

Annual Report 2010



**CAYMAN
NATIONAL**



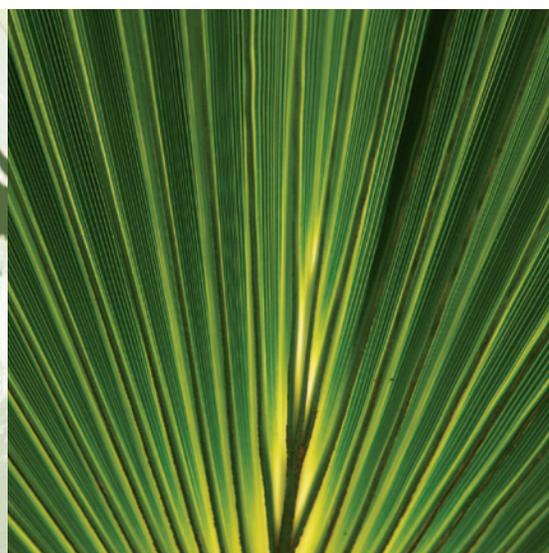
**CAYMAN
NATIONAL**

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 an integrated business, we aim to provide a wide range of financial services to local and international clients, currently from our locations in the Cayman Islands and the Isle of Man, with representative offices in Panama and Dubai together with retail banking services in the Turks and Caicos Islands through the International Banking Group (IBG).

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President's Report



Stuart Dack, President and CEO

In our report last year, we commented on the view within our industry that if you are making a profit “you have done well.” With this in mind, we have again performed well with Net Income of C\$5,170,386 for the year to 30 September 2010. We are pleased not only that we have turned in a sound profit for this financial year, but also that the figure achieved is up by 26% on 2009.

We again suggest to shareholders that our performance must be considered in the contexts of both the performance of others within our industry operating similar businesses in our region, and of the continued difficult economic conditions in our main areas of operation. These factors, and the historically low interest rates that still continue, make profitability a challenge, but against this background we have turned in a sound performance.

As mentioned in our previous reports, we have not been enticed into higher return, higher risk investment policies. This strategy has and will continue, despite the temptation of potential short-term gains that are still touted in the current economic climate. We again take the opportunity to remind our shareholders that unlike so many in our industry in recent times, we have not had to resort to a re-capitalisation program or to seek any form of Governmental or other support.

Coupled with our cautious approach to the investment of our placement cash, we are also very cautious with respect to the quality of our lending book. With economic conditions remaining challenging within our main areas of operation, close and careful control of the lending book is a vital aspect of our business. Our long term policy of conservative lending has given us a resilient lending book. We are not complacent on this issue and our strategy is to focus closely on the control and monitoring of lending. Good quality lending is possible even at such times; we continue to grow our lending book, in a prudent and controlled way. Overall, we are content with the quality and performance of our lending and the levels of provisions that we hold for problem loans.

One aspect of our business during the last year which has been particularly pleasing has been the growth in our customer base. Total Deposits grew by 16% during the year at a time when many banks are struggling to maintain true deposit levels. We recognise this is a strong indication of our customer's confidence in our business.

Our overall strategy is one of closely monitoring the performance of the various businesses within our Group. One of the strengths of our business has been the way in which the various divisions and subsidiaries complement one another. With some of the business being cyclical in nature, fortunes shift from time to time, but we look for a strong overall performance in the long term. Later in this report, we discuss the performance of the various major

components of our Group, but during this financial year we undertook one significant disposal. Some years ago, we entered into a joint venture with the Aon Group, with the plan being to develop our insurance brokerage business. During the 2009 financial year we decided to sell our stake in the Aon CNIB business to Aon to enable us to focus on the other aspects of our business. This sale was completed in March 2010 and generated a net gain of C\$761,382.

Cayman National Bank Ltd. (CNB)

Cayman National Bank has had another excellent year, particularly when measured against the competition. The Net Income of C\$6,459,876 is a very creditable performance during a period when interest rates have remained at historically low levels.

We are also pleased that the Bank's Balance Sheet has remained sound with total deposits of C\$803,971,120 up 8% on a year ago and Share Capital of C\$84,686,561.



Centre, Mr. Peter Tomkins, Cayman National Founder and (far right) Mr. Ormond Williams, Cayman National Bank President, accepts the Top Employer of the Year Award from Mr. Phillip Jackson of the Cayman Islands Society of Human Resource Professionals.

Our fund services business had another excellent year.

The focus of our attention throughout the year has been the careful management of the Bank’s investments, close control of lending, and tight cost control. Our cost control measures have been effective with overall expenditure increasing by only 1% in the year.

Cayman National Trust Co. Ltd. (CNT)

Cayman National Trust recorded a loss of C\$303,067 for the 2010 financial year. Income in this sector of our business has come under pressure in the last couple of years. We have and continue to take action to move the business back to profitability. Many businesses in this sector have come under similar pressure at a time when there has been a general decline in trust and company volumes, but we see our strategy as a long term player in this sector and the expectation is that business levels will return as economic conditions improve. In the meantime cost cutting will improve the negative situation.

Cayman National Fund Services Ltd. (CNFS)

Our fund services business had another excellent year turning in a Net Income of C\$1,159,122, up 15% on the record profit achieved in 2009. Many of our competitors in this business sector have struggled with profitability and client retention. The investments we have made in systems and controls in recent years have enabled us to offer high service levels to both existing and new clients, ensuring the sound continuity of the business.

Cayman National Securities Ltd. (CNS)

Both 2009 and 2010 were difficult years in the securities industry. During 2010, CNS recorded a loss of C\$261,773. This has resulted from a continuation of low trading volumes and also a deliberate re-organisation of our client base. With most equity markets in the world now experiencing much improved volumes of trade, we expect a return to profit for this business during the forthcoming year.



Cayman National remained the Platinum Sponsor for Cayman Crime Stoppers 3rd Annual Golf Tournament.

Cayman National Bank

Caymanian, International, Family.



**CAYMAN
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Cayman National Bank is proud to be the recipient of the inaugural 2010 'Top Employer Award' for the Cayman Islands presented by the Cayman Islands Society for Human Resource Professionals (CISHRP). We recognise and commend our staff for their commitment to our values, dedication to service and passion for excellence. For these things make us who we are – Caymanian, International, Family.

In July 2010, the doors of the new bank in Providenciales, Turks and Caicos Islands were opened.

Cayman National Isle of Man (IOM)

Our operation in the Isle of Man comprises two companies, Cayman National Bank and Trust Co. (Isle of Man) Limited and Cayman National Fund Services (Isle of Man) Limited. Through these two entities we provide a full range of bank, trust, company and fund administration services.

Despite challenging economic condition in the Isle of Man, we are pleased to report that our combined businesses based in Douglas, the capital of Isle of Man, turned in a record Net Income of £493,374 for 2010.

Our strategy during the last few years has been to reposition our businesses in the Isle of Man through a move to new premises, investment in new systems, and the employment of additional staff to complement our efforts to expand the business. We are pleased these efforts have achieved a substantial increase in Net Income and the levels of business now conducted through these two companies.

International Banking Group (TCI) Ltd. (IBG)

In July 2010, the doors of the new bank in Providenciales, Turks and Caicos Islands were opened. Cayman National is the major investor in this new venture which provides full service retail banking from purpose built premises.

This venture was a long time in the planning which pre-dated the unexpected downturn in the region’s economy. Current conditions have meant that the initial flow of new business has been far slower than originally anticipated. As a result, we are looking closely at cost containment and ways to build the business in difficult economic conditions. It is early days for this new venture, but we are focusing closely on improving the viability of this new bank.

Risk Control

Effective risk control has always been an important part of our strategy and we are committed to maintaining a high level of risk control throughout the organisation. Our Internal Audit division and risk assessment units maintain scrutiny over our business areas reporting regularly to our Audit Committee, which is comprised of non-executive Directors.



Mr. Ormond Williams presents a donation to International College of the Cayman Islands.

International Banking Group (IBG)

The Turks and Caicos Islands welcomed International Banking Group (IBG) in July 2010.

Below: Mark Capes, Acting Governor of Turks and Caicos Islands and Stuart Dack cut the ribbon to mark the official opening.



Community Support

Throughout the year Cayman National supported a number of community causes which included the events and presentations featured here.



Community Support

Although economic conditions keep profitability tight, we are still committed to being a responsible corporate citizen in all areas of our operation. Our strategy is to continue to support five specific sectors through donations and sponsorships: youth, the elderly, the less fortunate, sports, and culture.

The following is a summary of just some of the worthy causes that we supported during 2010:

- Premier Sponsor of the CARIFTA Games
- Hosted the first Charity Walk/Run, proceeds of which benefited the Rotaract Club’s Open Arms Programme for disabled and special needs persons in the community, and the Women of Grace, senior citizen’s programme
- Premier Sponsor of the Inter-Primary School Basketball League
- Cayman Brac Hospital refurbishment project
- Premier Sponsor of the Crime Stoppers Golf Tournament
- Hosted a student seminar, with the international Keynote Speaker, Carla Harris of Wall Street
- Title Sponsor of the Cayman Islands Tennis Federation’s Under 10s Series
- Cancer Society
- Cayman Heart Fund

In addition to the diverse support that we provide, we are also impressed and gratified by the support that so many of our staff give to their communities and charitable organisations. Although we encourage such support, it is our staff in so many instances who give so generously of their own time through their own initiative.



Cayman National staff cheer on Golfers at Cayman National Crime Stoppers Golf Tournament.



Cayman National staff participate in opening relay of the 2010 CARIFTA Games.

Home For Christmas

Right: Cayman National Carolers present a song at our Annual Home for Christmas event.



Acknowledgement

2010 saw an important milestone in our history when Mr. Benson Ebanks stepped down as Chairman after 36 years. Mr. Truman Bodden took over the Chairmanship following the Annual General Meeting in March.

2010 was also another year of significant challenges for the financial services industry in our areas of operation. Maintaining a successful organisation in such times requires the support and commitment from all of our stakeholders.

Our employees have continued to work hard and diligently. Our cost containment measures have restricted the hiring of new staff requiring higher levels of commitment from the team, which has been willingly forthcoming despite a period in which we have also kept salaries at consistent levels. Many of our staff have also worked hard to develop their skills through a number of training programmes, which in many cases, require a substantial commitment of personal time. We are also proud that the commitment to training and the Board's policy on Caymanianisation has resulted in a talented workforce of mainly Caymanian staff. We commend our staff for the vital role they play in our success.

Our clients and customers also continue to provide their support to our business and we are conscious that without our loyal customer base, our business would not



Mr. Benson Ebanks acknowledges thanks from the staff on the occasion of his retirement after 36 years of service.



Mr. Benson Ebanks hands over the Chairmanship to Mr. Truman Bodden at the Annual General Meeting in March 2010.

flourish. We are also delighted to welcome many new clients and customers to our organisation.

We are also grateful to our shareholders for their continued strong support. The trading levels of our shares have been very modest during the last year. Although we would like to see upward movement in our share price, the performance of our shares still remains favourable when compared to others in our sector, particularly when account is taken of the dividend return, which we have been pleased to maintain at 10 cents per share for the year giving a total yield of about 4%. We are pleased that our shareholders are still receiving a favourable return and we extend our thanks for their continued support.

We consider our business is well-positioned to maintain its sound performance for the forthcoming year and beyond. Although we expect interest rates will remain depressed for the time being, we expect 2011 to be another year of successful trading and with the sound condition of our business the future is one of opportunities.



Stuart Dack
President and Chief Executive
Cayman National Corporation Ltd.

Supporting Education

Mrs. Judy Watler presents the top GPA Award, Associates Degree to Leilani Roach at the University College of the Cayman Islands commencement ceremony.



Board of Directors



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. Resigning from Barclays in 1969, he took up the position of Executive Vice President with Mercantile Bank & Trust Co. (Cayman) Ltd., until 1973. From 1973 to 1994 he held the position of 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.



Truman Bodden

OBE, LLB (Hons), ACIB, JP, 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, 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 numerous Government and Statutory Boards and Councils and is a member of the Financial Services Council, Cayman Islands Law Society, and Bar Association. He is also a former Director of Barclays Private Bank and Trust Cayman Ltd., a founding director of Cayman National, and a senior partner of the law firm of Truman Bodden & Company from 1974–2008.



Stuart Dack

ACIB, MBA, President and Chief Executive

Stuart Dack entered banking in 1971, and obtained the ACIB qualification with distinction. Mr. Dack worked for the Midland Bank Group in the UK for 22 years where he held a number of managerial roles at branch banking, area, and regional levels. He joined Cayman National as Internal Auditor in 1992 and in 1998 was promoted to Executive Vice President of Cayman National Corporation. In 2001, he was awarded an MBA with Merit from Southampton University. In April 2004 he was appointed President and Chief Executive of Cayman National.



