family Ministries Foundation of Cayman Brac, National Trust of the Cayman Islands, Lions Club of Tropical Gardens, National Children’s Festival of Arts, CI Bankers’ Association, Young Caymanian Leadership Awards (YCLA), Cayman Hospice Care, Cancer Society, National Council of Voluntary Organisations (NCVO), Flower’s Annual Sea Swim, Cayman Islands Marathon and International Day of the Older Persons (district event).

Our third annual customer and community holiday event; “Home for Christmas”, provided another opportunity to show our appreciation to our customers and to

acknowledge a number of the charities which we support. The event was a success again this year, with customers and friends of the community coming together to celebrate the holiday season. Santa Claus greeted the children at our Kiddies Corner, while the audience was entertained by the performance of our featured school, Cayman Prep and High School, as well as by fine performances from a number of talented local artists.

Presentations were made to the following charities: CI Special Olympics, Sunrise Adult Training Centre, The Pines Retirement Home and Cayman Against Substance Abuse (CASA).

A presentation of our 2006 calendar Vibrant Impressions, A Touch Of Art was also made to the National Gallery and acknowledgement of the participation of local artists was included in the calendar.

In addition Cayman National also continues its tradition of supporting education in the Islands through a number of scholarships and also through support to staff who seek to enhance their skills through additional training and learning.

## Acknowledgements

During the year we were deeply saddened by the passing of Mr. Norberg Thompson. Mr. Norberg was a founding shareholder of the Group and a director for 30 years. He contributed enormously to the success of Cayman National and even after his retirement as a director in 2003 he continued to be a strong ambassador of the Group, until his death following a brief illness.

Our shareholders continue to give strong support to our business. Many shareholders have been associated with Cayman National for more than 30 years, not only as shareholders but also as customers and clients. Their loyalty is much appreciated and is a valuable part of the culture of this organisation. During 2006 we have also seen a number of new shareholders investing in the company along with some existing shareholders increasing their holdings. We welcome this confidence in our organisation and its future – thank you to all our shareholders.



Cayman National Bank in Cayman Brac Donates for youth. Above, Cayman Brac and Little Cayman Customer Service Centre Manager, Zanda Scott presents Pastor Tom French with a donation cheque.



Cayman National Corporation  
held their 4th Quarter Board Meeting  
in Cayman Brac.

The employees of the Group are also an important and vital aspect of our success. Across the Group we have a good blend of skills and experience. As we expand our operations we are recruiting new staff and although the employment climate in the financial sector is difficult, we have succeeded in attracting new and good quality staff to the organisation. This provides us with a rich diversity, with the newer recruits complementing our established team, some of whom have been with us for many years. Our staff are dedicated, hardworking and professional and again it is appropriate to thank them for their commitment to the Group.

Finally, I would like to thank our clients and customers. The Group enjoys the loyal support of many clients and customers from all corners of the world. Many of them have been doing business with us for many years; whilst some are more recent in their business relationship. We appreciate your business and we look forward to an ongoing and successful relationship.

**Stuart J. Dack**  
President and Chief Executive  
Cayman National Corporation

## Cayman National get a new look

Cayman National Corporation introduced a new and improved look for their highly recognised Cayman-inspired corporate identity. The new brand is designed to re-align Cayman National's image with its growing performance. The improved Cayman National brand can now be seen throughout the islands at ATMs and bank branches.



# Cayman's stars shine brighter than ever



The Cayman National Corporate Brand got a refreshing new look during 2006. The stars and waves on the familiar shield logo and the lettering of the Cayman National name reflect a modern and contemporary look and feel. The new brand marks a new era for Cayman National, which can be seen in all three of the Cayman Islands and in the Isle of Man.

# Board of Directors

## 1 Benson Ebanks

OBE, JP, Chairman

Benson Ebanks is a former member of the Cayman Islands Legislative Assembly where he served for 28 years and a member of the Executive Council for a total of 15 years. Mr. Ebanks is a former member of the National Pension Board and a Charter Member of the Rotary Club of Grand Cayman. He is also a Founding Shareholder and Founding Director of Cayman National. He was employed by Barclays Bank D.C.O from 1954 to 1964. He is a former Director of Cayman International Trust Ltd. and of M&G (Cayman) Ltd.

## 2 Truman Bodden

OBE, LLB (Hons), ACIB, JP,  
Deputy Chairman

Truman Bodden is an Attorney-at-Law, as well as a former Member of the Cayman Islands Legislative Assembly from 1976 – 1984 and 1988 – 2000 and Former Leader of Government Business and acting Attorney General. Mr. Bodden is an ACIB, LLB (Hons) London, FICM., FFA,

MCMI, ACIARB, and Barrister at 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 a Senior Partner of the law firm of Truman Bodden and Company.

## 3 Stuart Dack

ACIB, MBA, President  
and Chief Executive

Stuart Dack entered banking in 1971, and obtained the ACIB qualification with distinction. Mr. Dack worked for the Midland Bank Group in the UK for 22 years 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 was awarded an MBA with Merit from Southampton

University. In April 2004 he took on the role of President and Chief Executive of the Group.

## 4 John Bierley

BA, JD, USA

John Bierley is a Florida Bar Board Certified International Lawyer based in Tampa where he has practised for over 40 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 a Founding Director of Cayman National.

## 5 Sherri Bodden-Cowan

MBE, LLB (Hons)

Sherri Bodden-Cowan was educated in the Cayman Islands and the United Kingdom, and gained an LLB (Hons) from Bristol University, England. She was subsequently called to the Bar of



England & Wales in 1986 and the Cayman Islands in 1987. Mrs. Bodden-Cowan has worked for the Cayman Islands Government, the law firm Hunter & Hunter, and was an Associate and Partner in the firm of Boxalls.

Mrs. Bodden-Cowan owns her own law firm, Bodden & Bodden and is a Director of Bodden Corporate Services.

Mrs. Bodden-Cowan has served in numerous capacities as Chairman or Director of Cayman Islands Statutory Boards and Authorities.

## 6 Clarence Flowers Jr.

Clarence Flowers Jr. 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 Cayman's Business Community and has spearheaded several projects in the Cayman Islands, including the construction and management of Cricket Square Development on Elgin Avenue.

## 7 Peter Tomkins

MBE

Peter Tomkins is a Founder of Cayman National Corporation Ltd. He began his working life in the Merchant Marine. He entered commercial banking with Barclays Bank in 1951 and took up the position of Executive Vice President with Mercantile Bank & Trust Co. (Cayman) Ltd., in 1969. From 1973 to 1994 he held the positions of Founder, President and Chief Executive Officer of Cayman National Corporation Ltd. and its Subsidiaries. Now retired, Mr. Tomkins remains on the Board of Directors of Cayman National. Mr. Tomkins has held a number of public appointments during his career including, past President of the Cayman Islands Bankers Association and a former Director of the Cayman Islands Monetary Authority.

## 8 David Trimble

MA (Hons), Cambridge

David Trimble 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. In 1987 he became Chairman of London Stockbrokers, Robert Wigram & Co and from 1979 to 2003 was a Registered Insurance Broker. Until February of 2006 he was Chairman of H&H Group plc, with subsidiary companies in livestock auctioneering, auto finance, land and estate agency, insurance broking and fine art auctioneering. He is presently Chairman of Cowens Ltd, manufacturer of cotton wool, wadding and environmental pollution control equipment. He is also a Director of CN Group Ltd, publishers and printers of regional newspapers and magazines, and owners and managers of commercial UK radio stations.



# Financial Summary

The Group's net income represents an increase of 22% over the previous year.

## The Year in Review

The Group's net income of C\$19,633,366 for the year to 30 September 2006 represents an increase of 22% over the C\$16,108,181 achieved for the previous year to 30 September 2005. Total income was up by 16% on a year ago at C\$53,441,662 with expenses up by just 10%. The 2006 results includes a gain of C\$3,283,075 in respect of the sale of 51% of Cayman General Insurance (CGI) shares early in the financial year.

Expenses remain an area of focus and although personnel costs were up by 12% we deliberately increased staffing in certain areas of the Group to cope with business expansion and now have the critical mass of staff to take on additional business growth without a further significant increase in staff numbers.

Total assets fell by 4% on the 2005 position and this is mainly as a result of the fall in funds held last year relating to Hurricane Ivan insurance settlements where the temporary funds were paid away early in the year. Against this background it is pleasing to note an overall increase in fixed deposits which rose by 3% to C\$412,881,294.

In 2004 and 2005, as shareholders are aware, the Group gave considerable monetary support to Cayman General Insurance Co Ltd (now Sagicor General Insurance Co Ltd) the result of which created a significant impact on our position. As at 30 September 2004 the Group's net equity stood at C\$34,108,647 and our objective was to rebuild Total Shareholders' Equity in a timely manner. We are pleased that through profit retention the position has now been restored to a very solid C\$62,249,498.

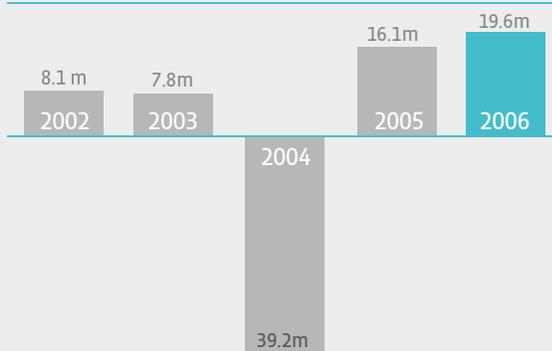
Taking the progress to rebuild Total Shareholders' Equity into account and the overall performance of the business, the Board of Directors approved the payment of an interim dividend of 6 cents per share and this payment was made to shareholders on record as at 30 June 2006 with the payment date being 18 September 2006. The directors are recommending a final dividend of 6 cents per share, for shareholders' consideration at the forthcoming Annual General Meeting. The final dividend will be paid to shareholders on record, as at 31 December 2006 and the payment date will be 5 March 2007.

