

Annual Report 2008



**CAYMAN
NATIONAL**

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

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

A close-up photograph of the Cayman National logo. The words "CAYMAN NATIONAL" are rendered in large, dark blue, three-dimensional block letters on a light blue, textured surface. To the right of the text, a portion of a green palm frond is visible, adding a tropical feel to the image.

President's Report



Stuart Dack, President and CEO

Cayman National performed very well during this financial year ending 30 September 2008, with our conservative policies insulating us from much of the turmoil in the financial markets, and providing the basis of future sustainability. During the year, many of our businesses have re-focused. We also celebrate both our 35th anniversary of providing financial services from and in the Cayman Islands, and being awarded “Bank of the Year – Cayman Islands” by The Banker Magazine.

Cayman National Corporation (CNC)

Our Net Income for the year is C\$14,224,901. Although Net Income is down from the C\$20,444,008 achieved in 2007, our results this year must be viewed in the context of unusually low interest rates and the most difficult global economic conditions experienced in generations.

As reported previously, our results this year include a gain achieved from our investment in the VISA organisation, which is the most recent of a number of exceptional gains recorded in the past few years.

During a year when a vast majority of financial institutions worldwide have reported significant losses, CNC has again proved its resilience. Our diverse businesses were able to capitalise on opportunities through careful planning and our ability to react quickly to changing conditions by virtue of our local management structure.

Since its founding, our business has always followed conservative strategies and policies, especially with respect to our own investments and in lending. This approach has been a key factor in our success this year.

Our careful approach to investment meant that we were not tempted by the apparent gains indicated in the “sub-prime” markets and higher-risk derivative instruments. We again reiterate that we have no direct exposure to the sub-prime instruments which have now cost other financial institutions so dearly within the past several months.

Our strong Balance Sheet and conservatism in lending also holds us in good stead to manage a downturn in property markets. Our lending-to-deposit ratios have always been modest, and as a result, our Balance Sheet remains very liquid. We did not grant sub-prime loans, and we have not experienced a substantial increase in defaults. Coupled with our sound levels of provisions, we believe we are well-positioned to manage our businesses for the future, but we know 2009 promises to be difficult given that economic

recession has taken hold in many jurisdictions.

As we move ahead, our strategy and policies will remain consistently conservative. We expect income for the forthcoming year to be down on 2008, but we believe that moderate profits from sound investments in the current economic climate are the most satisfactory way forward. Our strategy aims to secure modest gains from our investments, and forego higher-risk policies and investments. As our interest earnings are expected to recede in line with market rates (that are now at historic lows), we will also focus on non-interest income and cost-containment.

The advantage of the diverse range of businesses within Cayman National is that, as we have illustrated in the past, we take advantage of different opportunities that arise as economic factors change.

Another aspect of our strategy to manage future growth and risk has been to expand our business outside of the Cayman Islands. The opening of our office in Panama (which we announced a year ago) has proved successful in providing higher service levels to our Latin American clients. Our new office in Dubai is now also open for business. The Middle East region is increasingly important to the global economy, and we anticipate that our new operation in Dubai will enhance our service and product offerings to existing clients, as well as generating significant new business.

Cayman National Bank wins the “Bank of the Year – Cayman Islands” award for 2008.

Cayman National Bank (CNB)

Cayman National Bank had a solid year with Net Income of C\$14,941,118. The Bank’s Balance Sheet also continued to grow with Total Assets up by 10% on a year ago, Total Deposits up by 5%, and lending up by 11%. As noted above, we reiterate our commitment to maintain our conservative approach to lending, and we are satisfied with our lending performance and the adequacy of our reserves for possible loan losses.

In what was a very difficult year for many in the financial services sector, CNB won the prestigious “Bank of the Year” Award for the Cayman Islands in recognition of our bank’s standards and performance. Chosen by The Banker Magazine, the accolade is bestowed on “the cream of the global banking community and the highest achievers in the industry.” This is the second time CNB has been awarded this honour in four years.

CNB remains the bank with the most dominant network of branches and ATM’s in the Cayman Islands, and remains the only bank represented on all three of the Cayman Islands.

At the start of 2008, we opened our new branch at Camana Bay. This is one of Cayman’s newest and most prestigious developments, full of promise and already successful. We expect to share in that success given our exclusive rights to provide retail banking services in its initial phases, and our business there has been growing steadily.

In 2008, we also acquired land in West Bay on which we intend to develop a new and more extensive branch. Our outlet in West Bay has been highly successful, and new and expanded premises are needed to serve adequately the population of that district. We plan to open the new location in late 2009.



At the Banker’s Awards for the Bank of the Year. From left: Stephen Timewell, Editor in Chief of The Banker Magazine, Ormond Williams, President of Cayman National Bank, Stuart Dack, President and CEO of Cayman National Corporation, and Michael Buerk, BBC journalist and host of the ceremony at the Dorchester Hotel, London.

Cayman National's conservative practices prove successful in an economically challenging year.

Right: Kim Remizowski (left) and Judy Watler (centre) head our Premier Banking for international and domestic clients respectively. Brian Esau (right), Cayman National Bank Executive Vice President.



**CAYMAN
NATIONAL**

Redefining SUCCESS...

Stability
Unswerving
Customer Centricity
Capital Preservation
Excellence
Service
Strength

When you succeed, we succeed.



Proud to be named "Bank of the Year 2008 - Cayman Islands"
by The Banker Magazine (Financial Times).

International Financial Services (IFS)

Our International Financial Services division embraces Cayman National Trust Co. Ltd., (CNT) and Cayman National Securities Ltd. (CNS). Until the end of the financial year, our fund services business in Cayman was also part of the CNT business.

Since 1 October 2008, our fund services business has operated independently as Cayman National Fund Services Ltd (CNFS). Christopher Lumsden heads up the business and is supported by an excellent team of professionals with a loyal client base. Separating fund services from the trust and company administration business enables both operations to focus on growth and their core activities, and provides for better performance management.

