

Annual Report

2007



**CAYMAN
NATIONAL**

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Cayman National Corporation Ltd. is publicly owned, with its shares trading on the Cayman Islands Stock Exchange (CNC: KY). No single, or closely associated group of interests, may hold more than 10% of the Corporation's shares, as required by the Government of the Cayman Islands, which also requires control to remain in the Cayman Islands and a Caymanian majority on the Board of Directors.

As a financial services group, we aim to provide a wide range of financial services to local and international clients, currently from our locations in the Cayman Islands, the Isle of Man, and Panama.



President's Report

Cayman National Corporation Ltd. (the "Cayman National Group") has again achieved record results for the financial year ending September 30, 2007.

Net Income (or profit) was C\$20,444,008. Although this result is a modest increase over the result of C\$19,633,366 achieved last year, it is important to recognise that the 2006 result included a gain of C\$3,283,075 from the sale of shares of Cayman General Insurance Company Ltd. ("CGI"), (now Sagicor General Insurance (Cayman) Ltd. ("SGI")), in November 2005.

In addition to our overall Net Income result, we are pleased that the Group's Total Income has moved ahead well, particularly after taking account of the exceptional gain mentioned above and the reduced earnings following the sale of that subsidiary.

Control of expenses continues to be a focus of the business. Although personnel costs increased during the year as new employees were recruited to staff expansion of the Bank branches, the position was within budget.

One aspect of the Group which is particularly pleasing is our recovery from the pressures placed on the business following the voluntary assistance that the Group provided to CGI in connection with Hurricane Ivan insurance settlements in 2004 and 2005. To have restored our balance sheet to a condition that now exceeds the pre-Ivan position in such a short time is a tribute to the strength of the organisation and illustrates the resilience of our business.

It is also worthy of note that Cayman National is now a business whose Total Assets exceed US\$1 billion. This is an important threshold for a financial sector business such as ours and

represents sound growth and confidence in the Group by its investors and clients.

Many financial organisations throughout the world have suffered during the last few months from acute difficulties stemming from the "sub-prime" lending crisis which emanated from the United States. Cayman National has always followed a conservative approach to its investments and lending. As a result, we are pleased to report that we have no direct exposure to the "sub-prime" issues facing so many financial sector businesses. Our balance sheet remains robust with excellent liquidity. Our performance in lending is also strong with loan losses at acceptable levels, and the Bank continues to hold good levels of loan provisions.

In October 2007, we completed the sale of the remaining shares held by Cayman National in SGI. That 24.2% stake in SGI was sold



*Stuart Dack
President and CEO.*

to the Sagicor Group and although settlement took place after the financial year-end, under our accounting principles we have taken the relatively minor gain in respect of the transaction into our accounts for the year ended September 30, 2007.

Although CNC no longer holds an investment in SGI, the insurance needs of the Group and clients are met through the relationship developed with Aon last year when we established Aon Cayman National Insurance Brokers Ltd. as a joint venture.

We are also pleased with the establishment of our offices in Panama (pending regulatory approval). This jurisdiction is gaining a sound reputation and has increasingly strong links with the Cayman Islands. Our Panama office is proving to be an important part of the services we provide to our Latin American clients and we look forward to developing this sector of our business.

Cayman National Bank (CNB)

Cayman National Bank had another excellent year with record results. Net Income was C\$19,088,921, an increase of 17% on 2006. The Bank's Balance Sheet also grew substantially with Total Assets increasing by 13% to C\$822,753,532 and Total Deposits also up by over 13% to C\$739,335,120.

The Bank's branch at Countryside Shopping Village in Savannah opened last year. The branch is now well-established and we are pleased with its performance.

In January 2008 our branch in Camana Bay will open its doors and we are excited about the prospects for this service centre, particularly as we have the exclusive rights to provide retail financial services in the initial phases of this new and prestigious development.

We are proud that Cayman National Bank is the only bank represented in all three of the Cayman Islands. With our extensive branch network and well-positioned ATMs, our service offering to the country far exceeds that of any of our competitors.

During the forthcoming year an important objective for us is to develop and enhance the banking services to international clients. Plans are well-advanced



The opening of Cayman National's new offices in Panama. The Hon. Charles Clifford (centre left) and Peter Tomkins cut the ribbon.

We are pleased with the establishment of our offices in Panama...which is proving to be an important part of the services we provide to our Latin American clients.

We are pleased with the growth of the new fund services operation in the Isle of Man.



Directors and Managing Directors (past and present) of Cayman National Bank & Trust Co. (Isle of Man) Ltd.

to establish a dedicated team to provide the more specialised services and products appropriate for the international market. This new division of the Bank will be located at our offices in Camana Bay.

International Financial Services (IFS)

Our International Financial Services group embraces the entities of Cayman National Trust Co. Ltd. (“CNT”) and Cayman National Securities Ltd. (“CNS”). Our fund services operation is run within the CNT business; we aim to establish a new entity for our growing fund services operation in the Cayman Islands during 2008.

All areas of the IFS business saw significant growth during 2007, and following the introduction of new systems and procedures, we are now positioned to capitalise on the investments made over the last few years.

During the 2007 financial year CNT turned in net income of C\$263,212 and CNS contributed C\$683,114.

The IFS businesses also relocated their offices to the new accommodation in Camana Bay. We look forward to significant growth in this sector now that they have the much needed room for expansion.

Cayman National Isle of Man

As reported previously, we repositioned our business in the Isle of Man by establishing a fund services operation in this jurisdiction. We also moved premises to accommodate the expected future growth of the business. Both these objectives were achieved and during the year we were pleased with the growth of the new fund services operation which now has an increasing number of clients and excellent prospects.

We have also achieved good growth on the banking side, and overall gross revenues for our Isle of Man operations grew substantially during the year. As expected and planned for, a Net Loss was incurred due to the expense of the premises re-location and set-up costs for the fund services operation, but our budgeting suggests better than break-even for this business in 2008 and robust profitability thereafter.

IFS moves to Camana Bay

The International Financial Services team moved offices to the new development in Grand Cayman, Cayman Islands – Camana Bay. Cayman National is the exclusive provider of retail financial services for the initial phase of development of Camana Bay.



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

Aon Cayman National Insurance Brokers Ltd. (Aon CNIB)

The joint venture between Cayman National and Aon is working well. Both joint venture partners have significant attributes in their own right, the contribution of Aon as the world’s largest insurance broker coupled with Cayman National’s strength in the Cayman Islands makes this a powerful association.

During the first few months of the joint venture the business moved to new premises at Buckingham Square, Grand Cayman. The financial impact of the move has been taken into this year’s figures resulting in a modest profit of C\$44,402 for the year, of which 50% is attributed to the CNC Group.

The business is now poised to capitalise on its strength and is strategically important to the CNC Group as a provider of a full range of insurance products to our clients.

Risk Control

Risk control and risk management remain an important aspect of our business. During the financial year we established a new risk management structure within the Group, which serves the organisation well.

Our internal audit function maintains a vital overview of all aspects of the business and reports regularly to the Group’s Audit Committee, which is comprised of non-executive directors.

The Group’s business resumption plans are also regularly updated and tested as part of our overall risk management process. All staff within the Group receive regular training in respect of compliance and regulatory requirements.

Community Support

Cayman National is committed to being a good corporate citizen wherever we do business. We have demonstrated our commitment for more than 30 years, both through the involvement of our employees in the community and the distribution of donations and sponsorships.