During the financial year 1,641,000 shares were traded and the last traded price at the end of the financial year was C\$3.75

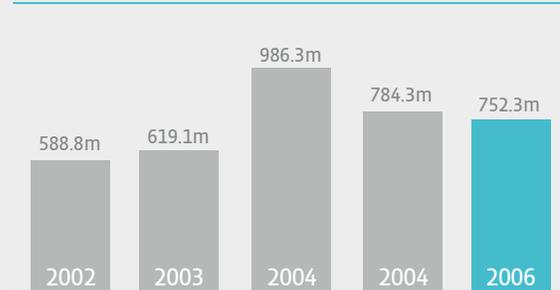
## Summarised Financial Details

	2006	2005	Change 2006/2005
Net Income	19,633,366	16,108,181	22%
Total Income	53,441,662	46,246,467	16%
Total Assets	752,266,105	784,325,668	-4%
Total Deposits	666,994,395	685,152,010	-3%
Total Equity	62,249,498	50,425,378	23%
Earnings Per Share	\$0.47	\$0.39	21%
Book Value Per Share	\$1.49	\$1.23	21%
Return on Assets	2.61%	2.05%	27%
Return on Equity	31.54%	31.94%	-1%
Price Earnings Ratio	7.98	5.77	38%
Dividend Yield Per Share	3.20%	5%	-36%
Dividend Per Share	\$0.12	\$0.12	0%

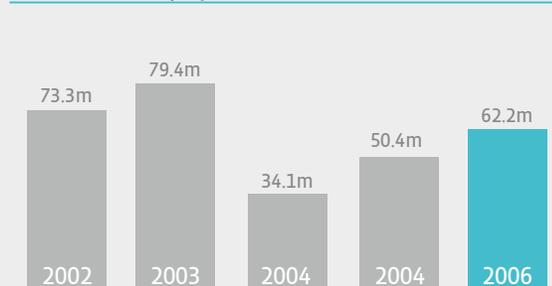
**Net Income** in Millions of Dollars



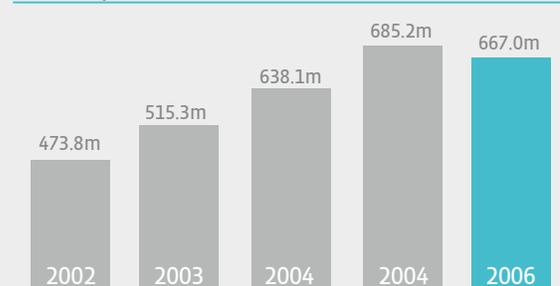
**Total Assets** in Millions of Dollars



**Shareholders' Equity** in Millions of Dollars



**Total Deposits** in Millions of Dollars



# Presidents

## 1 Ian D. Phillips

ACIBT, TEP, President  
International Financial Services

Ian Phillips assumed the role of President, International Financial Services with Cayman National Corporation at the beginning of 2005 after the clients of a private Trust company of which he was Managing Director was acquired by the Cayman National Group. He started his career in the UK with National Westminster Bank dealing with Trusts and investments, before moving to the Cayman Islands with CIBC in 1994 as a Trust Officer, having obtained his ACIBT. In 1999 Ian moved to Barbados to run the trust company for CIBC before returning to Cayman with Royal Bank of Canada as their Head of Trust.

## 2 Ormond A. Williams

ACIB, FCMI, President  
Cayman National Bank

Ormond Williams is an Associate of the Chartered Institute of Bankers, UK (ACIB) and a Fellow of the Chartered Management Institute, UK (FCMI). His banking career spans over 25 years with 21 of these years with Barclays Bank Plc where he worked in St Vincent and the Grenadines, Barbados, Belize and the United Kingdom. He was Executive Vice President of CNB from 2002 to 2003 before taking on the responsibilities of President. Mr Williams is an Accredited Lay Preacher in the Methodist Church in the Caribbean and the Americas (MCCA) and an Elder in the John Gray United Church, Cayman Islands.

## 3 Ian Bancroft

ACIB, Managing Director  
Isle of Man

Ian Bancroft has over thirty years experience in international private banking and wealth management. Prior to joining the Cayman National Group, Mr Bancroft worked for National Westminster Bank; PK English Trust; Rea Brothers Group plc, where he served as Group Head of Banking; and Senior Executive Director of their Isle of Man operations, and Managing Director of Close Private Bank, Isle of Man. Mr Bancroft is a council member of the Isle of Man Association of Licensed Banks, a member of the Isle of Man Chamber of Commerce Finance Committee, and sits on the Isle of Man Government Treasury liaison committee.



# Community Support

Right: Mr. Ormond Williams, President of Cayman National Bank presents the Royal Cayman Islands Police with a donation cheque to support DARE, the Cayman Islands Drug Abuse Resistance Education programme.

Below: The Cayman National Building, located on Elgin Avenue, displays the new Cayman National brand and logo.



# Independent Auditors' Report



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

PricewaterhouseCoopers  
PO Box 258  
Strathvale House  
Grand Cayman  
KY1 – 1109  
Cayman Islands

Tel: (345) 949 7000  
Fax: (345) 949 7352  
mail@pwc.com  
www.pwc.com

We have audited the accompanying consolidated financial statements of Cayman National Corporation Ltd. and its subsidiaries (the "Group") which comprise the consolidated balance sheet as of September 30, 2006 and the consolidated statement of income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

## **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## **Auditor's Responsibility**

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

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

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

## **Opinion**

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of September 30, 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

January 9, 2007

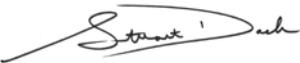
Cayman National Corporation Ltd.

## Consolidated Balance Sheet

30 September 2006 (expressed in Cayman Islands dollars)

<b>Assets</b>	<b>2006</b>	<b>2005</b>
Cash and due from banks (Note 3)	\$334,638,468	\$394,265,437
Short term placements	31,650,629	38,514,315
Investments and derivatives (Notes 4 and 13)	23,256,367	22,493,932
Loans and overdrafts (Note 5 and 13)	323,441,769	268,039,057
Interest receivable	2,404,299	2,455,370
Accounts receivable (Notes 9 and 13)	6,651,004	14,179,093
Investment in Associate (Note 9)	2,783,410	-
Reinsurance balances receivable and other insurance related assets (Note 9)	-	18,317,928
Fixed assets (Note 6)	22,568,928	21,005,801
Goodwill (Note 7)	4,871,231	5,054,735
	<b>\$752,266,105</b>	<b>\$784,325,668</b>
<b>Liabilities</b>		
Customers' accounts (Note 13)		
Current	\$118,182,109	\$146,224,721
Savings	135,930,992	139,248,763
Fixed deposits (Note 8)	412,881,294	399,678,526
	<b>666,994,395</b>	<b>685,152,010</b>
Interest payable	1,262,855	1,361,327
Accounts payable and other liabilities (Note 7)	21,750,519	20,402,554
Provision for unpaid claims and other insurance		
Related liabilities (Note 9)	-	26,947,828
Taxation (Note 10)	8,838	36,571
	<b>690,016,607</b>	<b>733,900,290</b>
<b>Shareholders' Equity</b>		
Share capital (Note 11)	41,686,308	41,046,470
Share premium (Note 11)	3,193,086	2,393,288
General reserve (Note 11)	7,486,050	7,486,050
Accumulated retained earnings/(deficit)	6,937,972	(7,581,237)
Reserve for dividends (Note 18)	2,501,178	4,925,576
Net unrealized appreciation/(depreciation) on investments available-for-sale (Note 4)	51,792	(163,475)
Equity adjustments from foreign currency translation (Note 12)	393,112	245,059
Minority interest (Notes 2 and 9)	-	2,073,647
	<b>62,249,498</b>	<b>50,425,378</b>
	<b>\$752,266,105</b>	<b>\$784,325,668</b>

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

Director   
S. J. Dack

Director   
B. O. Ebanks

Date: 9 January 2007

See notes to consolidated financial statements

Cayman National Corporation Ltd.

## Consolidated Statement of Income

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

Interest	2006	2005
Interest income (Note 22)	\$47,076,506	\$33,098,397
Interest expense	18,275,693	9,590,616
<b>Net Interest Income</b>	<b>28,800,813</b>	<b>23,507,781</b>
Other Income		
Banking fees and commissions	\$7,103,458	5,669,449
Trust and company management fees	5,085,811	4,093,313
Foreign exchange fees and commissions (Note 23)	5,127,580	4,963,376
Brokerage commissions and fees	2,408,837	1,414,460
Net underwriting income (Notes 9 and 17)	926,962	4,809,234
Realised (loss)/gain on available for sale securities (Note 4)	(295,450)	1,457,002
Gain on disposal of equity interest in subsidiary (Note 9)	3,283,075	962,704
Gain/(loss) on disposal of fixed assets (Note 6)	420,826	(630,852)
Share of associated company profits (Note 9)	579,750	–
<b>Total Income</b>	<b>53,441,662</b>	<b>46,246,467</b>
Expenses		
Personnel	19,405,046	17,311,358
Other operating expenses	9,138,678	7,783,726
Increase in loan impairment provision (Note 5)	60,795	787,034
Premises	1,691,737	1,623,086
Depreciation (Note 6)	2,493,757	2,405,752
Goodwill impairment charge (Note 7)	1,027,757	211,568
	<b>33,817,770</b>	<b>30,753,376</b>
<b>Net Income Before Taxation</b>	<b>19,623,892</b>	<b>16,123,943</b>
<b>Taxation (Note 10)</b>	<b>9,474</b>	<b>(15,762)</b>
<b>Net Income</b>	<b>\$19,633,366</b>	<b>\$16,108,181</b>
Net Income Attributable to:		
Equity Holders of the Company	\$19,521,565	\$16,041,830
Minority interests (Note 9)	111,801	66,351
	<b>\$19,633,366</b>	<b>\$16,108,181</b>
<b>Earnings Per Share (Note 11)</b>	<b>\$0.47</b>	<b>\$0.39</b>
<b>Diluted Earnings Per Share (Note 11)</b>	<b>\$0.47</b>	<b>\$0.39</b>

See notes to consolidated financial statements

Cayman National Corporation Ltd.

## Consolidated Statement of Changes in Shareholders' Equity

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

	Share Capital	Share Premium	General Reserve	Retained Earnings (Accumulated Deficit)	Reserve for Dividends	Net Unrealised (Depreciation) Appreciation on Investments	Foreign Currency Translation Reserve	Minority Interest	Total
<b>Balance at Sept 30, 2004</b>	\$40,394,957	\$1,956,774	\$12,411,626	\$(22,132,816)	\$1,615,798	\$1,041,995	\$310,564	\$ -	\$35,598,898
<b>Effect of implementing accounting policy (Note 2)</b>	-	-	-	(1,490,251)	-	-	-	-	(1,490,251)
<b>Balance at Sept 30, 2004 restated</b>	\$40,394,957	\$1,956,774	\$12,411,626	\$(23,623,067)	\$1,615,798	\$1,041,995	\$310,564	\$ -	\$34,108,647
Net income	-	-	-	16,041,830	-	-	-	66,351	16,108,181
Dividends paid	-	-	-	-	(1,615,798)	-	-	-	(1,615,798)
Minority interest arising on partial disposal of investment (Note 9)	-	-	-	-	-	-	-	2,007,296	2,007,296
Issuance of shares in connection with business combination (Note 7)	651,513	436,514	-	-	-	-	-	-	1,088,027
Reclassification adjustment for net gain on disposal of available for sale investments recognized in earnings	-	-	-	-	-	(1,457,002)	-	-	(1,457,002)
Final dividend proposed (Note 18)	-	-	(4,925,576)	-	4,925,576	-	-	-	-
Net change in unrealized (depreciation)/ appreciation on investments (Note 4)	-	-	-	-	-	251,532	-	-	251,532
Equity adjustment from foreign currency translation (Note 12)	-	-	-	-	-	-	(65,505)	-	(65,505)
<b>Balance at Sept 30 2005</b>	\$41,046,470	\$2,393,288	\$7,486,050	\$(7,581,237)	\$4,925,576	\$(163,475)	\$245,059	\$2,073,647	\$50,425,378
Net income	-	-	-	19,521,565	-	-	-	111,801	19,633,366
2005 proposed dividends paid (Note 18)	-	-	-	-	(4,925,576)	-	-	-	(4,925,576)
2006 interim dividend paid	-	-	-	(2,501,178)	-	-	-	-	(2,501,178)
Issuance of shares in connection with business combination (Note 7)	639,838	799,798	-	-	-	-	-	-	1,439,636
Final dividend proposed (Note 18)	-	-	-	(2,501,178)	2,501,178	-	-	-	-
Reclassification adjustment for net realised losses on available for sale investments recognized in earnings	-	-	-	-	-	295,450	-	-	295,450
Net change in unrealized (depreciation)/ appreciation on investments (Note 4)	-	-	-	-	-	(80,183)	-	-	(80,183)
Equity adjustment from foreign currency translation (Note 12)	-	-	-	-	-	-	148,053	-	148,053
Minority interest adjustment on de-consolidation of subsidiary (Note 9)	-	-	-	-	-	-	-	(2,185,448)	(2,185,448)
<b>Balance at Sept 30 2006</b>	\$41,686,308	\$3,193,086	\$7,486,050	\$6,937,972	\$2,501,178	\$51,792	\$393,112	\$ -	\$62,249,498

See notes to consolidated financial statements

Cayman National Corporation Ltd.

