



Cayman National

Annual Report 2005



www.caymannational.com



Holding Company

 **Cayman National Bank**

 **Cayman National Property Holdings**

 **Cayman National Securities**

 **Cayman National Trust Co.**

 **Caymanx Trust Company**

 **Cayman National Investments**

 **Cayman National Insurance Brokers Ltd.**

 **Cayman General Insurance**

Wholly-owned Subsidiaries

 **Cayman National Insurance Managers Ltd.**



Cayman National Corporation Ltd. is a publicly owned and traded company whose constitution provides that no single, or closely associated group of interests shall hold more than 10% of the Corporation. This has been endorsed by the Cayman Islands Government, who require control to remain in the Cayman Islands with a Caymanian majority on the Board of Directors.

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

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*Stuart J. Dack,
President and
Chief Executive*

Annual REPORT 2005

The 2004/2005 financial year for the Cayman National Corporation (CNC) was extraordinary with all sectors of the Group facing unique circumstances, particularly following the catastrophic storm Ivan which devastated the Cayman Islands in September 2004, just two weeks before the end of our previous financial year.

It is a tribute to the strength of the organization, its loyal shareholders, customers and staff that after an event of such magnitude and only one year later we are able to report record profits and a Group that is in robust shape with excellent future prospects. The Group's Profit of CI\$16,108,181 (US\$19,329,817) for the year to 30 September 2005 is the highest

ever achieved by the Group. Comparison with the previous year is somewhat misleading due to the loss recorded in 2004 as a result of Ivan related insurance claims against Cayman General Insurance Co. Ltd. It is therefore relevant to mention that in the year to 30 September 2003 the Group recorded a profit of CI\$7,808,119 so that the profit now recorded represents an increase of more than 100% over the 2003 result.

The main financial impact of Ivan was on our insurance subsidiary Cayman General Insurance Co. Ltd. (CGI). Due to the impact of Hurricane Ivan claims, CGI sustained a loss of (CI\$45,351,351) in the year to 30 September 2004 and the

Group supported the re-capitalization of CGI by contributing CI\$41,000,000 to the position. This support from the Group ensured the viability of the settlement of all Ivan-related insurance claims.

As shareholders are aware, the support given to our insurance subsidiary significantly reduced the capital of the Group. Part of our recovery strategy was the disposal of a 51% stake in CGI. This sale was completed on 30 November 2005, and, although after the end of the 2004/2005 financial year, this will assist us in rebuilding the Group's Capital and also reduces our exposure to insurance risk in the future.

Life of Jamaica Ltd., a subsidiary of the Sagicor Group, acquired the 51% stake in CGI and we welcome our new relationship with this well respected organization, not only as a shareholder in CGI but also as a future strategic partner.

As shareholders are also aware the Government of the Cayman Islands took a 24% stake in CGI as part of the settlement of their substantial Ivan claim. This settlement was an important part of our strategy to ensure the future of CGI and it is appropriate to again put on record our gratitude to the Government of the Cayman Islands for the pragmatic approach they took to the situation.

Despite the setback sustained in 2004, our business has recovered well and has continued to expand. In an environment where there are considerable opportunities, the executive management and Directors are committed to the process of strategic planning for the future of the Group to ensure that we capitalise on all available openings. Our plans and strategy are regularly reviewed and updated. In the long-term we see the success of the Group focused on our position as an independent provider of a broad range of financial services to both the retail markets in the Cayman Islands and the provision of services to our international clients through operation in the Cayman Islands and the Isle of Man.



Mr. Stuart J. Dack, presents His Excellency, The Governor, Mr. Bruce Dinwiddie with a donation towards the National Recovery Efforts. The National Recovery Fund was established after Hurricane Ivan, to help those in need.

Whilst it is not appropriate to set out all our strategic aims, there are some significant areas that are worthy of mention:-

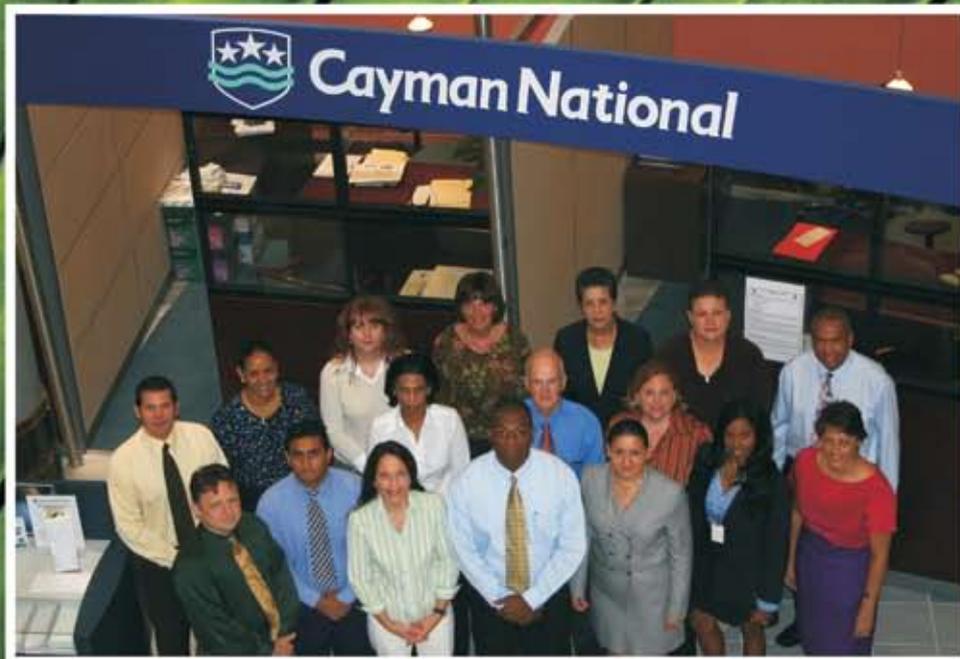
Mutual Fund Administration

The mutual fund business has experienced considerable growth in the Cayman Islands and the Isle of Man and we are now well positioned to further develop our own business in this sector. Both in the Cayman Islands and the Isle of Man our operations are being geared up to provide quality mutual fund services. New personnel and systems are now in place and we have already been successful in attracting substantial new business to the Group

Insurance Brokerage

For many years Cayman National has been involved in the insurance brokerage business through Cayman National Insurance Brokers. There is now considerable demand and scope for insurance brokerage and it is our aim to capitalise on this potential by expanding and developing this aspect of our business.

BANKING BLOSSOMS



CAMANA BAY WELCOMES CAYMAN NATIONAL

Cayman National Bank. Cayman National Trust. Cayman National Securities. Twenty five thousand square feet of Class A office space. Five thousand square foot state of the art retail bank. The 2005 Cayman Bank of the Year comes to the Financial Centre at Camana Bay. A crossroads for local and international commerce.



LIFE BLOSSOMS

CAMANA BAY

Camana Bay

As previously reported Cayman National is to take up additional premises in the new development of Camana Bay. These premises will house a new branch of Cayman National Bank (CNB) and will also accommodate the increased office requirements of the mutual fund, trust and securities operations. Part of our relationship with the Dart Organization, which is developing the new town, is the agreement that CNB will have the exclusive rights to provide retail banking services within the development. We believe that this initiative has considerable and exciting potential for the entire Cayman National Group.

Countryside

Cayman National already prides itself as providing our customers and the Caymanian community with the most extensive bank branch network in the country – in particular we are the only bank which provides branches in all three of the Cayman Islands.

One of our ambitions has been to extend our network of branches within Grand Cayman to even better serve our customers. The opening of our branch in West Bay has been highly successful and we are now pleased that during 2006 we will open a new branch in the Countryside development in



The official Ground-Breaking Ceremony of the new Countryside Shopping Village, financed by Cayman National Bank. Countryside is also the future home of another Cayman National Bank Customer Service Centre.

Savannah. This new outlet will provide full banking services in a location convenient to the Eastern Districts.

Other Developments

In recent times the Group has successfully completed a number of acquisitions, the most recent being the purchase of the client base of the Aall Group. A number of other potential opportunities are under consideration and we see good prospects for growing the business through selective acquisition. Representation in other jurisdictions also remains under careful consideration.

As reported earlier all sectors of the Group contributed positively to the year's recorded profit.

Cayman National Bank Ltd.

Cayman National Bank Ltd. performed extremely well, increasing its net profit by more than 100% from CI\$6,032,489 for the year to 30 September 2004 to CI\$12,369,538 for the year to 30 September 2005. Total income, at more than CI\$34 million, was up by 24% and an important feature of the Bank's success was the control of expenses, which rose by less than 1%.

The growth in the Bank's deposit book which increased by nearly 9% in the year was a pleasing factor which, combined with sound performance of our lending book, gives us comfort that our conservative approach serves us well.

CNB's exceptional performance was endorsed by the award received from the renowned international publication, The Banker Magazine, which singled out CNB as 2005 Bank of the Year, Cayman Islands.

During the year the Branch at West Wind Building in George Town was relocated to new premises in Edward Street. We believe this new location will

better serve our customers, particularly as it has the benefit of a central location with parking.

Our Internet Banking offering has been very successful and is subject to continuous upgrading. During the year on-line access to our credit card accounts was introduced and further enhancements are planned to ensure that this sophisticated product gives our customers the best possible service.

CNB now has by far the most extensive branch and ATM network in the Cayman Islands, which is well justified by business growth. We look forward to the continued strong performance of this sector of our Group.

Cayman National Trust Ltd. and Cayman National Securities Ltd.

Cayman National Trust Ltd. and Cayman National Securities Ltd. are now being brought together as a more cohesive business so that some common areas of cost can be economically shared. As planned, the last financial year was one of repositioning the business of these companies, and in particular we have focused on opportunities in the Mutual Funds

sector, requiring us to invest in new systems and personnel. During the year we also acquired the client base of the Aall Trust & Banking Group. The initial costs of this acquisition and the investment in mutual fund operations has affected both these companies, resulting in CNT reporting a net income of CI\$138,175 and CNS a net income of CI\$5,817 for the year. With the major expenses out of the way we expect strongly improved profitability from these businesses in the forthcoming financial year.

Cayman General Insurance Co. Ltd.