*Ian Whan Tong,
Group Legal Counsel*

Aon|Cayman National

Aon Cayman National Insurance Brokers moved to new premises at Buckingham Square.





Anna Clarke (right), from the IFS team, socializes with Mrs. Mary Ebanks at the International Day of the Older Person. This honorary local event was one of many events sponsored by Cayman National.

We focus our efforts in support of programmes or events that aid children, youth, education, sports, the elderly, health and the less fortunate. We supported the following organisations this past year:

- Cayman AIDS Foundation
- Cayman Hospice Care
- Cayman Islands Fishing Tournament
- Cayman Islands Red Cross Disaster Management Programme
- Cayman Islands Volleyball Federation
- Lions Club of Grand Cayman
- Mentoring Cayman
- Program CAYS Foundation Training Program
- Rotary Club of Grand Cayman
- Special Olympics Cayman Islands
- Sports Association of the Sister Islands (SASI)
- The National Children’s Festival of Arts (NCFA)
- United World Colleges (Cayman Islands).

“Home for Christmas,” our annual customer and community holiday event, was yet another successful programme. This event, which brings customers and friends of the community together to celebrate the holiday season, is a signature event for Cayman National and one that is especially anticipated by the young and elderly of our community. We supported the following organisations at Christmas time:

- Cayman AIDS Foundation
- Cayman Islands Crisis Centre
- NCVO – The Nadine Andreas Foster Home
- The Lighthouse School
- Special Olympics Cayman Islands

The John Gray High School music department was also presented with a donation for its involvement in the programme.

We presented a copy of our 2007 calendar, “A Celebration of our Maritime Heritage,” to the Maritime Authority of the Cayman Islands. It was also well-received by our many customers and contacts throughout the world.

Senior Customer Service staff at the Bank’s Elgin Avenue Branch – Beverly Johnson, Susan Bonham, and Norma Williams-Seymour.



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

Acknowledgements

We are sure that shareholders will be pleased with our recovery from the events that impacted our Group and the Cayman Islands in 2004 when Hurricane Ivan devastated the jurisdiction. We appreciate the loyalty and support of our shareholders, and we are pleased to be able to improve the return for our investors through substantially increased dividends.

The Cayman National Group encompasses an excellent team of employees. One of our strengths is the diversity of our staff, with many of our employees coming from major institutions around the world, balanced with those who have grown within the organisation. Our staff are hardworking and dedicated to providing professional levels of service. They are to be commended for their commitment and loyalty.

Customers and clients are vital to any service provider and within the Cayman National Group we enjoy the support of a substantial customer base. In recent times we have seen significant growth in the numbers of our clients and we take the opportunity to thank all that undertake business with us, some longstanding and others more recent. We very much appreciate your business, and look forward to growing with you in the coming years.



Stuart Dack
President and Chief Executive
Cayman National Corporation Ltd.



Cayman National proudly supports the Special Olympics Cayman Islands (SOI) team.

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 Islands 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 & Company.

3 Stuart Dack

ACIB, MBA, President and Chief Executive – CNC

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 43 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 various 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, founder of Cayman National Corporation Ltd. and its subsidiaries, 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 – 1968, and the Bahamas

1968 – 1973, a Director of Mercantile Bank & Trust Co (Cayman) Ltd. 1969 –1973 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. In February 2006 he retired as 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.

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Financial Summary

The Group's income was at record levels in the financial year... increasing by 5%.

The Year in Review

The Group's Net Income of C\$20,444,008 for the year to September 30, 2007 is a record performance. When comparing this year's result against the 2006 position, it is important to note that the Net Income for last year included the gain of C\$3,283,075 in respect of the sale in November 2005 of 51% of Cayman General Insurance Company Ltd. ("CGI") shares.

The Group's Total Income was also at record levels in the financial year, and taking account of the exceptional gain mentioned above, Total Income increased by 5%. Expenses remained under control with an increase of 5% on the previous year despite additional staff costs in respect of the new Bank branches at Countryside and Camana Bay, which will take a while to impact positively on profitability.

Total Assets and Total Deposits both saw healthy growth with an increase of 17% during the year, with a similar increase in Fixed Deposits.

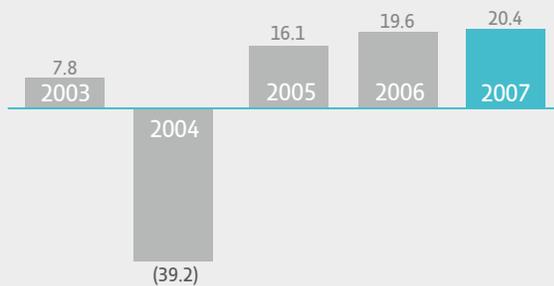
The Group's performance in terms of Net Income enhanced Total Shareholders' Equity during the financial year by 29%. We are particularly pleased to report that Total Shareholders' Equity has now been restored to a level beyond that which prevailed before the Group voluntarily gave support to CGI in 2004 and 2005 to assist with Hurricane Ivan insurance settlements. With Total Shareholders' Equity now standing at C\$80,003,376, the Board of Directors recommends a final dividend of eight (8) cents per share, which will be considered by shareholders at the Annual General Meeting to be held in 2008. The final dividend will be paid to shareholders of record as at 31 December 2007, and payment will be made in March 2008.

If the final dividend of eight (8) cents per share is approved by shareholders, the total dividend payment for this financial year will total fifteen (15) cents per share, given the interim dividend of seven (7) cents per share already paid. This represents a 25% increase in dividend payments from the previous year and provides shareholders with an attractive return.

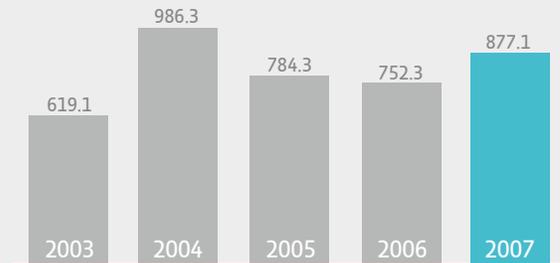
Summarised Financial Details

	2007	2006	Change 2007/2006
Net Income	\$20,444,008	\$19,633,366	4%
Total Income	\$56,026,472	\$53,441,662	5%
Total Assets	\$877,103,141	\$752,266,105	17%
Total Deposits	\$778,242,696	\$666,994,395	17%
Total Equity	\$80,003,376	\$62,249,498	29%
Earnings Per Share	\$0.48	\$0.47	2%
Book Value Per Share	\$1.89	\$1.49	27%
Return on Assets	2.32%	2.61%	-11%
Return on Equity	25.55%	31.54%	-19%
Price Earnings Ratio	7.13	7.98	-11%
Dividend Yield Per Share	4.39%	3.20%	37%
Dividend Per Share	\$0.15	\$0.12	25%

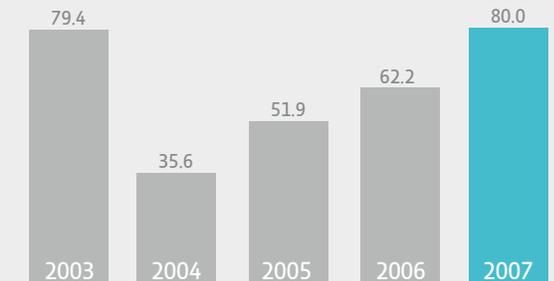
Net Income *in Millions of Dollars*



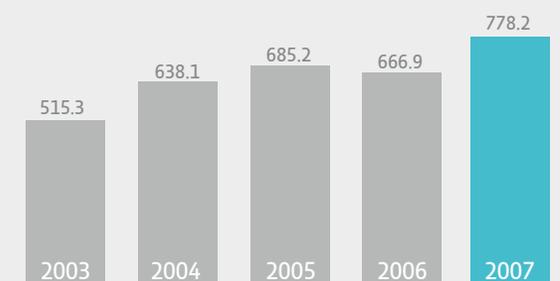
Total Assets *in Millions of Dollars*



Shareholders' Equity *in Millions of Dollars*



Total Deposits *in Millions of Dollars*



Risk Control

Risk control and management remain an important aspect of our business. Cy Elliot, Laura Young, and John Henry Ebanks are part of the Bank's risk management team.