# Consolidated Statement of Cash Flows

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

Cash (Used In)/Provided by:	2006	2005
<b>Operating Activities</b>		
<b>Net income</b>	<b>\$19,633,366</b>	<b>\$16,108,181</b>
Adjustments for items not involving cash:		
Depreciation	2,493,757	2,405,752
Impairment of goodwill	1,027,757	211,568
Amortization of premium/discount on investments held-to-maturity	52,218	42,929
Realized loss/(gain) on investments available-for-sale	295,450	(1,457,002)
Gain on partial disposal of subsidiary	(3,283,075)	(962,704)
Change in fair value of options purchased designated as fair value hedges	–	316,790
(Gain)/loss on disposal of fixed assets	(420,826)	630,852
Net increase loan impairment provision	60,795	787,034
Share of associated company profits	(579,750)	–
Adjustments from foreign currency translation	148,053	(65,505)
	<b>19,427,745</b>	<b>18,017,895</b>
<b>Changes in non-cash working capital items:</b>		
Interest receivable	51,071	(611,317)
Accounts receivable**	8,328,089	(8,511,651)
Reinsurance balances receivable and other insurance related balances*	(1,668,175)	221,850,727
Depositors' accounts	(18,157,615)	47,044,274
Interest payable	(98,472)	557,604
Accounts payable and other liabilities (net of non-cash transaction in respect of business combination – see Note 7)	1,943,348	(4,255,072)
Taxation	(27,733)	12,712
Provision for unpaid claims, net of non-cash settlement of claims (see Note 9)*	(5,615,202)	(261,652,449)
<b>Net advances for loans and overdrafts</b>	<b>(55,463,507)</b>	<b>(2,982,820)</b>
	<b>(51,280,451)</b>	<b>9,469,903</b>
<b>Investing Activities</b>		
Short term placements	17,400,090	(10,536,404)
Proceeds on disposal of investments available-for-sale	–	3,117,097
Purchase of investments	(7,619,749)	(6,419,583)
Proceeds on maturity of investments held-to-maturity	6,708,246	10,711,552
Additions to fixed assets	(5,346,948)	(3,801,352)
Proceeds on disposal of fixed assets	657,300	21,768
Proceeds from partial disposal of Subsidiary net of cash de-consolidated (Note 9)	(2,182,299)	–
	<b>9,616,640</b>	<b>(6,906,922)</b>
<b>Financing Activities</b>		
Dividends paid (Note 18)	(7,426,754)	(1,615,798)
	<b>(7,426,754)</b>	<b>(1,615,798)</b>
<b>(Decrease)/increase In Cash And Cash Equivalents</b>	<b>(49,090,565)</b>	<b>947,183</b>
<b>Cash And Cash Equivalents, Beginning Of Year</b>	<b>383,729,033</b>	<b>382,781,850</b>
<b>Cash And Cash Equivalents, End Of Year</b>	<b>\$334,638,468</b>	<b>\$383,729,033</b>
<b>Supplemental information:</b>		
Interest received	\$46,982,142	\$33,944,082
Interest paid	\$18,374,165	\$9,033,012

\* Net of non-cash balances eliminated on de-consolidation of subsidiary (Note 9)  
See Notes 7 and 9 for details of significant non-cash transactions

\*\* Net of outstanding consideration receivable in respect of partial sale of subsidiary (Note 9)

Cayman National Corporation Ltd.

# Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

## 1. Incorporation and Background Information

Cayman National Corporation Ltd. (the “Corporation” or “CNC”) was incorporated on October 4, 1976 and operates subject to the provisions of the Companies Law of the Cayman Islands. The Corporation is a holding company for the companies referred to in Note 2 (collectively, the “Group”), all of which are incorporated in the Cayman Islands except where otherwise indicated. Through these companies the Corporation conducts full service banking, company and trust management, mutual fund administration, stock broking, general (property & casualty) and health insurance, insurance brokerage and captive insurance management services in the Cayman Islands and the Isle of Man. The Corporation is listed on the Cayman Islands Stock Exchange. The registered office of the Corporation is 200 Elgin Avenue, George Town, Grand Cayman.

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.

## 2. Significant Accounting Policies

These financial statements have been prepared under the historical cost convention, modified by the revaluation of investments and derivatives to fair value, and in accordance with International Financial Reporting Standards (“IFRS”), which includes International Accounting Standards and Interpretations issued by the International Accounting Standards Board. The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting periods. Actual results could differ from those estimates. The significant accounting policies adopted by the Group are as follows:

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 2. Significant Accounting Policies (Continued)

#### **Standards, interpretations and amendments to published standards that are not yet effective**

The following standards, interpretations and amendments to published standards have been published that are mandatory for the Group's accounting periods beginning on or after May 1, 2006 or later periods that the Group has not earlier adopted:

IFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures, introduce new disclosures relating to financial instruments. These standards do not have any impact on the classification and valuation of the financial instruments currently held by the Group.

IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after May 1, 2006). IFRIC 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of IFRS 2. The Group will apply IFRIC 8 from October 1, 2006, but it is not expected to have any impact on the Group's financial statements; and

IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply IFRIC 10 from October 1, 2006, but it is not expected to have any impact on the Group's financial statements.

The following standards, interpretations and amendments to published standards are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant for the Group's operations:

IFRIC 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As the Group no longer holds any derivatives, IFRIC 9 is not relevant to the Group's operations.

Cayman National Corporation Ltd.

# Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

## 2. Significant Accounting Policies (Continued)

### Standards, interpretations and amendments to published standards that are not yet effective (continued)

IAS 19 (Amendment), Employee Benefits

IAS 21 (Amendment), Net Investment in a Foreign Operation;

IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast IntraCompany Transactions;

AS 39 (Amendment), The Fair Value Option;

IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts;

IFRS 1 (Amendment), First-time Adoption of international Financial Reporting Standards

IFRIC 4, Determining whether an Arrangement contains a Lease;

## Basis of Consolidation

### (a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights (see list below). The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Subsidiaries are de-consolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of income.

All significant inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Accounting policies of subsidiaries have been aligned, where necessary, to ensure consistency with the policies of CNC.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 2. Significant Accounting Policies (Continued)

#### Basis of Consolidation (continued)

Minority interest in the net assets of subsidiaries is recorded as a component of shareholders equity.

#### (b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement; its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

All significant unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 2. Significant Accounting Policies (Continued)

#### Basis of Consolidation (continued)

##### NOMINEE COMPANIES:

Cayman National (Nominees) Ltd.

CNT (Nominees) Ltd.

Cayman National Nominees Ltd., formerly Caymanx Nominees Ltd. (incorporated and regulated in the Isle of Man)

Cayman National Secretarial Ltd., formerly Caymanx Secretarial Ltd. (incorporated and regulated in the Isle of Man)

These four subsidiaries earned no fee income and incurred no expenses during the years ended September 30, 2006 and 2005; in addition they had no assets or liabilities as at these dates.

##### OPERATING COMPANIES:

Entity	% Owned	Principal activity
Cayman National Bank Ltd. ("CNB") and its wholly owned subsidiary Cayman National Property Holdings Ltd. ("CNP")	100%	Banking and property holding, respectively
Cayman National Trust Co. Ltd. ("CNT")	100%	Company and trust management
Cayman National Securities Ltd. ("CNS")	100%	Securities brokerage
Cayman National Bank & Trust Company (Isle of Man) Ltd ("CNB&T"(IOM)), formerly Caymanx Trust Company Limited (incorporated and regulated in the Isle of Man)	100%	Banking, company and trust management
Cayman National Fund Services (Isle of Man) Ltd, ("CNIFS" (IOM)), (incorporated and regulated in the Isle of Man)	100%	Fund services
Cayman National Investments Ltd. ("CNI")	100%	Holds an investment in a venture capital limited partnership (investment approximately 16% of the imited partnership)
Cayman National Insurance Brokers Limited ("CNIB")	100%	Insurance brokerage
Sagikor General Insurance (Cayman) Ltd. ("SGI") formerly known as Cayman General Insurance Company Ltd ("CGI")	24.2% (see Note 7)	General (property & casualty) and health insurance

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 2. Significant Accounting Policies (Continued)

#### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill is tested annually for impairment, or when there are indications of impairment, and carried at cost less accumulated impairment losses.

#### Acceptances

Acceptances comprise undertakings by the Group to pay letters of credit and guarantees drawn on customers. Management expects substantially all acceptances to be settled simultaneously with the reimbursement from its customers. Acceptances for standby letters of credit and guarantees are accounted for as off-balance sheet transactions and are disclosed as commitments.

#### 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 income statement of the foreign subsidiaries, Cayman National Bank & Trust Company (Isle of Man) Ltd ("CNB&T (IOM)") and Cayman National Fund Services (Isle of Man) Ltd ("CNFS (IOM)"), are translated at average exchange rates for the year and the balance sheet is translated at mid-market rate ruling at the year end for the purpose of incorporation in these consolidated financial statements. Exchange differences arising from the translation of the net investment in the foreign subsidiary are recorded as a separate component of shareholders' equity.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 2. Significant Accounting Policies (Continued)

#### Depreciation

Fixed assets are recorded as cost less accumulated depreciation and impairment losses. 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 3 to 7 years
Freehold buildings	Over 50 years
Freehold land	Nil
Furniture and equipment	Variously over 2 to 10 years
Leasehold improvements	Over the terms of the leases
Leasehold property	Shorter of terms of leases or 20 years
Motor vehicles	Over 4 years

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

#### Loans and provision for loan impairment

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

An allowance for loan impairment is established if there is objective evidence that the Corporation 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. 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.