John C. Bierley

BA, JD

Mr. Bierley is a Florida Bar Board Certified international lawyer based in Tampa where he has practised for 45 years. He is a member of the Council on Foreign Relations, a Director of the InterAmerican Bar Association, and a former director of the Society of International Business Fellows, and the University of Florida Foundation. He is also founding Director of the Florida Business BancGroup Inc., and Bay Cities Bank in Tampa, Florida. He was previously a Director of Gulf Bay Bank and Southtrust Bank in Florida. Mr. Bierley is a founding Director of Cayman National and several of its international operating subsidiaries.

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.



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.



Jude Scott

BBA, CPA

Jude Scott retired as an Audit Partner from the Cayman Islands office of the accounting firm of Ernst & Young in 2008 after spending over 23 years with the firm. He held various roles in the firm, including Assurance and Advisory Business Services Leader and Insurance Practice Leader. As an audit partner, Jude was responsible for the audits of investment funds, multi-jurisdictional investment companies, banks, and insurance companies.

Jude is a graduate of Baylor University. He is licensed as a CPA in the State of Illinois and is a member of the American Institute of Certified Public Accountants. He is a former President of the Cayman Islands Society of Professional Accountants (CISPA), where he also served on various committees, including the Public Practice Committee. He currently sits on the Cayman Islands Financial Services Council, Education Council, Insolvency Rules Committee, and the Cayman Islands Stock Exchange.



Bryan A. Hunter

BA, LLB

Bryan Hunter is a Partner and the Corporate and Commercial Practice Group Head of the Cayman Islands office of the law firm Appleby. He is also the Local Team Leader of the Funds Team in that office. He has extensive experience in the structuring and formation of hedge funds, funds of funds and private equity funds and regularly advises on various operational and regulatory issues in relation to these funds. His practice also includes general corporate matters, project finance, corporate finance and merger and acquisition transactions.

Bryan was admitted as an Attorney in the Cayman Islands in 1997 and is a Notary Public in the Cayman Islands. He has served as a board member of the Civil Aviation Authority, the Caymanian Bar Association (of which he is a past President) and the Chamber of Commerce and has also been a member of the Financial Services Council. He is also currently the President of the Cayman Islands Basketball Association.



Financial Summary

Net Interest Income was up 8% by virtue of higher deposit levels and increased lending

The Year in Review

Net Income for the year to 30 September 2010 was C\$5,170,386, which is up 26% on the previous year.

Despite interest rates remaining flat at historically low levels throughout the year, Net Interest Income was up by 8% by virtue of higher deposit levels and increased lending. Total Income was up 2% to C\$48,102,015. Total Deposits grew by 16%, up by more than C\$134,000,000 for the year. Total Deposits are now well above the US\$1 Billion mark.

Total Expenses remain contained for the year, being down by .4% on 2009.

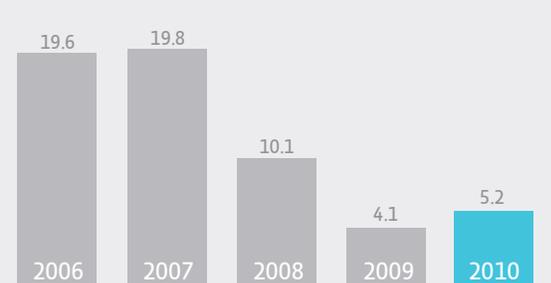
Balance Sheet numbers improved on the previous year despite the ongoing difficult economic conditions, with Total Assets up by 15%.

The ongoing strength of the Balance Sheet with Shareholders' Equity standing at C\$81,134,616 enabled the Board of Directors to approve an interim dividend of 5 cents per share, which was paid in October to shareholders of record as at 30 June 2010. The Board of Directors now recommends a final dividend of 5 cents per share to be paid to shareholders of record as at 28 February 2011 (originally 31 December 2010), with payment to be made in March 2011. Shareholders will consider this recommendation at the Annual General Meeting in 2011.

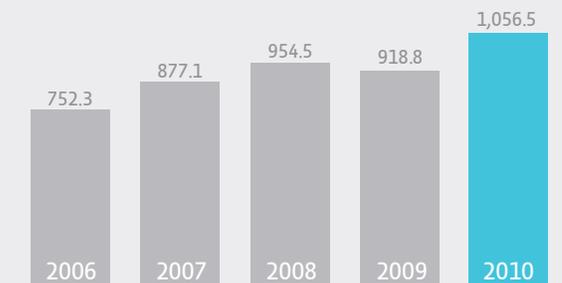
Summarised Financial Details

	2010	2009	Change 2010/2009
Net Income	\$5,170,386	\$4,106,367	26%
Total Income	\$48,102,015	\$47,179,778	2%
Total Assets	\$1,056,539,202	\$918,883,689	15%
Total Deposits	\$953,742,491	\$819,339,046	16%
Total Equity	\$81,134,616	\$80,697,288	1%
Earnings Per Share	\$0.13	\$0.10	30%
Book Value Per Share	\$1.92	\$1.91	1%
Return on Assets	0.52%	0.44%	19%
Return on Equity	6.39%	4.99%	28%
Price Earnings Ratio	17.62	21.45	-18%
Dividend Yield Per Share	4.37%	6.25%	-30%
Dividend Per Share	\$0.10	\$0.12	-17%

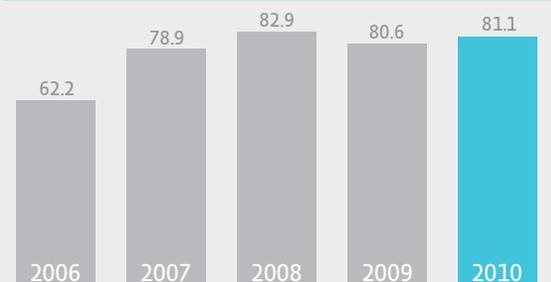
Net Income *in Millions of Dollars*



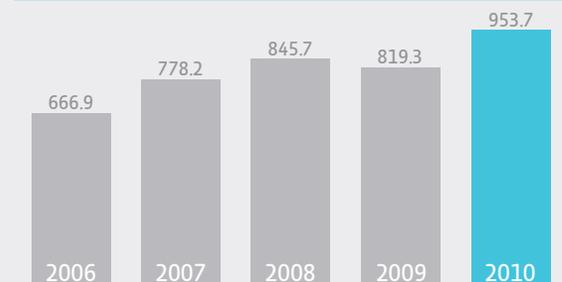
Total Assets *in Millions of Dollars*



Shareholders' Equity *in Millions of Dollars*



Total Deposits *in Millions of Dollars*



Heads of Businesses



Ormond A. Williams

FIFS, FCMI, FCABFI

President, Cayman National Bank

Ormond Williams is a Fellow of the Institute of Financial Services, UK, a Fellow of the Chartered Management Institute, UK and a Fellow of the Caribbean Banking and Finance Institutes. His banking career spans over 29 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 2002–2003 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), an Elder in the John Gray United Church (West Bay) and Lay Pastor in the William Pouchie Memorial United Church (North Side), Cayman Islands.



Ian M.E. 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 30 years experience in private banking and wealth management. Prior to joining Cayman National, 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.



Christopher Lumsden

BA, ACA

President, Cayman National Fund Services

Christopher Lumsden joined Cayman National in 2004 and is the President of Cayman National Fund Services Ltd. He has been a member of the Institute of Chartered Accountants in England and Wales since 1993. From 2000 until joining Cayman National, he was a hedge fund analyst based in the Bermuda office of Union Bancaire Privee, one of the world's largest allocators of alternative investment capital. Previously, he was an Account Manager in the Bank of Bermuda's fund administration business in Bermuda. Prior to moving to Bermuda, Mr. Lumsden worked for 5 years in the financial services industry in the United Kingdom, with Edinburgh Fund Managers and with Hill Samuel Commercial Finance. Mr. Lumsden earned his BA in Accounting in 1990.

James J.W. Youn

BA, CFA

President, Cayman National Securities

James Youn received his Bachelor of Arts from the University of Toronto, was awarded the Chartered Financial Analyst charter in 2001, and is a member of the Cayman Islands CFA Society. Mr. Youn brings to Cayman National Securities over 15 years of investment management experience, initially at Toronto-Dominion Bank creating and managing mutual fund portfolios, with the bulk of his career at RBC Capital Markets (Canada's largest investment bank) as a Bond Trader and more recently as a Fund of Hedge Funds executive and consultant. A published author in Institutional Investor's "Journal of Alternative Investments" in 2007 and later reviewed in the CFA Digest (August 2008), Mr. Youn has spoken at the Chicago Mercantile Exchange and to Canadian and global investment bank executives regarding hedge fund liquidity derivatives. Mr. Youn is charged with the overall management of client investments, and launched the Cayman National Securities series of mutual funds.



Debra C. Humphreys

FICA, TEP, JP

Head of Business, Cayman National Trust Co. Ltd.

Mrs. Humphreys assumed the role of Head of Cayman National Trust Co. Ltd. in March, 2010. She joined Cayman National in November 2003 and held the positions of Head of Group Compliance and Head of Risk Management for the International Financial Services business entities. Mrs. Humphreys has over 30 years experience in the Trust service industry, including the role of Trust Manager with her former employer from 1994-2003. She is a former Council member of the Cayman Islands Society of Trust and Estate Practitioners and currently serves on the Council of the Cayman Islands Compliance Association. Mrs. Humphreys is a Fellow of the International Compliance Association and a member of Trust and Estate Practitioners. She also serves on the Council for The Cayman Islands Justices of the Peace Association.



Naiem A. Qadir

MBA, CA, CFA

Senior Executive Officer, Cayman National (Dubai).

Naiem Qadir is Senior Executive Officer of Cayman National (Dubai) Ltd. He holds an MBA from the University of Toronto, is a Chartered Accountant with the Canadian Institute of Chartered Accountants, and a Chartered Financial Analyst with the CFA Institute. Mr. Qadir started his career in Canada with Deloitte & Touche before joining Cayman National Securities Ltd. in 1999. In 2003, Mr. Qadir was appointed as Head of Cayman National Securities, and in 2009, moved to Dubai to open Cayman National's Office.



Carlos Guzman

TEP

Senior Vice President, Business Development, Latin America

Carlos Guzman earned his degree in Economics from Iberoamericana University. He is certified as a Family Business Advisor and Family Wealth Advisor by the Family Firm Institute, licensed as a Financial Analyst and Trader by the National Securities Commission of Panama, and is a member of the Society of Trust and Estate Practitioners.

He was a trader and then promoted to Head of Operations of a family office firm in Mexico and then in the Cayman Islands. He joined Canadian Imperial Bank of Commerce (CIBC) to develop the Latin American market, and subsequently for the Royal Bank of Canada Trust Company as Head of Business Development for Latin America. Mr. Guzman joined Cayman National in 2004, and in 2007, opened the Representative Office of Cayman National Bank in Panama.



Right: His Excellency the Governor, Mr. Duncan Taylor pays a visit to Cayman National's Junior Achievement Advisors and the Achievers.





Independent auditor's report

To the Members of Cayman National Corporation Ltd:

We have audited the accompanying consolidated financial statements of Cayman National Corporation Ltd. and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as of September 30, 2010 and the consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows 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, 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive, flowing script.

February 8, 2011

Cayman National Corporation Ltd.

Consolidated Statement of Financial Position

30 September 2010 (expressed in Cayman Islands dollars)

Assets	2010	2009
Cash and due from banks (Note 3)	\$325,914,086	\$292,347,282
Short term placements	92,643,119	70,251,471
Investments (Notes 4 and 14)	17,642,239	21,576,150
Financial Assets designated at fair value (Note 4)	–	2,949,912
Loans and overdrafts (Note 5 and 14)	580,604,381	492,267,016
Interest receivable	1,480,560	1,888,261
Accounts receivable (Notes 10 and 14)	6,989,117	5,914,297
Fixed assets (Note 6)	25,632,995	25,366,775
Investment Property (Note 7)	2,277,475	2,277,475
Goodwill (Note 8)	3,355,230	4,045,050
Total Assets	\$1,056,539,202	\$918,883,689
Liabilities		
Customers' accounts (Note 14)		
Current	\$177,399,343	\$141,166,316
Savings	305,503,282	213,112,091
Fixed deposits (Note 9)	470,839,866	465,060,639
Total Deposits	953,742,491	819,339,046
Interest payable	417,968	632,342
Accounts payable and other liabilities (Note 17)	14,960,083	11,419,043
Provisions (Note 17)	1,473,518	4,841,014
Deferred revenue	3,412,703	1,954,956
Total Liabilities	974,006,763	838,186,401
Equity Attributable to Owners of the Parent		
Share capital (Note 12)	42,350,731	42,350,731
Share premium (Note 12)	5,031,898	5,031,898
General reserve (Note 12)	7,486,050	7,486,050
Accumulated retained earnings (Note 2)	24,895,779	23,581,623
Reserve for dividends (Note 18)	2,117,537	2,117,537
Net unrealized holding (loss)/gain on investments available-for-sale (Note 4)	(117,615)	657,659
Equity adjustments from foreign currency translation (Note 13)	(629,764)	(528,210)
Total Shareholders' Equity	81,134,616	80,697,288
Non-Controlling Interest (Note 29)	1,397,823	–
Total Liabilities And Equity	\$1,056,539,202	\$918,883,689

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

Director 
Truman Bodden, Chairman

Director 
Stuart Dack, President and CEO

Date: 8 February 2011

See notes to consolidated financial statements

Cayman National Corporation Ltd.