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 its Head of Trust.

2 Ormond A. Williams

FIFS, FCMI, President
Cayman National Bank

Ormond Williams is a Fellow of the Institute of Financial Services, UK, and a Fellow of the Chartered Management Institute, UK. 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

MBA, ACIB, FCMI
Managing Director Isle of Man

Ian Bancroft holds an MBA with distinction, and is an Associate of the Chartered Institute of Bankers and a Fellow of the Chartered Management Institute. He has over thirty years experience in 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 its 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 Chamber of Commerce and chairman of its Finance Committee. He also sits on the Isle of Man Finance steering committee.



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Convenient Locations

Cayman National Bank is the only bank to provide service to all three of the Cayman Islands. Pictured are the bank premises in Cayman Brac and its staff.



Independent Auditor's Report



To the Members of Cayman National Corporation Ltd.:

PricewaterhouseCoopers
PO Box 258
Strathvale House
Grand Cayman
KY1 – 1104
Cayman Islands

Tel: (345) 949 7000
Fax: (345) 949 7352

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, 2007 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, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

January 21, 2008

Cayman National Corporation Ltd.

Consolidated Balance Sheet

September 30, 2007 (expressed in Cayman Islands dollars)

Assets	2007	2006
Cash and due from banks (Note 3)	\$418,096,859	\$334,638,468
Short term placements	16,453,014	31,650,629
Investments (Notes 4 and 13)	21,360,626	23,256,367
Loans and overdrafts (Notes 5 and 13)	373,478,534	323,441,769
Interest receivable	3,088,470	2,404,299
Accounts receivable (Note 9)	9,679,377	6,651,004
Investment in Associate held for sale (Note 9)	3,393,250	2,783,410
Fixed assets (Note 6)	26,681,780	22,568,928
Goodwill (Note 7)	4,871,231	4,871,231
	\$877,103,141	\$752,266,105
Liabilities		
Customers' accounts (Note 13)		
Current	\$141,008,826	\$118,182,109
Savings	152,133,577	135,930,992
Fixed deposits (Note 8)	485,100,293	412,881,294
	\$778,242,696	\$666,994,395
Interest payable	2,337,096	1,262,855
Accounts payable and other liabilities (Note 7)	16,511,160	21,750,519
Taxation (Note 10)	8,813	8,838
	\$797,099,765	\$690,016,607
Shareholders' Equity		
Share capital (Note 11)	\$42,378,547	\$41,686,308
Share premium (Note 11)	5,069,744	3,193,086
General reserve (Note 11)	7,486,050	7,486,050
Accumulated retained earnings	21,025,198	6,937,972
Reserve for dividends (Note 18)	3,390,284	2,501,178
Net unrealized (depreciation)/appreciation on investments available-for-sale (Note 4)	(80,220)	51,792
Equity adjustments from foreign currency translation (Note 12)	733,773	393,112
	80,003,376	62,249,498
	\$877,103,141	\$752,266,105

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

 Director 
 S. J. Dack

 Director 
 B. O. Ebanks

Date: January 21, 2008

See notes to consolidated financial statements

Cayman National Corporation Ltd.

Consolidated Statement of Income

for the year ended September 30, 2007 (expressed in Cayman Islands dollars)

	2007	2006
Interest		
Interest income (Note 22)	\$56,532,779	\$47,076,506
Interest expense	23,901,972	18,275,693
Net Interest Income	\$32,630,807	\$28,800,813
Other Income		
Banking fees and commissions	\$7,558,148	\$7,103,458
Trust and company management fees	5,563,483	5,085,811
Foreign exchange fees and commissions (Note 23)	6,127,164	5,127,580
Brokerage commissions and fees	2,903,410	2,408,837
Net underwriting income (Notes 9 and 17)	–	926,962
Realised gain on available for sale securities/Impairment (loss) (Note 4)	203,667	(295,450)
Gain on disposal of equity interest in subsidiary (Note 9)	257,171	3,283,075
Gain/(loss) on disposal of fixed assets (Note 6)	(123,363)	420,826
Unrealized gain on financial instruments designated at fair value	78,008	–
Share of associated company profits (Note 9)	433,040	579,750
Gain on investment held for sale (Note 9)	394,937	–
Total Income	\$56,026,472	\$53,441,662
Expenses		
Personnel	\$21,490,530	\$19,405,046
Other operating expenses	9,662,489	9,138,678
(Decrease)/Increase in loan impairment provision (Note 5)	(160,068)	60,795
Premises	1,853,125	1,691,737
Depreciation (Note 6)	2,591,786	2,493,757
Goodwill impairment charge (Note 7)	147,765	1,027,757
	\$35,585,627	\$33,817,770
Net Income Before Taxation	\$20,440,845	\$19,623,892
Taxation (Note 10)	3,163	9,474
Net Income	\$20,444,008	\$19,633,366
Net Income Attributable to:		
Equity Holders of the Company	\$20,444,008	\$19,521,565
Minority interests (Note 9)	–	111,801
	\$20,444,008	\$19,633,366
Earnings Per Share (Note 11)	\$0.48	\$0.47
Diluted Earnings Per Share (Note 11)	\$0.48	\$0.47

See notes to consolidated financial statements

Cayman National Corporation Ltd.

Consolidated Statement of Changes in Shareholders' Equity

for the year ended September 30, 2007 (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
Balance at September 30, 2005	\$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)
Balance at September 30, 2006	\$41,686,308	\$3,193,086	\$7,486,050	\$6,937,972	\$2,501,178	\$51,792	\$393,112	\$-	\$62,249,498
Net income	-	-	-	20,444,008	-	-	-	-	20,444,008
2006 proposed dividends paid (Note 18)	-	-	-	-	(2,501,178)	-	-	-	(2,501,178)
2007 interim dividend paid	-	-	-	(2,966,498)	-	-	-	-	(2,966,498)
Issuance of shares in connection with business combination (Note 7)	656,239	1,804,658	-	-	-	-	-	-	2,460,897
Final dividend proposed (Note 18)	-	-	-	(3,390,284)	3,390,284	-	-	-	-
Issuance of shares in connection with share options exercised	36,000	72,000	-	-	-	-	-	-	108,000
Net realized gains on sale of investment available-for-sale	-	-	-	-	-	(203,667)	-	-	(203,667)
Net change in unrealized appreciation/(depreciation) on investments (Note 4)	-	-	-	-	-	71,655	-	-	71,655
Equity adjustment from foreign currency translation (Note 12)	-	-	-	-	-	-	340,661	-	340,661
Balance at September 30, 2007	\$42,378,547	\$5,069,744	\$7,486,050	\$21,025,198	\$3,390,284	\$(80,220)	\$733,773	\$-	\$80,003,376

See notes to consolidated financial statements

Cayman National Corporation Ltd.