Loans which are over 90 days in arrears are provided against where there is a shortfall in security. Loans are written off when there is no realistic expectation of recovery.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 2. Significant Accounting Policies (Continued)

#### Director benefits

Share Options are offered to directors as an incentive in consideration for the carrying out of their duties in addition to Director's fees or other emoluments. No compensation cost is recognized as the options were granted at the market price on the date of the grant and will be exercised at that price. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (par value) and the surplus to share premium.

#### Interest income and expense

Interest income and expense is recorded on an accrual basis which approximates the effective interest yield method.

#### Fees and commissions

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

#### Premiums and commissions (see Note 9)

Premiums written and reinsurance premiums ceded were accounted for on a pro-rata basis over the periods covered by the underlying policies, and any unearned or unamortized portions at the financial period end were carried forward on the consolidated balance sheet as unearned premiums and reinsurers' share of unearned premiums, respectively.

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

#### Provision for unpaid claims (see Note 9)

The provision for unpaid claims, and reinsurers' share thereof, included amounts for all claims reported but not settled, and further amounts estimated by management for claims incurred but not reported.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 2. Significant Accounting Policies (Continued)

#### Reinsurance (see Note 9)

The Group ceded reinsurance to other companies by way of individual facultative placements, proportional treaties and excess of loss covers. The purpose of these reinsurance arrangements was to minimize the Group's exposures arising from large risks or from hazards of an unusual or catastrophic nature.

In the event that the Group's reinsurers were unable to meet their obligations under the reinsurance agreements, the Group 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 above mentioned obligations.

#### Pension fund

Payments to a defined contribution retirement benefit plan are charged as an expense as they fall due. The Group does not operate any defined benefit plans.

#### Cash and cash equivalents

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

#### Short term placements

Short term placements represents deposits and placements with other banks with original maturities of greater than three months but less than twelve months.

#### Assets under administration

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

#### Share Purchase Scheme

Shares acquired by employees and directors under the Share Purchase Scheme (the "Scheme") are subject to certain vesting terms as set out in the Scheme. The Group recognizes, within personnel costs, the cost of its matched contributions to the Scheme as if all shares vest immediately. If employees fail to meet the service conditions, the effect of actual forfeitures is recognized as a reduction to personnel costs when the forfeitures occur.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 2. Significant Accounting Policies (Continued)

#### Investments

##### Available-for-sale

Available-for-sale investments are recorded on a trade date basis and carried at estimated fair value. For publicly traded securities fair value is based on quoted bid prices of these securities. The fair value of the investment in the venture capital limited partnership owned by CNI is determined based on the portfolio valuation provided by management of the limited partnership, which management considers to represent fair value. The fair value of non-exchange traded mutual funds is determined based on the net asset value per share provided by the administrators of the funds. In cases where there is no quoted market price and the Group is not able to estimate the fair value, the investment is valued at cost subject to impairment recognition.

Gains and losses on disposal are calculated on gross proceeds less the original cost of securities sold on a specific identification basis, and are included in income. Unrealized appreciation and depreciation on available-for-sale investments is reported as a separate component of shareholders' equity.

##### Held-to-maturity

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

#### Critical Accounting Estimates and Judgments

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

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 2. Significant Accounting Policies (Continued)

#### Impairment losses on loans and advances

The Group reviews its classified loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement on these loans, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the discounted collateral and estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group or local economic conditions that correlate with defaults on assets in the group. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows differs by +/-5 percent, the specific provision would change by approximately +/- \$175,000. Additionally, the Group periodically reviews its provisions for losses inherent in the non-classified loan portfolio but not specifically identifiable at year end. In determining the provision for inherent losses management makes certain judgements regarding the extent to which historical loss trends and current economic circumstances impact their best estimate of losses that exist in the non-classified loan portfolio at the balance sheet date.

#### Loan origination fees

There are significant balances in the financial statements relating to loan origination fees which require management to exercise judgment in determining the estimates which impact these balances. Based on historical data and management's knowledge and experience of the current portfolio, management estimates that the aggregate portfolio of loan balances has an average maturity period of seven years and that, annually, 5% of loan balances are repaid before the maturity date. These estimates have an impact on loan origination fees recorded within other fees and commissions in the statement of income and deferred loan origination fees recorded within accounts payable and accrued expenses in the balance sheet.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 2. Significant Accounting Policies (Continued)

#### Loan origination fees (continued)

A 1 year increase in the average maturity period has an effect on loan origination fees of approximately \$120,000. A 1 year decrease in the average maturity period has an effect on loan origination fees of approximately \$240,000. A 1% change in the level of loans repaid prior to the scheduled maturity date has an effect of approximately +/- \$16,000 on loan origination fees revenue recognized.

The accounting policy to record loan origination fees was adjusted, effective October 1, 2005, to recognize the fees over the period of the respective loans. The impact of this accounting policy on the financial statements was a debit of \$1,490,251 to 2005 opening retained earnings and a credit to \$1,490,251 to other liabilities.

#### Estimated Goodwill Impairment

The Group determines that its goodwill is impaired when there has been a significant or prolonged decline in its value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, an adverse change in the number of clients, or size of assets under management that correlate with a decrease in revenue for the Group. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the purchased portfolio and operational and financing cash flows.

Management uses estimates based on historical loss experience for client assets when projecting its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows differs by +/-1 percent, the impairment recognized would change by approximately +/- \$11,000. If the volume of underlying cash generating accounts decreased by 10% then the Group would recognize impairment of approximately \$360,000. The Group reviews its goodwill to assess impairment at least on an annual basis.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 2. Significant Accounting Policies (Continued)

#### Impairment of available-for-sale equity investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of a significant deterioration in the financial health of the investee, industry and sector performance and operational and financing cash flows. Management has determined that the carrying values of available-for-sale equity investments are not impaired at September 30, 2006.

#### Held-to-maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost. If the entire class of held-to-maturity investments is tainted, the carrying value would decrease by \$199,396, with a corresponding entry in the net unrealized appreciation on investments available-for-sale reserve in shareholders' equity.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 3. Cash and Due from Banks

Cash and Due from Banks Comprise	2006	2005
Cash in hand and current accounts	\$22,239,863	\$22,866,971
Short term placements with banks	312,398,605	371,398,466
	\$334,638,468	\$394,265,437

### 4. Investments

Investments Comprise	2006	2005
Available-for-sale at fair value	\$2,026,741	\$2,106,924
Held-to-maturity, at amortized cost	21,229,626	20,387,008
	\$23,256,367	\$22,493,932

The amortized cost of investments held-to-maturity is as follows:

	2006	2005
U.S. government agency bonds	\$ 15,400,090	\$ 15,336,503
Regional corporate and government bonds	4,164,583	4,219,742
International corporate bonds	1,664,953	830,763
	\$ 21,229,626	\$ 20,387,008

The issuers of the regional, corporate and government bonds are domiciled in Barbados and the Cayman Islands. The estimated fair value of all of the above investments at September 30, 2006 was \$21,030,230 (2005: \$20,144,872). Effective interest rates for the above debt instruments range from 3.4% to 7.75% (2005: 3.00% to 11%).

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 4. Investments (Continued)

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

	Cost	Gross unrealized holding losses	Gross unrealized holding gains	Estimated fair value
<b>September 30, 2006</b>				
Ordinary shares	\$849,909	\$-	\$156,612	\$1,006,521
Preference Shares	40,885	-	-	40,885
Mutual Funds	1,084,155	(104,820)	-	979,335
	\$1,974,949	\$(104,820)	\$156,612	\$2,026,741
<b>September 30, 2005</b>				
Ordinary shares	\$849,909	\$-	\$131,975	\$981,884
Preference Shares	40,885	-	-	40,885
Mutual Funds	1,379,605	(295,450)	-	1,084,155
	\$2,270,399	\$(295,450)	\$131,975	\$2,106,924

Included in investments available-for-sale are three securities with a carrying value of \$1,270,221 (2005: \$1,375,041) that are not publicly traded. The Group is unable to estimate the fair value of two of these securities with a carrying value of \$874,219 (2005: \$874,219) therefore, they are carried at cost less impairment provision. The absence of a liquid market for these securities may restrict the Group's ability to dispose of these investments and amounts ultimately realized may differ materially from the carrying values. Two directors of the Corporation are also directors of two of these investee companies with carrying values of \$1,229,355 (2005: \$1,334,156).

Mutual funds consist of three funds, two of which are sponsored and managed by the Cayman National Group (see Note 13). The objectives of mutual funds are (i) a Dow Jones Industrial Average index fund; (ii) an Absolute Return fund which seeks to maintain capital preservation while outperforming LIBOR through indirect holdings of investments in international markets with a medium term investment horizon; and (iii) and a third party Venture Capital fund investing in companies that are in developmental stage.

Included within realized losses on available-for-sale securities during the year ended September 30, 2006 is impairment losses of \$295,450 relating to the Venture Capital fund.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 5. Loans and Overdrafts

Composition and aging of the loan portfolio are as follows:

	Period from year end to maturity				Total
	Under one year	Within two to five years	Within six to ten years	Over ten years	
(all figures in \$000's)					
<b>At September 30, 2006</b>					
Commercial	\$18,096	\$50,543	\$20,925	\$51,393	\$140,957
Personal	\$14,293	\$32,957	\$27,438	\$101,803	176,491
Corporate	2,902	–	7,046	1,223	11,171
Total	\$35,291	\$83,500	\$55,409	\$154,419	\$328,619
Provision for loan impairment					(5,177)
					\$323,442
<b>At September 30, 2005</b>					
Commercial	\$32,718	\$15,844	\$22,614	\$36,240	\$107,416
Personal	19,684	28,426	32,332	70,425	150,867
Corporate	5,905	–	7,969	1,287	15,161
Total	\$58,307	\$44,270	\$62,915	\$107,952	\$273,444
Provision for loan impairment					(5,405)
					\$268,039

Substantially all of the Group's loans and overdrafts are advanced to customers in the Cayman Islands.

Movements in the provision for loan impairment are as follows:

	2006	2005
Provision for loan impairment, beginning of year	\$5,405,102	\$6,089,001
Increase charged to expenses	60,795	787,034
Loans written off	(288,838)	(1,470,933)
Provision for loan impairment, end of year	\$5,177,059	\$5,405,102

Included in the 2006 impairment provisions is \$ 899,027 (2005: \$1,235,259) based on loans classified as delinquent. The aggregate amount included in the balance sheet for loans and overdrafts in arrears by more than 90 days is \$ 4,080,500 (2005: \$6,802,019).