Consolidated Statement of Comprehensive Income

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

	2010	2009
Interest		
Interest income (Note 25)	\$27,016,290	\$29,350,060
Interest expense (Note 25)	2,201,221	6,393,987
Net Interest Income	24,815,069	22,956,073
Other Income		
Banking fees and commissions	8,382,157	7,504,024
Trust and company management fees	7,566,130	6,750,365
Foreign exchange fees and commissions (Note 26)	5,108,999	5,378,528
Brokerage commissions and fees	1,766,382	2,591,535
Realised (losses)/gains on available-for-sale securities (Note 4)	(30,387)	70,594
Realised gain on disposal of joint venture (Note 10)	761,382	-
Impairment loss on held to maturity investment (Note 4)	(806,200)	(200,000)
Impairment loss on available-for-sale investment (Note 4)	(314,843)	-
Gain on sale of investment Visa shares (Note 27)	910,055	446,200
Gain on sale of fixed assets (Note 6)	-	2,184,405
Loss on financial instruments designated at fair value (Note 4)	(56,729)	(501,946)
Total Income	48,102,015	47,179,778
Expenses		
Personnel (Note 28)	24,321,620	23,317,397
Other operating expenses (Note 14)	11,488,388	13,648,035
Increase/(decrease) in loan impairment provision (Note 5)	35,322	(67,879)
Premises	3,633,149	3,314,322
Depreciation (Note 6)	2,732,987	2,853,349
Goodwill impairment charge (Note 8)	689,820	9,179
Total Expenses	42,901,286	43,074,403
Net Income Before Taxation	5,200,729	4,105,375
Taxation	(30,343)	992
Net Income	\$5,170,386	\$4,106,367
Net Income/Loss Attributable To:		
Equity Holders of the Parent	\$5,549,230	\$4,106,367
Non-Controlling Interest	(378,844)	-
	\$5,170,386	\$4,106,367
Net realised gain on available-for-sale investments	\$(879,668)	\$(516,794)
Change in unrealized appreciation	104,394	(103,202)
	\$(775,274)	\$(619,996)
Foreign currency translation differences	\$(101,554)	\$(629,951)
Total other Comprehensive Loss	\$(876,828)	\$(1,249,947)
Total Comprehensive Income for the Year	\$4,293,558	\$2,856,420
Earnings Per Share (Note 12)	\$0.13	\$0.10
Diluted Earnings Per Share (Note 12)	\$0.13	\$0.10

Cayman National Corporation Ltd.

Consolidated Statement of Changes in Shareholders' Equity

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

	Share Capital	Share Premium	General Reserve	Retained Earnings	Reserve for Dividends	Net unrealized holding loss/gains on Available-for-sale Financial Assets	Foreign Currency Translation Reserve	Total	Non Controlling Interests	Total
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	-	\$80,003,376
Prior period restatement (Note 2)	-	-	-	(1,067,858)	-	-	-	(1,067,858)	-	(1,067,858)
Balance at September 30, 2007 restated	\$42,378,547	\$5,069,744	\$7,486,050	\$19,957,340	\$3,390,284	\$(80,220)	\$733,773	\$78,935,518	-	\$78,935,518
Net income	-	-	-	10,110,401	-	-	-	10,110,401	-	10,110,401
2007 proposed dividends paid	-	-	-	-	(3,390,284)	-	-	(3,390,284)	-	(3,390,284)
2008 interim dividend paid	-	-	-	(3,390,284)	-	-	-	(3,390,284)	-	(3,390,284)
Issuance of shares in connection with share options exercised	14,000	28,000	-	-	-	-	-	42,000	-	42,000
Shares repurchased and cancelled	(20,346)	(45,067)	-	-	-	-	-	(65,413)	-	(65,413)
Final dividend proposed (Note 18)	-	-	-	(2,966,054)	2,966,054	-	-	-	-	-
Net realized gains on sale of investment available-for-sale	-	-	-	-	-	(60,166)	-	(60,166)	-	(60,166)
Net change in unrealized appreciation/ (depreciation) on investments (Note 4)	-	-	-	-	-	1,418,041	-	1,418,041	-	1,418,041
Equity adjustment from foreign currency translation (Note 13)	-	-	-	-	-	-	(632,032)	(632,032)	-	(632,032)
Balance at September 30, 2008 restated	\$42,372,201	\$5,052,677	\$7,486,050	\$23,711,403	\$2,966,054	\$1,277,655	\$101,741	\$82,967,781	-	\$82,967,781
Net income	-	-	-	4,106,367	-	-	-	4,106,367	-	4,106,367
Comprehensive Loss	-	-	-	-	-	(619,996)	(629,951)	(1,249,947)	-	(1,249,947)
2008 proposed dividends paid (Note 18)	-	-	-	-	(2,966,054)	-	-	(2,966,054)	-	(2,966,054)
2009 interim dividend paid (Note 18)	-	-	-	(2,118,610)	-	-	-	(2,118,610)	-	(2,118,610)
Shares repurchased and cancelled	(21,470)	(20,779)	-	-	-	-	-	(42,249)	-	(42,249)
Final dividend proposed (Note 18)	-	-	-	(2,117,537)	2,117,537	-	-	-	-	-
Balance at September 30, 2009	\$42,350,731	\$5,031,898	\$7,486,050	\$23,581,623	\$2,117,537	\$657,659	\$(528,210)	\$80,697,288	-	\$80,697,288
Issuance of shares – IBG (Note 29)	-	-	-	-	-	-	-	-	1,776,667	1,776,667
Net income	-	-	-	5,549,230	-	-	-	5,549,230	(378,844)	5,170,386
Comprehensive Loss	-	-	-	-	-	(775,274)	(101,554)	(876,828)	-	(876,828)
2009 proposed dividends paid (Note 18)	-	-	-	-	(2,117,537)	-	-	(2,117,537)	-	(2,117,537)
2010 interim dividend paid (Note 18)	-	-	-	(2,117,537)	-	-	-	(2,117,537)	-	(2,117,537)
Final dividend proposed (Note 18)	-	-	-	(2,117,537)	2,117,537	-	-	-	-	-
Balance at September 30, 2010	\$42,350,731	\$5,031,898	\$7,486,050	\$24,895,779	\$2,117,537	\$(117,615)	\$(629,764)	\$81,134,616	\$1,397,823	\$82,532,439

See notes to consolidated financial statements

Cayman National Corporation Ltd.

Consolidated Statement of Cash Flows

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

Cash Provided By/(Used In):	2010	2009
Operating Activities		
Net income	\$5,170,386	\$4,106,367
Adjustments for items not involving cash:		
Depreciation	2,732,987	2,853,349
Impairment of goodwill	689,820	9,179
Amortization of premium/discount on investments held-to-maturity	120,820	55,160
Loss on available for sale investments	30,387	-
Gain on disposal of joint venture	(761,382)	-
Loss on financial instruments designated at fair value	56,729	501,946
Net increase/(decrease) in loan impairment provision	35,322	(67,879)
Gain on sale of VISA shares	(910,055)	(446,200)
Impairment loss on held-to-maturity investment	806,200	200,000
Impairment loss on available-for-sale investment	314,843	-
Gain on sale of fixed assets	-	(2,184,405)
Disposal of fixed assets on sale of joint venture	114,500	-
	8,400,557	5,027,517
Changes in non-cash working capital items:		
Interest receivable	407,701	869,361
Accounts receivable*	(1,316,458)	1,193,881
Depositors' accounts	134,403,445	(26,412,454)
Interest payable	(214,374)	(890,221)
Accounts payable and other liabilities*	2,211,291	(6,075,084)
Adjustments from foreign currency translation	(101,554)	(629,951)
Net advances for loans and overdrafts	(88,372,687)	(74,047,362)
Net Cash Generated From (Used In) Operating Activities:	55,417,921	(100,964,313)
Investing Activities		
Short term placements	(22,391,648)	(24,721,140)
Proceeds on disposal of investments in joint venture	423,020	-
Proceeds on sale of investments available-for-sale	3,473,343	1,169,299
Purchase of investments available-for-sale	(1,666,667)	-
Proceeds from sale of financial instruments designated at fair value	2,893,183	-
Purchase of Investments held to maturity	-	(6,044,319)
Proceeds on maturity of investments held-to-maturity	989,766	1,397,982
Purchase of additions to fixed assets	(3,113,707)	(3,721,670)
Proceeds on disposal of fixed assets	-	3,859,425
Net Cash Generated From (Used In) Investing Activities:	(19,392,710)	(28,060,423)
Financing Activities		
Dividends paid (Note 18)	(4,235,074)	(5,084,664)
Purchase of shares to cancel	-	(42,249)
Share subscription received for IBG (Note 29)	1,776,667	-
Net Cash Generated From (Used In) Financing Activities:	(2,458,407)	(5,126,913)
Increase (Decrease) In Cash And Cash Equivalents	33,566,804	(134,151,649)
Cash And Cash Equivalents, Beginning Of Year	292,347,282	426,498,931
Cash And Cash Equivalents, End Of Year	\$325,914,086	\$292,347,282
Supplemental information:		
Interest received	\$27,423,991	\$30,448,590
Interest paid	\$2,415,595	\$7,284,208

* Net of non-cash balances eliminated on sale of joint venture (Note 10).
See notes to consolidated financial statements

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

1. Incorporation and Background Information

Cayman National Corporation Ltd. (the “Corporation” or “CNC”) was incorporated on 4 October 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 brokering, and insurance brokerage (see note 10) in the Cayman Islands and the Isle of Man. The Corporation also operates a representative office in Dubai and in the Republic of Panama. The Panama representative office is subject to the provisions of law No.9 of 1988 of that country. Through its subsidiary International Banking Group (TCI) Ltd., the Corporation provides full banking services in the Turks and Caicos Islands (“TCI”), and it is subject to the regulations of the Financial Services Commission in TCI. The Corporation is listed and its shares trade on the Cayman Islands Stock Exchange. The registered office of the Corporation is 200 Elgin Avenue, George Town, Grand Cayman.

The Corporation is not liable for taxation in the Cayman Islands as there are currently no income, profits or capital gains taxes in the Cayman Islands. The Corporation is also not liable for taxation in respect of its Panama, Dubai, or TCI operations. Two of the Corporation’s subsidiaries are liable for Isle of Man income tax, which is reflected in these consolidated financial statements.

2. Significant Accounting Policies

Basis of Preparation

These consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of available for sale financial assets and financial assets held at fair value through profit or loss 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 IFRS requires the use of certain accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas where assumptions and estimates are significant to the consolidated financial statements are disclosed below in note 2. The significant accounting policies adopted by the Group are as follows:

Standards and amendments to existing standards effective 1 October 2009 are as follows:

- IAS 1 (revised) ‘Presentation of financial statements’. The revised standard prohibits the presentation of items of income and expenses (that is, ‘non-owner changes in equity’) in the statement of changes in equity. It requires non-owner changes in equity to be presented separately from owner changes in shareholder’s equity. All non-owner changes in equity are required to be shown in a statement of comprehensive income, but entities can choose whether to present one statement of comprehensive income or two separate statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated statement of financial position as at the beginning comparative period, in addition to the current

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

2. Significant Accounting Policies (continued)

Basis of Preparation (continued)

requirement to present statements of financial position at the end of the current period and comparative period. The Group has applied IAS 1 (revised) from 1 October 2009, and has elected to present solely a statement of comprehensive income.

- IAS 39 (amendment), 'Financial instruments: Recognition and measurement'. The amendment was part of the IASB's annual improvements project published in May 2008. The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading was amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. Adoption did not have a significant impact on the Group's financial statements.
- IFRS 7 (amendment) 'Financial instruments – Disclosures'. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the Group's financial position or performance.
- IFRS 8 – Operating Segments (effective for annual periods beginning on or after 1 January 2009) replaces IAS 14, "Segment Reporting". The new Standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The Group has applied IFRS 8 from 1 October 2009 to all segmental disclosures.