Cayman General Insurance Co. Ltd. achieved a sound result despite the pressure the business was under due to the substantial process of claim settlements. The profit of CI\$2,800,842 achieved for the year to 30 September 2005 was a result of normal trading plus a contribution of about CI\$1 million from the profit on the sale of investments liquidated to settle claims.

Although we have significantly changed our shareholding in this company we still expect CGI to make an important contribution to the Group's future results as its operation continues to expand as a result of its new structure.

Caymanx Trust Co. Ltd

Caymanx Trust Co. Ltd. turned in a solid performance with its modest resources, returning a net profit of GBP92,142 (CI\$135,505). 2005 was again a year of repositioning this business and we anticipate good growth in the medium term as we expand our representation in the Isle of Man and also develop a Mutual Fund business in that jurisdiction.

Cayman National Insurance Brokers Ltd.

Cayman National Insurance Brokers Ltd. also performed well yielding a net profit of CI\$176,967. This insurance brokerage business has considerable



Caymanx Management Team: Ian Bancroft, Managing Director, Murray Lambden, Executive Officer, Barry Williams, Banking Services Manager, Tony Edmonds, Fund Services Manager



In a country with 307 banks,
it's quite an honour
to be voted number one.



potential for the future in an environment that is now very aware of the need for insurance guidance and advice; therefore, expansion of this operation is planned for 2006.

Community Support

Since its inception over 30 years ago, the Cayman National Group has been keen to support the local community. The Group continues to give a wide range of support to a number of deserving causes. A particular focus of our attention in 2005 has been the Cayman Islands National Recovery Fund where the Cayman National Group has provided support through its position as Corporate Trustee to the Fund, as well as through direct donations.

In addition to the support provided by the Group, it is also worthy of mention that many of our staff provide individual and team support to a number of charities and deserving causes, giving greatly of their own time and energy.

The following are some of the projects which received support during the year:

- ❖ Flower's Recovery Mile Sea Swim
- ❖ National Drug Council Summer Camp
- ❖ Cancer Society's Walk-Run



Children from all over the island line up to see Santa at the Annual Home For Christmas Event, hosted at the Cayman National Bank Building on Elgin Avenue.

- ❖ Cayman Against Substance Abuse (CASA),
- ❖ The Cadet Corps, through sponsorship of the Cayman Islands Marathon
- ❖ Junior Achievement
- ❖ The National Trust
- ❖ Cayman Hospice Care
- ❖ Several educational summer school programmes and many others.

Home for Christmas

Our second annual customer and community holiday event "Home for Christmas" provides another opportunity to show our appreciation to our customers and to acknowledge a number of the charities which we support. The event was a success again this year, with customers and friends of the community coming together to celebrate the holiday season. Santa Claus greeted the children at our Kiddies Corner, while the audience was captivated by an excellent performance by our featured school, Wesleyan Christian Academy (WCA) choir and Band, as well as by fine performances by a number of our Cayman National staff. Presentations were made to the following charities: CI Special Olympics, Sunrise Adult Training Centre, Cayman Hospice Care, National Council of Voluntary Organisations (NCVO).

Toy Drive for Children

In conjunction with other organizations on the island, a special Christmas Toy Drive was coordinated in order to distribute toys to every child on Grand Cayman. As a major sponsor of this project, a number of Cayman National staff were closely involved as they participated in the various district events and the wrapping of gifts; over 6,000 toys were distributed.

Economic Outlook

In determining our future, it is important to consider both the economy of the Cayman Islands and the international economic climate.



Cayman National Bank Building, Elgin Avenue, Grand Cayman, Cayman Islands.

There are many positive features of the economy of the Cayman Islands. Real estate development, in almost all sectors, is strong and sales levels are very encouraging. Tourism, which is often closely aligned to the financial sector, is recovering well and the opening of the Ritz-Carlton, Grand Cayman and other exclusive tourist accommodations is expected to attract visitors of a high calibre in increasing numbers.

The continued success of the financial sector in the Cayman Islands, particularly in the areas of mutual fund and captive insurance business, is the envy of many financial centres throughout the world and there is no sign of any imminent decline in the levels of business enjoyed by these specific sectors.

Internationally, it is still difficult to measure the long-term prospects of the major economies. The general level of interest rate increases seen during 2005 is likely to plateau but the careful fiscal policies of all major financial powers is likely to reflect in a world economy that sees managed and sustained growth, even in the emerging economies of the Far East.

Our expectation is for steady economic growth in the Cayman Islands and moderate International growth for the foreseeable future.



Mr. Stuart J. Dack, (far right) accepts the prestigious Bank of the Year Award, along with Mr. Peter Tomkins (far left).

Risk Control

For any organization operating in the financial sector, Risk Control is an important and vital element of the business. Within Cayman National all aspects of Risk Control receive close attention with well developed Internal Audit, Compliance and Accounting divisions overseeing all Group operations. Close reporting is maintained between the Audit Committee, comprised of non-executive directors and all sectors of the business with regular consultation with our external auditors.

Business resumption planning and procedures are also an important element of the Group's Risk Control. Our rapid and strong recovery from the impact of Hurricane Ivan confirmed the effectiveness of the procedures put in place before September 2004. Experience has enabled us to improve and refine these plans and procedures to the sophisticated level that now exists.

Farewell to Mr. Richard Hew

Mr. Richard Hew stepped down from the Board of Directors in March 2005 as a result of his appointment to the position of Chief Executive Officer of Caribbean Utilities Co. Ltd. Mr. Hew made an important contribution to our company and we wish him every success in his new role and also thank him for his dedication to the Group whilst a Director.

Acknowledgements

By any standards the last financial year was a tough one for all within the Cayman National Group.

I am very grateful to our loyal shareholders who have supported the business very strongly during



Cayman National Annual Staff Meeting.

a difficult period. The support of shareholders has been an important factor of this business since its inception 30 years ago and I am sure that as the business moves robustly ahead, those who invest in the Group will be rewarded for their commitment.

Our clients and customers have also shown their loyalty and support for the business. The figures speak for themselves and much of our growth comes from referrals from existing clients who speak well of us.

To all our clients and customers, thank you for your ongoing business.

All staff throughout the Group have performed admirably. During a period when many suffered considerable personal hardship, the Cayman

National team has illustrated its ability to perform in a truly professional manner with dedication to the business.

In the last year a number of new staff joined us and we welcome them to the Group – in particular I would like to mention Ian Phillips who took up the post in January 2005 as President, International Financial Services (which incorporates the businesses of CNT & CNS), and Ian Bancroft who became the Managing Director of Caymanx in April 2005. Both are very experienced in their areas of expertise and will contribute greatly to the performance of the Group.

In opening this report I indicated that the 2004/2005 financial year had been an extraordinary one. The key to our success is the people who make up our business – shareholders, customers and staff and it is a privilege to be part of such a loyal and dedicated group of “stakeholders”. In the last year we have shown our ability to effectively address any eventuality and we look forward to the strong and continued success of this Group.

Stuart J. Dack
President & Chief Executive



Board of DIRECTORS



**Benson Obadiah Ebanks, OBE, JP,
Chairman**



**Truman Murray Bodden, OBE,
LLB (Hons), ACIB, JP,
Deputy Chairman**



Stuart Dack, ACIB, MBA



John C. Bierley, BA, JD USA



**Sherri Bodden-Cowan,
MBE, LLB (Hons)**



Clarence Flowers Jr.



Peter A. Tomkins, MBE



**David W. Trimble,
MA (Hons), Cambridge**

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

Truman Murray Bodden, OBE, LLB (Hons), ACIB, JP, Deputy Chairman, is an Attorney-at-Law, as well as a former Member of the Cayman Islands Legislative Assembly from 1976-1984 and 1988-2000 and former Leader of Government Business and acting Attorney General. Mr. Bodden is an ACIB, LLB (Hons.) London, FICM., FFA., MCMI, ACIARB, and Barrister at Law. He has served on the Education Council, Civil Aviation Authority and Water Authority and is a member of the Cayman Law Society and Bar Association. He is also a former Director of Barclays Private Bank and Trust Cayman Ltd., and a Founding Director of Cayman National and Senior Partner of the law firm of Truman Bodden and Company.

Stuart Dack, ACIB, MBA, President and Chief Executive, entered banking in 1971, and obtained the ACIB qualification with distinction. Mr. Dack worked for the Midland Bank Group in the UK for 22 years where he held a number of managerial roles at branch banking, area and regional levels.

He joined Cayman National as Internal Auditor in 1992 and in 1998 was promoted to Executive Vice President of Cayman National Corporation. In 2001, he was awarded an MBA with Merit from Southampton University. In April 2004 he took on the role of President and Chief Executive of the Group.

John C. Bierley, BA, JD USA, is a Florida Bar Board Certified international lawyer based in Tampa where he has practised for over 40 years. He is a member of the Council on Foreign Relations, a Director of the InterAmerican Bar Association, the Society of International Business Fellows and the University of Florida Foundation. He is also Director of the Florida Business BancGroup Inc. and Bay Cities Bank. Mr. Bierley is a Founding Director of Cayman National.

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

subsequently called to the Bar of England & Wales in 1986 and the Cayman Islands in 1987. Mrs. Bodden-Cowan has worked for the Cayman Islands Government, the law firm Hunter & Hunter, and was an Associate and Partner in the firm of Boxalls. Mrs. Bodden-Cowan owns her own law firm, Bodden & Bodden and is a Director of Bodden Corporate Services.

Mrs. Bodden-Cowan has served in numerous capacities as Chairman or Director of Cayman Islands statutory boards and authorities.

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.

Peter A. Tomkins, M.B.E., Founder of Cayman National Corporation Ltd. and Subsidiaries began his working life in the Merchant Marine. He entered commercial banking with Barclays Bank in 1951 and took up the position of Executive Vice-President with Mercantile Bank & Trust Co. (Cayman), Ltd in 1969. From 1973 to 1994 he held the positions of Founder, President and Chief Executive Officer of Cayman National Corporation Ltd. and 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 member of the Cayman Islands Monetary Authority.