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 6. Fixed Assets

	Freehold land and buildings	Leasehold property and improvements	Computers, software, furniture and equipment	Motor Vehicles	Total
<b>Cost:</b>					
At September 30, 2005	\$16,820,037	\$3,761,141	\$17,612,616	\$179,525	\$38,373,319
Adjustment on deconsolidation of SGI	–	(1,363,980)	(473,452)	(44,800)	(1,882,232)
Additions	2,601,649	458,139	2,182,983	104,177	5,346,948
Disposals	(336,275)	–	(19,368)	–	(355,643)
At September 30, 2006	\$19,085,411	\$2,855,300	\$19,302,779	\$238,902	\$41,482,392
<b>Accumulated depreciation:</b>					
At September 30, 2005	\$2,225,010	\$2,127,053	\$12,983,273	\$32,182	\$17,367,518
Adjustment on deconsolidation of SGI	–	(568,876)	(248,990)	(10,776)	(828,642)
Charge for year	554,344	215,490	1,675,521	48,402	\$2,493,757
Disposals	(99,799)	–	(19,370)	–	(119,169)
At September 30, 2006	\$2,679,555	\$1,773,667	\$14,390,434	\$69,808	\$18,913,464
<b>Net book value:</b>					
At September 30, 2006	\$16,405,856	\$1,081,633	\$4,912,345	\$169,094	\$22,568,928
At September 30, 2005	\$14,595,027	\$1,634,088	\$4,629,343	\$147,343	\$21,005,801

During the year ended September 30, 2006, fixed assets with a cost of \$355,643 and a net book value of \$236,474 were disposed of as a result of the sale of the building and equipment of CNB&T (IOM). The proceeds associated with the fixed asset disposals were \$657,300 resulting in a gain on disposal of \$420,826.

During the year ended September 30, 2005, fixed assets with a cost of \$1,214,861 and a net book value of \$652,620 were disposed of, primarily as a result of relocation of one of CNB's branches. The proceeds associated with the fixed asset disposals were \$21,768 resulting in a loss on disposal of \$630,852.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 7. Goodwill

Goodwill is summarized as follows:

	2006	2005
Goodwill at beginning of year	\$5,054,735	\$1,269,763
Purchase consideration paid in year	844,253	3,996,540
Impairment charge for the year	(1,027,757)	(211,568)
Goodwill at end of year	\$4,871,231	\$5,054,735

Goodwill comprises the following business combinations:

Business acquired:	Year of acquisition	Original cost	Previously recognised accumulated amortisation*	Cumulative impairment charge	Carrying value
Cayman National Insurance Brokers and Cayman National Insurance Managers	1998	\$299,755	\$(299,755)	\$-	\$-
Fiduciary Trust (Cayman) Limited	2003	1,543,550	(550,356)	-	993,194
Cayman Islands Securities Ltd.	2003	378,011	(101,442)	(211,568)	65,001
Aall Trust & Bank	2005	4,840,793	-	(1,027,757)	3,813,036
		\$7,062,109	\$(951,553)	\$(1,239,325)	\$4,871,231

\* Prior to adoption of IFRS 3.

On December 31, 2004, CNC entered into a purchase agreement with AALL Trust & Banking Corporation Ltd. ("ATB") to acquire the operations of ATB. Under the terms of the agreement the sale and purchase of the business of ATB is to be completed in accordance with certain obligations to be delivered by both ATB and CNC by the completion date of December 31, 2006. The consideration is payable in three annual installments through issuance of CNC shares, and is adjustable upwards or downwards, as defined in the purchase agreement, for the performance of the acquired ATB operations over the 3 years ended December 31, 2006.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 7. Goodwill (Continued)

At September 30, 2006, the aggregate purchase consideration was valued at \$4,840,793 based on management's best estimate of the ultimate consideration. The calculation of the aggregate purchase price was increased by \$844,253 as a result of using actual market value of the shares issued on December 31, 2005 and the estimate of market value for the third share issue due December 31, 2006. The first annual installment, due December 31, 2004, was made during the year ended September 30, 2005 by the issuance of 651,513 CNC shares with a fair value of \$1,088,027. The second annual installment, due December 31, 2005, was made during the year ended September 30, 2006 by the issuance of 639,636 CNC shares with a fair value of \$1,439,636. The outstanding balance of the purchase consideration valued at \$2,313,130 is included within accounts payable and other liabilities at September 30, 2006 and is due for settlement on December 31, 2006 by way of issuance of CNC shares.

During the year ended September 30, 2006 management determined that the goodwill on the ATB purchase was impaired and recorded an impairment charge of \$1,027,757.

### 8. Fixed Deposit

Substantially all fixed deposits have a maturity of less than one year and bear fixed rates of interest. Customers' deposits issued at a discount are accreted to par value over the period to maturity of the respective deposits using the effective yield method.

### 9. Insurance Related Balances

#### Investment in subsidiary

Until November 30, 2005, the Group owned 75.2% of Cayman General Insurance Company Ltd. ("CGI") and consequently consolidated the results of that subsidiary. Effective November 30, 2005, CNC sold a 51% stake in CGI to a third party. The consideration for the sale was \$8,000,000 of which 90% was settled in cash and the remaining 10% was deposited into a retention account which, absent of any claims in respect of the various warranties made by CNC in the sale agreement, is payable to CNC on November 30, 2006. At September 30, 2006 the amount outstanding is recorded within accounts receivable.

Subsequent to the sale of 51% of CGI, the Group no longer controls CGI (now renamed Sagicor General Insurance (Cayman) Ltd. ("SGI")) and consequently accounts for its 24.2% interest under the equity method of accounting.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 9. Insurance Related Balances (Continued)

#### Investment in subsidiary (continued)

The book value of 51% of CGI net assets was \$4,644,077 on the date of sale, resulting in a gain on of \$3,283,075, net of related costs.

Balances included in the Statement of Income under the consolidation method include net underwriting income of \$926,962, expenses of \$461,125 and minority interests of \$111,801 for the two month period ending November 30, 2005.

On de-consolidation, CGI assets and liabilities as of November 30, 2005 were eliminated from the Consolidated Balance Sheet and the remaining investment was accounted for under the equity method from that date.

The carrying value of CGI assets and liabilities de-consolidated were as follows:

Cash	\$ 9,382,299
Investments	16,667
Accounts receivable	19,986,103
Fixed assets	1,053,590
Other liabilities	21,332,626

#### Investment in associate

Included in the Consolidated Balance Sheet as of September 30, 2006, was \$2,783,410, Investment in Associate balance, which represents 24.2% of the equity of SGI. Also, included in the Consolidated Statement of Income is income of \$579,750 from the period December 1, 2005 to September 30, 2006, which represents 24.2% share of associated Group profits under the equity method of accounting.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 9. Insurance Related Balances (Continued)

	2006	2005
Premiums receivable	\$-	\$4,076,801
Reinsurance claims receivable	-	3,703,056
Deferred policy acquisition commissions	-	406,717
Reinsurers' share of unearned premiums	-	5,788,373
Reinsurers' share of provision of unpaid claims	-	4,342,981
	\$-	\$18,317,928

Provision for unpaid claims and other insurance related liabilities is comprised as follows:

	2006	2005
Insurance and reinsurance balances payable	\$-	\$1,995,684
Unearned reinsurance commissions	-	1,103,326
Unearned premiums	-	8,154,020
Provision for unpaid claims	-	15,694,798
	\$-	\$26,947,828

The provision for unpaid claims is comprised as follows:

	2006	2005
Gross provision	\$-	\$15,694,798
Reinsurers' share	-	(4,342,981)
Net provision	\$-	\$11,351,817

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 10. Taxation

The liability for taxation comprises:

	2006	2005
Provision for deferred tax	\$1,496	\$1,965
Isle of Man corporation tax	7,342	34,606
<b>Tax liability</b>	<b>\$8,838</b>	<b>\$36,571</b>

The CNB&T (IOM) and CNFS (IOM) operations incurred a tax credit for the year ended September 30, 2006 of \$9,474 (2005: expense of \$15,762).

Under current laws of the Cayman Islands, there are no income, estate, corporation, capital gains or other taxes payable by the Corporation.

### 11. Share Capital, General Reserve and Earnings Per Share

	2006	2005
<u>Authorized:</u>		
200,000,000 shares of \$1 par value each		
(2005: 200,000,000)		
<u>Issued and fully paid:</u>		
41,686,308 shares (2005: 41,046,470)	\$41,686,308	\$41,046,470

#### Share Premium:

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

#### General reserve:

The general reserve represents amounts appropriated by the directors, from retained earnings to a separate component of shareholder's 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.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 11. Share Capital, General Reserve and Earnings Per Share (Continued)

#### Earnings and Diluted Earnings Per Share:

Earnings per share is calculated by dividing the net income attributable to shareholders by the weighted average number of ordinary shares in issue during the year. Diluted earnings per share is calculated by dividing net income attributable to shareholders by the diluted weighted average number of ordinary shares in issue which is based on the maximum total amount of exercisable stock options which the directors can exercise during the year (see Notes 2 and 19). At September 30, 2006 and 2005, these stock options were not dilutive.

	2006	2005
Net income attributable to equity holders of the Corporation	\$19,521,565	\$16,041,830
Weighted average number of shares in issue	41,525,034	40,882,253
Diluted weighted average number of shares in issue	41,525,034	40,882,253
Earnings per share	\$ 0.47	\$ 0.39
Diluted earnings per share	\$ 0.47	\$ 0.39

#### Share Purchase Scheme

Employees are voluntarily able to participate in the Corporation's Share Purchase Scheme (the "Scheme"). Under the Scheme employees contribute up to 2% of salary which is matched by the Corporation. In addition, on a quarterly basis, 20% of Directors Fees (Note 19) are settled through contribution to the Scheme which is also matched by the Corporation. The contributions are used to purchase shares in the open market at prevailing prices and the shares are subject to certain vesting terms as set out in the Scheme. The net cost to the Corporation of this Scheme is \$150,502 (2005: \$129,521) which is included within personnel costs in the statement of income.

### 12. Equity Adjustments from Foreign Currency Translation

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

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 13. Related Party Balances and Transactions

Included in the consolidated balance sheet are the following related party balances:

	2006	2005
Accounts receivable:		
Affiliated companies	\$154,617	\$154,235
Accounts payable:		
Affiliated companies	\$800,000	\$-
Loans and overdrafts:		
Directors	\$11,166,167	\$10,130,315
Investments (Note 4):		
Affiliated companies	\$583,333	\$583,333
Directors	833,333	1,334,156
	\$1,416,666	\$1,917,489
Customers' accounts:		
Affiliated companies	\$76,647,154	\$67,094,589
Directors	2,215,059	1,861,243
	\$78,862,213	\$68,955,832

Directors include individual directors of the Group and also corporations, partnerships, trusts, governmental organizations or other entities in which a director, or directors collectively, have direct and indirect significant shares or interest in such entities. Included within interest income is interest of \$319,276 (2005: \$256,671) on loans with directors and key management.

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 totaled \$29,238,538 (2005: \$24,198,844) at the balance sheet date, are at preferential rates varying between 5% and 6% p.a. (2005: 5.0% and 6.0 % p.a.).