Standards and amendments to existing standards that are relevant to the Group's financial statements, but not effective until future dates are as follows:

- IFRS 9 Financial instruments. This new standard specifies how an entity should classify and measure financial assets, including some hybrid contracts. It requires all financial assets to be: (a) classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset; (b) initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs; and (c) subsequently measured at amortised cost or fair value. The standard improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39. The standard applies a consistent approach to classifying financial assets and replaces the numerous categories of financial assets in IAS 39, each of which had its own classification criteria. The standard also results in one impairment method, replacing the numerous impairment methods in IAS 39 that arise from the different classification categories. The new standard is not effective until 2013 and is not expected to have a significant impact on the Group's financial position or performance, as it is expected that the Group will continue to classify most of its investments at amortised cost.
- IFRS 7 Amendments: Disclosures – Transfers of Financial Assets. The amendments will help users of financial

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

2. Significant Accounting Policies (continued)

Basis of Preparation (continued)

statements evaluate the risk exposures relating to transfers of financial assets and the effect of those on an entity's financial position and will promote transparency in the reporting of transfer transaction, particularly those that involve the securitisation of financial assets. An entity shall provide the required disclosures for all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset, existing at the reporting date, irrespective of when the related transfer transaction occurred. Entities are required to apply the amendments for annual periods beginning on or after 1 October 2011. The impact of the disclosure on the Group's financial statements when it is adopted in 2012 will depend on the Group's facts and circumstances at the reporting date during the year of adoption.

- Revised IAS 24 Related Party Disclosures. The revision is mandatory for periods beginning on or after 1 October 2011. The revised standard clarifies and simplifies the definition of related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. This revision is not expected to have a significant impact on the Group's financial statements when it is adopted by the Group in 2011.

Prior year restatement in 2009

In November 2009, management uncovered a series of accounting errors relating to the overpayment of expenses and overstatement of revenue during the period 2005 to 2007 which relate to the fiduciary activities of one of its subsidiaries. These accounting errors resulted in an overstatement of the Group's financial position and performance for the financial years 2005–2007. The effect of this restatement on the Group's financial statements for the year ended 30 September 2007 is summarised as follows: Opening retained earnings for 2007 have been reduced by \$1,067,858 and liabilities have been increased by the same amount (see Note 17). The apportionment of amounts to the exact periods as identified above is impracticable.

Basis of Consolidation

(a) 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.

On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at the non-controlling interest's proportionate share of the acquiree's net assets.

All significant inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been aligned, where necessary, to ensure consistency with the policies of CNC.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

2. Significant Accounting Policies (continued)

Basis of Consolidation (continued)

(b) 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.

(c) Nominee Companies

The following subsidiaries earned no fee income and incurred no expenses during the years ended 30 September 2010 and 2009; in addition they had no assets or liabilities as at these dates.

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)

CN Director Limited

Beeston Management Limited

Beeston Administration Limited

OPERATING COMPANIES:

Entity	% Owned	Principal activity
Cayman National Bank Ltd. ("CNB") and its wholly owned Cayman National Property Holdings Ltd. ("CNP"), and Cayman National S.A. (incorporated in Panama)	100%	Banking, and property holding subsidiaries respectively
Cayman National Trust Co. Ltd. ("CNT")	100%	Company and trust management
Cayman National Fund Services Ltd. ("CNFS")	100%	Mutual Fund administration
Cayman National Securities Ltd. ("CNS")	100%	Securities brokerage and wealth management
Cayman National Bank & Trust Company (Isle of Man) Limited ("CNB&T (IOM)"), (incorporated and regulated in the Isle of Man)	100%	Banking, company and trust management
Cayman National Fund Services (Isle of Man) Limited, ("CNIFS (IOM)"), (incorporated and regulated in the Isle of Man)	100%	Mutual Fund Administration
International Banking Group (TCI) Ltd. ("IBG") (incorporated and regulated in Turks and Caicos*)	73.78%	Banking (operations commenced in July 2010)
Cayman National Investments Ltd. ("CNI")	100%	Holds a minority investment in a venture capital limited partnership
Cayman National (Dubai) Ltd. (incorporated in Dubai, UAE)	100%	Representative Office

*26.22% non-controlling interest was subscribed as of 30 September 2010 (see note 29)

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

2. Significant Accounting Policies (continued)

OPERATING COMPANIES (continued)

JOINT VENTURE:

Entity	% Owned	Principal activity
AON/Cayman National Insurance Brokers Ltd. (“AON/CNIB”) – See Note 10	50%	Insurance brokerage

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 given up, 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 non-controlling 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 comprehensive income.

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

(a) Functional and presentation currency

Items included in these consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (“the Functional Currency”). The consolidated financial statements are presented in Cayman Islands dollars (KYD), which is the Corporation’s functional and presentation currency. The Corporation’s functional currency is set at a fixed exchange rate to the United States Dollars of USD1.2 to KYD1.0.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

2. Significant Accounting Policies (continued)

Foreign Currency Translation (continued)

(b) Transactions and balances

Revenue and expense transactions involving currencies other than the functional currency have been translated at exchange rates ruling at the date of those transactions. Monetary assets and monetary liabilities are translated at the closing rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Gains and losses on exchange are credited or charged in the consolidated statement of comprehensive income

(c) Group Companies

The results and financial position of the Group's Isle of Man entities (which does not have the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates; and
- All resulting exchange differences are recognised in the consolidated statement of comprehensive income.

Depreciation

Fixed assets are recorded at 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	N/A
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 recognised when cash is advanced to the borrowers. Loans are carried at amortised cost using the effective interest yield method.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

2. Significant Accounting Policies (continued)

Loans and Provision for Loan Impairment (continued)

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

Loan impairment provisions are charged and impairment recoveries credited to the provision for loan impairment. The loan impairment provision includes an amount deemed appropriate by management to cover known and incurred risks in the loan portfolio, which have not been specifically identified.

Accounts Receivable

Accounts receivable are stated net of any related provisions for losses. The provision for losses is based on management's assessment of the collectability of accounts receivable and consists of specific provisions against exposures. A provision for impairment of accounts receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant delays in payments (more than three months past due) are considered indicators that the receivable may be impaired. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income. When a receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised in the consolidated statement of comprehensive income.

Director Benefits

Share options are, from time to time, offered to directors as an incentive in consideration for the carrying out of their duties in addition to directors' fees or other emoluments. The fair value of options are recorded as compensation costs on the date at grant. 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 for all interest-bearing financial instruments, except for those designated at fair value through profit and loss, are recognised within 'interest income' and 'interest expense' in the consolidated statement of comprehensive income using the effective interest method.

Fees and Commissions

Fees and commissions for services are recognised 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 recognised as income over the average life of the related loans.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

2. Significant Accounting Policies (continued)

Pension Obligations

The Group employees participate in a defined contribution plan. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no further payment obligations once the contributions have been paid. Payments to defined contribution retirement plans are charged as 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 from date of placement as cash or cash equivalents.

Short Term Placements

Short term placements principally 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.

Share Purchase Scheme

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

Leases

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

Investments

The Group 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. Purchases and sales of investments available for sale, held to maturity and at fair value through profit or loss are recognised on trade date basis, which is the date the Group commits to purchase or sell the investment. Investments are initially recognised at fair value plus transaction costs for all investments not carried at fair value through profit or loss. Investments carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated statement of comprehensive income.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

2. Significant Accounting Policies (continued)

Investments (continued)

Available-for-sale

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

For publicly traded securities fair value is based on quoted bid prices of these securities. 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. 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. In cases where there is no quoted market price for equity securities, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions and reference to other instruments that are substantially the same. If 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. Unrealised appreciation and depreciation on available-for-sale investments is reported as a separate component of shareholders' equity, until the investment is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in the consolidated statement of comprehensive income.

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held to maturity assets, the entire category would be reclassified as available for sale.

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

Financial assets at fair value through profit and loss

Financial assets may be designated by management at fair value through profit or loss if:

- Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost;

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

2. Significant Accounting Policies (continued)

Investments (continued)

Financial assets at fair value through profit and loss (continued)

- Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss; and
- Financial instruments, such as debt securities held, contain one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit and loss.

Financial assets are designated at fair value through 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 the statement of comprehensive income within (loss)/gain from financial assets designated at fair value through profit and loss.

Investment Properties

Investment properties that are not occupied by the Group and are held for long term rental yields or capital appreciation or both are classified as investment property. Investment properties are measured initially at cost, including transaction costs and are subsequently measured at depreciated cost.

Critical Accounting Estimates and Judgments

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

Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis or when an indicator of impairment is present. In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income on these loans, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the discounted collateral and estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group or local economic conditions that correlate with defaults on assets in the group. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows differs by +/-10 percent, the loan provision would not materially change. Additionally, the Group periodically reviews its provisions for losses incurred in the performing loan portfolio but not specifically identifiable at year-end. In determining the provision for loan losses management makes certain judgments regarding the extent to which historical loss trends and current economic circumstances impact their best estimate of losses that exist in the performing loan portfolio at the balance sheet date.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (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 consolidated statement of comprehensive income and deferred loan origination fees recorded in the balance sheet.

A 1 year increase in the average maturity period will result in a decrease in loan origination fee revenue recognised of approximately \$235,975. A 1 year decrease in the average maturity period will result in an increase in loan origination fee revenue recognised of approximately \$218,800. A 1% change in the level of loans repaid prior to the scheduled maturity date has an effect of approximately +/- \$10,000 on loan origination fees revenue recognised.

Goodwill impairment

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

Management uses estimates based on historical loss experience for client assets when projecting its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows for the acquired business differs by +/-5 percent the impairment charge would change by \$74,242 (2009: \$310,210).

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/fair value. In addition, impairment may be appropriate when there is evidence of a significant deterioration in the financial health of the investee, industry and sector performance and operational and financing cash flows. Management has determined that the carrying values of the remaining available-for-sale equity investments are not impaired as at 30 September 2010. If impairment were to be recorded on these investments as at 30 September 2010 the unrealised holding (loss)/gain reserve in shareholders' equity of \$137,177 (2009: \$370,589) would be recorded as a realised loss in the consolidated statement of comprehensive income.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (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 by IAS 39 to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost. If the entire class of held-to-maturity investments is tainted, the carrying value would increase by \$ 333,601 (2009: \$69,378), with a corresponding entry in the net unrealised holding (loss)/gain on investments available-for-sale reserve in shareholders' equity.

Impairment of assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- (a) significant financial difficulty of the issuer or obligor;
- (b) a breach of contract, such as default or delinquency in interest or principal payments;
- (c) the disappearance of an active market for that financial asset because of financial difficulties; and
- (d) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.

The estimated period between a loss occurring and its identification is determined by management using periods between 3 months and 12 months.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial assets original effective interest rate. The carrying amount of the asset is reduced through an allowance account and the amount of the loss is recognised in the consolidated

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

2. Significant Accounting Policies (continued)

Critical Accounting Estimates and Judgments (continued)

Impairment of assets carried at amortised cost (continued)

statement of comprehensive income. If a loan or held to maturity investment has a variable interest rate the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient the Group may measure impairment of investments on the basis of an instrument's fair value using an observable market price.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the consolidated statement of comprehensive income.

3. Cash and Due from Banks

Cash and Due from Banks Comprise:	2010	2009
Cash in hand and current accounts	\$67,404,863	\$38,052,239
Operating accounts	20,694,702	29,098,292
Money market accounts	5,633	572,004
Deposits with other banks	237,808,888	224,624,747
	\$325,914,086	\$292,347,282

The deposit with other banks attracted interest of 0.01% to 4.55% during the financial year.

4. Investments

Investments Comprise:	2010	2009
Available-for-sale at fair value	\$2,582,905	\$4,600,027
Held-to-maturity, at amortised cost	15,059,334	16,976,123
	17,642,239	21,576,150
Financial assets designated at fair value	–	2,949,912
	\$17,642,239	\$24,526,062

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (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 unrealised holding losses	Gross unrealised holding gains	Estimated fair value
30 September 2010				
Ordinary shares*	\$2,093,648	\$(73,311)	\$ -	\$2,020,337
Preference Shares	40,885	-	19,532	60,417
Mutual Funds	565,987	(63,836)	-	502,151
	\$2,700,520	\$(137,147)	\$19,532	\$2,582,905
30 September 2009				
Ordinary shares	\$2,937,320	\$ -	\$985,800	\$3,923,120
Preference Shares	40,885	-	42,448	83,333
Mutual Funds	964,163	(370,589)	-	593,574
	\$3,942,368	\$(370,589)	\$1,028,248	\$4,600,027

*Included within cost is the initial fair value of \$843,638 (2009: \$2,410,410) (on the remaining 23,670 shares) on the non-monetary exchange of the Group's membership interest in Visa for a share interest (see Note 27).