Consolidated Statement of Cash Flows

for the year ended September 30, 2007 (expressed in Cayman Islands dollars)

Cash (Used In)/Provided by:	2007	2006
Operating Activities		
Net income	\$20,444,008	\$19,633,366
Adjustments for items not involving cash:		
Depreciation	2,591,786	2,493,757
Impairment of goodwill	147,765	1,027,757
Amortization of premium/discount on investments held-to-maturity	(2,207)	52,218
Loss/(gain) on sale of investments available-for-sale	(203,667)	295,450
Gain on partial disposal of subsidiary	(257,171)	(3,283,075)
Unrealized gain on financial instruments designated at fair value	(78,008)	-
(Gain)/loss on disposal of fixed assets	123,363	(420,826)
Net (decrease)/increase loan impairment provision	(160,068)	60,795
Share of associated company profits	(433,040)	(579,750)
Gain on investment held for sale	(394,937)	-
Adjustments from foreign currency translation	340,661	148,053
	\$22,118,485	\$19,427,745
Changes in non-cash working capital items:		
Interest receivable	(684,171)	51,071
Accounts receivable**	(2,908,211)	8,328,089
Reinsurance balances receivable and other insurance related balances*	-	(1,668,175)
Depositors' accounts	111,248,301	(18,157,615)
Interest payable	1,074,241	(98,472)
Accounts payable and other liabilities (net of non-cash transaction in respect of business combination - see Note 7)	(2,648,280)	1,943,348
Taxation	(26)	(27,733)
Provision for unpaid claims, net of non-cash settlement of claims (see Note 9)*	-	(5,615,202)
Net advances for loans and overdrafts	(49,876,697)	(55,463,507)
	78,323,642	(51,280,451)
Investing Activities		
Short term placements	15,197,615	17,400,090
Purchase of financial asset held at fair value	(3,780,000)	(7,619,749)
Purchase of investments held to maturity	(1,667,083)	-
Proceeds on maturity of investments held-to-maturity	7,154,366	6,708,246
Proceeds on sale of investments available-for-sale	340,328	-
Proceeds from shares issued	108,000	-
Dividends received from associated company	218,137	-
Additions to fixed assets	(6,828,001)	(5,346,948)
Proceeds on disposal of fixed assets	-	657,300
Disposal of subsidiary, net of cash disposed	(140,937)	-
Disposal on Deconsolidation of Subsidiary	-	(2,182,299)
	10,602,425	9,616,640
Financing Activities		
Dividends paid (Note 18)	(5,467,676)	(7,426,754)
	(5,467,676)	(7,426,754)
Increase/(Decrease) In Cash And Cash Equivalents	83,458,391	(49,090,565)
Cash And Cash Equivalents, Beginning Of Year	334,638,468	383,729,033
Cash And Cash Equivalents, End Of Year	\$418,096,859	\$334,638,468
Supplemental information:		
Interest received	\$57,216,406	\$46,982,142
Interest paid	\$24,976,213	\$18,374,165

* 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 September 30, 2007 (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 and trades on the Cayman Islands Stock Exchange. The registered office of the Corporation is 200 Elgin Avenue, George Town, Grand Cayman.

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 September 30, 2007 (expressed in Cayman Islands dollars)

2. Significant Accounting Policies (Continued)

Standards, Interpretations and Amendments to Published Standards That Are Not Yet Effective

The Corporation has not early adopted the following standards and interpretations that will be effective for the annual periods beginning on or after the following dates:

IFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective January 1, 2007), 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 Corporation;

IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after November 1, 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 Corporation will apply IFRIC 10 from October 1, 2007, but it is not expected to have any impact on the Corporation's financial statements;

IFRS 8, Operating Segments, effective January 1, 2008; (see CNB);

IFRIC 11, IFRS 2 Group Treasury Share Transaction, effective January 1, 2008; and

IFRIC 12, Service Concession Arrangements, effective January 1, 2009;

The application of these new interpretations will not have a material impact on the Corporation's financial statements in the period of initial application.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended September 30, 2007 (expressed in Cayman Islands dollars)

2. Significant Accounting Policies (Continued)

Basis of Consolidation

Subsidiaries

Subsidiaries are all 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.

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

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.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended September 30, 2007 (expressed in Cayman Islands dollars)

2. Significant Accounting Policies (Continued)

Basis of Consolidation (continued)

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.

Joint Ventures

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements.

NOMINEE COMPANIES

Cayman National (Nominees) Ltd.

CNT (Nominees) Ltd.

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

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

These four subsidiaries earned no fee income and incurred no expenses during the years ended September 30, 2007 and 2006; in addition they had no assets or liabilities as at these dates.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended September 30, 2007 (expressed in Cayman Islands dollars)

2. Significant Accounting Policies (Continued)

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, and fund services
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 limited partnership)

JOINT VENTURES AND ASSOCIATES:

Entity	% Owned	Principal activity
AON Cayman National Insurance Brokers Limited (“AON/CNIB”)	50%	Insurance brokerage
Sagicor General Insurance (Cayman) Ltd. (“SGI”) formerly known as Cayman General Insurance Company Ltd. (“CGI”)	24.2% (see Note 9)	General (property & casualty) and health insurance

Business combinations

The purchase method of accounting is used to account for the business combinations entered into by the Corporation. The cost of an acquisition is measured as the fair value of the assets acquired, 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.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended September 30, 2007 (expressed in Cayman Islands dollars)

2. Significant Accounting Policies (Continued)

Business combinations (continued)

The allocation of CNC acquisitions, which are pushed down to respective subsidiaries, is accounted for at fair value. The subsidiary records its allocation of pushed down acquisitions as if the subsidiary had entered into the business combination itself.

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 subsidiaries are recorded as a separate component of shareholders' equity.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended September 30, 2007 (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.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended September 30, 2007 (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 directors' 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 are 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 September 30, 2007 (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 represent 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.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended September 30, 2007 (expressed in Cayman Islands dollars)

2. Significant Accounting Policies (Continued)

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.

Investments

The Corporation classifies its investments in the following categories: Available-for-sale, held-to-maturity and financial assets at fair value through profit and loss. Management determines the classification of its investments at initial recognition.

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.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended September 30, 2007 (expressed in Cayman Islands dollars)

2. Significant Accounting Policies (Continued)

Investments (continued)

Financial assets at fair value through profit and loss

Financial assets are designated at fair value through profit and loss as and when designated by management. Gains and losses arising from changes in the fair value of these financial assets are included in net income from financial assets designated at fair value through profit and loss.

Critical Accounting Estimates and Judgments

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

Impairment losses on loans and advances

The Group reviews its 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 judgments as to whether there is any observable data indicating that there is a measurable decrease in the discounted collateral and estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group or local economic conditions that correlate with defaults on assets in the group. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows differs by +/-5 percent, the specific provision would change by approximately +/- \$152,000. 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 judgments 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.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended September 30, 2007 (expressed in Cayman Islands dollars)

2. Significant Accounting Policies (Continued)

Critical Accounting Estimates and Judgments (continued)

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 nine 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 interest income in the statement of income and deferred loan origination fees recorded within accounts payable and accrued expenses in the balance sheet.