David W. Trimble, MA (Hons), Cambridge, was a merchant banker in London 1963-68, and the Bahamas 1968-73, a Director of Mercantile Bank & Trust Co (Cayman) Ltd 1969-73 and became a director of Cayman National in 1984. In 1974 he was a founder and subsequently Chairman of a quoted UK financial services company, PlanInvest Group plc. In 1987 he became Chairman of London Stockbrokers, Robert Wigram & Co and from 1979 to 2003 was a Registered Insurance Broker. He is presently Chairman of Jacob Cowen & Sons Ltd, manufacturers of cotton wool, wadding and pollution control equipment; Chairman of H&H Group plc, with subsidiary companies in livestock auctioneering, auto finance, land and estate agency, insurance brokering and fine art auctioneering; and a director of Cumbrian Newspapers Group.

Financial SUMMARY

Earlier in this report mention was made of the need to compare the 2004/2005 results, not only with the previous year of 2003/2004, but also with the financial year to 30 September 2003. For information the key figures for the last three years are as follows:-

	2005	2004	2003
Net Income	16,108,181	(39,251,001)	7,808,119
Total Income	46,877,319	(8,664,081)	36,236,970
Total Assets	784,325,668	986,363,355	619,081,196
Deposits	685,152,010	638,107,736	515,278,892
Capital & Reserves	51,915,629	35,598,898	79,427,078

The results for the year to 30 September 2004 were extraordinary, due not only to the loss of CI\$45,351,352 sustained by the insurance subsidiary but also to the inflation of total assets by the level of reinsurance receivables as at that date and reflected in the balance sheet. So, in reviewing our performance it is useful to reflect on the 2002/2003 results, which indicate the solid growth achieved in the year to 30 September 2005, not only in our profitability but also in our total assets and deposit base.

Profit for the Group to the end of the 2005 financial year was up more than 100% on the performance achieved in 2003. Increases in international interest rates helped achieve this result but of significant importance was the containment of costs and the overall growth in business.

As the comparison with the 2003 position indicates, the Group's capital was significantly reduced by the 2004 losses. Our objective is to rebuild capital in a timely fashion and, as the position at 30 September 2005 reveals, we are already making good progress in this regard. One aspect of our strategy to rebuild capital is the level of dividend payment. This issue

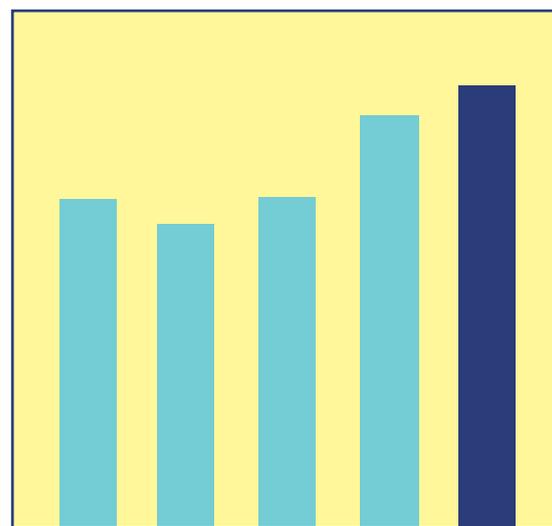
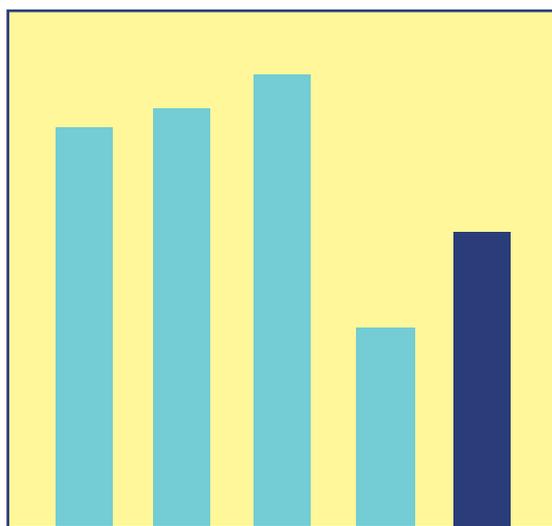
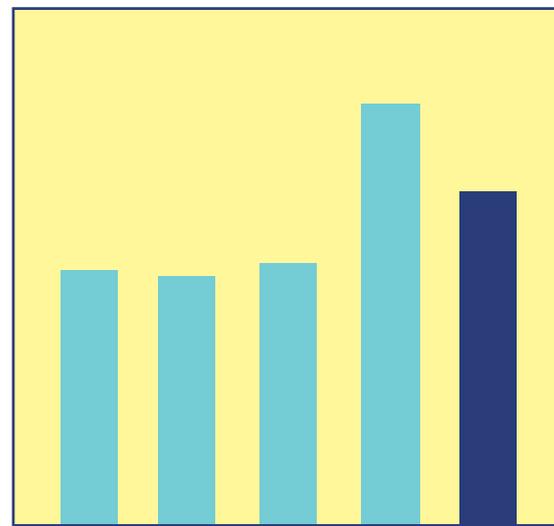
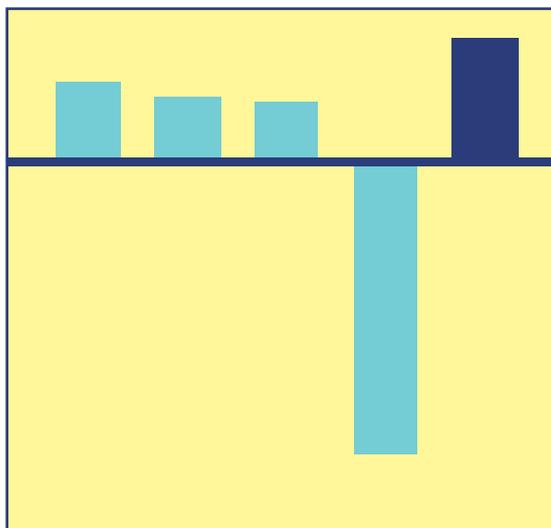
continues to receive the careful consideration of the Board of Directors and our aim is to continue to reward shareholders for their investment while still retaining substantial profits to increase capital.

The level of profitability in the last financial year has been such that we felt justified in paying an interim dividend of 6 cents per share and in recommending a final dividend of 6 cents per share for shareholders' consideration at the forthcoming Annual General Meeting. A total dividend of 12 cents per share represents a yield of 5% per share and is considered viable against earnings per share of 39 cents.

The trading of CNC shares in the financial year was light, a comforting factor given the difficult nature of the year and confirmation of the loyalty and confidence of our shareholders. In all 588,000 shares were traded in the year to 30 September 2005. The last traded price at the end of the financial year was CI\$2.25.

Financial SUMMARY

	2005	2004	2003	Change 2005/2004
Net income	16,108,181	(39,251,001)	7,808,119	141%
TOTAL INCOME	46,877,319	(8,664,081)	36,326,970	641%
TOTAL ASSETS	784,325,668	986,363,355	619,081,196	-20%
Total deposits	685,152,010	638,107,736	515,278,892	7%
Total Equity	51,915,629	35,598,898	79,427,078	46%
Earnings Per Share	\$ 0.39	\$ (0.97)	\$ 0.19	
Book Value Per Share	\$ 1.26	\$ 0.88	\$ 1.97	
Return on Assets	2.06%	-3.99%	1.26%	
Return on Equity	31.03%	-110.08%	9.83%	
Price Earnings Ratio	3.25	-3.35	13.16	
Dividend Yield Per Share	5%	4%	4.80%	



Our **PRESIDENTS**



Mr. Ian Phillips,
President International Financial Services



Mr. Ormond Williams,
President Cayman National Bank



Mr. Roger Corbin,
*President Cayman National Insurance
Brokers (Retired October 2005)*



Mr. Ian Bancroft,
Managing Director Caymanx Trust



Mr. Danny Scott,
President Cayman General Insurance



Mr. Michael Donnelly,
*President Cayman National
Insurance Managers*

REPORT OF THE AUDITORS TO THE MEMBERS OF

CAYMAN NATIONAL CORPORATION LTD.

We have audited the accompanying consolidated balance sheet of Cayman National Corporation Ltd. and its subsidiaries (the "Group") as of September 30, 2005, and the related consolidated statements of income, changes in shareholders' equity and of cash flows for the year then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of September 30, 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers.

December 21, 2005

Consolidated BALANCE SHEET

CAYMAN NATIONAL CORPORATION LTD.

Consolidated Balance Sheet

for the year ended September 30, 2005

(expressed in Cayman Islands dollars)

	2005	2004
ASSETS		
Cash and due from banks (Note 3)	\$ 432,779,752	\$ 421,296,165
Investments and derivatives (Notes 4 and 13)	22,493,932	30,011,185
Loans and overdrafts (Note 5 and 13)	268,039,057	265,843,271
Interest receivable	2,455,370	1,844,053
Accounts receivable (Note 9)	14,179,093	5,667,442
Reinsurance balances receivable and other insurance related assets (Note 9)	18,317,928	240,168,655
Fixed assets (Note 6)	21,005,801	20,262,821
Goodwill (Note 7)	5,054,735	1,269,763
	\$ 784,325,668	\$ 986,363,355
LIABILITIES		
Customers' accounts (Note 13)		
Current	\$ 146,224,721	\$ 133,375,216
Savings	139,248,763	121,369,140
Fixed deposits (Note 8)	399,678,526	383,363,380
	685,152,010	638,107,736
Interest payable	1,361,327	803,723
Accounts payable and other liabilities (Note 7)	18,912,303	20,258,862
Provision for unpaid claims and other insurance related liabilities (Note 9)	26,947,828	291,570,277
Taxation (Note 10)	36,571	23,859
	732,410,039	950,764,457
SHAREHOLDERS' EQUITY		
Share capital (Note 11)	41,046,470	40,394,957
Share premium (Note 11)	2,393,288	1,956,774
General reserve (Note 11)	7,486,050	12,411,626
Accumulated deficit	(6,090,986)	(22,132,816)
Reserve for dividends (Note 18)	4,925,576	1,615,798
Net unrealized (depreciation) appreciation on investments available-for-sale (Note 4)	(163,475)	1,041,995
Equity adjustments from foreign currency translation (Note 12)	245,059	310,564
Minority interest (Notes 2 and 9)	2,073,647	-
	51,915,629	35,598,898
	\$ 784,325,668	\$ 986,363,355

See notes to consolidated financial statements on pages 18-44.