Cayman National Securities Ltd. was also the focus of re-organisation in 2008. James Youn, who now heads up this sector of our business, joined us this year. Under his direction, we expect improved growth from this company, particularly now that it has the benefit of new and enhanced systems and workflows.

For CNT, 2008 was also a year of re-organisation as the fund services business was hived off and new systems bedded down. During 2009, we expect to reap significant benefits as a result of recent investments and efficiencies, and promising new business.

During the 2008 financial year, CNT turned in Net Income of C\$80,433 and CNS contributed C\$42,601.

Cayman National Isle of Man

Our businesses in the Isle of Man are now represented by two companies. Cayman National Bank & Trust Co. (Isle of Man) Limited provides an extensive range of banking, trust, and company services, and Cayman National Fund Services (Isle of Man) Limited provides fund administration services.



The Isle of Man Team outside its new premises, located on Hope Street.

Cayman National opens its IFS offices and its 8th Customer Service Centre in the prestigious Camana Bay Development.

Right: The IFS Management Team. From left: Christopher Lumsden, President of Fund Services; James Youn, Head of Securities; Debra Humphries, Senior Vice President; Ian Phillips, President of IFS.
Below: Cayman National at Camana Bay.





Dubai and the Middle East are increasingly important to the global economy and Cayman National.

Below: Dubai's Downtown Centre boasts some of the world's most renowned architecture. Left: Naiem Qadir, Senior Executive Officer for the Dubai Office.



As mentioned a year ago, we undertook the process to revitalise our Isle of Man business. We have been pleased with the results of our endeavours, with Total Revenue up by 31% in 2008 and the business achieving its objective of breaking even this year (Net Income for the year of £9,671).

For the forthcoming year, we anticipate holding fixed costs so that future increases in revenue will enable us to enhance Net Income and the contribution from these businesses.

Risk Control

Our new risk control structure, which was established last year, provides a more robust framework, and all of our businesses remain committed to a focus on controlling risk.

One example of our renewed focus on risk is the implementation of the requirements of International Financial Reporting Standard (IFRS) 7, which has resulted in substantially more detailed notes and disclosure to our accounts this year. In addition, the Internal Audit division and the Risk Management functions across all our businesses report regularly to a central Audit Committee comprised of non-executive directors.

Aon Cayman National Insurance Brokers Ltd (Aon-CNIB)

The joint venture between Cayman National and Aon continues to work well in providing insurance brokerage services in the Cayman Islands.

2008 was a year of consolidating the business and improving systems so that we are now able to capitalise fully on both Aon’s strengths and global reach, and Cayman National’s strong presence in the Cayman Islands.

Considerable levels of new business are now being written and we expect a significant increase in the 2008 Net Income of C\$14,500 (50% contribution to CNC) in 2009 as fixed costs will hold and revenue should increase progressively.



Patricia Estwick, Group Chief Financial Controller



Owen Henry, Group Internal Auditor



Cayman National sponsors a roundabout and designs a national landmark.

Below: Cayman National unveils the newly designed roundabout near the Cayman National Building on Elgin Avenue. The roundabout incorporates elements indigenous to the Cayman Islands in the design.

Left: More than 2,500 lights at Christmas highlighted the centre of the roundabout.



Community Support

Cayman National continues its long-standing commitment to being an exceptional corporate citizen wherever we carry out business. We encourage our employees to serve their communities, and we provide financial support through donations and sponsorship programmes.

Our strategy towards community support is focused in five specific sectors: youth, the elderly, the less fortunate, sports, and arts and culture.

During the course of this year, we contributed to a number of organisations and sporting and educational programmes, including:

- The Friends of Pedro Initiative and The Heritage Defender Programmes at Pedro St. James
- The National Children's Festival of the Arts
- Cayman National Cultural Foundation
- Cayman Crime Stoppers
- Islands Wide Youth Rally 'Motivat8'
- The Cayman Islands Crisis Centre
- The Veterans' Association
- Big Brothers / Big Sisters
- The National Council of Volunteer Associations (NCVO)
- The Sunrise Adult Training Centre

In 2008, Cayman National also sponsored the roundabout adjacent to our Head Office in George Town. We designed this landmark to capture the spirit and character of the Cayman Islands, and the design has been well-received by the local community and visitors.



Claudia Welds represents Cayman National as supporter of the Heritage Defender Programme for Pedro St. James Castle.



Peter Tomkins founded Cayman National and still serves on the Board of Directors today.

Acknowledgement

This year marks our 35th anniversary. From its modest beginnings, our business has now grown to be a sophisticated financial group offering a comprehensive range of financial products and services. This was the vision of Peter Tomkins in 1974, and it is a tribute to his foresight and dedication that Cayman National has developed into the organisation it is today.

At our founding, Peter was supported by a group of shareholders (many of whom still hold their shares in the company today) and a loyal and diligent Board of Directors. In addition to Peter, Benson Ebanks, our Chairman, Truman Bodden and Jack Bierley remain on the Board and are founding shareholders and directors. I would like to acknowledge their efforts, and the loyalty of all our founding shareholders for their confidence in our business.

We have also enjoyed exceptional loyalty from our customers and clients, many of whom opened accounts with us 35 years ago. It has been satisfying to see many of our long-standing clients prosper over the years and to have played a part in their success.

At the same time, some of our staff today have been with us for more than 30 years, with 41 members having served more than 20 years. These staff have given our business solid continuity over its history and they are now complimented by more recent recruits which give us a well-rounded and balanced team.

Over the last 35 years, Cayman National has successfully steered its course through times of varying economic conditions. There is no doubt that the factors that exist today are the most challenging the global economy has seen in generations. We remain confident, however, that with the ongoing and loyal support of all our staff, clients and shareholders, we will capitalise on the available opportunities and continue our story of success. We thank all of our stakeholders for their past support, and we look forward to the challenges and opportunities ahead.