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.

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.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended September 30, 2007 (expressed in Cayman Islands dollars)

2. Significant Accounting Policies (Continued)

Critical Accounting Estimates and Judgments (continued)

Estimated goodwill impairment (continued)

Management uses estimates based on historical loss experience for client assets when projecting its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. 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.

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 as at September 30, 2007.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended September 30, 2007 (expressed in Cayman Islands dollars)

2. Significant Accounting Policies (Continued)

Critical Accounting Estimates and Judgments (continued)

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 amortized cost. If the entire class of held-to-maturity investments is tainted, the carrying value would decrease by \$9,300, with a corresponding entry in the net unrealized appreciation on investments available-for-sale reserve in shareholders' equity.

3. Cash and Due from Banks

Cash and Due from Banks Comprise	2007	2006
Cash in hand and current accounts	\$40,470,346	\$22,239,863
Due from banks	377,626,513	312,398,605
	\$418,096,859	\$334,638,468

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended September 30, 2007 (expressed in Cayman Islands dollars)

4. Investments

Investments Comprise	2007	2006
Available-for-sale at fair value	\$1,758,161	\$2,026,741
Held-to-maturity, at amortized cost	15,744,457	21,229,626
	\$17,502,618	\$23,256,367
Financial assets designated at fair value	3,858,008	-
	\$21,360,626	\$23,256,367

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

	2007	2006
U.S. government agency bonds	\$9,977,818	\$15,400,090
Regional corporate and government bonds	4,100,828	4,164,583
International corporate bonds	1,665,811	1,664,953
	\$15,744,457	\$21,229,626

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, 2007 was \$21,427,516 (2006: \$21,030,230). Effective interest rates for the above debt instruments range from 3.4% to 7.75% (2006: 3.00% to 11%).

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended September 30, 2007 (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
September 30, 2007				
Ordinary shares	\$833,333	\$-	\$-	\$833,333
Preference Shares	40,885	-	-	40,885
Mutual Funds	964,163	(80,220)	-	883,943
	\$1,838,381	\$(80,220)	\$-	\$1,758,161
September 30, 2006				
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

Included in investments available-for-sale are three securities with a carrying value of \$1,068,219 (2006: \$1,270,221) 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 (2006: \$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 \$1,027,333 (2006: \$1,229,355).

Mutual funds consist of three funds, two of which are sponsored and managed by the 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, 2007 is an impairment loss of \$0 (2006: \$295,450) relating to the Venture Capital fund.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended September 30, 2007 (expressed in Cayman Islands dollars)

4. Investments (Continued)

Financial asset designated at fair value is as follows:

Financial asset designated at fair value is as follows:	2007	2006
Fair value	\$3,858,008	\$–
Cost	\$3,780,000	\$–

The financial asset comprises a 13 year principal protected note issued by Barclays plc. The note is only 100% principal protected when held to its scheduled maturity, and if sold or redeemed prior to maturity due to early redemption, Noteholders may receive less than the protected amount.

The return on the note is equity indexed and the Corporation therefore designates the hybrid note as a financial asset at fair value through profit and loss.

5. Loans and Overdrafts

	Under one year	Within two to five years	Within six to ten years	Over ten years	Total
(all figures in \$000's)					
At September 30, 2007					
Commercial	\$70,500	\$18,160	\$28,326	\$52,368	\$169,354
Personal	20,520	24,566	33,436	118,823	197,345
Corporate	3,976	3,801	3,729	–	11,506
Total	\$94,996	\$46,527	\$65,491	\$171,191	\$378,205
Provision for loan impairment					(4,726)
					\$373,479
At September 30, 2006					
Commercial	\$47,587	\$21,051	\$20,925	\$51,393	\$140,956
Personal	23,951	23,343	27,438	101,803	176,535
Corporate	2,859	–	7,046	1,223	11,128
Total	\$74,397	\$44,394	\$55,409	\$154,419	\$328,619
Provision for loan impairment					(5,177)
					\$323,442

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended September 30, 2007 (expressed in Cayman Islands dollars)

5. Loans and Overdrafts (Continued)

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:

	2007	2006
Provision for loan impairment, beginning of year	\$5,177,059	\$5,405,102
Increase charged to expenses	(160,068)	60,795
Loans written off	(290,498)	(288,838)
Provision for loan impairment, end of year	\$4,726,493	\$5,177,059

Included in the 2007 impairment provisions is \$763,050 (2006: \$899,027) 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 \$4,282,069 (2006: \$4,080,500).

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended September 30, 2007 (expressed in Cayman Islands dollars)

6. Fixed Assets

	Freehold land and buildings	Leasehold property and improvements	Computers, software, furniture and equipment	Motor Vehicles	Total
Cost:					
At September 30, 2006	\$19,085,411	\$2,855,300	\$19,302,779	\$238,902	\$41,482,392
Additions	1,927,367	1,811,326	3,049,113	40,195	6,828,001
Disposals	-	-	(792,727)	-	(792,727)
At September 30, 2007	\$21,012,778	\$4,666,626	\$21,559,165	\$279,097	\$47,517,666
Accumulated Depreciation:					
At September 30, 2006	\$2,679,555	\$1,773,667	\$14,390,434	\$69,808	\$18,913,464
Charge for year	608,532	191,828	1,734,262	57,164	\$2,591,786
Disposals	-	-	(669,364)	-	(669,364)
At September 30, 2007	\$3,288,087	\$1,965,495	\$15,455,332	\$126,972	\$20,835,886
Net Book Value:					
At September 30, 2007	\$17,724,691	\$2,701,131	\$6,103,833	\$152,125	\$26,681,780
At September 30, 2006	\$16,405,856	\$1,081,633	\$4,912,345	\$169,094	\$22,568,928

During the year ended September 30, 2007, fixed assets with a cost of \$201,641, and a net book value of \$123,363 were disposed as they were replaced with enhanced assets. No proceeds were received on disposal of these assets.

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.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended September 30, 2007 (expressed in Cayman Islands dollars)

7. Goodwill

Goodwill is summarized as follows:

	2007	2006
Goodwill at beginning of year	\$4,871,231	\$5,054,735
Purchase consideration paid in year	147,765	844,253
Impairment charge for the year	(147,765)	(1,027,757)
Goodwill at end of year	\$4,871,231	\$4,871,231

Goodwill comprises the following business combinations:

Business acquired:	Year of acquisition	Original cost	Previously recognised accumulated amortization*	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	(313,010)	-	65,001
Aall Trust & Bank	2005	3,996,540	-	(183,504)	3,813,036
Aall Trust & Bank	2006	844,253	-	(844,253)	-
Aall Trust & Bank	2007	147,765	-	(147,765)	-
		\$7,209,874	\$(1,163,121)	\$(1,175,522)	\$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. The consideration was paid in three annual installments through issuance of CNC shares as follows:

Date	Shares Issued	Fair value of consideration
December 31, 2004	651,513	\$1,088,027
December 31, 2005	639,838	1,439,636
December 31, 2006	656,239	2,460,897
	1,947,590	\$4,988,560

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended September 30, 2007 (expressed in Cayman Islands dollars)

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 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, was paid to CNC on November 30, 2006.