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 13. Related Party Balances and Transactions (Continued)

The Group owns the sponsor's shares totaling US\$100 in Cayman National Mortgage Fund Ltd ("CNMF"), a fund for which the Group acts as banker and mortgage advisor and is remunerated by way of commitment fees negotiated between the Group and the individual mortgagors. The Group does not have the ability to control the CNMF. In addition, the Group acts as the manager and receives a fee amounting to 1.5% p.a. of the daily net assets of such fund. The Group also acts as the manager of CNB Money Market Fund ("CMMF") and the Cayman National Master Series Trust ("CNMST") and receives an annual fee amounting to 1% and of the daily net assets of CMMF. No fees were charged during the year ended September 30, 2006 and 2005 in respect of the management of CNMST. The Group acts as trustee of both CMMF and CNMST. Additionally, the Group provides certain management, financial, accounting, administrative and other services on behalf of Cayman National Pension Fund ("CNPF") and receives an annual fee amounting to 2% of annual contributions into CNPF plus 0.25% of CNPF's net assets at the end of the year.

The following is a summary of trust and company management fees received from related parties:

	2006	2005
Cayman National Mortgage Fund	\$ 746,302	\$ 607,104
CNB Money Market Fund	311,881	338,697
Cayman National Pension Fund	112,001	93,112

### 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 \$42,607,470 at September 30, 2006 (2005: \$32,238,391). No material losses are anticipated by management as a result of these transactions.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 14. Commitments (Continued)

The Group has entered into various commitments in respect of operating leases for equipment and premises. The total annual commitments are as follows:

Year ended September 30	Annual commitment
2007	\$ 891,942
2008	\$ 831,238
2009	\$ 848,291
2010	\$ 865,857
2011	\$ 883,949

### 15. Pension Fund

The CNPF is a defined contribution pension scheme which became effective on July 1, 1997. The Fund is managed by CNT and 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 \$523,807 (2005: \$530,535) representing the Group's portion of contribution required under the scheme.

At September 30, 2006, the Group employed a total of 283 personnel (2005: 274)

### 16. Contingent Liabilities

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

The Group has issued letters of credit and guarantees to third parties totaling \$4,475,086 (2005: \$5,116,950) on behalf of customers and employees. The Group holds customer assets as security for substantially all of these instruments.

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

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 17. Net Underwriting Income

	Period to November 30, 2005	Year ended September 30, 2005
Premiums written	\$4,888,631	\$26,776,374
Reinsurance premiums ceded	(2,610,393)	(14,447,639)
Movement in unearned premiums	(96,566)	(537,593)
Net premiums earned	2,181,672	11,791,142
Reinsurance commissions	338,131	2,401,803
Claims incurred (Note 9)	(1,328,748)	(7,808,493)
Policy acquisition commissions	(264,093)	(1,575,218)
Net underwriting income	\$926,962	\$4,809,234

Claims incurred is comprised as follows:

	Period to November 30, 2005	Year ended September 30, 2005
Gross paid claims	\$7,592,815	\$264,083,063
Reinsurers' share	(1,131,003)	(218,333,697)
Net paid claims	6,461,812	45,749,366
(Decrease) increase in provision for unpaid claims	(5,133,064)	(37,940,873)
Net claims incurred (Note 17)	\$1,328,748	\$7,808,493

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 18. Dividends Per Share

Final proposed dividends (Note 25) are presented as a separate component of shareholder’s equity until they have been formally ratified at the Annual General Meeting (“AGM”).

	2006
Interim 2005 dividend declared and paid in 2006	\$ 2,462,788
Final 2005 dividend declared and paid in 2006	\$ 2,462,788
Total dividend declared out of 2005 earnings, paid in 2006	\$ 4,925,576
Interim dividend 2006	\$ 2,501,178
	\$ 7,426,754
Final proposed dividend – \$0.06 per share	\$ 2,501,178

Due to the accumulated deficit at September 30, 2005 the final proposed dividend for fiscal year 2005 was declared out of the general reserve.

### 19. Directors and Officers Remuneration

During the year ended September 30, 2006, the Corporation had a total of 8 directors (2005: 8) of whom one is an executive officer (2005: 1). For the financial year ended September 2006, the aggregate compensation for directors’ services was \$213,474 (2005: \$196,760).

Salaries and other short term employee benefits for key management (being those executives with the authority to direct the Group’s operating policy) of \$664,036 (2005: \$677,254) are included within personnel expenses.

Share options were granted to directors on March 28, 2004 at a strike price of \$3.00 per share. The options expire five years after the authorization date of each director’s option agreement. A minimum of 1000 options can be exercised at any one time and a maximum, ranging between 10,000 to 20,000 options, can be exercised per director per year, cumulative.

Movements in the number of share options outstanding are as follows:

	2006	2005
Beginning balance	500,000	500,000
Granted	-	-
Exercised	-	-
Lapsed	-	-
At 30 September	500,000	500,000
Exercisable at 30 September	300,000	200,000

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 20. Financial Risk Management

#### Fair value

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

#### Interest rate risk

The Group employs effective techniques and procedures to monitor and control its exposure to interest rate risk. Personal, commercial and corporate loans have variable rates, which are linked to the Cayman Islands prime rate. Exposure to interest rate risk, which is mainly due to fixed rates on both its term deposits with banks and customers' fixed deposits, is minimised by the short-term maturities of the majority of these deposits (Note 8). The following tables summarise the Group's exposure to interest rate risks. Included in the tables are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 20. Financial Risk Management (Continued)

#### Interest rate risk (continued)

At September 30th 2006	1–3 months	3–6 months	6–12 months	1–5 Years	Over 5 Years	Non-interest Bearing	Total
<b>Assets</b>							
Cash and bank balances	\$314,803,884	\$–	\$–	\$–	\$–	\$19,834,584	\$334,638,468
Short term placements	–	15,523,640	16,126,989	–	–	–	31,650,629
Loans	19,622,807	5,622,880	10,045,584	83,499,572	204,650,926	–	323,441,769
Investments	–	–	–	22,877,032	–	379,335	23,256,367
Other assets	–	–	–	–	–	16,709,944	16,709,944
Fixed Assets	–	–	–	–	–	22,568,928	22,568,928
<b>TOTAL</b>	<b>\$334,426,691</b>	<b>\$21,146,520</b>	<b>\$26,172,573</b>	<b>\$106,376,604</b>	<b>\$204,650,926</b>	<b>\$59,492,791</b>	<b>\$752,266,105</b>
<b>Liabilities and Equity</b>							
Demand & Term Deposits	\$518,907,282	\$93,797,804	\$52,346,512	\$726,093	\$–	\$1,216,704	\$666,994,395
Other liabilities	–	–	–	–	–	23,022,212	23,022,212
<b>TOTAL</b>	<b>\$518,907,282</b>	<b>\$93,797,804</b>	<b>\$52,346,512</b>	<b>\$726,093</b>	<b>\$–</b>	<b>\$24,238,916</b>	<b>\$690,016,607</b>
Off-balance liabilities	4,475,086	–	–	–	–	–	–
Maturity gap	\$(188,955,677)	\$(72,651,284)	\$(26,173,939)	\$105,650,511	\$204,650,926	–	–
<b>At September 30th 2005</b>							
<b>Assets</b>							
Cash and bank balances	\$369,737,159	\$–	\$–	\$–	\$–	\$24,528,278	\$394,265,437
Short term placements	–	10,180,982	28,333,333	–	–	–	38,514,315
Loans	45,047,862	4,146,622	9,112,769	44,269,532	165,450,130	12,142	268,039,057
Investments	–	–	–	20,953,674	16,667	1,523,591	22,493,932
Other assets	–	–	–	–	–	40,007,126	40,007,126
Fixed Assets	–	–	–	–	–	21,005,801	21,005,801
<b>TOTAL</b>	<b>\$414,785,021</b>	<b>\$14,327,604</b>	<b>\$37,446,102</b>	<b>\$65,223,206</b>	<b>\$165,466,797</b>	<b>\$87,076,938</b>	<b>\$784,325,668</b>
<b>Liabilities and Equity</b>							
Demand & Term Deposits	\$636,813,474	\$19,370,965	\$26,927,698	\$2,039,873	\$–	\$–	\$685,152,010
Other liabilities	–	–	–	–	–	48,748,280	48,748,280
<b>TOTAL</b>	<b>\$636,813,474</b>	<b>\$19,370,965</b>	<b>\$26,927,698</b>	<b>\$2,039,873</b>	<b>\$–</b>	<b>\$48,748,280</b>	<b>\$733,900,290</b>
Off-balance liabilities	5,116,950	–	–	–	–	–	–
Maturity gap	\$(227,145,403)	\$(5,043,361)	\$10,518,404	\$63,183,333	\$165,466,797	–	–

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 20. Financial Risk Management (Continued)

#### Regulatory Requirements

Certain subsidiaries are subject to regulatory requirements established by Cayman Islands Monetary Authority (“CIMA”) the Group’s primary regulator. The significant regulatory requirements are:

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

CNB&T (IOM) and CNFS (IOM) operations are regulated by the Isle of Man Financial Supervision Commission.

Management believes, as of September 30, 2006 that all regulated subsidiaries meet the respective regulatory capital adequacy requirements established by CIMA and the Isle of Man Financial Supervision Commission.

#### Credit Risk

The Group’s bank balances and term deposits are placed with high credit quality financial institutions. Commercial, personal and corporate loans are presented net of provisions for doubtful receivables. Whilst the majority of loans are secured by first mortgages upon single family residences or by chattel mortgages, credit card receivables and certain overdrafts advanced in the normal course of business are unsecured. Credit risk with respect to personal, commercial and corporate loans is limited through diversification due to the large number of customers comprising the Group’s customer base. Accordingly, the Group has a concentration of risk in respect of geographical area as both customers and securitised assets are primarily based in the Cayman Islands.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 20. Financial Risk Management (Continued)

#### Fiduciary activities

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

#### Currency Risk

Substantially all assets and liabilities of the Group are denominated in United States dollars or Cayman Islands dollars. Due to the fact that the Cayman Islands dollar exchange rate is, at this time, pegged to the United States dollar, the Group does not consider that it is exposed to significant currency risk.