Included in investments available-for-sale are five investments with a carrying value of \$2,582,905 (2009: \$4,600,027) that are not publicly traded. The absence of a liquid market for these securities may restrict the Group's ability to dispose of these investments and amounts ultimately realised may differ materially from the carrying values. Due to a prolonged and significant decline in value of one of these investments, management assessed the investment as impaired and accordingly recorded an impairment charge of \$314,843 in the consolidated statement of comprehensive income. Two directors of the Corporation are also directors of two of these investee companies with carrying values of \$ 621,545 (2009: \$1,262,660).

Mutual funds consist of two funds, one of which is managed by the Group (see Note 14). The mutual funds are: (i) 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 (ii) a third party Venture Capital fund investing in companies that are in developmental stage.

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

	2010	2009
U.S. government agency bonds	\$4,255,195	\$5,166,492
Regional corporate and government bonds	8,327,262	9,308,430
International corporate bonds	2,476,877	2,501,201
	\$15,059,334	\$16,976,123

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

4. Investments (continued)

The issuers of the regional, corporate and government bonds are domiciled in Barbados, Trinidad, and the Cayman Islands. Effective interest rates for the above debt instruments range from 0% to 7.50% (2009: 2.0% to 7.50%).

During the previous financial year, the Group assessed the recoverable amount of its investments and determined that its investment held with Colonial Life Insurance Company (“CLICO”) (Trinidad) Limited was impaired. As a result of that exercise the Group recorded an impairment charge of \$200,000 for 30 September 2009. Consistent with its accounting policy, the Group conducted an assessment of its investments and noted that a further impairment charge of \$806,200 of this CLICO investment was required, reflecting the Trinidad government’s replacement of the CLICO debt with a 20 year 0% GORTT note. The note is to be paid down in equal annual installments over the 20 year period with a one-time payment of TT 75,000 being made. The main factors contributing to the impairment were significant financial difficulty of the issuer (which led to control of the Company being assumed by the Government of the Republic of Trinidad and Tobago (GORTT) in January 2009) and delinquency in interest and principal payments.

Based on this new information and in accordance with IAS 39, management has determined that the note from the Government of Trinidad represents a new investment and accordingly has derecognised the CLICO bonds, and recorded a new investment. For the purposes of impairment testing and also valuing the new note, management performed a discounted cash flow analysis, using a discount rate of 5.5% (approximate yield on similar GORTT bond, 20 payments and a period of one year). This impairment charge of \$806,200 (2009: \$200,000) is included in the consolidated statement of comprehensive income.

Net amortisation of discounts/premiums on debt securities of \$120,820 (2009: \$55,160) is included within interest income.

Financial asset designated at fair value is as follows:

	2010	2009
Fair Value	\$ -	\$2,949,912
Cost	\$ -	\$3,780,000

The financial asset designated at fair value through profit and loss comprised a 13 year principal protected note issued by Barclays Plc. The note was only 100% principal protected when held to its scheduled maturity, and if sold or redeemed prior to maturity due to early redemption, noteholders would receive less than the protected amount.

The return on the note was equity indexed which results in dissimilar risks inherent in the host and embedded derivative, and the Corporation therefore designated the hybrid note as a financial asset at fair value through profit and loss. The note was sold during the year with proceeds of \$2,893,183 resulting in a loss of \$56,729. This loss is recognised in the statement of comprehensive income.

The estimated fair value of all investments at 30 September 2010 was \$17,975,840 (2009: \$24,529,453).

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

5. Loans and Overdrafts

Composition and aging of the loan portfolio are as follows:

	Period from year end to maturity				Total
	Under one year	Within two to five years	Within six to ten years	Over ten years	
(all figures in \$000's)					
At 30 September 2010					
Commercial	\$115,073	\$23,514	\$53,704	\$81,094	\$273,385
Personal	27,803	23,210	49,148	204,507	304,668
Corporate	4,256	312	865	-	5,433
Total	\$147,132	\$47,036	\$103,717	\$285,601	\$583,486
Provision for loan impairment					(2,882)
					\$580,604
At 30 September 2009					
Commercial	\$84,159	\$26,869	\$51,750	\$53,091	\$215,869
Personal	35,261	22,527	55,193	161,679	274,660
Corporate	3,555	520	990	-	5,065
Total	\$122,975	\$49,916	\$107,933	\$214,770	\$495,594
Provision for loan impairment					(3,327)
					\$492,267

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

Movements in the provision for loan impairment are as follows:

	2010	2009
Provision for loan impairment, beginning of year	\$3,326,859	\$3,786,01
Increase/(Decrease) credited to income	35,322	(67,879)
Loans written off	(479,733)	(391,279)
Provision for loan impairment, end of year	\$2,882,448	\$3,326,859

Included in the 2010 impairment provisions is \$793,831 (2009: \$1,186,756) in respect of loans and credit cards classified as delinquent. The aggregate amount included in the balance sheet for loans and overdrafts in arrears by more than 90 days and impaired is \$583,000 (2009: \$616,000). Recoveries for loans previously written-off were \$133,615 (2009: \$107,648). (See note 20 for discussion on credit risk)

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (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 30 September 2009	\$22,557,422	\$6,932,371	\$23,886,748	\$327,548	\$53,704,089
Additions	262,449	420,813	2,348,730	81,715	\$3,113,707
Disposals*	(2,277,475)	(36,000)	(229,266)	(60,725)	\$(2,603,466)
At 30 September 2010	\$20,542,396	\$7,317,184	\$26,006,212	\$348,538	\$54,214,330
Accumulated depreciation:					
At 30 September 2009	\$4,595,117	\$2,705,272	\$18,517,123	\$242,327	\$26,059,839
Charge for year	609,094	502,063	1,592,224	29,606	\$2,732,987
Disposals	–	(17,500)	(143,766)	(50,225)	(211,491)
At 30 September 2010	\$5,204,211	\$3,189,835	\$19,965,581	\$221,708	\$28,581,335
Net book value:					
At 30 September 2010	\$15,338,185	\$4,127,349	\$6,040,631	\$126,830	\$25,632,995
At 30 September 2009	\$17,962,305	\$4,227,099	\$5,369,625	\$85,221	\$27,644,250

During the year ended 30 September 2010, fixed assets with a cost of \$nil (2009: \$2,127,281), and a net book value of \$nil (2009: \$1,675,020) were disposed resulting in a gain on sale of \$nil (2009: \$2,184,405). Proceeds of \$nil (2009: \$3,859,425) were received on disposal of these assets.

*During the year ended 30 September 2010, two parcels of land previously included in fixed assets with a cost of \$2,277,475 were transferred out of fixed assets and into investment property (see Notes 2 and 7).

Also included in disposals as of 30 September 2010 are costs of \$236,000 and accumulated depreciation charges of \$121,500 resulting in a net disposal on sale of joint venture of \$114,500, which is recognised in the consolidated statement of cash flows.

7. Investment Property

Investment Property at depreciated cost is as follows:

	2010	2009
Cost	\$2,277,475	\$2,277,475

There were no impairment charges on investment properties. The fair value of investment property was assessed at \$3,307,000.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

8. Goodwill

Goodwill is summarised as follows:

	2010	2009
Cost:		
Balance at beginning of year	\$7,209,874	\$7,209,874
Purchase consideration paid in year	-	-
Balance at end of year	7,209,874	7,209,874
Accumulated amortization and impairment:		
Balance at beginning of year	3,164,824	3,155,645
Impairment charge for the year	689,820	9,179
Balance at end of year	3,854,644	3,164,824
Goodwill at end of year	\$3,355,230	\$4,045,050

Goodwill comprises the following business combinations:

Business acquired:	Year of acquisition	Original cost	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 ("ATB")	2005-2010	4,988,558	(2,691,523)	2,297,035
		\$7,209,874	\$(3,854,644)	\$3,355,230

The main factors contributing to the impairment were:

- early repayment of loans by customers which were not reinvested;
- the continued decline in interest earned on deposits and loss of a few large deposits which were not renewed; and
- lower growth in other fees and commissions expected from these relationships and the subsequent decline in profit margins associated with the business.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

9. Fixed Deposit

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

10. Joint Venture

Effective 1 October 2006, the Group entered into a 50% joint venture agreement, AON/CNIB, which provided insurance brokerage services. Included in accounts receivable is \$nil (2009: \$353,869) due from AON Insurance Managers (Cayman) Ltd. (the joint partner) in respect of the initial establishment of the joint venture. The outstanding funds were paid to the Group on 31 March 2010.

Effective 31 March 2010, the Group sold its 50% interest in the joint venture to Aon Insurance Managers (Cayman) Ltd. As agreed, Aon owes a remaining balance of \$530,362 which is included in accounts receivable. This balance will be paid over the next two years. The Group recognised a profit of \$761,382 on the sale, which is recognised in the consolidated statement of comprehensive income.

	31 March 2010	2009
Total Assets	\$1,062,000	\$772,000
Total Liabilities	\$872,500	\$580,000
Net Assets	\$192,000	\$192,000
Income	\$314,000	\$588,500
Expenses	\$316,500	\$530,000
Net Income	\$(2,500)	\$58,500

11. Taxation

The asset/liability for taxation comprises as follows:

	2010	2009
Deferred tax asset/liability	\$(6,365)	\$5,769

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

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

12. Share Capital, General Reserve and Earnings Per Share

	2010	2009
<u>Authorised:</u>		
200,000,000 shares of \$1 par value each (2010 and 2009: 200,000,000)		
<u>Issued and fully paid:</u>		
Shares (2010 and 2009: 42,350,731)	\$42,350,731	\$42,350,731

Share Premium

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

General Reserve

The general reserve represents amounts appropriated by the directors, from retained earnings to a separate component of shareholders' equity, for dividend equalisation 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.

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 total amount of exercisable stock options which the directors can exercise during the year (see Note 2). At 30 September 2008 and 2007, these stock options were dilutive. However, by September 2009 all options had lapsed.

	2010	2009
Net income attributable to equity holders of the Corporation	\$5,549,230	\$4,106,367
Weighted average number of shares in issue	42,350,731	42,371,789
Diluted weighted average number of shares issue	42,350,731	42,371,789
Earnings per share	\$0.13	\$ 0.10
Diluted earnings per share	\$0.13	\$ 0.10

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

13. Equity Adjustments from Foreign Currency Translation

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

14. Related Party Balances and Transactions

The Group enters into various transactions with related parties in the normal course of business. Related parties are entities that are controlled by or maybe significantly influenced by Cayman National Corporation either directly or indirectly through its subsidiaries, the Board of Directors and key employees of the Corporation. Directors include individual directors of CNC and its subsidiaries and also corporations, partnerships, trusts or other entities in which a director or directors collectively, have direct or indirect significant shares or interest in such entities.

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

	2010	2009
Accounts receivable:		
Affiliated companies	\$88,087	\$29,870
Loans and overdrafts:		
Directors	\$7,910,779	\$10,265,931
Investments (Note 4):		
Affiliated companies	\$436,164	\$633,105
Directors	621,545	1,196,673
	\$1,057,709	\$1,829,778
Customers' accounts:		
Affiliated companies	\$61,698,413	\$81,890,992
Directors	1,285,770	1,809,298
	\$62,984,183	\$83,700,290

Included within interest income is interest of \$280,172 (2009: \$539,952) on loans and overdrafts to directors and key management (see Note 19).

Included within other operating expenses are professional fees of \$17,738 (2009: \$35,970) paid to firms of attorneys of whom 2 directors of CNB are also directors and owners.

Staff loans, which totaled \$45,649,763 (2009: \$41,149,936) at the balance sheet date, are at rates varying between 3.25% and 6% p.a. (2009: 3.25% and 6% p.a.). Employees of a former associated company continue to receive loans at rates consistent with staff loans.

Included in loan commitments as of 30 September 2008 was a commitment by CNB to lend Yellow Pilgrim, a company owned by Cayman National Corporation Provident Fund, \$2,498,723 to facilitate the purchase of 1,000,000 shares of Cayman National Corporation from Aall Banking & Trust Corporation Ltd. (Aall). The loan was drawn on 12 October 2008.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

14. Related Party Balances and Transactions (continued)

These shares had been originally issued to Aall in consideration of Cayman National Corporation acquiring certain assets from Aall in 2004. (see Note 8)

Customers' accounts with affiliated companies represent deposits from clients, trusts and companies managed by CNT. Included within interest expense is interest of \$483,898 (2009: \$1,547,285) on these deposits.

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 services and is remunerated by way of commitment fees negotiated between the Group and the individual mortgagors. In addition, the Group provides the administration, registrar and transfer agent services and receives a fee amounting to 1.5% p.a. of the daily net assets of the fund. The Group also provides administration services for CNB Money Market Fund ("CMMF") and the Cayman National Master Series Trust ("CNMST") and receives an annual fee amounting to 1% of the daily net assets of CMMF. Management has waived the fees for the year ended 30 September 2010 and 2009 in respect of the management of CNMST. The Group provides the trustee of both CMMF and CNMST. Additionally, the Group provides certain financial, accounting, administrative and other services on behalf of Cayman National Pension Fund ("CNPFF") 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 the fees received from these related parties:

	2010	2009
Cayman National Mortgage Fund	\$602,412	\$629,200
CNB Money Market Fund	534,126	612,259
Cayman National Pension Fund	136,378	127,729

All other transactions with related parties are conducted on normal commercial terms and at non-preferential interest rates.