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

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

As at September 2006, 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

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended September 30, 2007 (expressed in Cayman Islands dollars)

9. Insurance Related Balances (Continued)

Investment in Associate

Included in the Consolidated Balance Sheet as of September 30, 2007, was \$3,393,250 (2006: \$2,783,410), Investment in Associate held for sale at fair value, which represents the sale consideration (2006: 24.2% of the equity of SGI). Also, included in the Consolidated Statement of Income is income of \$433,040 (\$579,750 from the period December 1, 2005 to September 30, 2006), which represents 24.2% share of SGI's profits under the equity method of accounting.

Effective September 30, 2007, the Group sold its remaining 24.2% equity interest in SGI to Sagicor Life of the Cayman Islands Ltd. at a price of \$3,393,250. Proceeds of sale were received by the Group on October 22, 2007. Included in the Consolidated Statement of Income is a gain on sale of investment in associate of \$394,937 representing the difference between the selling price and the book value of the equity interest of \$2,998,313 at September 30, 2007.

Joint Venture

Effective October 1, 2006, the Group entered into a 50% joint venture agreement, AON/CNIB, which provides insurance brokerage services. Included in accounts receivable is \$353,869 due from AON Insurance Managers (Cayman) Ltd. (the joint partners) in respect of the initial establishment of the joint venture. The following amounts represent the Group's 50% share of the assets and liabilities, and revenues and results of the joint venture. They are included in the balance sheet and income statement as follows:

	2007	October 1, 2006
Total assets	\$496,223	\$374,643
Total liabilities	\$377,323	\$277,945
Net assets	\$118,900	\$96,698
Income	\$368,372	\$338,464
Expenses	\$346,170	\$190,935
Net income	\$22,202	\$147,529

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended September 30, 2007 (expressed in Cayman Islands dollars)

10. Taxation

The liability for taxation comprises	2007	2006
Provision for deferred tax	\$8,813	\$1,496
Isle of Man corporation tax	-	7,342
Tax liability	\$8,813	\$8,838

The CNB&T (IOM) and CNFS (IOM) operations incurred a tax credit for the year ended September 30, 2007 of \$3,163 (2006: credit of \$9,474).

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

	2007	2006
<u>Authorized:</u>		
200,000,000 shares of \$1 par value each		
(2006: 200,000,000)		
<u>Issued and fully paid:</u>		
42,378,547 shares (2006: 41,686,308)	\$42,378,547	\$41,686,308

Share Premium

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

General Reserve

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

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended September 30, 2007 (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, 2007 (2006 not diluted), these stock options were dilutive.

	2007	2006
Net income attributable to equity holders of the Corporation	\$20,444,008	\$19,521,565
Weighted average number of shares in issue	42,173,489	41,525,034
Diluted weighted average number of shares in issue	42,239,942	41,525,034
Earnings per share	\$0.48	\$ 0.47
Diluted earnings per share	\$0.48	\$ 0.47

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended September 30, 2007 (expressed in Cayman Islands dollars)

12. Equity Adjustments from Foreign Currency Translation

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

13. Related Party Balances and Transactions

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

	2007	2006
Accounts receivable:		
Affiliated companies	\$117,792	\$154,617
Accounts payable:		
Affiliated companies	\$-	\$800,000
Loans and overdrafts:		
Directors	\$10,173,390	\$11,166,167
Investments (Note 4):		
Affiliated companies	\$689,943	\$583,333
Directors	833,333	833,333
	\$1,523,276	\$1,416,666
Customers' accounts:		
Affiliated companies	\$79,624,572	\$76,647,154
Directors	1,399,577	2,215,059
	\$81,024,149	\$78,862,213

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 \$459,098 (2006: \$319,276) 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 \$37,043,284 (2006: \$29,238,538) at the balance sheet date, are at preferential rates varying between 5% and 6% p.a. (2006: 5.0% and 6.0 % p.a.).

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended September 30, 2007 (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 provides the 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 provides the manager and receives a fee amounting to 1.5% p.a. of the daily net assets of such fund. The Group also provides 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 provides the 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:

	2007	2006
Cayman National Mortgage Fund	\$ 619,407	\$746,302
CNB Money Market Fund	350,583	311,881
Cayman National Pension Fund	125,452	112,001

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 \$33,103,076 at September 30, 2007 (2006: \$42,607,470). 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 September 30, 2007 (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
2008	\$1,923,776
2009	\$1,973,786
2010	\$2,025,297
2011	\$2,078,353
2012 or >	\$12,876,648

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 \$586,816 (2006: \$523,807) representing the Group's portion of contribution required under the scheme.

16. Contingent Liabilities

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

The Group has issued letters of credit and guarantees to third parties totaling \$4,493,441 (2006: \$4,475,086) 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 September 30, 2007 (expressed in Cayman Islands dollars)

17. Net Underwriting Income

	2007	Period to November 30, 2005
Premiums written	\$-	\$4,888,631
Reinsurance premiums ceded	-	(2,610,393)
Movement in unearned premiums	-	(96,566)
Net premiums earned	\$-	\$2,181,672
Reinsurance commissions	-	338,131
Claims incurred (Note 9)	-	(1,328,748)
Policy acquisition commissions	-	(264,093)
Net underwriting income	\$-	\$926,962

18. Dividends Per Share

Final proposed dividends (Note 26) are presented as a separate component of shareholders' equity until they have been formally ratified at the Annual General Meeting ("AGM").

	2007
2006 proposed dividend paid in 2007	\$2,501,178
Interim 2007 dividend declared and paid in 2007	2,966,498
Total dividend paid out of 2007 earnings	\$5,467,676
Final proposed dividend – \$0.08 per share	\$3,390,284
	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

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended September 30, 2007 (expressed in Cayman Islands dollars)

19. Directors and Officers Remuneration

During the year ended September 30, 2007, the Corporation had a total of 8 directors (2006: 8) of whom one is an executive officer (2006: 1). For the financial year ended September 2007, the aggregate compensation for directors' services was \$224,600 (2006: \$213,474).

Salaries and other short term employee benefits for key management (being those executives with the authority to direct the Group's operating policy) of \$1,341,095 (2006: \$1,070,013) 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 1,000 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:

	2007	2006
Beginning balance	500,000	500,000
Granted	-	-
Exercised	(36,000)	-
Lapsed	-	-
At September 30	464,000	500,000
Exercisable at September 30	364,000	300,000

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended September 30, 2007 (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 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 table summarises the Group's exposure to interest rate risks. Included in the table is 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 September 30, 2007 (expressed in Cayman Islands dollars)

20. Financial Risk Management (Continued)

Interest Rate Risk (continued)