The Group operates a substantially matched book policy, matching the currency of its interest bearing assets and liabilities in its banking operations. Deposits accepted from customers are matched with deposits placed with correspondent banks such that a margin is earned on the spread of interest rates. Management believes that these policies mitigate the Group's exposure to significant currency risks.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 20. Financial Risk Management (Continued)

#### Currency Risk (continued)

The following tables present, by major currency, the Group's exposure to foreign currency risk:

2006	KYD	USD	GBP	CAN	EURO	OTHER	Total
<b>Assets</b>							
Cash & Due From Banks	9,673,035	269,089,260	43,224,690	6,559,526	2,522,280	3,569,677	334,638,468
Short term placements	-	31,650,629	-	-	-	-	31,650,629
Investments	-	23,256,367	-	-	-	-	23,256,367
Loans & Overdrafts	207,308,544	109,441,875	5,614,829	-	-	1,076,521	323,441,769
Other Assets	13,293,806	2,315,006	1,059,858	22,890	7,091	11,293	16,709,944
Fixed Assets	22,495,446	-	73,482	-	-	-	22,568,928
<b>Total Assets</b>	<b>\$252,770,831</b>	<b>\$435,753,137</b>	<b>\$49,972,859</b>	<b>\$6,582,416</b>	<b>\$2,529,371</b>	<b>\$4,657,491</b>	<b>\$752,266,105</b>
<b>Liabilities</b>							
<b>Depositors Accounts</b>							
Current	59,999,819	57,037,741	1,082,031	62,518	-	-	118,182,109
Savings	50,356,968	73,451,507	6,766,171	1,946,937	699,758	2,709,651	135,930,992
Fixed Deposits	72,523,151	295,535,166	37,530,648	3,951,450	1,667,009	1,673,870	412,881,294
Sub Total	182,879,938	426,024,414	45,378,850	5,960,905	2,366,767	4,383,521	666,994,395
Interest Payable	(349,352)	1,515,165	71,571	18,395	4,308	2,768	1,262,855
Accounts Payable & Accruals	15,564,677	5,374,898	819,782	-	-	-	21,759,357
<b>Total Liabilities</b>	<b>\$198,095,263</b>	<b>\$432,914,477</b>	<b>\$46,270,203</b>	<b>\$5,979,300</b>	<b>\$2,371,075</b>	<b>\$4,386,289</b>	<b>\$690,016,607</b>
<b>Net on Balance Sheet position</b>	<b>\$54,675,568</b>	<b>\$2,838,660</b>	<b>\$3,702,656</b>	<b>\$603,116</b>	<b>\$158,296</b>	<b>\$271,202</b>	<b>\$62,249,498</b>

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 20. Financial Risk Management (Continued)

#### Currency Risk (continued)

2005	KYD	USD	GBP	CAN	EURO	OTHER	Total
<b>Assets</b>							
Cash & Due From Banks	\$7,821,514	\$333,545,937	\$40,105,087	\$8,788,047	\$2,703,537	\$1,301,315	\$394,265,437
Short term placements	-	38,514,315	-	-	-	-	38,514,315
Investments	517,489	21,976,443	-	-	-	-	22,493,932
Loans & Overdrafts	162,707,063	99,362,242	4,534,850	-	-	1,434,902	268,039,057
Other Assets	32,115,952	7,622,277	228,539	17,586	5,123	17,649	40,007,126
Fixed Assets	20,719,341	-	286,460	-	-	-	21,005,801
<b>Total Assets</b>	<b>\$223,881,359</b>	<b>\$501,021,214</b>	<b>\$45,154,936</b>	<b>\$8,805,633</b>	<b>\$2,708,660</b>	<b>\$2,753,866</b>	<b>\$784,325,668</b>
<b>Liabilities</b>							
<b>Depositors Accounts</b>							
Current	\$68,036,704	\$77,109,925	\$705,623	\$372,469	\$-	\$-	\$146,224,721
Savings	52,810,213	75,680,617	4,432,505	4,390,126	964,974	970,328	139,248,763
Fixed Deposits	48,416,624	308,744,424	35,772,976	3,586,395	1,601,652	1,556,455	399,678,526
<b>Sub Total</b>	<b>169,263,541</b>	<b>461,534,966</b>	<b>40,911,104</b>	<b>8,348,990</b>	<b>2,566,626</b>	<b>2,526,783</b>	<b>685,152,010</b>
Interest Payable	252,605	1,035,435	58,495	11,343	3,153	296	1,361,327
Accounts Payable & Accruals	45,689,600	1,453,776	243,577	-	-	-	47,386,953
<b>Total Liabilities</b>	<b>\$215,205,746</b>	<b>\$464,024,177</b>	<b>\$41,213,176</b>	<b>\$8,360,333</b>	<b>\$2,569,779</b>	<b>\$2,527,079</b>	<b>\$733,900,290</b>
<b>Net on Balance Sheet position</b>	<b>\$8,675,613</b>	<b>\$36,997,037</b>	<b>\$3,941,760</b>	<b>\$445,300</b>	<b>\$138,881</b>	<b>\$226,787</b>	<b>\$50,425,378</b>

#### Liquidity Risk

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to management of the Group. It is unusual for banks to be completely matched as transaction business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses. To mitigate exposure to liquidity risk, the Board of Directors have established a maximum ratio of loans to total customers' deposits of 70% which is continuously monitored by management. Actual maturities could differ from contractual maturities because the counterparty may have the right to call or prepay obligations with or without call or prepayment penalties. Examples of this include: mortgages, which are shown at contractual maturity but which often repay earlier; certain term deposits, which are shown at contractual maturity but which are often cashed before their contractual maturity; and certain investments which may have call or prepayment features.

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 20. Financial Risk Management (Continued)

#### Liquidity Risk (continued)

The following tables analyse the maturity gap between assets and liabilities based on contractual maturity date:

At September 30, 2006	1-3 months	3-6 months	6-12 months	1-5 Years	Over 5 Years	Total
<b>Assets</b>						
Cash and bank balances	\$334,469,093	\$-	\$-	\$-	\$169,375	\$334,638,468
Short term placements	-	15,523,640	16,126,989	-	-	31,650,629
Loans	19,622,807	5,622,880	10,045,584	83,499,572	204,650,926	323,441,769
Investments	-	-	-	23,256,367	-	23,256,367
Other assets	-	7,718,224	7,672,861	1,318,859	-	16,709,944
Fixed Assets	-	-	-	3,261,276	19,307,652	22,568,928
<b>Total</b>	<b>\$354,091,900</b>	<b>\$28,864,744</b>	<b>\$33,845,434</b>	<b>\$111,336,074</b>	<b>\$224,127,953</b>	<b>\$752,266,105</b>
<b>Liabilities and Equity</b>						
Demand & Term Deposits	518,907,282	93,797,804	52,346,512	1,942,797	-	666,994,395
Other liabilities	8,967,884	6,354,548	5,872,920	1,718,938	107,922	23,022,212
<b>Total</b>	<b>\$527,875,166</b>	<b>\$100,152,352</b>	<b>\$58,219,432</b>	<b>\$3,661,735</b>	<b>\$107,922</b>	<b>\$690,016,607</b>
<b>Maturity gap</b>	<b>\$(173,783,266)</b>	<b>\$(71,287,608)</b>	<b>\$(24,373,998)</b>	<b>\$107,674,339</b>	<b>\$224,020,031</b>	
<b>At September 30, 2005</b>						
<b>Assets</b>						
Cash and bank balances	\$394,265,437	\$-	\$-	\$-	\$-	\$394,265,437
Short term placements	-	10,180,982	\$28,333,333	-	-	38,514,315
Loans	45,047,862	4,146,622	9,112,769	44,269,532	165,462,272	268,039,057
Investments	-	-	-	21,976,443	517,489	22,493,932
Other assets	-	18,043,769	21,963,357	-	-	40,007,126
Fixed assets	-	-	-	2,775,615	18,230,186	21,005,801
<b>Total</b>	<b>\$439,313,299</b>	<b>\$32,371,373</b>	<b>\$59,409,459</b>	<b>\$69,021,590</b>	<b>\$184,209,947</b>	<b>\$784,325,668</b>
<b>Liabilities and Equity</b>						
Demand and term deposits	\$636,813,475	\$19,370,964	\$26,927,698	\$2,039,873	\$-	\$685,152,010
Other liabilities	-	-	25,368,340	23,379,940	-	48,748,280
<b>Total</b>	<b>\$636,813,475</b>	<b>\$19,370,964</b>	<b>\$52,296,038</b>	<b>\$25,419,813</b>	<b>\$-</b>	<b>\$733,900,290</b>
<b>Maturity gap</b>	<b>\$(197,500,176)</b>	<b>\$13,000,409</b>	<b>\$7,113,421</b>	<b>\$43,601,777</b>	<b>\$184,209,947</b>	

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 21. Geographical and Segmental Information

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

Summary financial data for CNB&T (IOM) and CNFS (IOM) operations:

	2006	2005
Total Assets	\$24,352,315	\$20,823,182
Total Liabilities	\$20,794,766	\$17,687,391
Total Income	\$1,468,460	\$943,240
Net Income	\$11,045	\$135,505

The Group's operations include domestic and offshore banking, insurance, trust and company administration, mutual fund administration, and asset management services.

September 30, 2006	Banking	Insurance	Trust and Company Management	Asset Management	Other	Eliminations	Group
Gross Assets	727,050,471	749,286	28,122,796	5,304,534	1,196,002	(10,156,984)	752,266,105
Total Liabilities	666,084,737	455,890	21,306,802	3,403,446	2,878,889	(4,113,157)	690,016,607
Gross Revenue	41,249,456	1,838,138	5,963,335	1,809,779	-	2,580,954	53,441,662
Net Income (loss)	16,338,821	760,894	392,556	336,339	(1,654,601)	3,459,357	19,633,366
Capital expenditure	5,040,395	3,170	239,944	63,439	-	-	5,346,948
Depreciation charge	2,215,789	68,181	126,509	83,278	-	-	2,493,757
Goodwill impairment	-	-	167,319	16,185	844,253	-	1,027,757
<b>September 30, 2005</b>							
Gross Assets	748,200,089	39,076,706	24,779,922	9,005,937	614,270	(37,351,256)	784,325,668
Total Liabilities	695,848,103	29,816,357	20,531,056	8,400,358	3,912,870	(24,608,454)	733,900,290
Gross Revenue	33,619,720	7,838,305	4,261,438	1,469,892	-	(942,888)	46,246,467
Net Income (loss)	12,369,538	2,977,808	273,680	5,827	(837,725)	1,319,053	16,108,181
Capital expenditure	3,455,593	88,031	195,117	62,611	-	-	3,801,352
Depreciation charge	1,987,791	251,295	84,469	82,197	-	-	2,405,752
Goodwill impairment	-	-	-	211,568	-	-	211,568

Cayman National Corporation Ltd.

## Notes to Consolidated Financial Statements

for the year ended 30 September 2006 (expressed in Cayman Islands dollars)

### 22. Interest Income

Interest income comprises of the following:

	2006	2005
Cash and short term funds	18,031,514	\$11,692,640
Investment securities	1,024,911	1,101,751
Loans and advances	28,020,081	20,304,006
	\$47,076,506	\$33,098,397

### 23. Foreign Exchange

Included within foreign exchange fees and commissions are net transaction gains of \$4,129,710 (2005: \$4,057,351). At September 30, 2006 there were unrealized foreign exchange translation gains of \$178,801 (2005: \$106,266).

### 24. Reclassification

Certain prior year figures in the footnotes have been reclassified to conform with this year's presentation.