15. Commitments

In the normal course of business there are various commitments on behalf of customers to extend credit. Commitments to extend credit totaled \$18,907,540 at 30 September 2010 (2009: \$32,892,905). No material losses are anticipated by management as a result of these transactions.

Cayman National Corporation Ltd.

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for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

15. 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 30 September	Annual commitment
2011	\$2,814,252
2012	\$2,896,502
2013	\$2,981,220
2014	\$3,068,480
2015 or greater	\$11,805,608

16. Pension Obligations

The Cayman National Corporation Pensions Fund (“the Fund” or “CNPf”) is a defined contribution pension scheme which became effective on 1 July 1997. The Fund is administered by Cayman National Trust Co. Ltd. and is available for participation by Group and third party employees. Membership is mandatory for all Group employees between the ages of 18 and 60, with contributions from both employer and employees. The required contribution is 5% of employees’ salary matched by the employer on a maximum salary of \$60,000 per annum. Included in personnel expense is an amount of \$588,024 (2009: \$662,366) representing the Group’s contribution to the Fund.

17. 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 \$4,776,498 (2009: \$8,897,410) on behalf of customers. 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.

Cayman National Corporation Ltd.

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for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

17. Contingent Liabilities (continued)

Management's best estimate of provisions for incurred liabilities comprises:

	2010	2009
Warranty provisions (i)	\$988,993	\$3,773,156
Fiduciary liabilities (ii)	\$484,525	\$1,067,858
Total provisions	\$1,473,518	\$4,841,014

(i) Over the course of two transactions during two years ended 30 September 2007, CNC sold a 75% stake in Cayman General Insurance Co Ltd (whose name was subsequently changed to Sagicor General Insurance (Cayman) Ltd ("SGI"). This sale was subject to various warranties made by CNC in the sale agreement which were limited to an aggregate amount of \$8,000,000. At 30 September 2010 \$7,011,007 (2009: \$4,226,844) had been disbursed in relation to accepted claims under these warranties. Further liabilities may arise on conclusion of currently unsettled claims under the warranty arrangements that arose following certain rulings of the Cayman Islands Courts in December 2008 in relation to third party proceedings brought against SGI. Final judgments are pending. Because of the general uncertainty and inherent variability surrounding such estimates, the ultimate amount payable could vary and these differences could be significant. As of 30 September 2010 the total amount of \$988,993 has been accrued representing the remaining maximum exposure to a negative outcome arising from the outstanding warranty claims (2009: \$3,773,156). This amount has been reflected in provisions in the balance sheet.

(ii) Fiduciary liabilities represents management's best estimate of amounts required to effect the correction of a prior year accounting error.

During the financial year ended 30 September 2009, CNB sold property held by its subsidiary, CNPH (see also Note 6). Included in the sale agreement is a warranty to the purchaser that CNB shall hold harmless the purchaser for a period of five years from the date of completion of the sale if the purchaser is unable to develop the property solely as a result of the restrictive agreements registered on title to the property. Management does not believe that this warranty which is not defined monetarily will have a material adverse effect on CNB's financial position.

During the financial year ended 30 September 2009, the Group was exposed to fiduciary risk relating to two of its subsidiaries and an affiliated company who, under instruction, had invested client funds in CLICO (see Note 4). A claim was made by one such client against the Group. The Group took steps to defend the action vigorously, and believed that the lawsuit was without merit and that the plaintiff would not be successful. As of 30 September 2010, the claim was dismissed by the courts and was not successful.

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18. Dividends Per Share

Final proposed dividends (Note 28) are presented as a separate component of Shareholders' Equity until they have been formally ratified at the Annual General Meeting ("AGM").

	2010
2009 proposed dividend paid in 2010	\$2,117,537
Interim 2010 dividend declared and paid in 2010	2,117,537
Total dividend paid out of 2010 earnings	4,235,074
Final proposed dividend – \$0.05 per share	\$2,117,537
	2009
2008 proposed dividend paid in 2009	\$2,966,054
Interim 2009 dividend declared and paid in 2009	2,118,610
Total dividend paid out of 2009 earnings	5,084,664
Final proposed dividend – \$0.05 per share	\$2,117,537

19. Directors' and Officers' Remuneration

During the year ended 30 September 2010, the Corporation had a total of 9 directors (2009: 9) of whom 1 is an executive officer (2009: 1). For the financial year ended September 2010, the aggregate compensation for directors' services was \$270,998 (2009: \$281,356).

Salaries and other short term employee benefits for key management (being those executives with the authority to direct the Group's operating policy) of \$1,496,158 (2009: \$1,653,630) are included within personnel expenses.

20. Financial Risk Management

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

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

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

20. Financial Risk Management (continued)

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

Market Risk

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

Interest Rate Risk

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

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Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

20. Financial Risk Management (continued)

The table below summarises the Group's exposure to interest rate risks. It includes the Group's financial instruments at carrying amounts categorised by maturity dates.

At 30 September 2010	1–3 months	3–6 months	6–12 months	1–5 Years	Over 5 Years	Non–interest Bearing	Total
Assets							
Cash and bank balances	\$315,809,550	\$ –	\$ –	\$ –	\$ –	\$10,104,536	\$325,914,086
Short term placements	–	22,919,657	48,306,795	21,416,667	–	–	92,643,119
Investments	–	–	–	6,732,073	6,833,462	4,076,704	17,642,239
Loans and Overdrafts	64,918,290	23,076,667	69,735,944	366,562,356	56,167,448	143,676	580,604,381
Other assets	–	–	–	–	–	14,102,382	14,102,382
Fixed Assets	–	–	–	–	–	25,632,995	25,632,995
TOTAL	\$380,727,840	\$45,996,324	\$118,042,739	\$394,711,096	\$63,000,910	\$54,060,293	\$1,056,539,202
Liabilities and Equity							
Demand & Term Deposits	\$627,245,090	\$55,607,631	\$90,376,329	\$3,171,906	\$ –	\$177,341,535	\$953,742,491
Other liabilities	–	–	–	–	–	20,264,272	20,264,272
TOTAL	\$627,245,090	\$55,607,631	\$90,376,329	\$3,171,906	\$ –	\$197,605,807	\$974,006,763
Total Interest Sensivity Gap	\$(246,517,250)	\$(9,611,307)	\$27,666,410	\$391,539,190	\$63,000,910		
At 30 September 2009							
Assets							
Cash and bank balances	\$283,871,555	\$ –	\$ –	\$ –	\$ –	\$8,475,727	\$292,347,282
Short term placements	–	40,471,597	24,779,874	5,000,000	–	–	70,251,471
Investments	–	–	–	7,473,731	9,502,391	4,600,028	21,576,150
Financial Assets designated at fair value	–	–	–	–	2,949,912	–	2,949,912
Loans and Overdrafts	91,491,134	11,742,145	19,663,696	318,770,859	50,405,240	193,942	492,267,016
Other assets	–	–	–	–	–	11,847,608	11,847,608
Fixed Assets	–	–	–	–	–	27,644,250	\$27,644,250
TOTAL	\$375,362,689	\$52,213,742	\$44,443,570	\$331,244,590	\$62,857,543	\$52,761,555	\$918,883,689
Liabilities and Equity							
Demand & Term Deposits	\$572,742,983	\$60,366,184	\$44,258,655	\$990,538	\$ –	\$140,980,686	\$819,339,046
Other liabilities	–	–	–	–	–	18,847,355	18,847,355
TOTAL	\$572,742,983	\$60,366,184	\$44,258,655	\$990,538	\$ –	\$159,828,041	\$838,186,401
Total Interest Sensivity Gap	\$(197,380,294)	\$(8,152,442)	\$184,915	\$330,254,052	\$62,857,543		

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Notes to Consolidated Financial Statements

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20. Financial Risk Management (continued)

Interest Rate Sensitivity Analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for financial assets and liabilities at the balance sheet date. A 50 basis point (2009: 100 basis points) increase or decrease is used as it represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2009: 100 basis points) higher/lower and all other variables remained constant, the Group's profit and equity for the year ended 2010 would increase/decrease by \$1,130,390 (2009: increase/decrease by \$1,788,664). This is mainly attributable to the Group's exposure to interest rates in its fixed rate liabilities and variable rate loans.

Other Price Risk

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

Equity Price Sensitivity Analysis

If equity prices had been 15% higher/lower:

- net profit for the year would have been unaffected as the equity investments are classified as available for sale and no investments were impaired.
- equity would increase/decrease by \$387,436 (2009: \$690,004) for the Group as a result of the change in fair value of available-for-sale investments.

Currency Risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign currency deposits accepted from customers are matched with corresponding foreign currency deposits placed with correspondent banks such that the foreign currency risk is hedged. Moreover the Cayman Islands Dollar is pegged at a fixed rate of exchange to the United States Dollar (see Note 2), thus this is not considered to pose a significant foreign exchange risk. The Group does however have exposure to fluctuations of exchange rates on unhedged foreign currency assets (see table below). The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily by management. Management believes that these policies mitigate the Group's exposure to significant currency risks.

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20. Financial Risk Management (continued)

Currency Risk (continued)

The following table presents, by major currency, the Group's exposure to foreign currency risk at 30 September 2010:

2010	KYD	USD	GBP	CAD	EURO	OTHER	Total
Assets							
Cash & Due From Banks	\$7,021,419	\$138,555,093	\$127,566,185	\$5,375,024	\$43,188,103	\$4,208,262	\$325,914,086
Short term placements	-	85,693,594	3,209,574	1,960,535	922,023	857,393	92,643,119
Investments	-	17,642,239	-	-	-	-	17,642,239
Loans & Overdrafts	333,519,444	208,770,046	38,314,891	-	-	-	580,604,381
Total Assets	\$340,540,863	\$450,660,972	\$169,090,650	\$7,335,559	\$44,110,126	\$5,065,655	\$1,016,803,825
Liabilities							
Depositors Accounts							
Current	\$63,612,051	\$113,648,324	\$132,600	\$6,368	\$-	\$-	\$177,399,343
Savings	59,841,995	102,657,758	129,979,549	3,374,033	5,538,342	4,111,605	305,503,282
Fixed Deposits	83,710,379	310,324,092	33,647,350	3,877,920	38,436,228	843,897	470,839,866
Sub Total	\$207,164,425	\$526,630,147	\$163,759,499	\$7,258,321	\$43,974,570	\$4,955,502	\$953,742,491
Interest Payable	53,329	341,681	4,966	8,440	2,060	7,492	417,968
Accounts Payable & Accruals	12,166,876	7,390,903	288,525	-	-	-	19,846,304
Total Liabilities	\$219,384,630	\$534,362,758	\$164,052,990	\$7,266,761	\$43,976,630	\$4,962,994	\$974,006,763
Net on Balance Sheet position	\$121,156,233	\$(83,701,786)	\$5,037,660	\$68,798	\$133,496	\$102,661	\$42,797,062

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

20. Financial Risk Management (continued)

Currency Risk (continued)

The following table presents, by major currency, the Group's exposure to foreign currency risk at 30 September 2009:

2009	KYD	USD	GBP	CAD	EURO	OTHER	Total
Assets							
Cash & Due From Banks	\$9,919,492	\$167,918,182	\$90,636,334	\$7,609,058	\$9,617,550	\$6,646,666	\$292,347,282
Short term placements	-	67,532,422	1,957,403	116,265	645,381	-	70,251,471
Investments	-	21,576,150	-	-	-	-	21,576,150
Financial Assets designated at fair value	-	2,949,912	-	-	-	-	2,949,912
Loans & Overdrafts	300,980,067	176,349,547	13,690,391	-	-	1,247,011	492,267,016
Total Assets	\$310,899,559	\$436,326,213	\$106,284,128	\$7,725,323	\$10,262,931	\$7,893,677	\$879,391,831
Liabilities							
Depositors Accounts							
Current	\$70,279,100	\$70,780,652	\$94,178	\$12,386	\$-	\$-	\$141,166,316
Savings	\$9,047,045	\$99,976,494	\$38,035,884	\$2,813,549	\$8,473,328	\$4,765,791	\$213,112,091
Fixed Deposits	\$82,266,140	\$310,278,792	\$63,018,492	\$4,804,171	\$1,627,684	\$3,065,360	\$465,060,639
Sub Total	\$211,592,285	\$481,035,938	\$101,148,554	\$7,630,106	\$10,101,012	\$7,831,151	\$819,339,046
Interest Payable	102,191	486,333	14,086	17,063	6,464	6,205	632,342
Accounts Payable & Accruals	12,936,779	4,401,084	825,732	49,371	1,184	863	18,215,013
Total Liabilities	\$224,631,255	\$485,923,355	\$101,988,372	\$7,696,540	\$10,108,660	\$7,838,219	\$838,186,401
Net on Balance Sheet position	\$86,268,304	\$(49,597,142)	\$4,295,756	\$28,783	\$154,271	\$55,458	\$41,205,430

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Notes to Consolidated Financial Statements

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20. Financial Risk Management (continued)

Currency Sensitivity Analysis

The Group is mainly exposed to the currency of Britain (GBP), the European Union (EUR) and Canada (CAD).