2007	1–3 months	3–6 months	6–12 months	1–5 Years	Over 5 Years	Non–interest Bearing	Total
Assets							
Cash and bank balances	\$404,888,896	\$–	\$–	\$–	\$–	\$13,207,963	\$418,096,859
Short term placements	–	3,360,334	13,092,680	–	–	–	16,453,014
Loans	74,869,756	13,210,847	6,914,997	241,439,650	37,043,284	–	373,478,534
Investments	–	–	–	13,212,229	7,274,178	874,219	21,360,626
Other assets	–	–	–	–	–	21,032,328	21,032,328
Fixed assets	–	–	–	–	–	26,681,780	26,681,780
TOTAL	\$479,758,652	\$16,571,181	\$20,007,677	\$254,651,879	\$44,317,462	\$61,796,290	\$877,103,141
Liabilities and Equity							
Demand & term deposits	\$595,901,316	\$17,705,166	\$25,775,060	\$984,890	\$–	\$137,876,264	\$778,242,696
Other liabilities	–	–	–	–	–	18,857,069	18,857,069
TOTAL	\$595,901,316	\$17,705,166	\$25,775,060	\$984,890	\$–	\$156,733,333	\$797,099,765
Off–balance liabilities	4,493,411	–	–	–	–	–	–
Maturity gap	\$(120,636,075)	\$(1,133,985)	\$(5,767,383)	\$253,666,989	\$44,317,462	–	–
2006							
Assets							
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	58,265,936	5,622,880	10,508,580	219,805,835	29,238,538	–	323,441,769
Investments	–	–	–	22,209,578	–	1,046,789	23,256,367
Other assets	–	–	–	–	–	16,709,944	16,709,944
Fixed assets	–	–	–	–	–	22,568,928	22,568,928
TOTAL	\$373,069,820	\$21,146,520	\$26,635,569	\$242,015,413	\$29,238,538	\$60,160,245	\$752,266,105
Liabilities and Equity							
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
TOTAL	\$518,907,282	\$93,797,804	\$52,346,512	\$726,093	\$–	\$24,238,916	\$690,016,607
Off–balance liabilities	4,475,086	–	–	–	–	–	–
Maturity gap	\$(150,312,548)	\$(72,651,284)	\$(25,710,943)	\$241,289,320	\$29,238,538	–	–

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended September 30, 2007 (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 primary regulator for the Group’s subsidiaries. The significant regulatory requirements are:

CNB, CNT and CNS are required to meet minimum capital requirements. Failure to meet minimum capital requirements can initiate certain actions by the regulators, that if undertaken could have a direct material effect on the Group’s financial statements. The subsidiaries must meet specific capital guidelines that involve quantitative measures of the subsidiaries assets and liabilities. The subsidiaries’ capital amount and classifications are also subject to qualitative analysis by CIMA. Quantitative measures established by CIMA to ensure capital adequacy requires that subsidiaries maintain a minimum amount of capital and 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, 2007 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 September 30, 2007 (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 pegged to the United States dollar, the Group is not 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 September 30, 2007 (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:

2007	KYD	USD	GBP	CAN	EURO	OTHER	Total
Assets							
Cash & due from banks	\$7,036,151	\$325,788,871	\$70,176,065	\$8,942,313	\$3,236,501	\$2,916,958	\$418,096,859
Short term placements	-	14,344,417	1,307,693	351,288	449,616	-	16,453,014
Investments	-	21,360,626	-	-	-	-	21,360,626
Loans & overdrafts	238,026,662	124,863,584	9,485,418	-	3	1,102,867	373,478,534
Other assets	17,335,297	2,635,807	1,003,359	33,228	11,911	12,726	21,032,328
Fixed assets	26,532,680	-	149,100	-	-	-	26,681,780
Total Assets	\$288,930,790	\$488,993,305	\$82,121,635	\$9,326,829	\$3,698,031	\$4,032,551	\$877,103,141
Liabilities							
Depositors accounts							
Current	\$58,125,964	\$73,528,573	\$9,273,239	\$79,870	\$1,180	\$-	\$141,008,826
Savings	52,060,880	85,048,523	8,066,570	2,973,637	2,214,653	1,769,314	152,133,577
Fixed deposits	90,905,197	330,194,194	55,357,656	5,430,887	1,256,613	1,955,746	485,100,293
Sub Total	\$201,092,041	\$488,771,290	\$72,697,465	\$8,484,394	\$3,472,446	\$3,725,060	\$778,242,696
Interest payable	544,923	1,394,796	358,513	27,098	7,442	4,324	2,337,096
Accounts payable & accruals	13,407,068	1,883,795	1,196,236	32,874	-	-	16,519,973
Total Liabilities	\$215,044,032	\$492,049,881	\$74,252,214	\$8,544,366	\$3,479,888	\$3,729,384	\$797,099,765
Net on Balance Sheet Position	\$73,886,758	\$(3,056,576)	\$7,869,421	\$782,463	\$218,143	\$303,167	

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended September 30, 2007 (expressed in Cayman Islands dollars)

20. Financial Risk Management (Continued)

Currency Risk (continued)

2006	KYD	USD	GBP	CAN	EURO	OTHER	Total
Assets							
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
Total Assets	\$252,770,831	\$435,753,137	\$49,972,859	\$6,582,416	\$2,529,371	\$4,657,491	\$752,266,105
Liabilities							
Depositors accounts							
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
Total Liabilities	\$198,095,263	\$432,914,477	\$46,270,203	\$5,979,300	\$2,371,075	\$4,386,289	\$690,016,607
Net on Balance Sheet Position	\$54,675,568	\$2,838,660	\$3,702,656	\$603,116	\$158,296	\$271,202	

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended September 30, 2007 (expressed in Cayman Islands dollars)

20. Financial Risk Management (Continued)

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 September 30, 2007 (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:

2007	1-3 months	3-6 months	6-12 months	1-5 Years	Over 5 Years	Total
Assets						
Cash and bank balances	\$418,096,859	\$-	\$-	\$-	\$-	\$418,096,859
Short term placements	-	3,360,334	13,092,680	-	-	16,453,014
Loans	74,869,756	13,210,847	6,914,997	46,526,947	231,955,987	373,478,534
Investments	-	-	-	14,086,448	7,274,178	21,360,626
Other assets	11,128,286	-	1,627,226	8,276,816	-	21,032,328
Fixed assets	-	-	-	4,338,263	22,343,517	26,681,780
Total	\$504,094,901	\$16,571,181	\$21,634,903	\$73,228,474	\$261,573,682	\$877,103,141
Liabilities and Equity						
Demand & term deposits	\$733,777,580	\$17,705,166	\$25,775,060	\$984,890	\$-	\$778,242,696
Other liabilities	8,479,401	-	6,873,076	2,593,553	911,039	18,857,069
Total	\$742,256,981	\$17,705,166	\$32,648,136	\$3,578,443	\$911,039	\$797,099,765
Maturity Gap	\$(238,162,080)	\$(1,133,985)	\$(11,013,233)	\$69,650,031	\$260,662,643	
2006						
Assets						
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	58,265,936	5,622,880	10,508,580	44,393,447	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
Total	\$392,735,029	\$28,864,744	\$34,308,430	\$72,229,949	\$224,127,953	\$752,266,105
Liabilities and Equity						
Demand & term deposits	\$518,907,282	\$93,797,804	\$52,346,512	\$1,942,797	\$-	\$666,994,395
Other liabilities	8,967,884	6,354,547	5,872,920	1,718,938	107,923	23,022,212
Total	\$527,875,166	\$100,152,351	\$58,219,432	\$3,661,735	\$107,923	\$690,016,607
Maturity Gap	\$(135,140,137)	\$(71,287,607)	\$(23,911,002)	\$68,568,214	\$224,020,030	

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended September 30, 2007 (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:

	2007	2006
Total assets	\$49,823,483	\$24,352,315
Total liabilities	\$43,548,280	\$20,794,766
Total income	\$1,720,860	\$1,468,460
Net (loss)/income	\$(321,663)	\$11,045

The Group's primary business segment include domestic and offshore retail and corporate banking; secondary operations include trust and company management, mutual fund administration and asset management services. Other operations include insurance brokerage and the holding company accounts which are mostly impacted by inter-company eliminations.