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

S.J. Dack _____ Director P.A. Tomkins _____ Director

Date: December 16, 2005

CAYMAN NATIONAL CORPORATION LTD.

Consolidated Statement of Income

for the year ended September 30, 2005

(expressed in Cayman Islands dollars)

	2005	2004
INTEREST		
Interest income (Note 23)	\$ 33,098,397	\$ 21,850,448
Interest expense	9,590,616	3,623,751
NET INTEREST INCOME	23,507,781	18,226,697
OTHER INCOME		
Banking fees and commissions	4,963,376	6,172,988
Trust and company management fees	5,669,449	4,436,710
Foreign exchange fees and commissions	4,093,313	3,798,638
Brokerage commissions and fees	1,414,460	1,408,097
Net underwriting income (loss) (Notes 9 and 17)	4,809,234	(42,707,211)
Realised gains on available for sale securities	1,457,002	-
Gain on disposal of equity interest in subsidiary (Note 9)	962,704	-
TOTAL INCOME (EXPENSE)	46,877,319	(8,664,081)
EXPENSES		
Personnel	17,311,358	16,216,971
Other operating expenses	7,783,726	6,502,440
Increase in loan impairment provision (Note 5)	787,034	1,524,845
Premises	1,623,086	1,411,822
Depreciation (Note 6)	2,405,752	2,523,609
Goodwill impairment charge (2004; amortization) (Note 7)	211,568	1,439,438
Disposal of impaired fixed assets (Note 6)	630,852	948,745
	30,753,376	30,567,870
NET INCOME (LOSS) BEFORE TAXATION	16,123,943	(39,231,951)
TAXATION	(15,762)	(19,050)
NET INCOME (LOSS)	\$ 16,108,181	\$(39,251,001)
NET INCOME (LOSS) ATTRIBUTABLE TO:		
Equity Holders of the Group	\$ 16,041,830	\$(39,188,164)
Minority Interests	66,351	(62,837)
	\$ 16,108,181	\$(39,251,001)
EARNINGS (LOSS) PER SHARE (Note 11)	\$ 0.39	\$ (0.97)
DILUTED EARNINGS (LOSS) PER SHARE (Note 11)	\$ 0.39	\$ (0.97)

See notes to consolidated financial statements on pages 18-44.

Consolidated STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

CAYMAN NATIONAL CORPORATION LTD.

Consolidated Statement of Changes in Shareholder's Equity

for the year ended September 30, 2005

(expressed in Cayman Islands dollars)

	Share capital	Share premium	General reserve	Retained earnings (Accumulated deficit)	Reserve for dividends	Net unrealized (depreciation) appreciation on investments	Foreign currency translation reserve	Minority interest	Total
Balance at September 30, 2003	\$ 40,394,957	\$ 3,572,572	\$ 12,411,626	\$ 19,479,045	\$ 2,423,697	\$ 950,874	\$ 194,307	\$ 62,837	\$ 79,489,915
Net loss	-	-	-	(39,188,164)	-	-	-	(62,837)	(39,251,001)
Dividends paid (Note 18)	-	-	-	(2,423,697)	(2,423,697)	-	-	-	(4,847,394)
Final dividend proposed (Note 18)	-	(1,615,798)	-	-	1,615,798	-	-	-	-
Net change in unrealized appreciation on investments (Note 4)	-	-	-	-	-	91,121	-	-	91,121
Equity adjustment from foreign currency translation (Note 12)	-	-	-	-	-	-	116,257	-	116,257
Balance at September 30, 2004	\$ 40,394,957	\$ 1,956,774	\$ 12,411,626	\$ (22,132,816)	\$ 1,615,798	\$ 1,041,995	\$ 310,564	\$ -	\$ 35,598,898
Net income	-	-	-	16,041,830	-	-	-	66,351	16,108,181
Dividends paid (Note 18)	-	-	-	-	(1,615,798)	-	-	-	(1,615,798)
Minority interest arising on partial disposal of investment (Note 9)	-	-	-	-	-	-	-	2,007,296	2,007,296
Issuance of shares in connection with business combination (Note 7)	651,513	436,514	-	-	-	-	-	-	1,088,027
Reclassification adjustment for net gain on disposal of available for sale investments recognized in earnings (Note 4)	-	-	-	-	-	(1,457,002)	-	-	(1,457,002)
Final dividend proposed (Note 18)	-	-	(4,925,576)	-	4,925,576	-	-	-	-
Net change in unrealized (depreciation)/appreciation on investments (Note 4)	-	-	-	-	-	251,532	-	-	251,532
Equity adjustment from foreign currency translation (Note 12)	-	-	-	-	-	-	(65,505)	-	(65,505)
Balance at September 30, 2005	\$ 41,046,470	\$ 2,393,288	\$ 7,486,050	\$ (6,090,986)	\$ 4,925,576	\$ (163,475)	\$ 245,059	\$ 2,073,647	\$ 51,915,629

See notes to consolidated financial statements on pages 18 - 44

Consolidated **STATEMENT OF CASH FLOW**
CAYMAN NATIONAL CORPORATION LTD.

Consolidated Statement of Cash Flow

for the year ended September 30, 2005

(expressed in Cayman Islands dollars)

CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	2005	2004
Net income (loss)	\$ 16,108,181	\$ (39,251,001)
Adjustments for items not involving cash:		
Depreciation	2,405,752	2,523,609
Amortization of goodwill	211,568	1,439,438
Amortization of premium/discount on investments held-to-maturity	42,929	79,272
Gain on sale of investments available-for-sale	(1,457,002)	-
Gain on partial disposal of subsidiary	(962,704)	-
Change in fair value of options purchased designated as fair value hedges	316,790	(109,671)
Loss on disposal of fixed assets	630,852	532,845
Net increase loan impairment provision	787,034	1,524,845
Adjustments from foreign currency translation	(65,505)	116,257
	18,017,895	(33,144,406)
Changes in non-cash working capital items:		
Interest receivable	(611,317)	(1,108,630)
Accounts receivable	(8,511,651)	3,052,471
Reinsurance balances receivable and other investment related balances	221,850,727	(230,548,897)
Depositors' accounts	47,044,274	122,828,844
Interest payable	557,604	539,603
Accounts payable and other liabilities (including change in fair value of options written designated as fair value hedges) net of non-cash transaction in respect of business combination (see Note 7)	(4,255,072)	1,122,993
Taxation	12,712	1,863
Provision for unpaid claims, net of non-cash settlement of claims (see Note 9)	(261,652,449)	287,028,382
Net advances for loans and overdrafts	(2,982,820)	(16,647,548)
	9,469,903	133,124,675
INVESTING ACTIVITIES		
Proceeds on disposal of investments available-for-sale	3,117,097	-
Purchase of investments available-for-sale	(6,419,583)	(418,620)
Proceeds on maturity of investments held-to-maturity	10,711,552	2,890,264
Purchase of investments held-to-maturity	-	(5,975,859)
Purchase of businesses (Note 7)	-	(375,000)
Additions to fixed assets	(3,801,352)	(1,776,524)
Proceeds on disposal of fixed assets	21,768	919,900
	3,629,482	(4,735,839)
FINANCING ACTIVITIES		
Dividends paid (Note 18)	(1,615,798)	(4,847,394)
	(1,615,798)	(4,847,394)
INCREASE IN CASH AND CASH EQUIVALENTS	11,483,587	123,541,442
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	421,296,165	297,754,723
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 432,779,752	\$ 421,296,165
Supplemental information:		
Interest received	\$ 33,944,082	\$ 20,741,818
Interest paid	\$ 9,033,012	\$ 3,084,148

See Notes 7 and 9 for details of significant non cash transactions

I. INCORPORATION AND BACKGROUND INFORMATION

Cayman National Corporation Ltd. (the “Corporation” or “CNC”) was incorporated on October 4, 1976 and operates subject to the provisions of the Companies Law of the Cayman Islands. The Corporation is a holding company for the companies referred to in Note 2 (collectively, the “Group”), all of which are incorporated in the Cayman Islands except where otherwise indicated. Through these companies the Corporation conducts full service banking, company and trust management, stock broking, general (property & casualty) and health insurance, insurance brokerage and captive insurance management services in the Cayman Islands and the Isle of Man. The Corporation is listed on the Cayman Islands Stock Exchange. The registered office of the Corporation is 200 Elgin Avenue, George Town, Grand Cayman. The Corporation is not liable for taxation as there are currently no income, profits or capital gains taxes in the Cayman Islands. One of the Corporation’s subsidiaries is liable for Isle of Man income tax, which is reflected in these consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Adoption of new standards:

In 2005, the Group adopted the following IFRS pronouncements below, which are relevant to its operations and were effective for the current year:

- IFRS 3 Business Combinations
- IAS 36 (revised 2004) Impairment of Assets
- IAS 38 (revised 2004) Intangible Assets

All changes in the accounting policies have been made in accordance with respective standards. The adoption of IFRS 3, IAS 36 (revised 2004) and IAS 38 (revised 2004) resulted in a change in the accounting policy for goodwill. Until September 30, 2004, goodwill was amortized on a straight line basis, ranging from 5 years to 10 years and was assessed for indications of impairment at each balance sheet date. In accordance with the provisions of the above pronouncements, effective October 1, 2004:

- The Group has ceased amortization of goodwill
- Accumulated amortization has been eliminated with a corresponding decrease in the cost of goodwill
- Goodwill is tested annually for impairment, or when there are indications of impairment.

(Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

The financial statements consolidate the financial statements of the Corporation and its subsidiaries (list below). Inter-company transactions, balances and unrealised gains on transactions between CNC and its subsidiaries 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.

NOMINEE COMPANIES:

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

These four subsidiaries earned no fee income and incurred no expenses during the years ended September 30, 2005 and 2004; in addition they had no assets or liabilities as at these dates.