The following table details the Group’s sensitivity to a 10% increase and decrease in the KYD against the relevant foreign currencies. 10% represents management’s assessment of the reasonably possible change in foreign exchange rates.

	GBP		CAD		EUR	
	2010	2009	2010	2009	2010	2009
	KYD’000	KYD’000	KYD’000	KYD’000	KYD’000	KYD’000
Profit or loss (i)	437	1,074	7	7	13	39

(i) This is mainly attributable to the exposure to outstanding cash and due from banks at year end.

In management’s opinion, the sensitivity analysis may not be representative of the inherent foreign currency risk as exposures vary throughout the period.

Liquidity Risk

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

Liquidity Risk Management Process

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

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

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are the key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

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20. Financial Risk Management (continued)

Liquidity Risk Management Process (continued)

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

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

Funding Approach

Sources of liquidity are regularly reviewed by ALCO to monitor diversification by currency, geography, provider, and product.

The table below presents the cash flows payable by the Group for financial liabilities remaining as at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash flows:

Liquidity Risk

At 30 September 2010	1-3 months	3-6 months	6-12 months	1-5 Years	Over 5 Years	Total
LIABILITIES & EQUITY						
Demand & Term Deposits	\$804,794,279	\$55,787,273	\$91,053,874	\$3,281,325	\$ -	\$954,916,751
Other Liabilities	9,749,892	1,981,189	1,309,270	3,393,247	-	\$16,433,598
Total Liabilities	\$814,544,171	\$57,768,462	\$92,363,144	\$6,674,572	\$ -	\$971,350,349
Loan Commitments	\$18,907,540					

At 30 September 2009	1-3 months	3-6 months	6-12 months	1-5 Years	Over 5 Years	Total
LIABILITIES & EQUITY						
Demand & Term Deposits	\$714,083,195	\$60,822,502	\$44,698,183	\$1,012,157	\$ -	\$820,616,037
Other Liabilities	2,804,810	1,297,027	5,114,488	6,731,808	-	\$15,948,133
Total Liabilities	\$716,888,005	\$62,119,529	\$49,812,671	\$7,743,965	\$ -	\$836,564,170
Loan Commitments	\$32,892,905					

Cayman National Corporation Ltd.

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20. Financial Risk Management (continued)

Credit Risk

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

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

(i) Credit Risk Measurement

Loans and Advances

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

An allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans. The operational measurements are consistent with impairment allowances required under IAS 39, which are based on losses that have been incurred at the balance sheet date (the "incurred loss model") rather than expected losses. Loan impairment provisions are charged to expenses in order to maintain the reserve at a level deemed appropriate by management to absorb known inherent risks in the loan portfolio.

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20. Financial Risk Management (continued)

Credit Risk (continued)

(i) Credit Risk Measurement (continued)

Loans and Advances (continued)

The Bank's future ratings scale and mapping of external ratings:

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

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

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

Debt Securities and other Bills

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

Cayman National Corporation Ltd.

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20. Financial Risk Management *(continued)*

Credit Risk *(continued)*

(i) Credit Risk Measurement (continued)

Other Assets

The majority of other assets consist of accounts receivables (which are shown presented net of provision for doubtful accounts), prepayments, interest receivable, due from brokers and other fees receivable.

Account and other fees receivable consist of a large number of clients spread across diverse geographical areas. Ongoing credit evaluation is performed on the financial condition of receivables and, where appropriate, a provision is established for accounts deemed uncollectible. In addition, a portion of the receivables are due from entities of which the Group is director or trustee or where the Group holds assets in a fiduciary capacity and as such has control over the settlement of the liabilities to the Group, which minimises the credit risk to the Group.

(ii) Risk Limit Control and Mitigation Policies

The Group manages limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups. It maintains a policy on large credit exposures, ensuring that concentrations of exposure by counterparty do not become excessive in relation to the Group's capital base and remain within internal and regulatory limits.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. The Group's main operations are in the Cayman Islands.

Exposure Policy

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Other specific control and mitigation measures are outlined below:

Adequate Collateralisation

It is the Group's policy when making loans to establish that they are within the customer's capacity to repay rather than relying exclusively on security. However, while certain facilities may be unsecured depending on the client's standing and the type of product, collateral can be an important mitigant of credit risk.

Cayman National Corporation Ltd.

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20. Financial Risk Management *(continued)*

Credit Risk *(continued)*

(ii) Risk Limit Control and Mitigation Policies (continued)

Adequate Collateralisation (continued)

The Group implements guidelines on the acceptability of specific classes of collateral. Longer term financing and lending to corporate entities are generally secured however, revolving lines of credit, customer overdrafts and credit cards are generally unsecured. The principal collateral types accepted by the Group are as follows:

- In the personal sector, mortgages over residential properties;
- In the commercial and industrial sector, charges over business assets such as premises, stock and accounts receivables;
- In the commercial real estate sector, charges over the properties being financed;

Credit-related Commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate along with charges over property and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Impairment and provisioning policies

The impairment provision shown in the balance sheet at year-end is derived from each of the eight internal rating grades. However, the majority of the impairment provision comes from the bottom three gradings. The table below shows the percentage of the Group's on- and off-balance sheet items relating to loans and advances and the associated impairment provision for each of the Group's internal rating categories:

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

20. Financial Risk Management (continued)

Credit Risk (continued)

(ii) Risk Limit Control and Mitigation Policies (continued)

Impairment and provisioning policies (continued)

Bank's rating	2010		2009	
	Loans and advances (%)	Impairment provision (%)	Loans and advances (%)	Impairment provision (%)
1. Excellent	84.89	–	82.08	–
2. Good	13.00	2.76	12.82	0.94
3. Average	0.59	0.49	0.46	0.09
4. Fair	1.40	0.97	3.16	0.43
5. Watch List	0.01	2.43	1.36	0.77
6. Substandard	0.06	49.68	0.03	46.30
7. Non Accrual	0.03	27.44	0.02	9.50
8. Doubtful / Loss	0.02	16.23	0.07	41.97
	100.00	100.00	100.00	100.00

Management uses this tool to assess the credit quality of its loan book, based on the following criteria set out by the Group:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Court Judgment;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

The Group's policy requires the review of individual financial assets that are above certain individually significant thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment always encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

20. Financial Risk Management *(continued)*

Credit Risk *(continued)*

(ii) Risk Limit Control and Mitigation Policies (continued)

Impairment and provisioning policies (continued)

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds e.g. credit cards; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

Maximum credit exposure at the year end approximates to the carrying value of all assets. The classes of financial instruments to which the Group is most exposed are loans and advances to customers.

The Group's cash and due from banks balances, short term placements and term deposits are primarily placed at institutions and/or subsidiaries of institutions with Standard & Poor's short term ratings of A-1 or above. Mortgage, consumer and other loans are presented net of provisions for loan losses. Whilst the majority of loans are secured by first mortgages upon single family residences or by chattel mortgages, credit card receivables and certain overdrafts advanced in the normal course of business are unsecured. Credit risk with respect to mortgage, consumer and other loans is limited due to the large number of customers comprising the Group's customer base.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

20. Financial Risk Management (continued)

Credit Risk (continued)

(ii) Risk Limit Control and Mitigation Policies (continued)

Impairment and provisioning policies (continued)

Maximum exposure to credit risk before collateral held or other credit enhancements, presented in thousands of dollars is as follows:

Credit risk exposures relating to on-balance sheet assets as follows:	2010	2009
Placements with banks	\$412,554	\$328,795
Loans and advances to customers:		
Loans to individuals:		
Overdrafts	23,741	19,824
Credit cards	10,046	10,052
Term loans	55,214	52,751
Mortgages	256,178	220,148
Loans to corporate entities:	238,306	192,856
Financial assets designated at fair value:		
Debt securities	–	2,950
Investment securities		
Debt securities	15,060	17,176
Other assets	8,470	7,803
Credit risk exposures relating to off-balance sheet items are as follows:		
Financial guarantees	1,824	1,507
Loan commitments and other credit related liabilities	2,953	7,391
At 30 September	\$1,024,346	\$861,253

The above table represents a worse case scenario of credit risk exposure to the Group at 30 September 2010 and 2009, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

20. Financial Risk Management (continued)

Credit Risk (continued)

(ii) Risk Limit Control and Mitigation Policies (continued)

Impairment and provisioning policies (continued)

Loans and advances are summarised as follows:

(\$000)	30-Sep-10		30-Sep-09	
	Loans and advances to customers	Placements with banks	Loans and advances to customers	Placements with banks
Neither past due nor impaired	\$500,698	\$412,554	\$419,011	\$317,998
Past due but not impaired	81,086	-	75,967	-
Individually impaired	1,702	-	616	-
Gross	583,486	412,554	495,594	317,998
Less: allowance for impairment	2,882	-	3,327	-
Net	\$580,604	\$412,554	\$492,267	\$317,998

(a) Loans and advances neither past due nor impaired

The credit quality of loans and advances neither past due nor impaired are assessed as excellent in accordance with the internal rating system adopted by the Corporation.

(b) Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

30 September 2010	Individual (retail customers) and Corporate entities (\$000)					Total
	Overdrafts	Credit Cards	Term Loans	Mortgages	Large Corporate Customers	
Past due up to 30 days	\$-	\$840	\$5,722	\$27,451	\$38,226	\$72,239
Past due 30-60 days	-	124	352	2,448	215	3,139
Past due 60-90 days	-	121	16	770	-	907
Over 91 days	86	-	112	3,224	1,379	4,801
Total	\$86	\$1,085	\$6,202	\$33,893	\$39,820	\$81,086
Fair value of collateral	\$-	\$315	\$17,197	\$70,954	\$124,589	\$213,055

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

20. Financial Risk Management (continued)

Credit Risk (continued)

(ii) Risk Limit Control and Mitigation Policies (continued)

(b) Loans and advances past due but not impaired (continued)

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

30 September 2009	Individual (retail customers) and Corporate entities (\$000)					Total
	Overdrafts	Credit Cards	Term Loans	Mortgages	Large Corporate Customers	
Past due up to 30 days	\$-	\$543	\$4,983	\$28,687	\$29,366	\$63,579
Past due 30-60 days	-	59	25	506	184	774
Past due 60-90 days	-	47	103	575	-	725
Over 91 days	650	36	163	3,056	6,984	10,889
Total	\$650	\$685	\$5,274	\$32,824	\$36,534	\$75,967
Fair value of collateral	\$650	\$-	\$14,266	\$61,624	\$135,584	\$212,124

By 31 October 2010, total loans and advances past due but not impaired was \$23 million (2009: \$22.2 million) which reflects the payment history of customers who pay over the counter.

(c) Loans and advances individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is \$1,702,000 (2009: \$616,000).

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

20. Financial Risk Management (continued)

Credit Risk (continued)

(ii) Risk Limit Control and Mitigation Policies (continued)

(c) Loans and advances individually impaired (continued)

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

Individual (retail customers) and Corporate entities (\$000)						
	Overdrafts	Credit Cards	Term Loans	Mortgages	Large Corporate Customers	Total
30 September 2010						
Individually impaired loans	185	107	202	155	1,053	1,702
Fair value of collateral	-	-	-	-	-	-
30 September 2009						
Individually impaired loans	93	67	138	58	260	616
Fair value of collateral	-	-	-	-	-	-

There are no individually impaired loans to banks.

(d) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset from overdue to a performing status. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to mortgages and corporate loans, in particular customer finance loans. Renegotiated loans that would otherwise be past due or impaired totaled \$24,682,000 at 30 September 2010 (2009: \$7,521,000)

Loans and advances to customers – individuals ('000):	2010	2009
Term loans	\$354	\$ -
Mortgages	4,850	7,521
Corporate	19,478	-
Total	\$24,682	\$7,521

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

20. Financial Risk Management (continued)

Credit Risk (continued)

(ii) Risk Limit Control and Mitigation Policies (continued)

Investment securities and investments designated at fair value

The table below presents an analysis of investment securities and investments designated at fair value by rating agency designation at 30 September 2010, based on Standard & Poor's ratings or their equivalent:

(\$'000) 2010	Investment Securities	Designated at fair value	Other Investments	Total
AAA	\$7,330	\$ -	\$ -	\$7,330
AA- to AA+	1,160	-	-	1,160
A- to A+	927	-	-	927
Lower than A-	4,840	-	-	4,840
Unrated*	2,883	-	502	3,385
Total	\$17,140	\$ -	\$502	\$17,642

*Included in the unrated category is an impaired investment in CLICO Ltd (see note 4 for further discussion.)