Stuart Dack
President and Chief Executive
Cayman National Corporation Ltd.



Cayman National is proud to be celebrating 35 years of success, serving our loyal customers, shareholders and community.

Established in 1974, Cayman National is pleased to have served our local and international clients for 35 years. Offering personal, commercial and corporate financial services we offer a sound alternative to securing your financial future. Cayman National is a public company with its shares traded through the Cayman Stock Exchange. For more information about our services contact us today at 345 949 4655 or 345 640 9268 or visit www.caymannational.com.



**CAYMAN
NATIONAL**

PERSONAL BANKING | BUSINESS BANKING | FUND SERVICES | FIDUCIARY & INVESTMENT SERVICES | INSURANCE SERVICES

Board of Directors

Benson Ebanks

OBE, JP, Chairman

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

Truman Bodden

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

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



From left standing: John Beirley, Truman Bodden, Sherri Bodden-Cowan, Clarence Flowers Jr., David Trimble.
From left seated: Peter Tomkins, Benson Ebanks, Stuart Dack.

Stuart Dack

ACIB, MBA, President
and Chief Executive

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

John Bierley

BA, JD

John Bierley is a Florida Bar Board Certified International lawyer based in Tampa where he has practised for 43 years. He is a member of the Council on Foreign Relations, a Director of the InterAmerican Bar Association, the Society of International Business Fellows and the University of Florida Foundation. He is also Director of the Florida Business BancGroup Inc. and Bay Cities Bank. Mr. Bierley is a founding director of Cayman National.

Sherri Bodden–Cowan

MBE, LLB (Hons)

Sherri Bodden–Cowan was educated in the Cayman Islands and the United Kingdom, and gained an LLB (Hons) from Bristol University, England. She was subsequently called to the Bar of England & Wales in 1986 and the Cayman Islands in 1987. Mrs. Bodden–Cowan has worked for the Cayman Islands Government, the law firm Hunter & Hunter, and was an Associate and Partner in the firm of Boxalls. Mrs. Bodden–Cowan owns her own law firm, Bodden & Bodden, and is a Director of Bodden Corporate Services.

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

Clarence Flowers Jr.

Clarence Flowers Jr. is the Managing Director of Orchid Development Ltd., and a Director of the Flowers Group and Cayman Water Company. He is a well-respected member of Cayman's business community and has spearheaded several projects in the Cayman Islands, including the construction and management of Cricket Square Development on Elgin Avenue.

Peter Tomkins

MBE

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

David Trimble

MA (Hons)

David Trimble was a merchant banker in London 1963 – 1968, and the Bahamas 1968 – 1973, a Director of Mercantile Bank & Trust Co (Cayman) Ltd. 1969 –1973 and became a Director of Cayman National in 1984. In 1974 he was a founder and subsequently Chairman of a quoted UK financial services company, PlanInvest Group plc. In 1987 he became Chairman of London stockbrokers, Robert Wigram & Co and from 1979 to 2003 was a Registered Insurance Broker. In 2006 he retired as Chairman of H&H Group plc, with subsidiary companies in livestock auctioneering, auto finance, land and estate agency, insurance broking and fine art auctioneering. He is presently Chairman of Cowens Ltd., manufacturer of cotton wool, wadding and environmental pollution control equipment. Mr. Trimble earned his MA from Cambridge.

Financial Summary

Fixed Deposits were up by a very healthy 15%, which enabled increased lending while maintaining a very conservative loan-to-deposit ratio.

The Year in Review

This year's Net Income of C\$14,226,546 for the year to 30 September 2008 was down by 30% on the previous year, in which we had achieved a record Net Income of C\$20,444,008. A major factor in the reduction was the impact of lower interest rates with Net Interest Income falling from C\$32,630,807 in 2007 to C\$28,113,224 for this financial year.

Expenses were up by 15%, mainly due to new office premises and bank branches, coupled with increased personnel costs due to the expansion of the bank branch network. Within the expenses, there were a number of one-off costs in respect of premises re-location and bank branch fit-outs.

Total Assets continued to grow despite the difficult economic environment. They grew by 8.7% during the year, now standing at C\$954,729,505, well above the US\$1 billion mark.

Fixed Deposits were up by a very healthy 15%, which enabled increased lending while maintaining a very conservative loan-to-deposit ratio. During the year the loan book grew by 12%.

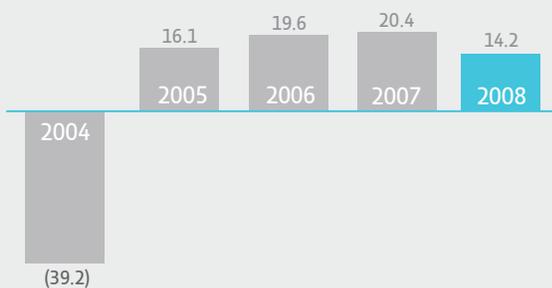
Retained profits enabled Total Shareholders' Equity to grow by 10% to C\$88,193,283. Given this level of Total Shareholders' Equity and this year's profits, the Board of Directors recommends that CNC pay a final dividend of 8.5 cents per share to shareholders of record as at 31 December 2008, with payment to be made in March 2009. This recommendation will be considered by shareholders at the Annual General Meeting to be held in 2009.

If the final dividend of 8.5 cents per share is approved by shareholders, the total dividend payment for this financial year will be 16.5 cents per share (C\$0.165), taking into account the interim dividend of 8.0 cents per share paid in September 2008. This represents a 10% increase in dividend payments over last year, and a dividend yield of 4.86%, based on the last traded share price of C\$2.58 recorded in December 2008.