OPERATING COMPANIES:

Subsidiary	% Owned	Principal activity
Cayman National Bank Ltd. ("CNB") and its wholly owned subsidiary Cayman National Property Holdings Ltd. ("CNP")	100%	Banking and property holding, respectively
Cayman National Trust Co. Ltd. ("CNT")	100%	Company and trust management
Cayman National Securities Ltd. ("CNS")	100%	Securities brokerage
Caymanx Trust Company Limited (incorporated and regulated in the Isle of Man) ("Caymanx")	100%	Banking, company and trust management
Cayman National Investments Ltd. ("CNI")	100%	Holds an investment in a merchant banking limited partnership (investment represents 16% of the limited partnership)
Cayman National Insurance Brokers Limited ("CNIB")	100%	Insurance brokerage
Cayman General Insurance ("CGI") and its wholly owned subsidiary Cayman National Insurance Management Limited (formerly known as Absit Insurance Management Limited).	75.24 % (2004: 99.24% see Note 7)	General (property & casualty) and health insurance

Investments in subsidiaries are accounted for under the purchase method and the results of operations are consolidated in these financial statements. Minority interest in the net assets of subsidiaries are recorded as a component of shareholders equity. All significant inter-company transactions and balances are eliminated on consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

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

Acceptances

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

Foreign currency translation

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

The income statement of the foreign subsidiary, Caymanx, is translated at average exchange rates for the year and the balance sheet is translated at mid-market rate ruling at the year end for the purpose of incorporation in these consolidated financial statements. Exchange differences arising from the translation of the net investment in the foreign subsidiary are recorded as a separate component of shareholders' equity.

Depreciation and amortization

Fixed assets are recorded as cost less accumulated depreciation and impairment losses. Fixed assets are depreciated by the straight line method at the following rates, estimated to write off the cost of the assets over the period of their expected useful lives:

Computer hardware and software	Variously over 3 to 7 years
Freehold buildings	Over 50 years
Freehold land	Nil
Furniture and equipment	Variously over 2 to 10 years
Leasehold improvements	Over the terms of the leases
Leasehold property	Shorter of terms of leases or 20 years
Motor vehicles	Over 4 years
Goodwill	Variously over 5 years to 10 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 operations.

(Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans and provision for loan impairment

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

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

Loan impairment provisions are charged and impairment recoveries credited to the provision for loan impairment. Additions to the provision are charged to expenses in order to maintain the reserve at a level deemed appropriate by management to absorb known and inherent risks in the loan portfolio.

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

Director benefits

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

Interest income and expense

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

Fees and commissions

Fees and commissions for services are recognized on an accrual basis over the period that the services are provided.

Premiums and commissions

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provision for unpaid claims

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

Reinsurance

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

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

Pension fund

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

Cash and cash equivalents

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

Derivatives

The Group may purchase or write options for hedging purposes, for which premiums paid or received are recorded as assets and liabilities, respectively, and are subsequently adjusted to the current fair value of the options. Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective in relation to hedged risk, are recorded in the income statement, along with the corresponding change in fair value of the hedged liability that is attributable to the specific hedged risk.

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.

Staff Share Purchase Scheme

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

(Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Available-for-sale

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

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

Held-to-maturity

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

3. CASH AND DUE FROM BANKS

Cash and due from banks comprise:	2005	2004
Cash in hand and current accounts	\$ 22,866,971	\$ 39,345,619
Short term placements with banks	409,912,781	381,950,546
	\$ 432,779,752	\$ 421,296,165

4. INVESTMENTS AND DERIVATIVES

Investments and derivatives comprise:	2005	2004
Available-for-sale at fair value	\$ 2,106,924	\$ 4,972,489
Held-to-maturity, at amortized cost	20,387,008	24,721,906
Derivatives, at fair value	-	316,790
	\$ 22,493,932	\$ 30,011,185

4. INVESTMENTS AND DERIVATIVES (CONTINUED)

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

	2005	2004
U.S. government agency bonds	\$ 15,336,503	\$ 20,479,107
Regional corporate and government bonds	4,219,742	3,412,917
International corporate bonds	830,763	829,882
	<u>\$ 20,387,008</u>	<u>\$ 24,721,906</u>

The issuers of the regional corporate and government bonds are domiciled in Jamaica and Trinidad. Estimated fair value of all the above investments at September 30, 2005 was \$21,767,641 (2004: \$25,003,086). Effective interest rates for the above debt instruments range from 3% to 11 % (2004: 3.25% to 11%).

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

	Cost	Gross unrealized holding losses	Gross unrealized holding gains	Estimated fair value
September 30, 2005				
Ordinary shares	\$ 849,909	\$ -	\$ 131,975	\$ 981,884
Preference Shares	40,885	-	-	40,885
Mutual Funds	1,379,605	(295,450)	-	1,084,155
	<u>\$ 2,270,399</u>	<u>\$ (295,450)</u>	<u>\$ 131,975</u>	<u>\$ 2,106,924</u>
September 30, 2004				
Ordinary shares	\$ 968,414	\$ -	\$ 245,989	\$ 1,214,403
Preference Shares	40,885	-	-	40,885
Mutual Funds	2,671,195	(370,957)	1,061,784	3,362,022
Convertible Securities	250,000	-	105,179	355,179
	<u>\$ 3,930,494</u>	<u>\$ (370,957)</u>	<u>\$ 1,412,952</u>	<u>\$ 4,972,489</u>

Included in investments available-for-sale are three securities with a carrying value of \$1,375,041 (2004: \$1,299,533) that are not publicly traded. The Group is unable to estimate the fair value of two of these securities with a carrying value of \$874,219 (2004: \$874,219) therefore, they are carried at cost less impairment provision. The absence of a liquid market for these securities may restrict the Group's ability to dispose of these investments and amounts ultimately realized may differ materially from the carrying values. Two directors of the Corporation are also directors of two of these investee companies with carrying values of \$1,334,156 (2004: \$1,258,647).

(Continued)

4. INVESTMENTS AND DERIVATIVES (CONTINUED)

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

Derivatives designated as fair value hedges comprise of the following:

	2005	2004
<u>Options purchased – recorded within investments:</u>		
Off balance Sheet-Notional Amount	\$ -	\$ 1,314,667
Fair Value	\$ -	\$ 316,790
Cost	\$ -	\$ 233,353
 <u>Options written – recorded within other liabilities:</u>		
Off balance Sheet-Notional Amount	\$ -	\$ 1,314,667
Fair Value	\$ -	\$ 316,790
Premium received	\$ -	\$ 233,353

The options purchased were designated as a fair value hedge of an option written embedded in S&P 500 index linked certificate of deposits issued by the Group. The deposits matured and the options expired in August 2005.

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)					
<u>At September 30, 2005</u>					
Commercial	\$ 32,718	\$ 15,844	\$ 22,614	\$ 36,240	\$ 107,416
Personal	19,684	28,426	32,332	70,425	150,867
Corporate	5,905	-	7,969	1,287	15,161
Total	<u>\$ 58,307</u>	<u>\$ 44,270</u>	<u>\$ 62,915</u>	<u>\$ 107,952</u>	<u>\$ 273,444</u>
Provision for loan impairment					(5,405)
					<u>\$ 268,039</u>
<u>At September 30, 2004</u>					
Commercial	\$ 32,187	\$ 17,714	\$ 27,562	\$ 30,177	\$ 107,640
Personal	17,343	31,590	44,690	56,589	150,212
Corporate	3,952	26	8,729	1,373	\$ 14,080
Total	<u>\$ 53,482</u>	<u>\$ 49,330</u>	<u>\$ 80,981</u>	<u>\$ 88,139</u>	<u>\$ 271,932</u>
Provision for loan impairment					(6,089)
					<u>\$ 265,843</u>

Mortgages are primarily for owner occupants. Substantially all of the Group's loans and overdrafts are advanced to customers in the Cayman Islands.

Movements in the provision for loan impairment are as follows:

	2005	2004
Provision for loan impairment, beginning of year	\$ 6,089,001	\$ 5,269,982
Increase charged to expenses	787,034	1,524,845
Loans written off	(1,470,933)	(705,826)
Provision for loan impairment, end of year	<u>\$ 5,405,102</u>	<u>\$ 6,089,001</u>

Included in the 2005 impairment provisions is \$1,235,259 (2004:\$2,318,347) based on loans classified after 90 days delinquent. The aggregate amount included in the consolidated balance sheet for loans and overdrafts in arrears by more than 90 days is \$6,802,019 (2004:\$11,334,260).

(Continued)

6. FIXED ASSETS

	Freehold land and buildings	Leasehold property and improvements	Computers, software, furniture and equipment	Motor Vehicles	Total
<u>Cost:</u>					
At September 30, 2004	\$ 15,095,032	\$ 4,188,027	\$ 16,458,810	\$ 73,557	\$ 35,815,426
Fully depreciated assets no longer in service	-	-	(28,598)	-	(28,598)
Additions	1,725,005	366,942	1,566,140	143,265	3,801,352
Disposals	-	(793,828)	(383,736)	(37,297)	(1,214,861)
At September 30, 2005	<u>\$ 16,820,037</u>	<u>\$ 3,761,141</u>	<u>\$ 17,612,616</u>	<u>\$ 179,525</u>	<u>\$ 38,373,319</u>
<u>Accumulated depreciation:</u>					
At September 30, 2004	\$ 1,840,931	\$ 2,115,704	\$ 11,578,759	\$ 17,211	\$ 15,552,605
Fully depreciated assets no longer in service	-	-	(28,598)	-	(28,598)
Charge for year	384,079	336,481	1,655,303	29,889	2,405,752
Disposals	-	(325,132)	(222,191)	(14,918)	(562,241)
At September 30, 2005	<u>\$ 2,225,010</u>	<u>\$ 2,127,053</u>	<u>\$ 12,983,273</u>	<u>\$ 32,182</u>	<u>\$ 17,367,518</u>
<u>Net book value:</u>					
At September 30, 2005	<u>\$ 14,595,027</u>	<u>\$ 1,634,088</u>	<u>\$ 4,629,343</u>	<u>\$ 147,343</u>	<u>\$ 21,005,801</u>
At September 30, 2004	<u>\$ 13,254,101</u>	<u>\$ 2,072,323</u>	<u>\$ 4,880,051</u>	<u>\$ 56,346</u>	<u>\$ 20,262,821</u>

During the year ended September 30, 2005, fixed assets with a cost of \$1,214,861 and a net book value of \$652,620 were disposed of, primarily as a result of relocation of one of CNB's branches. The proceeds associated with the fixed assets disposals were \$21,768 resulting in a loss on disposal of \$630,852. During the year ended September 30, 2004, fixed assets with a cost of \$2,230,996 and a net book value of \$1,452,745 were destroyed as a result of Hurricane Ivan. The insurance coverage for these assets was provided on an indemnity basis through CGI. The loss to the group, after allowance for third party facultative reinsurance recoverable through CGI relating to property damage, was \$948,745 and is recorded in the 2004 consolidated statement of income.