### 25. Subsequent Events

Effective October 1, 2006, the Group entered into a joint venture with AON Insurance Managers (Cayman) Ltd (AON) under which, the Group sold 50% of its interest in CNIB to AON. The consideration for the purchase of \$353,869 is payable over three years. At September 30, 2006, the net assets of CNIB were \$293,396.

On December 1, 2006, CNC declared a final dividend of \$0.06 per share (\$2,501,178) which will be paid to shareholders of record December 31, 2006 after approval by shareholders at the annual General meeting in March 2007. The payment of the CNC dividend will be funded by dividends from the various group subsidiaries; although the exact amount of dividends to be paid from each subsidiary has not yet been determined, the majority of the dividend will be paid by CNB. In anticipation of this dividend declaration at September 30, 2006, the directors made an appropriation from retained earnings to the reserve for dividends.

Cayman National Bank Ltd.

## Consolidated Balance Sheet

30 September 2006 (expressed in Cayman Islands dollars)

<b>Assets</b>	<b>2006</b>	<b>2005</b>
Cash and due from banks	\$318,014,659	\$370,574,045
Short term placements	31,172,028	48,511,009
Investments	22,860,365	21,976,443
Loans and overdrafts	325,171,556	277,612,141
Interest receivable	3,201,465	2,478,585
Accounts receivable	3,156,102	5,079,315
Fixed assets	22,155,437	19,330,832
Goodwill	1,318,859	1,318,859
	<b>\$727,050,471</b>	<b>\$746,881,229</b>
<b>Liabilities</b>		
Customers' accounts		
Current	\$119,419,021	\$148,970,602
Savings	131,112,603	137,726,571
Fixed deposits	401,110,835	399,909,525
	<b>651,642,459</b>	<b>686,606,698</b>
Interest payable	2,064,581	1,339,431
Accounts payable and accrued expenses	12,377,697	6,906,070
	<b>666,084,737</b>	<b>694,852,199</b>
<b>Shareholders' Equity</b>		
Share capital	2,436,585	2,436,585
Share premium	1,695,816	1,695,816
General reserve	39,500,000	39,500,000
Retained earnings	17,176,721	8,264,654
Net unrealized appreciation on investments available-for-sale	156,612	131,975
	<b>60,965,734</b>	<b>52,029,030</b>

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

Director



S.J. Dack

Director



O.A. Williams

Date: 22 December 2006

Note: These Financial Statements for Cayman National Bank Ltd. are extracts from the detailed Financial Statements of the Bank.

Cayman National Bank Ltd.

## Consolidated Statement of Income

30 September 2006 (expressed in Cayman Islands dollars)

	2006	2005
<b>Interest Income</b>		
Interest income	\$46,366,524	\$32,370,203
Interest expense	17,654,179	9,011,873
<b>Net Interest Income</b>	<b>28,712,345</b>	<b>23,358,330</b>
<b>Foreign Exchange Fees and Commissions</b>	<b>5,127,580</b>	<b>4,963,376</b>
<b>Other Fees and Commissions</b>	<b>7,409,531</b>	<b>5,928,866</b>
<b>Total Income</b>	<b>41,249,456</b>	<b>34,250,572</b>
<b>Expenses</b>		
Depreciation	2,215,789	1,987,791
Increase in loan impairment provision		756,000
Other operating expenses	7,197,962	5,410,126
Personnel	13,999,957	12,039,458
Premises	1,496,927	1,166,078
Loss on disposal of fixed assets		521,581
	<b>24,910,635</b>	<b>21,881,034</b>
<b>Net Income</b>	<b>\$16,338,821</b>	<b>\$12,369,538</b>

Note: These Financial Statements for Cayman National Bank Ltd. are extracts from the detailed Financial Statements of the Bank.

# Directory

## Cayman National Corporation Ltd.

(Holding Company)  
Cayman National Building  
200 Elgin Avenue, PO Box 1097  
Grand Cayman KY1-1102, Cayman Islands  
T 345 949 4655 F 345 949 0774  
cnc@caymannational.com

### Directors

Benson O. Ebanks, Jr., OBE, JP, Chairman\*  
Truman M. Bodden, OBE, LLB (Hons), ACIB, JP  
Deputy Chairman\*\*  
Stuart J. Dack, ACIB, MBA, President & Chief Executive  
John C. Bierley, BA, JD (USA)\*\*  
Sherri Bodden-Cowan, LLB (Hons)\*\*  
Clarence Flowers, Jr.\*  
Peter A. Tomkins, MBE\*  
David W. Trimble, MA (Cantab)

### Senior Officers & Management

Stuart J. Dack, ACIB, MBA, President & Chief Executive  
Dorette Brown, Senior Vice President,  
Administration & Human Resources  
Patricia Estwick, CPA, MBA, Chief Financial Officer  
Alec St. John, BA, CSSA, Senior Vice President,  
Chief Internal Auditor  
Debra Humphreys, TEP  
Senior Vice President, Group Compliance  
Claudia Welds  
Senior Vice President, Corporate Communications

## Cayman National Bank Ltd.

Cayman National Building  
200 Elgin Avenue, PO Box 1097  
Grand Cayman KY1-1102, Cayman Islands  
T 345 949 4655 F 345 949 7506

### Directors

Stuart J. Dack, ACIB, MBA, Chairman  
Truman M. Bodden, OBE, LLB (Hons), ACIB, JP  
John C. Bierley, BA, JD (USA)  
Sherri Bodden-Cowan, LLB (Hons)  
Benson O. Ebanks, Jr., OBE, JP  
Clarence Flowers, Jr.  
Peter A. Tomkins, MBE  
David W. Trimble, MA (Cantab)  
Ormond A. Williams, ACIB

### Senior Officers & Management

Ormond A. Williams, ACIB, President  
Kenwyn Bovell, Senior Vice President,  
Personal and Business Banking  
McFarlane Conolly, Senior Vice President,  
Service Delivery (retired August 2006)  
Denniston Swaby, BSc, Chief Information  
Technology Officer  
Michele Ebanks, BBA, Senior Vice President,  
Card Services  
Judy Watler, Manager, Premier Banking  
Sharon Wyckoff, Manager, Treasury

## Cayman National Securities Ltd.

Cayman National Building  
200 Elgin Avenue, PO Box 1097  
Grand Cayman KY1-1102, Cayman Islands  
T 345 949 7722 F 345 949 8203  
info@cnifs.com

### Directors

Stuart J. Dack, ACIB, MBA, Chairman  
Ian D. Phillips, ACIB, TEP  
Truman M. Bodden, OBE, LLB (Hons), ACIB, JP  
John C. Bierley, BA, JD (USA)  
Sherri Bodden-Cowan, LLB (Hons)  
Benson O. Ebanks, Jr., OBE, JP  
Clarence Flowers, Jr.  
Erik Monsen  
Peter A. Tomkins, MBE  
David W. Trimble, MA (Cantab)

### Senior Officers & Management

Ian D. Phillips, ACIB, TEP, President, International  
Financial Services  
Naiem A. Qadir, MBA, CA., Senior Vice President &  
Accounting Manager  
Dominic Tomkins, BBA, Senior Vice President, Trading  
Annie Ebanks-Halloran, Senior Vice President, Senior  
Investment Advisor

## Cayman National Trust Co. Ltd.

PO Box 10340 APO  
Grand Cayman KY1-1003, Cayman Islands  
T 345 949 0445 F 345 949 9557  
info@cnifs.com

### Directors

Stuart J. Dack, ACIB, MBA, Chairman  
Ian D. Phillips, ACIB, TEP  
Truman M. Bodden, OBE, LLB (Hons), ACIB, JP  
John C. Bierley, BA, JD (USA)  
Sherri Bodden-Cowan, LLB (Hons)  
Benson O. Ebanks, Jr., OBE, JP  
Clarence Flowers, Jr.  
Erik Monsen  
Peter A. Tomkins, MBE  
David W. Trimble, MA (Cantab)

### Senior Officers & Management

Ian D. Phillips, ACIB, TEP, President, International  
Financial Services  
Tony Mellin, ACIB, Senior Vice President, Trust &  
Corporate Services  
Christopher Lumsden, BA, ACA, Senior Vice-President,  
Mutual Fund Services  
Jay Schutte, Senior Vice President, Operations  
Kim Remizowski, TEP, Senior Vice-President, Business  
Development, North America  
Carlos Guzman, Senior Vice President, Business  
Development, Latin America

## Cayman National Bank & Trust Co. (Isle of Man) Ltd.

### Cayman National Fund Services (Isle of Man) Ltd.

4-8 Hope Street  
Douglas  
Isle of Man, IM1 1AQ, British Isles  
T +44 (1624) 646 900 (banking);  
+44 (1624) 646 901 (fiduciary);  
+44 (1624) 646 902 (fund services)  
F +44 (1624) 662 192  
banking@cnciom.com; fiduciary@cnciom.com;  
fund@cnciom.com  
www.cnciom.com

### Directors

Stuart J. Dack, ACIB, MBA, Chairman  
John C. Bierley, BA, JD (USA)  
Ian M.E. Bancroft, ACIB  
Malcolm B. Hartley, JP  
Mark W. Solly, FCA, ATII  
Peter A. Tomkins, MBE  
David W. Trimble, MA (Cantab)  
Barry J. Williams, ACIB, MICA (director of Cayman  
National Bank and Trust Company (Isle of Man) Limited)  
Tony J. Edmonds (director of Cayman National Fund  
Services (Isle of Man) Limited)

### Senior Officers & Management

Ian M.E. Bancroft, ACIB, Managing Director  
Barry J. Williams, ACIB, MICA, Banking Director  
Tony J. Edmonds, Fund Services Director  
Rosaline Whorms, DIP (ITM), TEP, Head of Fiduciary  
Services  
Murray Lambden, BA, ACIS, Company Secretary and  
Executive Officer

## Cayman National Insurance Brokers Ltd.

Sigma Building  
93 Hospital Road, PO Box 10042 APO  
Grand Cayman, KY1-1001,  
Cayman Islands  
T 345 949 0111 F 345 949 8163  
cnib@caymannational.com

### Directors

Benson O. Ebanks, Jr., OBE, JP, Chairman  
Stuart J. Dack, ACIB, MBA\*\*\*  
Robert Inksater, FCIP\*\*\*  
Peter A. Tomkins, MBE  
Noel Dunn\*\*\*  
Clarence Flowers, Jr.\*\*\*  
Daniel MacLean\*\*\*  
Terry L. Wilcox\*\*\*  
\*\*\*Directors as of 29th November 2006

### Senior Officers & Management

Mary S. Mellin, Acting President

\* Members of the Group Compensation Committee  
\*\* Members of the Group Audit Committee



## Cayman National Corporation Ltd.

Cayman National Building  
200 Elgin Avenue  
PO Box 1097  
Grand Cayman KY1-1102  
Cayman Islands  
**T** 345 949 4655  
**F** 345 949 0774  
[cnc@caymannational.com](mailto:cnc@caymannational.com)