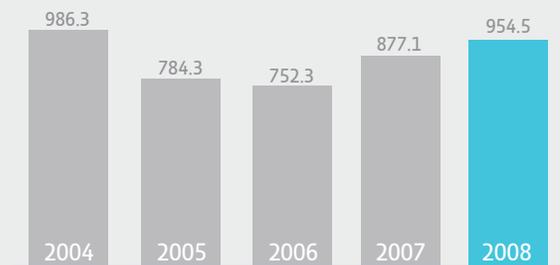
Summarised Financial Details

	2008	2007	Change 2008/2007
Net Income	\$14,224,901	\$20,444,008	-30%
Total Income	\$55,401,588	\$56,026,472	-1%
Total Assets	\$954,531,941	\$877,103,141	9%
Total Deposits	\$845,751,500	\$778,242,696	9%
Total Equity	\$88,150,140	\$80,003,376	10%
Earnings Per Share	\$0.34	\$0.48	-29%
Book Value Per Share	\$2.08	\$1.89	10%
Return on Assets	1.49%	2.32%	-36%
Return on Equity	16.13%	25.55%	-37%
Price Earnings Ratio	9.68	7.13	36%
Dividend Yield Per Share	4.86%	4.39%	11%
Dividend Per Share	\$0.16	\$0.15	7%

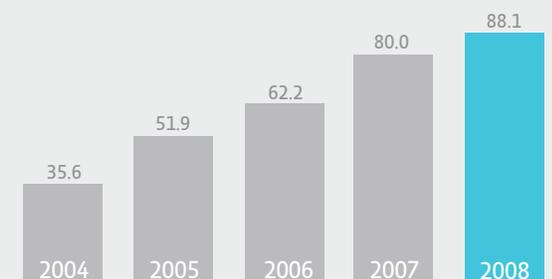
Net Income *in Millions of Dollars*



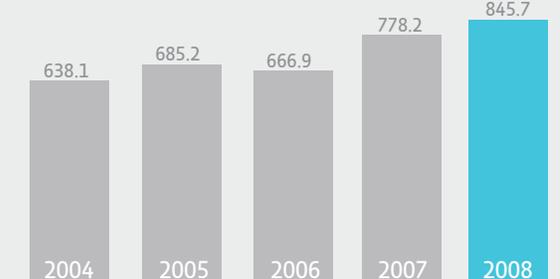
Total Assets *in Millions of Dollars*



Shareholders' Equity *in Millions of Dollars*



Total Deposits *in Millions of Dollars*



Heads of Businesses

Ormond A. Williams

FIFS, FCMI

President, Cayman National Bank

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

Ian D. Phillips

ACIBT, TEP

President, International Financial Services

Ian Phillips assumed the role of President, International Financial Services with Cayman National Corporation in 2005. He started his career in the UK with National Westminster Bank dealing with trusts and investments, before moving to the Cayman Islands with CIBC in 1994 as a Trust Officer, having obtained his ACIBT. In 1999 Mr. Phillips moved to Barbados to run the trust company for CIBC before returning to Cayman with Royal Bank of Canada as its Head of Trust, and then as Managing Director of Aall Banking and Trust Corporation.



From left: Ian Phillips, Ormond Williams, Christopher Lumsden, Peter Popo, Ian Bancroft and James Youn.

Ian M.E. Bancroft

MBA, ACIB, FCFI

Managing Director, Isle of Man

Ian Bancroft holds an MBA with distinction, and is an Associate of the Chartered Institute of Bankers and a Fellow of the Chartered Management Institute. He has over thirty years experience in private banking and wealth management. Prior to joining the Cayman National Group, Mr. Bancroft worked for National Westminster Bank; PK English Trust; Rea Brothers Group plc, where he served as Group Head of Banking; and Senior Executive Director of its Isle of Man operations, and Managing Director of Close Private Bank, Isle of Man. Mr. Bancroft is a council member of the Isle of Man Chamber of Commerce and chairman of its Finance Committee. He also sits on the Isle of Man Finance steering committee.

Christopher Lumsden

BA, ACA

President, Fund Services

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

Naiem A. Qadir

MBA, CA, CFA

Senior Executive Officer, Cayman National (Dubai) Ltd.

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

James J.W. Youn

BA, CFA

Head of Cayman National Securities

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

Peter Popo

BSc, CPA

Managing Director, Aon Cayman National Insurance Brokers

Peter Popo holds a BSc (Honors) in accounting and is a Certified Public Accountant with approximately fourteen years experience, eleven of which are from the U.S. and international insurance industry. He assumed the role of Managing Director for Aon Cayman National Insurance Brokers during 2007 after serving as a Senior Manager with PwC's U.S. Insurance Practice. From 1998 – 2002, Mr. Popo served as the Vice President of Accounting & IT for Cayman General Insurance with responsibility for the management of its captive insurers' portfolio, financial reporting for its brokerage operation, and its technology infrastructure.



Cayman National Insurance Brokers joined forces with Aon, the world's largest insurance services provider.

Left: The Aon Cayman National Insurance Brokers team.

Below: Cayman National Building, Elgin Avenue, Grand Cayman, Cayman Islands.



Independent Auditor's Report



To the Members of Cayman National Corporation Ltd.:

PricewaterhouseCoopers
PO Box 258
Strathvale House
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KY1 – 1104
Cayman Islands

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

We have audited the accompanying consolidated financial statements of Cayman National Corporation Ltd. and its subsidiaries (the "Group") which comprise the consolidated balance sheet as of 30 September 2008 and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 30 September 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

28 January 2009

Cayman National Corporation Ltd.