7. GOODWILL

Goodwill is summarized as follows:

	<u>2005</u>
Goodwill at beginning of year	\$ 2,221,316
Accumulated amortization, at beginning of year*	\$ (951,553)
Adjusted goodwill at beginning of year	\$ 1,269,763
Purchase consideration paid in year	3,996,540
Impairment charge for the year	<u>(211,568)</u>
Goodwill at end of year	<u>\$ 5,054,735</u>

Goodwill comprises the following business combinations:

Business acquired:	Year of acquisition	Original cost	Previously recognised accumulated amortization*	Cumulative impairment charge	Carrying value
Cayman National Insurance Brokers and Cayman National Insurance Managers Fiduciary Trust (Cayman) Limited	1998	\$ 299,755	\$ (299,755)	\$ -	\$ -
Cayman Islands Securities Ltd.	2003	1,543,550	(550,356)	-	993,194
Aall Trust & Bank	2005	378,011	(101,442)	(211,568)	65,001
		<u>3,996,540</u>	<u>-</u>	<u>-</u>	<u>3,996,540</u>
		<u>\$6,217,856</u>	<u>\$ (951,553)</u>	<u>\$ (211,568)</u>	<u>\$ 5,054,735</u>

* Effective October 1, 2004, the Group adopted IFRS 3 ("Business Combinations"), consequently, the group no longer amortizes goodwill but tests for impairment annually. In accordance with IFRS, the previously recognized amortization was recorded as a reduction to the cost of the goodwill.

In addition, the Group holds a 75.24% holding in CGI (2004: 99.24%). As a result of the adverse financial impact of Hurricane Ivan on CGI's operations, at September 30, 2004 the Corporation wrote off the remaining carrying value of goodwill relating to CGI of \$874,925 within amortization of goodwill in the consolidated statement of income. See Note 9 regarding partial disposal of CGI during the year ended September 30, 2005.

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

At September 30, 2005, the aggregate purchase consideration was valued at \$3,996,540 based on management's best estimate of the ultimate consideration. The first annual installment, due December 31, 2004, was made during the year ended September 30, 2005 by the issuance of 651,513 CNC shares with a fair value of \$1,088,027. The outstanding balance of the purchase consideration is included within accounts payable and other liabilities at September 30, 2005.

(Continued)

8. FIXED DEPOSITS

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

9. INSURANCE RELATED BALANCES

Reinsurance balances receivable and other insurance related assets is comprised as follows:

	<u>2005</u>	<u>2004</u>
Premiums receivable	4,076,801	2,672,834
Reinsurance claims receivable	3,703,056	9,999,247
Deferred policy acquisition commissions	406,717	516,422
Reinsurers' share of unearned premiums	5,788,373	5,432,362
Reinsurers' share of provision of unpaid claims	<u>4,342,981</u>	<u>221,547,790</u>
	<u>\$ 18,317,928</u>	<u>\$ 240,168,655</u>

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

	<u>2005</u>	<u>2004</u>
Insurance and reinsurance balances payable	\$ 1,995,684	\$ 12,281,901
Unearned reinsurance commissions	1,103,326	1,187,480
Unearned premiums	8,154,020	7,260,416
Provision for unpaid claims	<u>15,694,798</u>	<u>270,840,480</u>
	<u>\$ 26,947,828</u>	<u>\$ 291,570,277</u>

The provision for unpaid claims is comprised as follows:

	<u>2005</u>	<u>2004</u>
Gross provision	\$ 15,694,798	\$ 270,840,480
Reinsurers' share	<u>(4,342,981)</u>	<u>(221,547,790)</u>
Net provision	<u>\$ 11,351,817</u>	<u>\$ 49,292,690</u>

9. INSURANCE RELATED BALANCES (CONTINUED)

Claims incurred for the year is comprised as follows:

	<u>2005</u>	<u>2004</u>
Gross paid claims	\$ 264,083,063	\$ 12,641,935
Reinsurers' share	<u>(218,333,697)</u>	<u>(6,840,634)</u>
Net paid claims	45,749,366	5,801,301
(Decrease) increase in provision for unpaid claims	<u>(37,940,873)</u>	<u>47,953,603</u>
Net claims incurred (Note 17)	<u>\$ 7,808,493</u>	<u>\$ 53,754,904</u>

During the year ended September 30, 2004, hurricane Ivan resulted in an unprecedented number of property, engineering and auto claims being filed by CGI's insureds. The estimated net loss to CGI of \$48.0 million arising from Hurricane Ivan, combined with the results from CGI's other trading and investment operations, resulted in a net loss for the 2004 financial year of \$45.4 million and a deficit on shareholders' equity at September 30, 2004 of \$36.9 million. As a result of this situation, management of CNC and CGI took the following steps to ensure that the CGI was able to continue as a going concern:

- i. Settlement of the Cayman Islands Government ("Government") Hurricane Ivan property claim: This claim represented the single largest individual loss that CGI faced. The claim was settled through a substantial cash settlement together with a 24% stake in the equity of CGI passing from CNC to Government.

The 24% in CGI was transferred on April 21, 2005 at which the time management determined that the fair value of the 24% stake in CGI was \$2,970,000. The book value of 24% of CGI was \$2,007,296 on the date of transfer resulting in a gain on disposal of \$962,704

- ii. Recapitalisation of CGI: During the year ended September 30, 2005, CNC contributed additional capital of \$43,970,000, comprising a cash contribution of \$41,000,000 and a non-cash component consisting of the 24% stake in CGI referred to in (i) above. This non-cash settlement by CNC of CGI's liability under the Government claim referred to above has been recorded as a contribution to CGI's capital. The cash component of the recapitalisation was funded through CNB by way of a \$28,000,000 dividend to CNC and a \$13,000,000 term loan to CNC (see Note 22).

(Continued)

9. INSURANCE RELATED BALANCES (CONTINUED)

- iii. In order to fund a significant portion of the repayment of the term loan from CNB, CNC has negotiated the sale of a majority controlling interest in the equity of CGI to a third party. See Note 22 for further details. At September 30, 2005, the "Provision for unpaid claims" of \$15,694,798 includes \$10,538,097 million relating to Hurricane Ivan claims. At September 30, 2005, \$5,500,000 is due from Government in respect of Government's contribution to the settlement of claims made by third party contractors against CGI for remediation work on Government properties, which were not covered by the settlement with Government described in (i) above. This receivable is included within Accounts receivable at September 30, 2005.

10. TAXATION

The liability for taxation comprises:

	<u>2005</u>	<u>2004</u>
Provision for deferred tax	\$ 1,965	\$ 1,605
Isle of Man corporation tax	<u>34,606</u>	<u>22,254</u>
Tax liability	<u>\$ 36,571</u>	<u>\$ 23,859</u>

The Caymanx operations in the Isle of Man incurred tax charges for the year ended September 30, 2005 of \$15,762 (2004: \$19,050).

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

11. SHARE CAPITAL, GENERAL RESERVE AND EARNINGS PER SHARE

	<u>2005</u>	<u>2004</u>
<u>Authorized:</u>		
200,000,000 shares of \$1 par value each (2004: 200,000,000)		
<u>Issued and fully paid:</u>		
41,046,470 shares (2004: 40,394,957)	<u>\$ 41,046,470</u>	<u>\$ 40,394,957</u>

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. The final proposed dividend for fiscal year 2004 was declared out of share premium.

11. SHARE CAPITAL, GENERAL RESERVE AND EARNINGS PER SHARE (CONTINUED)

General reserve:

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

Earnings and Diluted Earnings Per Share:

Earnings per share is calculated by dividing the net income (loss) 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 (loss) attributable to shareholders by the diluted weighted average number of ordinary shares in issue which is based on the maximum total amount of exercisable stock options which the directors can exercise during the year (see Notes 2 and 19). At September 30, 2005 and 2004, these stock options were anti-dilutive.

	2005	2004
Net income (loss) attributable to equity holders of the company	\$ 16,041,830	\$ (39,188,164)
Weighted average number of shares in issue	40,882,253	40,394,957
Diluted weighted average number of shares in issue	40,882,253	40,394,957
Earnings (loss) per share	\$ 0.39	\$ (0.97)
Diluted earnings (loss) per share	\$ 0.39	\$ (0.97)

Share Purchase Scheme

Employees are voluntarily able to participate in the Corporation's Staff Share Purchase Scheme (the "Scheme"). Under the Scheme employees contribute up to 2% of salary which is matched by the Corporation. In addition, on a quarterly basis, 20% of Directors fees (Note 19) are settled through contribution to the Scheme which is also matched by the Corporation. The contributions are used to purchase shares in the open market at prevailing prices and the shares are subject to certain vesting terms as set out in the Scheme. The net cost to the Corporation of this Scheme is \$238,000 which is included within personnel costs in the statement of income.

12. EQUITY ADJUSTMENTS FROM FOREIGN CURRENCY TRANSLATION

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

(Continued)

13. RELATED PARTY BALANCES AND TRANSACTIONS

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

	2005	2004
Accounts receivable:		
Affiliated companies	<u>\$ 154,235</u>	<u>\$ 429,673</u>
Loans and overdrafts:		
Directors	<u>\$ 5,831,795</u>	<u>\$ 6,556,763</u>
Investments (Note 4):		
Affiliated companies	\$ 583,333	\$ -
Directors	<u>\$ 1,334,156</u>	<u>\$ 1,258,647</u>
	<u>\$ 1,917,489</u>	<u>\$ 1,258,647</u>
Customers' accounts:		
Affiliated companies	\$ 1,796,809	\$ 814,577
Directors	<u>\$ 1,861,243</u>	<u>\$ 1,485,802</u>
	<u>\$ 3,658,052</u>	<u>\$ 2,300,379</u>

Directors include individual directors of the Group and also corporations, partnerships, trusts, governmental organizations or other entities in which a director, or directors collectively, have direct and indirect significant shares or interest in such entities.