(\$'000) 2009	Investment Securities	Designated at fair value	Other Investments	Total
AAA	\$8,682	\$ -	\$ -	\$8,682
AA- to AA+	1,316	-	-	1,316
A- to A+	962	-	-	962
Lower than A-	4,859	-	-	4,859
Unrated	5,363	2,950	594	8,907
Total	\$21,182	\$2,950	\$594	\$24,726

Reposessed collateral

During 2010, the Group served demand notices on collateral held as security, as follows:

Nature of assets	Carrying amount ('000)
Residential property	\$1,863
Commercial property	-

Reposessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness and any surplus is returned to the customer.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

20. Financial Risk Management *(continued)*

Credit Risk *(continued)*

Concentration of risks

Geographical sectors

The Group has a concentration of risk in respect of geographical area as both customers and assets held as collateral on loans are primarily based in the Cayman Islands.

21. Regulatory Requirements

Certain subsidiaries are subject to regulatory requirements established by Cayman Islands Monetary Authority ("CIMA"), the primary regulator for the Group's subsidiaries domiciled in the Cayman Islands. 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.

CNC as a publicly traded company is subject to continuing obligations rules of the Cayman Islands Stock Exchange.

During the current year, one of the subsidiaries received capital contribution from the parent company which allowed the company to comply with the minimum capital requirements and risk asset ratio. Management believes, as of 30 September 2010 and 2009 that all regulated subsidiaries meet the respective regulatory capital adequacy requirements established by CIMA and the Isle of Man Financial Supervision Commission and other Regulatory bodies in the respective jurisdictions in Dubai, TCI and Panama.

The Group's objectives when managing capital are:

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

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

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

21. Regulatory Requirements (continued)

implemented by the chief regulator, for supervisory purposes. The required information is filed with regulator on a quarterly basis.

The regulatory capital of the Group's reporting subsidiaries as monitored by the Board is divided into two tiers:

Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital; and

Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available for sale.

Investments in associates are deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposures.

22. Fair Value

The majority of the Group's financial assets and liabilities, with the exception of loans and certain investments, are short term, with maturities within one year, and the carrying amounts of these financial assets and liabilities approximate fair value because of the short maturity of these instruments. For 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.

The Group adopted the amendment to IFRS 7, effective 1 October 2009. This requires the Group to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

22. Fair Value (continued)

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

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

The following table analyzes within the fair value hierarchy the Group’s financial instruments (by class) measured at fair value at 30 September 2010:

Assets:		Level 1	Level 2	Level 3	Total Balance
Investments in securities, at fair value:					
Equities	\$	-	\$1,464,779	\$615,975	\$2,080,754
Investments companies and funds		-	436,164	65,987	502,151
Total assets	\$	-	\$1,900,943	\$681,962	\$2,582,905

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include investments in funds where redemption is not restricted, certain non-US sovereign obligations and thinly traded listed equities. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 instruments include private equity and certain restricted funds. As observable prices are not available for these securities, the Group has used valuation techniques to derive the fair value. The level 3 equity amount consists of two equity positions and one fund. The main inputs into the Group’s valuation methods for level 3 assets may include: original transaction price, recent transactions in the same or similar instruments and completed third-party transactions in comparable instruments and information obtained from investment manager of the fund. It adjusts the model as deemed necessary.

There were no transfers between levels for the year ended 30 September 2010.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

22. Fair Value (continued)

The following table presents the movement in level 3 instruments for the year ended 30 September 2010 by class of financial instrument.

	Equity Securities	Equity securities investment companies	Total
Opening balance	\$1,280,006	\$65,987	\$1,345,993
Purchases	-	-	-
Sales	(-)	(-)	(-)
Transfers into level 3	-	-	-
Transfers out of level 3	-	(-)	(-)
Gains and losses recognised	(664,031)	-	(664,031)
Closing Balance	\$615,975	\$65,987	\$681,962
Total gains or losses for the year included in the statement of comprehensive income for assets held at the end of the year	(\$664,031)	\$ -	\$(664,031)

23. 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.

24. 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, and one subsidiary, IBG based in the Turks and Caicos Islands.

Summary financial data for CNB&T (IOM) and CNFS (IOM) operations is presented below; as IBG only became fully operational in July 2010, its results are not presented due to the insignificance of the balances.

	2010	2009
Total Assets	\$158,243,240	\$84,075,175
Total Liabilities	\$152,682,533	\$79,052,042
Total Income	\$3,618,507	\$2,055,932
Net Income/(Loss)	\$650,314	\$70,842

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

24. Geographical and Segmental Information (continued)

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

30 September 2010	Banking	Trust & Company Management	Asset Management	Eliminations	Group
Gross Assets	907,999,713	162,367,614	4,278,092	(18,106,217)	1,056,539,202
Total Liabilities	819,606,818	154,026,709	2,073,125	(1,699,889)	974,006,763
Gross Revenue	36,915,440	6,492,101	4,726,949	(32,475)	48,102,015
Net Income (loss)	3,891,476	347,247	897,349	34,314	5,170,386
Capital Expenditure	2,994,753	97,996	20,958	-	3,113,707
Depreciation charge	2,497,481	138,486	79,160	17,860	2,732,987
Goodwill impairment	335,571	310,383	43,866	-	689,820
30 September 2009					
Gross Assets	836,766,591	87,967,132	3,539,239	(9,389,273)	918,883,689
Total Liabilities	753,514,245	79,531,084	536,617	(25,738,689)	807,843,257
Gross Revenue	37,344,642	4,529,195	4,987,400	518,541	47,379,778
Net Income (loss)	6,541,532	229,740	895,232	(3,560,137)	4,106,367
Capital Expenditure	3,054,308	49,015	10,456	607,891	3,721,670
Depreciation charge	2,581,700	135,946	75,308	60,395	2,853,349
Goodwill impairment	-	9,179	-	-	9,179

25. Interest Income

Interest Income comprises of the following:	2010	2009
Cash and short term funds	\$1,975,276	\$5,263,393
Investment securities	539,351	669,918
Loans and advances	24,501,663	23,416,749
	\$27,016,290	\$29,350,060

Substantially all interest expense is attributable to customer deposits.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

26. Foreign Exchange

Included within foreign exchange fees and commissions are foreign exchange transaction gains of \$3,884,524 (2009: \$4,397,575) and realised foreign exchange losses of \$nil (2009: loss of \$195,236).

27. Income Received From VISA Shares

The Group’s payment services business issues and acquires credit and debit card transactions through the VISA Inc. Association or its affiliates (collectively “Visa”). On 3 October 2007, Visa completed a restructuring and issued shares of Visa common stock to its financial institution members in contemplation of its initial public offering (“IPO”) which occurred in the first quarter of 2008 (the “Visa Reorganisation”). As part of the reorganisation the Group received its proportionate number of Visa common stock, a portion of which were simultaneously redeemed for cash, with the remaining shares to be converted to Class A shares three years after the IPO.

A portion of the shares initially allocated to the group in 2008 were converted to unrestricted Class A shares by VISA, which the Group then subsequently sold in 2010 at a gain of \$910,055 (2009: \$446,200). The remaining 23,670 (2009: 47,341) shares are held in available for sale investments at \$1,464,779 (2009: \$3,271,737) with a corresponding unrealised gain of \$621,140 (2009: \$1,246,962) recorded in the net unrealised appreciation on investments available-for-sale reserve in the statement of changes in shareholder’s equity.

28. Personnel

Personnel costs comprise of the following:

	2010	2009
Salaries and overtime	\$20,356,362	\$19,881,989
Pension	693,582	740,294
Health insurance	1,631,182	1,570,942
Bonus	402,210	40,933
Training	233,805	344,254
Other	1,004,479	738,985
	\$24,321,620	\$23,317,397

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

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2010 (expressed in Cayman Islands dollars)

28. Personnel (continued)

vesting terms as set out in the Scheme. The net cost to the Corporation of this Scheme for the year was \$116,668 (2009: \$152,048) which is included within personnel costs in the statement of income.

At 30 September 2010, the Group employed a total of 314 personnel (2009: 315).

29. Non-Controlling Interest

International Banking Group (TCI) Ltd. (IBG) is based in the Turks and Caicos and holds a national and overseas banking licence issued by the Turks & Caicos Islands Financial Services Commission. IBG commenced operations in July 2010.

As of 30 September 2009, IBG was a wholly owned subsidiary of the Group; however, in May 2010 the directors approved a share subscription offering to the public and as a result 213,200 shares were issued, which represents a 26.22% minority shareholding or non controlling interest. The Group owns the majority shareholdings of 73.78%.

30. Subsequent Events

During November 2010, CNC declared a final dividend of \$0.05 per share (\$2,117,537) which will be paid to shareholders of record at 31 December 2010 after approval by shareholders at the annual General meeting in March 2011. 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 30 September 2010, the directors made an appropriation from retained earnings to the reserve for dividends.

Cayman National Bank Ltd.

Consolidated Statement of Financial Position

30 September 2010 (expressed in Cayman Islands dollars)

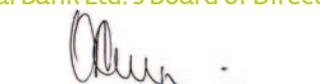
Assets	2010	2009
Cash and due from banks (Note 3)	\$205,623,342	\$221,547,351
Short term placements	92,241,098	69,629,268
Investments (Notes 4 and 10)	17,576,252	21,510,163
Financial assets designated at fair value (Note 4)	–	2,949,912
Investment Property (Note 7)	2,277,475	2,277,475
Loans and overdrafts (Notes 5 and 10)	545,067,733	481,676,845
Interest receivable	1,951,579	2,329,644
Accounts receivable (Note 10)	16,324,204	9,914,866
Fixed assets (Note 6)	21,902,488	22,881,684
Goodwill (Note 20)	309,470	645,041
	\$903,273,641	\$835,362,249
Liabilities		
Customers' accounts (Note 10)		
Current	\$179,459,003	\$141,780,105
Savings	178,480,252	178,162,238
Fixed deposits (Note 8)	446,031,865	421,979,645
	\$803,971,120	\$741,921,988
Interest payable	\$413,891	\$623,033
Deferred Revenue	2,189,137	1,954,955
Accounts payable and accrued expenses (Note 10)	12,012,932	8,930,936
	\$818,587,080	\$753,430,912
Shareholder's Equity		
Share capital (Note 9)	\$2,436,585	\$2,436,585
Share premium	1,695,816	1,695,816
General reserve (Note 9)	39,500,000	39,500,000
Retained earnings	41,171,775	37,326,434
Net unrealised appreciation on investments available-for-sale (Note 4)	(117,615)	972,502
	\$84,686,561	\$81,931,337
Total Liabilities and Shareholder's Equity	\$903,273,641	\$835,362,249

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

Director


 Stuart Dack, Chairman

Director


 Ormond Williams, President

Date: 21 December 2010

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 30 September 2010 (expressed in Cayman Islands dollars)

Interest	2010	2009
Interest income (Notes 10 & 21)	\$26,094,177	\$28,010,890
Interest expense (Notes 10 & 21)	1,966,821	5,585,369
Net Interest Income	\$24,127,356	\$22,425,521
Other Income		
Foreign exchange fees and commissions (Note 22)	\$5,108,999	\$5,378,528
Other fees and commissions (Note 10)	7,659,212	7,411,119
Gain on sale of investment Visa shares (Note 23)	910,055	446,200
Loss on investment available-for-sale (Note 4)	(30,387)	–
Gain on sale of fixed assets (Note 6)	–	2,185,220
Impairment loss on held-to maturity investment (Note 4)	(806,200)	(200,000)
Loss from financial instruments designated at fair value (Note 4)	(56,729)	(501,946)
Total Income	\$36,912,306	\$37,144,642
Expenses		
Depreciation (Note 6)	\$2,253,395	\$2,554,862
Other operating expenses (Note 10)	8,610,683	8,128,952
Personnel (Notes 12, 14 and 16)	16,722,963	16,952,664
Premises	2,529,818	2,464,699
Goodwill impairment (Note 20)	335,571	–
	\$30,452,430	\$30,101,177
Profit For The Year	\$6,459,876	\$7,043,465
Other Comprehensive (Loss) Income:		
Net realised (loss) gain on sales of available-for-sale investments (Note 4)	(879,668)	314,802
Change in unrealised appreciation (Note 4)	(210,449)	(859,107)
Total Other Comprehensive Loss	(1,090,117)	(544,305)
Total Comprehensive Income For The Year	\$5,369,759	\$6,499,160

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

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