Consolidated Balance Sheet

30 September 2008 (expressed in Cayman Islands dollars)

Assets	2008	2007
Cash and due from banks (Note 3)	\$426,498,931	\$418,096,859
Short term placements	45,530,331	16,453,014
Investments (Notes 4 and 13)	18,528,068	17,502,618
Financial Assets designated at fair value (Note 4)	3,451,858	3,858,008
Loans and overdrafts (Notes 5 and 13)	418,151,775	373,478,534
Interest receivable	2,757,622	3,088,470
Accounts receivable (Notes 9 and 10)	7,108,178	9,679,377
Investment in Associate held for sale (Note 9)	–	3,393,250
Fixed assets (Note 6)	28,450,949	26,681,780
Goodwill (Note 7)	4,054,229	4,871,231
Total Assets	\$954,531,941	\$877,103,141
Liabilities		
Customers' accounts (Note 13)		
Current	\$129,248,690	\$141,008,826
Savings	157,737,879	152,133,577
Fixed deposits (Note 8)	558,764,931	485,100,293
	\$845,751,500	\$778,242,696
Interest payable	1,522,563	2,337,096
Accounts payable and other liabilities	19,107,738	16,519,973
Total Liabilities	\$866,381,801	\$797,099,765
Shareholders' Equity		
Share capital (Note 11)	42,372,201	42,378,547
Share premium (Note 11)	5,052,677	5,069,744
General reserve (Note 11)	7,486,050	7,486,050
Accumulated retained earnings	28,258,179	21,025,198
Reserve for dividends (Note 17)	3,601,637	3,390,284
Net unrealised appreciation/ (depreciation) on investments available-for-sale (Note 4)	1,277,655	(80,220)
Equity adjustments from foreign currency translation (Note 12)	101,741	733,773
Total Shareholders' Equity	88,150,140	80,003,376
Total Liabilities and Shareholders' Equity	\$954,531,941	\$877,103,141

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

 Director 
 S. J. Dack

 Director 
 B. O. Ebanks

Date: 28 January 2009

See notes to consolidated financial statements

Cayman National Corporation Ltd.

Consolidated Statement of Income

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

	2008	2007
Interest		
Interest income (Note 24)	\$46,416,992	\$56,532,779
Interest expense	18,303,768	23,901,972
Net Interest Income	\$28,113,224	32,630,807
Other Income		
Banking fees and commissions	\$7,773,248	\$7,558,148
Trust and company management fees	6,046,283	5,563,483
Foreign exchange fees and commissions (Note 25)	5,553,924	6,127,164
Brokerage commissions and fees	2,759,603	2,903,410
Realised gains on available for sale securities	60,166	203,667
Initial realised gain from VISA IPO on mandatory share redemption (Note 26)	3,090,880	-
Initial recognition of remaining VISA shares held (Notes 4 and 26)	2,410,410	-
Gain on disposal of equity interest in subsidiary (Note 9)	-	257,171
Loss on disposal of fixed assets (Note 6)	-	(123,363)
(Loss)/gain on financial instruments designated at fair value	(406,150)	78,008
Share of associated company profits (Note 9)	-	433,040
Gain on investment held for sale (Note 9)	-	394,937
Total Income	\$55,401,588	\$56,026,472
Expenses		
Personnel (Note 27)	\$23,753,454	\$21,490,530
Other operating expenses	11,115,457	9,662,489
Decrease in loan impairment provision (Note 5)	(558,582)	(160,068)
Premises	3,214,626	1,853,125
Depreciation (Note 6)	2,831,385	2,591,786
Goodwill impairment charge (Note 7)	817,002	147,765
	\$41,173,342	\$ 35,585,627
Net Income Before Taxation	\$14,228,246	\$20,440,845
Taxation (Note 10)	(3,345)	3,163
Net Income After Taxation	\$14,224,901	\$20,444,008
Earnings Per Share (Note 11)	\$0.34	\$0.48
Diluted Earnings Per Share (Note 11)	\$0.34	\$0.48

See notes to consolidated financial statements

Cayman National Corporation Ltd.

Consolidated Statement of Changes in Shareholders' Equity

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

	Share Capital	Share Premium	General Reserve	Retained Earnings (Accumulated Deficit)	Reserve for Dividends	Net Unrealised (Depreciation) Appreciation on Investments Available-for-sale	Foreign Currency Translation Reserve	Total
Balance at September 30, 2006	\$41,686,308	\$3,193,086	\$7,486,050	\$6,937,972	\$2,501,178	\$51,792	\$393,112	\$62,249,498
Net income	-	-	-	20,444,008	-	-	-	20,444,008
2006 proposed dividends paid (Note 17)	-	-	-	-	(2,501,178)	-	-	(2,501,178)
2007 interim dividend paid	-	-	-	(2,966,498)	-	-	-	(2,966,498)
Issuance of shares in connection with business combination (Note 7)	656,239	1,804,658	-	-	-	-	-	2,460,897
Final dividend proposed (Note 17)	-	-	-	(3,390,284)	3,390,284	-	-	-
Issuance of shares in connection with share options exercised	36,000	72,000	-	-	-	-	-	108,000
Net realised gains on sale of investment available-for-sale	-	-	-	-	-	(203,667)	-	(203,667)
Net change in unrealised appreciation/ (depreciation) on investments (Note 4)	-	-	-	-	-	71,655	-	71,655
Equity adjustment from foreign currency translation (Note 12)	-	-	-	-	-	-	340,661	340,661
Balance at September 30, 2007	\$42,378,547	\$5,069,744	\$7,486,050	\$21,025,198	\$3,390,284	\$ (80,220)	\$733,773	\$80,003,376
Net income	-	-	-	14,224,902	-	-	-	14,224,902
2007 proposed dividends paid (Note 17)	-	-	-	-	(3,390,284)	-	-	(3,390,284)
2008 interim dividend paid (Note 17)	-	-	-	(3,390,284)	-	-	-	(3,390,284)
Issuance of shares in connection with share options exercised	14,000	28,000	-	-	-	-	-	42,000
Shares repurchased and cancelled	(20,346)	(45,067)	-	-	-	-	-	(65,413)
Final dividend proposed (Note 17)	-	-	-	(3,601,637)	3,601,637	-	-	-
Net realised gains on sale of investment available-for-sale	-	-	-	-	-	(60,166)	-	(60,166)
Net change in unrealised appreciation/ (depreciation) on investments (Note 4)	-	-	-	-	-	1,418,041	-	1,418,041
Equity adjustment from foreign currency translation (Note 12)	-	-	-	-	-	-	(632,032)	(632,032)
Balance at September 30, 2008	\$42,372,201	\$5,052,677	\$7,486,050	\$28,258,179	\$3,601,637	\$1,277,655	\$101,741	\$88,150,140

See notes to consolidated financial statements

Cayman National Corporation Ltd.