All transactions with related parties, other than staff loans and overdrafts, are conducted on normal commercial terms and at non-preferential interest rates. Staff loans, which totaled \$24,198,844 (2004: \$23,647,077) at the balance sheet date, are at preferential rates varying between 5.0% and 6.0 % p.a. (2004: 5.0% and 6.0 % p.a.)

The Group owns the sponsor's shares totaling US\$100 in Cayman National Mortgage Fund, a fund for which the Group acts as banker and mortgage advisor and is remunerated by way of commitment fees negotiated between the Group and the individual mortgagors. In addition, the Group acts as the manager and receives a fee amounting to 1.5% p.a. of the daily net assets of such fund. The Group also acts as the manager of CNB Money Market Fund ("CMMF") and the Cayman National Master Series Trust ("CNMST") and receives an annual fee amounting to 1% and of the daily net assets of CMMF. No fees were charged during the year ended September 30, 2005 and 2004 in respect of the management of CNMST. The Group acts as trustee of both CMMF and CNMST. Additionally, the Group provides certain management, financial, accounting, administrative and other services on behalf of Cayman National Pension Fund ("CNPF") and receives an annual fee amounting to 2% of annual contributions into CNPF plus 0.25% of CNPF's net assets at the end of the year.

13. RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

The Group earned the following fees under these related party transactions:

	<u>2005</u>	<u>2004</u>
Cayman National Mortgage Fund	\$ 607,104	\$ 506,340
CNB Money Market Fund	338,697	231,394
Cayman National Master Series Trust	-	-
Cayman National Pension Fund	<u>93,112</u>	<u>86,432</u>
	<u>\$ 1,038,913</u>	<u>\$ 824,166</u>

14. COMMITMENTS

In the normal course of business there are various commitments on behalf of customers to extend credit, which are not reflected in these financial statements. Commitments to extend credit totaled \$32,238,391 at September 30, 2005 (2004: \$25,023,718). No material losses are anticipated by management as a result of these transactions.

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

<u>Year ended</u> <u>September 30</u>	<u>Annual</u> <u>commitment</u>
2006	\$ 749,553
2007	\$ 696,495
2008	\$ 711,594
2009	\$ 727,146
2010	\$ 743,168

15. PENSION FUND

The CNPF is a defined contribution pension scheme which became effective on July 1, 1997. The Fund is managed by CNT and membership is mandatory for all employees between the ages of 18 and 60, with contributions from both employer and employees. Included in personnel expense is an amount of \$524,969 (2004: \$500,274) representing the Group's portion of contribution required under the scheme.

At September 30, 2005, the Group employed a total of 274 personnel (2004: 260)

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16. CONTINGENT LIABILITIES

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

The Group has issued letters of credit and guarantees to third parties totaling \$ 5,116,950 (2004: \$4,932,018) on behalf of customers and employees. The Group holds customer assets as security for substantially all of these instruments.

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

17. NET UNDERWRITING INCOME (LOSS)

Net underwriting income (loss) for the year:	2005	2004
Premiums written	\$ 26,776,374	\$ 24,801,176
Reinsurance premiums ceded	(14,447,639)	(14,930,498)
Movement in unearned premiums	(537,593)	(38,152)
Net premiums earned	11,791,142	9,832,526
Reinsurance commissions	2,401,803	3,364,161
Claims incurred (Note 9)	(7,808,493)	(53,754,904)
Policy acquisition commissions	(1,575,218)	(2,148,994)
Net underwriting income (loss)	\$ 4,809,234	\$ (42,707,211)

18. DIVIDENDS PER SHARE

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

	2005	2004
Interim dividend paid - \$nil per share (2004: \$0.06 per share)	\$ 0	\$ 2,423,697
Final proposed dividend - \$0.12 per share (2004: \$0.04 per share)	\$ 4,925,576	\$ 1,615,798

Due to the accumulated deficit at September 30, 2004 and 2005, the final proposed dividend for fiscal year 2005 was declared out of the general reserve (2004: declared out of share premium).

19. DIRECTORS AND OFFICERS REMUNERATION

During the year ended September 30, 2005, the Corporation had a total of 8 directors (2004: 9) of whom 1 is an executive officer (2004: 2). For the financial year ended September 2005, the aggregate compensation for directors' services was \$196,760 (2004: \$285,089).

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

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

	<u>2005</u>	<u>2004</u>
At October 1	500,000	-
Granted	-	500,000
Exercised	-	-
Lapsed	-	-
	<u>500,000</u>	<u>500,000</u>
At September 30	<u>500,000</u>	<u>500,000</u>
Exercisable at September 30	200,000	100,000

20. FINANCIAL RISK MANAGEMENT

Fair value

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

Interest rate risk

The Group employs effective techniques and procedures to monitor and control its exposure to interest rate risk. Personal, commercial and corporate loans have variable rates, which are linked to the Cayman Islands prime rate. Exposure to interest rate risk, which is mainly due to fixed rates on both its term deposits with banks and customers' fixed deposits, is minimized by the short-term maturities of the majority of these deposits (Note 8).

(Continued)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Regulatory requirements

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

CNB is 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. CNB must meet specific capital guidelines that involve quantitative measures of CNB's assets and liabilities. CNB's capital amount and classifications are also subject to qualitative analysis by CIMA. Quantitative measures established by CIMA to ensure capital adequacy requires that CNB maintains a minimum amount of capital and a minimum ratio of risk-weighted assets to capital.

In prior years, in order to satisfy the requirements of CIMA with respect to compliance with the Insurance Law of the Cayman Islands, the custodian of CGI's investments (CNS) has, upon request from CGI, provided an undertaking to the Authority that they would hold, to the order of the CGI, securities for a minimum aggregate market value equivalent to CGI's total net technical insurance liabilities, and that no securities would be released, either for or free of value, without the prior written approval of CIMA, where such transaction would reduce the aggregate market value of the portfolio to less than this value.

Due to the catastrophic extent of claims arising from Hurricane Ivan in September 2004 (see Note 9), no such undertaking was possible at September 30, 2004 or 2005. Substantially all of CGI's investments were sold during fiscal year 2005 in order to generate funds to settle Hurricane Ivan related claims. See Note 9 for further discussion of CGI's recapitalization.

Caymanx operations are regulated by the Isle of Man Financial Supervision Commission

Currency Risk

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

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

Credit risk

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

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Fiduciary activities

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

Liquidity risk

To mitigate exposure to liquidity risk, the Board of Directors have established a maximum ratio of loans to customers' deposits of 70% which is continuously monitored by management. The following tables analyses the maturity gap between assets and liabilities based on contractual maturity date:

At September 30, 2005

	1-3 Months	3 - 6 Months	6 - 12 Months	1 - 5 Years	Over 5 Years	No fixed maturity	Total
ASSETS							
Cash and bank balances	\$ 359,200,755	\$ 20,717,386	\$ 28,333,333	\$ -	\$ -	\$ 24,528,278	\$ 432,779,752
Loans	45,024,862	4,146,622	9,112,769	34,438,532	175,304,130	12,142	268,039,057
Investments	-	-	-	20,953,674	16,667	1,523,591	22,493,932
Other assets	-	-	-	-	-	40,007,126	40,007,126
Fixed Assets	-	-	-	-	-	21,005,801	21,005,801
TOTAL	\$ 404,225,617	\$ 24,864,008	\$ 37,446,102	\$ 55,392,206	\$ 175,320,797	\$ 87,076,938	\$ 784,325,668
LIABILITIES AND EQUITY							
Demand & Term Deposits	\$ 636,813,474	\$ 19,370,965	\$ 26,927,698	\$ 2,039,873	\$ -	\$ -	\$ 685,152,010
Other liabilities	-	-	-	-	-	47,258,029	47,258,029
TOTAL	\$ 636,813,474	\$ 19,370,965	\$ 26,927,698	\$ 2,039,873	\$ -	\$ 47,258,029	\$ 732,410,039
Off-balance liabilities	5,116,950	-	-	-	-	-	-
Maturity gap	<u>\$(237,704,807)</u>	<u>\$ 5,493,043</u>	<u>\$ 10,518,404</u>	<u>\$ 53,352,333</u>	<u>\$ 175,320,797</u>	-	-

(Continued)

20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

At September 30, 2004

	1-3 Months	3 - 6 Months	6 - 12 Months	1 - 5 Years	Over 5 Years	No fixed maturity	Total
ASSETS							
Cash and bank balances	\$372,182,432	\$ 16,716,060	\$ 20,131,300	\$ 1,666,955	\$ -	\$ 10,599,418	\$ 421,296,165
Loans	32,847,587	11,401,665	9,233,119	49,330,196	163,003,555	27,149	265,843,271
Investments	-	-	-	24,800,948	237,750	4,972,487	30,011,185
Other assets	-	-	-	-	-	248,949,913	248,949,913
Fixed Assets	-	-	-	-	-	20,262,821	20,262,821
TOTAL	\$405,030,019	\$ 28,117,725	\$ 29,364,419	\$ 75,798,099	\$ 163,241,305	\$ 284,811,788	\$ 986,363,355
LIABILITIES AND EQUITY							
Demand & Term Deposits	594,498,348	\$ 21,868,135	\$ 17,744,444	\$ 3,996,809	\$ -	\$ -	\$ 638,107,736
Other liabilities	-	-	-	-	-	312,656,721	312,656,721
TOTAL	\$594,498,348	\$ 21,868,135	\$ 17,744,444	\$ 3,996,809	\$ -	\$ 312,656,721	\$ 950,764,457
Off-balance liabilities	4,932,018	-	-	-	-	-	-
Maturity gap	\$(194,400,347)	\$ 6,249,590	\$ 11,619,975	\$ 71,801,290	\$ 163,241,305	-	-

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.