2007	Banking	Company Management	Asset Management	Other	Eliminations	Group
Gross assets	\$822,753,532	\$54,625,454	\$8,114,377	\$33,657,983	\$(42,048,205)	\$877,103,141
Total liabilities	750,411,605	44,852,420	5,530,175	9,623,530	(13,317,965)	797,099,765
Gross revenue	46,394,100	6,367,355	2,588,737	6,961,140	(6,284,860)	56,026,472
Net income (loss)	19,088,921	(57,848)	683,114	5,644,949	(4,915,128)	20,444,008
Capital expenditure	5,856,423	788,366	20,398	162,814	-	6,828,001
Depreciation charge	2,338,127	144,830	96,830	11,999	-	2,591,786
Goodwill impairment	-	-	-	147,765	-	147,765
2006						
Gross assets	\$727,050,471	\$28,122,796	\$5,304,534	\$101,255,879	\$(109,467,575)	\$752,266,105
Total liabilities	666,084,737	21,306,802	3,403,446	34,283,176	(35,061,554)	690,016,607
Gross revenue	41,249,456	5,963,335	1,809,779	13,597,097	(9,178,005)	53,441,662
Net income (loss)	16,338,821	392,556	336,339	10,680,603	(8,114,953)	19,633,366
Capital expenditure	5,040,395	239,944	63,439	3,170	-	5,346,948
Depreciation charge	2,215,789	126,509	83,278	68,181	-	2,493,757
Goodwill impairment	-	167,319	16,185	844,253	-	1,027,757

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended September 30, 2007 (expressed in Cayman Islands dollars)

22. Interest Income

Interest income comprises of the following:

	2007	2006
Cash and short term funds	\$21,000,003	\$18,031,514
Investment securities	1,050,748	1,024,911
Loans and advances	34,482,028	28,020,081
	\$56,532,779	\$47,076,506

Substantially all interest expense is attributable to customer deposits.

23. Foreign Exchange

Included within foreign exchange fees and commissions are net transaction gains of \$4,669,607 (2006: \$4,129,710) and realized gains of \$393,891 (2006: \$0). At September 30, 2007 there were unrealized foreign exchange translation gains of \$0 (2006: \$178,801).

24. Personnel

Personnel costs comprise of the following:

	2007	2006
Salaries and overtime	\$15,919,061	\$14,104,729
Pension	579,463	512,347
Health insurance – related party (Note 9)	1,236,529	1,019,552
Bonus	1,135,000	1,191,991
Training	298,082	214,590
Other	811,740	687,025
	\$19,979,875	\$17,730,234

Certain employees and directors are voluntarily able to participate in the Corporation's Staff Share Purchase Scheme (the "Scheme"). Under the Scheme employees can contribute up to 2% of salary which is matched by the Corporation, and directors contribute up to 20% of their quarterly directors' fees which is also matched by the Corporation. The contributions are used to purchase shares in the open market at prevailing prices and the shares are subject to

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended September 30, 2007 (expressed in Cayman Islands dollars)

24. Personnel (Continued)

certain vesting terms as set out in the Scheme. The net cost to the Corporation of this Scheme for the year was \$143,556 (2006: \$128,804) which is included within personnel costs in the statement of income.

At September 30, 2007, the Group employed a total of 301 personnel (2006: 283).

25. Reclassification

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

26. Subsequent Events

On November 30, 2007, CNC declared a final dividend of \$0.08 per share (\$3,390,284) which will be paid to shareholders of record December 31, 2007 after approval by shareholders at the annual General meeting in March 2008. 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, 2007, the directors made an appropriation from retained earnings to the reserve for dividends.

Cayman National Bank Ltd.

Consolidated Balance Sheet

September 30, 2007 (expressed in Cayman Islands dollars)

Assets	2007	2006
Cash and due from banks	\$376,575,977	\$318,014,659
Short term placements	15,840,722	31,172,028
Investments	17,308,618	22,860,365
Financial Assets designated at fair value	3,858,008	–
Loans and overdrafts	373,554,279	325,171,556
Interest receivable	4,361,041	3,201,465
Accounts receivable	4,385,658	3,156,102
Fixed assets	25,550,370	22,155,437
Goodwill	1,318,859	1,318,859
	\$822,753,532	\$727,050,471
Liabilities		
Customers' accounts		
Current	\$133,508,806	\$119,419,021
Savings	146,341,295	131,112,603
Fixed deposits	459,485,019	401,110,835
	\$739,335,120	\$651,642,459
Interest payable	\$2,257,008	\$2,064,581
Accounts payable and accrued expenses	8,819,477	12,377,697
	\$750,411,605	\$666,084,737
Shareholder's Equity		
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	28,602,916	17,176,721
Net unrealized appreciation on investments available-for-sale	106,610	156,612
	\$72,341,927	\$60,965,734
Total Liabilities and Shareholder's Equity	\$822,753,532	\$727,050,471

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

Director


 S.J. Dack

Director


 O.A. Williams

Date: December 21, 2007

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

for the year ended September 30, 2007 (expressed in Cayman Islands dollars)

	2007	2006
Interest Income		
Interest income	\$55,368,990	\$46,366,524
Interest expense	22,876,641	17,654,179
Net Interest Income	\$32,492,349	\$28,712,345
Other Income		
Foreign exchange fees and commissions	\$6,127,164	\$5,127,580
Other fees and commissions	7,697,156	7,409,531
Gain on sale of investments available-for-sale	122,786	-
Gain from financial instruments designated at fair value	78,008	-
Total Income	\$46,517,463	\$41,249,456
Expenses		
Depreciation	\$2,338,127	\$2,215,789
Decrease in loan impairment provision	(169,112)	-
Other operating expenses	7,868,062	7,197,962
Personnel	15,692,996	13,999,957
Premises	1,575,106	1,496,927
Loss on disposal of fixed assets	123,363	-
	\$27,428,542	\$24,910,635
Net Income	\$19,088,921	\$16,338,821

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

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John C. Bierley, BA, JD (USA)**
Sherri Bodden-Cowan, LLB (Hons)**
Clarence Flowers, Jr.*
Peter A. Tomkins, MBE*
David W. Trimble, MA (Cantab)

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Administration & Human Resources
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Group Chief Financial Officer
Gary Dombowsky, BA (Hons), MBA,
Group Internal Auditor
Claudia Welds
Senior Executive, Corporate Communications
Ian C. Whan Tong, AB, LLB, MPA, CAMS,
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* Members of the Group Compensation Committee
** Members of the Group Audit Committee

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Terry L. Wilcox***

Senior Officers & Management

Peter Popo, CPA, Managing Director***
Mary S. Mellin, Senior Vice President, Broker
Operations

*** Pending regulatory approval

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President, Risk Manager & MLRO
Jay Schutte, Senior Vice President, Operations
Kim Remizowski, TEP, Senior Vice President, Business
Development, North America
Carlos Guzman, Senior Vice President, Business
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Barry J. Williams, ACIB, MICA (director of Cayman
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Tony J. Edmonds, ASI, ACoI, (director of Cayman
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