Consolidated Statement of Cash Flows

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

Cash Provided by/(Used In):	2008	2007
Operating Activities		
Net income	\$14,224,902	\$20,444,008
Adjustments for items not involving cash:		
Depreciation	2,831,385	2,591,786
Impairment of goodwill	817,002	147,765
Amortisation of premium/discount on investments held-to-maturity	22,078	(2,207)
Initial realised gain from VISA IPO on mandatory share redemption	(3,090,880)	-
Initial recognition of remaining VISA shares held	(2,410,410)	-
Gain on sale of investments available-for-sale	-	(203,667)
Gain on partial disposal of subsidiary	-	(257,171)
Loss/(gain) on financial instruments designated at fair value	406,150	(78,008)
Loss/(gain) on disposal of fixed assets	-	123,363
Net decrease in loan impairment provision	(558,582)	(160,068)
Share of associated company profits	-	(433,040)
Gain on investment held for sale	-	(394,937)
Taxation	(8,813)	(26)
Adjustments from foreign currency translation	(632,032)	340,661
	\$11,600,800	\$22,118,459
Changes in non-cash working capital items:		
Interest receivable	330,848	(684,171)
Accounts receivable*	5,964,449	(2,908,211)
Depositors' accounts	67,508,804	111,248,301
Interest payable	(814,533)	1,074,241
Accounts payable and other liabilities (net of non-cash transaction in respect of business combination - see Note 7)	2,596,578	(2,648,280)
Net advances for loans and overdrafts	(44,114,659)	(49,876,697)
	\$43,072,287	\$78,323,642
Investing Activities		
Short term placements	(29,077,317)	15,197,615
Purchase of investments available-for-sale	(416,676)	-
Proceeds on sale of investments available-for-sale	3,090,880	340,328
Purchase of Financial instruments held at fair value	-	(3,780,000)
Purchase of Investments held to maturity	(6,534,817)	(1,667,083)
Proceeds on maturity of investments held-to-maturity	9,672,250	7,154,366
Proceeds from shares issued	42,000	108,000
Purchase of shares to cancel	(65,413)	-
Dividends received from associated company	-	218,137
Purchase of fixed assets	(4,600,554)	(6,828,001)
Disposal of subsidiary, net of cash disposed	-	(140,937)
	(\$27,889,647)	\$10,602,425
Financing Activities		
Dividends paid (Note 17)	(6,780,568)	(5,467,676)
	(6,780,568)	(5,467,676)
Increase In Cash And Cash Equivalents	8,402,072	83,458,391
Cash And Cash Equivalents, Beginning Of Year	418,096,859	334,638,468
Cash And Cash Equivalents, End Of Year	\$426,498,931	\$418,096,859
Supplemental information:		
Interest received	\$46,747,840	\$57,216,406
Interest paid	\$19,118,301	\$24,976,213

* 2007: Net of outstanding consideration receivable in respect of partial sale of subsidiary (Note 9) See Notes 4, 7 and 9 for details of significant non cash transactions

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

1. Incorporation and Background Information

Cayman National Corporation Ltd. (the “Corporation” or “CNC”) was incorporated on 4 October 1976 and operates subject to the provisions of the Companies Law of the Cayman Islands. The Corporation is a holding company for the companies referred to in Note 2 (collectively, the “Group”), all of which are incorporated in the Cayman Islands except where otherwise indicated. Through these companies the Corporation conducts full service banking, company and trust management, mutual fund administration, stock broking, and insurance brokerage in the Cayman Islands and the Isle of Man. The Corporation also operates a representative office in the Republic of Panama subject to the provisions of law No.9 of 1988 of that country. In March 2008, the Corporation was granted a full service banking license to operate in the Turks and Caicos Islands (“TCI”) as such it is subject to the regulations of the Financial Services Commission in TCI. The Corporation is listed and trades on the Cayman Islands Stock Exchange. The registered office of the Corporation is 200 Elgin Avenue, George Town, Grand Cayman.

The Corporation is not liable for taxation in the Cayman Islands as there are currently no income, profits or capital gains taxes in the Cayman Islands. The Corporation is also not liable for taxation in respect of its Panama or TCI operations. 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 consolidated 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:

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

Relevant standards and amendments issued prior to September 30, 2008 but not effective until future periods:

IAS 39 and IFRS 7 – Reclassification of financial assets (effective from 1 July 2008) – permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss) out of fair value through profit or loss in certain circumstances. It also allows the transfer of an asset from the available for sale category to the loans and receivables category if the entity has the intention and ability to hold the financial asset in the foreseeable

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

2. Significant Accounting Policies (Continued)

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

Relevant standards and amendments issued prior to September 30, 2008 but not effective until future periods (continued)

future. This does not impact the Group as the Group has not chosen to reclassify any of their financial assets.

IFRIC 12 – Service concession arrangements (effective for periods beginning after 1 January 2008) does not impact the Group as the Group has no service concession arrangements in place.

IFRS 8 – Operating Segments (effective from 1 January 2009) replaces IAS 14, “Segment Reporting”. The new Standard requires a “management approach”, under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from 1 October 2009 to all segmental disclosures.

IAS 1 – Presentation of Financial Statements (Revised and effective 1 January 2009) results in a new requirement that all changes in equity arising from transactions with owners in their capacity as owners (i.e., owner changes in equity) are presented separately from non-owner changes in equity. In order to do this, an entity will no longer be permitted to present components of comprehensive income (i.e., non-owner changes in equity) in the statement of changes in equity. Instead, a new “statement of comprehensive income” will be required. This revised standard is expected to impact the Group as they will be required to show the investment fair value reserve and the foreign currency translation reserve currently included in the statement of changes in equity in a separate “statement of comprehensive income”.