21. GEOGRAPHICAL AND SEGMENTAL INFORMATION

The Group's main operations are in the Cayman Islands, with one subsidiary, Caymanx based in the Isle of Man.

Summary financial data for Caymanx operations:

	2005	2004
Total Assets	\$ 20,823,182	\$ 29,732,236
Total Liabilities	\$ 17,687,391	\$ 26,659,726
Total Income	\$ 943,240	\$ 882,709
Net Income	\$ 135,505	\$ 158,577

21. GEOGRAPHICAL AND SEGMENTAL INFORMATION (CONTINUED)

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

	Banking	Insurance	Trust and Company Management	Asset Management	Other	Eliminations	Group
<u>September 30, 2005</u>							
Gross Assets	748,200,089	39,076,706	24,779,922	9,005,937	614,270	(37,351,256)	784,325,668
Total Liabilities	694,357,852	29,816,357	20,531,056	8,400,358	3,912,870	(24,608,454)	732,410,039
Gross Revenue	43,841,188	15,646,798	4,261,438	1,469,892	-	(942,888)	64,276,428
Net Income (loss)	12,369,538	2,977,808	273,680	5,827	(837,725)	1,319,053	16,108,181
Capital expenditure	3,455,593	88,031	195,117	62,611	-	-	3,801,352
Depreciation charge	1,987,791	251,295	84,469	82,197	-	-	2,405,752
Goodwill impairment	-	-	-	211,568	-	-	211,568

	Banking	Insurance	Trust and Company Management	Asset Management	Other	Eliminations	Group
<u>September 30, 2004</u>							
Gross Assets	707,001,165	256,558,734	32,393,165	3,856,433	637,245	(14,083,387)	986,363,355
Total Liabilities	(4,932,018)	292,791,958	27,352,472	0	360,679	635,191,366	950,764,457
Gross Revenue	31,332,801	12,294,212	4,768,267	1,451,068	-	384,000	50,230,348
Net Income (loss)	6,032,489	(45,029,395)	981,120	437,926	(1,381,101)	(292,040)	(39,251,001)
Capital expenditure	1,338,222	293,937	133,610	10,755	-	-	1,776,524
Depreciation	2,134,037	231,647	72,654	85,271	-	-	2,523,609
Goodwill amortization	-	1,023,748	336,000	79,690	-	-	1,439,438

22. SUBSEQUENT EVENTS

Effective November 30, 2005, the Corporation sold a 51% stake in CGI to a third party. The consideration for the sale was \$8,000,000 of which 90% was settled in cash and the remaining 10% was deposited into a retention account which, absent of any claims in respect of the various warranties made by the Corporation in the sale agreement, is payable to the Corporation on November 30, 2006. In addition to various other conditions of the sale agreement, favorable or adverse development of insurance claims relating to hurricane Ivan accrue to/are borne by the Corporation, subject to specified thresholds.

The proceeds received from the sale were used by the Corporation to substantially reduce the \$13M term loan made by CNB to the Corporation in connection with the recapitalization of CGI (Note 9).

(Continued)

23. INTEREST INCOME

Interest income comprise of the following:

	<u>2005</u>	<u>2004</u>
Cash and short term funds	\$ 11,692,640	\$ 4,399,420
Investment securities	1,101,751	1,139,492
Loans and advances	<u>20,304,006</u>	<u>16,311,536</u>
	<u>\$ 33,098,397</u>	<u>\$ 21,850,448</u>

Substantially all interest expense is attributable to customer deposits

24. FOREIGN EXCHANGE

Included within foreign exchange fees and commissions are net transaction gains of \$4,057,351 (2004: \$3,103,541). There are no foreign exchange translation gains or losses (2004: \$nil)

Consolidated **BALANCE SHEET**

CAYMAN NATIONAL BANK LTD.

Consolidated Balance Sheet
for the year ended September 30, 2005
(expressed in Cayman Islands dollars)

	2005	2004
ASSETS		
Cash and due from banks	\$ 419,085,054	\$ 398,060,342
Investments and derivatives	21,976,443	20,919,340
Loans and overdrafts	277,612,141	262,843,500
Interest receivable	2,478,585	1,876,147
Accounts receivable	5,079,315	4,917,226
Fixed assets	19,330,832	18,384,610
Goodwill	1,318,859	-
	\$ 746,881,229	\$ 707,001,165
LIABILITIES		
Customers' accounts		
Current	\$ 148,970,602	\$ 134,726,011
Savings	137,726,571	117,283,711
Fixed deposits	399,909,525	378,644,432
	686,606,698	630,654,154
Interest payable	1,339,431	946,920
Accounts payable and accrued expenses	5,415,819	6,243,469
	693,361,948	637,844,543
SHAREHOLDERS' EQUITY		
Share capital	2,436,585	2,436,585
Share premium	1,695,816	1,695,816
General reserve	39,500,000	39,500,000
Retained earnings	9,754,905	5,385,367
Reserve for dividends	-	20,000,000
Net unrealized appreciation on investments available-for-sale	131,975	138,854
	53,519,281	69,156,622
	\$ 746,881,229	\$ 707,001,165

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

B.O. Ebanks Jr. _____ Director

P.A. Tomkins _____ Director

Date: December 16, 2005

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

Consolidated **STATEMENT OF INCOME**
CAYMAN NATIONAL BANK LTD.
 Consolidated Statement of Income
 for the year ended September 30, 2005
 (expressed in Cayman Islands dollars)

	2005	2004
INTEREST INCOME		
Interest income	\$ 32,370,203	\$ 20,765,870
Interest expense	9,011,873	3,075,999
NET INTEREST INCOME	23,358,330	17,689,871
FOREIGN EXCHANGE FEES AND COMMISSIONS	4,963,376	3,798,638
OTHER FEES AND COMMISSIONS	5,928,866	6,226,098
TOTAL INCOME	34,250,572	27,714,607
EXPENSES		
Depreciation	1,987,791	2,134,037
Increase in loan impairment provision	756,000	1,172,000
Other operating expenses	5,410,126	5,426,981
Personnel	12,039,458	11,390,609
Premises	1,166,078	1,025,646
Loss on disposal of fixed assets	521,581	532,845
	21,881,034	21,682,118
NET INCOME	\$ 12,369,538	\$ 6,032,489

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

Directory to Cayman National Corporation Ltd.

Cayman National Corporation Ltd.

Cayman National Building
200 Elgin Avenue
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Website: www.caymannational.com

Cayman National Corporation Ltd. (Holding Company)

Directors

Benson O. Ebanks, Jr., OBE, JP, *Chairman*
Truman M. Bodden, OBE, LLB (Hons),
ACIB, JP *Deputy Chairman*
Stuart J. Dack, ACIB, MBA
President & Chief Executive
John C. Bierley, BA, JD (USA)
Sherri Bodden-Cowan, LLB (Hons.)
Clarence Flowers, Jr.
J.F. Richard Hew, BSEE, MBA, PE
(Resigned March 2005)
Peter A. Tomkins, MBE
David W. Trimble, MA (Cantab)

Senior Officers & Management

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

Cayman National Bank Ltd.

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Sherri Bodden-Cowan, LLB (Hons.)
Benson O. Ebanks, Jr., OBE, JP
Clarence Flowers, Jr.
J.F. Richard Hew, BSEE, MBA, PE
(Resigned March 2005)
Peter A. Tomkins, MBE
David W. Trimble, MA (Cantab)
Ormond A. Williams, ACIB

Senior Officers & Management

Ormond A. Williams, ACIB, *President*
McFarlane Conolly, *Senior Vice President,*
Service Delivery
Michele Ebanks, BBa, *Senior Vice President,*
Card Services
Avolyn Tatum, *Manager, Business Banking*
John Lewis, *Manager, Personal Banking & Mortgage*
Centre
Milton Morrison, *Manager, Credit Risk*
Management (Debt Recovery)
Kathy Smith, *Manager, Credit Risk Management*
(Support & Compliance)
Sharon Wyckoff, *Manager, Treasury*

Cayman National Securities Ltd.

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Sherri Bodden-Cowan, LLB (Hons.)
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Clarence Flowers, Jr.
J.F. Richard Hew, BSEE, MBA, PE
(Resigned March 2005)
Erik Monsen
Ian D. Phillips, ACIB, TEP
Peter A. Tomkins, MBE
David W. Trimble, MA (Cantab)

Senior Officers & Management

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

Cayman National Trust Co. Ltd.

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Senior Officers & Management

Ian D. Phillips, ACIB, TEP, *President*
Rosaline Whorms, DIP (ITM), TEP, *Senior*
Vice President, Trust & Corporate Services
Christopher Lumsden, BA, ACA, *Senior*
Vice-President, Mutual Fund Services
Jay Schutte, *Senior Vice President, Operations*
Kim Remizowski, TEP, *Senior Vice President,*
Business Development, North America
Carlos Guzman, *Senior Vice President, Business*
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Caymanx Trust Co. Ltd.

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(Caymanx Trust Co. Ltd. Directors Con't)

Malcolm B. Hartley, JP
Mark W. Solly, FCA, ATII
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David W. Trimble, MA (Cantab)

Senior Officers & Management

Ian M.E. Bancroft, ACIB, *Managing Director*
Barry J. Williams, ACIB, MICA, *Banking Manager*
Tony J. Edmonds, *Fund Services Manager*
Murray Lambden, BA, ACIS, *Executive Officer*

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Danny A. Scott
Peter A. Tomkins, MBE

Senior Officers & Management

Danny A. Scott, *President*
Kenneth Osborne, ACII,
Senior Vice President, Property & Casualty
Gordon B. Philip, MA, CA,
Senior Vice President, Financial Controller
Trevor H.B. Stewart, DBA, CEBS, CLU,
FLMI/M, FLHC, *Senior Vice President,*
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Roger Corbin
(Retired October 2005)
Stuart J. Dack, ACIB, MBA
Robert Inksater, FCIP
Peter A. Tomkins, MBE

Senior Officers & Management

Roger Corbin, *President*
(Retired October 2005)
Mary S. Mellin, *Acting President*

Cayman National Insurance Managers, Ltd.

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Danny A. Scott
Peter A. Tomkins, MBE

Senior Officers & Management

Michael Donnelly, *President*