IFRS 1 and IAS 27 (Revised and effective 1 January 2009) – allows first time adopters of IFRS 1 to use a deemed cost option for determining the cost of an investment in a subsidiary, jointly controlled entity or associate. This amendment will not impact the Group as the Group’s financial statements are currently prepared in accordance with IFRS.

IFRS 2 (Amended and effective 1 January 2009) – clarifies that vesting conditions are performance and service conditions only and that cancellations of share options by parties other than the entity are to be accounted for in the same way as cancellations by the entity. The Group will apply IFRS 2 from 1 October 2009 but it is not expected to have a material impact on the Group’s financial statements.

IFRS 3 and IAS 27 (Revised and effective 1 July 2009) – the most significant amendments are that acquisition related costs as part of a business combination will now be recognised as an expense in the income statement when incurred and not as goodwill. The contingent consideration must also be recognised and measured at fair value at the acquisition date. The amendment to IAS 27 requires that changes in a parent’s ownership interest in a subsidiary that does not result in a loss in control should be accounted for within equity. The amendments will only impact the Group where business combinations or a change in an interest in the Group’s subsidiary occurs after the effective date.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

2. Significant Accounting Policies (Continued)

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

Relevant standards and amendments issued prior to September 30, 2008 but not effective until future periods (continued)

IAS 32 – Financial instruments puttable at fair value (Revised and effective 1 January 2009) – requires the classification of certain puttable financial instruments and financial instruments that impose on the issuer an obligation to deliver a pro rata share of the equity on liquidation as equity. The amendment is not expected to impact the Group as it does not currently have investment in these types of financial instruments.

IAS 39 – Eligible hedged items (amended and effective for period beginning after 1 July 2009) – this amendment is not expected to impact the Group as it has no hedged items.

Basis of Consolidation

(a) Subsidiaries

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

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

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

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

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

2. Significant Accounting Policies (Continued)

Basis of Consolidation (continued)

(b) Associates (continued)

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

(c) Joint Ventures

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

(d) Nominee Companies:

The following four subsidiaries earned no fee income and incurred no expenses during the years ended 30 September 2008 and 2007; in addition they had no assets or liabilities as at these dates.

Cayman National (Nominees) Ltd.

CNT (Nominees) Ltd.

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

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

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

2. Significant Accounting Policies (Continued)

OPERATING COMPANIES:

Entity	% Owned	Principal activity
Cayman National Bank Ltd. (“CNB”)* and its wholly-owned subsidiary Cayman National Property Holdings Ltd. (“CNP”)	100%	Banking and property holding, respectively
Cayman National Trust Co. Ltd. (“CNT”) and its wholly-owned subsidiary Cayman National S.A. in Panama	100%	Company trust management, and fund services
Cayman National Securities Ltd. (“CNS”)	100%	Securities brokerage
Cayman National Bank & Trust Company (Isle of Man) Limited (“CNB&T”(IOM)), formerly Caymanx Trust Company Limited (incorporated and regulated in the Isle of Man)	100%	Banking, company and trust management
Cayman National Fund Services (Isle of Man) Limited, (“CNIFS” (IOM)), (incorporated and regulated in the Isle of Man)	100%	Fund services
International Banking Group (TCI) Ltd. (“IBG”) incorporated and regulated in Turks and Caicos	100%	Banking (operations expected to commence October 2009)
Cayman National Investments Ltd. (“CNI”)	100%	Holds a minority investment in a venture capital limited partnership

*Also includes a representative office in Panama which refers business to the Cayman Islands

JOINT VENTURE:

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

Business combinations

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

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

2. Significant Accounting Policies (Continued)

Business combinations (continued)

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

Goodwill

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

Acceptances

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

Foreign Currency Translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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 market rates ruling at the balance sheet date. Monetary assets are translated at bid-market rates and monetary liabilities are translated at the ask-market rate. Gains and losses on exchange are credited or charged in the consolidated statement of income.

(c) Group Companies

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

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

2. Significant Accounting Policies (Continued)

Foreign Currency Translation (continued)

(c) Group Companies (continued)

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates; and
- All resulting exchange differences are recognised as a separate component of equity.

Depreciation

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

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

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

Loans and Provision for Loan Impairment

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

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

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

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

2. Significant Accounting Policies (Continued)

Accounts receivable

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

Director benefits

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

Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those designated at fair value through profit and loss, are recognised within 'interest income' and 'interest expense' in the income statement using the effective interest method.

Fees and commissions

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

Pension obligations

The Group employees participate in a defined contribution plan. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no further payment obligations once the contributions have been paid. Payments to defined contribution retirement plans are charged as an expense as they fall due. The Group does not operate any defined benefit plans.

Cash and cash equivalents

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

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

2. Significant Accounting Policies (Continued)

Short term placements

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

Assets under administration

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

Share Purchase Scheme

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

Leases

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

Investments

The Group classifies its investments in the following categories: available for sale, held to maturity and financial assets at fair value through profit and loss. Management determines the classification of its investments at initial recognition. Purchases and sales of investments available for sale, held to maturity and at fair value through profit or loss are recognised on trade date basis, which is the date the Group commits to purchase or sell the investment. Investments are initially recognised at fair value plus transaction costs for all investments not carried at fair value through profit or loss. Investments carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the statement of income.

Available-for-sale

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

For publicly traded securities fair value is based on quoted bid prices of these securities. The fair value of non-exchange traded mutual funds is determined based on the net asset value per share provided by the administrators of the funds. The fair value of the investment in the venture capital limited partnership owned by CNI is determined based on the portfolio valuation provided by management of the limited partnership, which management considers to represent fair value. In cases where there is no quoted market price for equity securities, the Group establishes

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

2. Significant Accounting Policies (Continued)

Investments (continued)

Available-for-sale (continued)

fair value using valuation techniques. These include the use of recent arm's length transactions and reference to other instruments that are substantially the same. If the Group is not able to estimate the fair value, the investment is valued at cost subject to impairment recognition.

Gains and losses on disposal are calculated on gross proceeds less the original cost of securities sold on a specific identification basis, and are included in income. Unrealised appreciation and depreciation on available-for-sale investments is reported as a separate component of shareholders' equity, until the investment is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in profit and loss.

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

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

Financial assets at fair value through profit and loss

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

- Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost;
- Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis;
- Financial instruments, such as debt securities held, contain one or more embedded derivatives which significantly modify the cash flows.

Gains and losses arising from changes in the fair value of these financial assets are included in the statement of income within (loss)/gain from financial assets designated at fair value through profit and loss.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

2. Significant Accounting Policies (Continued)

Critical Accounting Estimates and Judgments

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

Impairment losses on loans and advances

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

Loan origination fees

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

A 1 year increase in the average maturity period has an effect on loan origination fee revenue recognised of approximately \$202,100. A 1 year decrease in the average maturity period has an effect on loan origination fee revenue recognised of approximately \$181,500. A 1% change in the level of loans repaid prior to the scheduled maturity date has an effect of approximately +/- \$18,000 on loan origination fees revenue recognised.

Cayman National Corporation Ltd.

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for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

2. Significant Accounting Policies (Continued)

Critical Accounting Estimates and Judgments (continued)

Goodwill impairment

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

Management uses estimates based on historical loss experience for client assets when projecting its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Management estimates that there would be no impairment to the extent that the net present value of estimated cash flows differs by +/-1 percent. If the volume of underlying cash generating accounts decreased by 10% then the Group would recognise impairment of approximately \$176,616. The Group reviews its goodwill to assess impairment at least on an annual basis or when there is an indicator of impairment.

Impairment of available-for-sale equity investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price/fair value. In addition, impairment may be appropriate when there is evidence of a significant deterioration in the financial health of the investee, industry and sector performance and operational and financing cash flows. Management has determined that the carrying values of available-for-sale equity investments are not impaired as at 30 September 2008. If impairment were to be recorded as at 30 September 2008 the unrealised depreciation in shareholders' equity of \$186,830 would be recorded in the consolidated statement of income.

Held-to-maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required by IAS 39 to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost. If the entire class of held-to-maturity investments is tainted, the carrying value would decrease by \$31,333, with a corresponding entry in the net unrealised appreciation on investments available-for-sale reserve in shareholders' equity.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

3. Cash and Due from Banks

Cash and Due from Banks Comprise:	2008	2007
Cash in hand and current accounts	\$23,063,189	\$17,850,999
Operating accounts	21,517,619	\$20,119,347
Money market accounts	3,821,917	\$2,500,000
Deposits with other banks	378,096,206	377,626,513
	\$426,498,931	\$418,096,859

4. Investments

Investments Comprise:	2008	2007
Available-for-sale at fair value	\$5,943,122	\$1,758,161
Held-to-maturity, at amortised cost	12,584,946	15,744,457
	18,528,068	17,502,618
Financial assets designated at fair value	3,451,858	3,858,008
	\$21,979,926	\$21,360,626

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

	2008	2007
U.S. government agency bonds	\$1,243,854	\$9,977,818
Regional corporate and government bonds	9,674,425	4,100,828
International corporate bonds	1,666,667	1,665,811
	\$12,584,946	\$15,744,457

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

4. Investments (Continued)

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

	Cost	Gross unrealised holding losses	Gross unrealised holding gains	Estimated fair value
30 September 2008				
Ordinary shares*	\$3,660,419	\$-	\$1,466,043	\$5,126,462
Preference Shares	40,885	-	42,448	83,333
Mutual Funds	964,163	(239,152)	8,316	733,327
	\$4,665,467	\$(239,152)	\$1,516,807	\$5,943,122
30 September 2007				
Ordinary shares	\$833,333	\$-	\$-	\$833,333
Preference Shares	40,885	-	-	40,885
Mutual Funds	964,163	(80,220)	-	883,943
	\$1,838,381	\$(80,220)	\$-	\$1,758,161

* Included within cost is the initial fair value of \$2,410,410 on the non-monetary exchange of the Group's membership interest in Visa for a share interest (see Note 26).

Included in investments available-for-sale are six investments with a carrying value of \$5,403,795 (2007: \$1,068,219) that are not publicly traded. The Group was unable to estimate the fair value of two of these securities with a carrying value of nil (2007: \$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 realised 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 \$1,860,675 (2007: \$1,027,333).

Mutual funds consist of three funds, two of which are sponsored and managed by the Group (see Note 13). The mutual funds are (i) Dow Jones Industrial Average index fund; (ii) 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 third party Venture Capital fund investing in the companies that are in developmental stage.

Financial asset designated at fair value is as follows:	2008	2007
Fair Value	\$3,451,858	\$3,858,008
Cost	\$3,780,000	\$3,780,000

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

4. Investments (Continued)

The financial asset designated at fair value through profit and loss comprises a 13 year principal protected note issued by Barclays Plc. which matures on 2 January 2020. The note is only 100% principal protected when held to its scheduled maturity, and if sold or redeemed prior to maturity due to early redemption, noteholders may receive less than the protected amount.

The return on the note is equity indexed which results in dissimilar risks inherent in the host and embedded derivative, and the Corporation therefore designates the hybrid note as a financial asset at fair value through profit and loss.

The issuers of the regional, corporate and government bonds are domiciled in Barbados, Trinidad and the Cayman Islands. The estimated fair value of all of the above investments at 30 September 2008 was \$22,000,916 (2007: \$21,427,516). Effective interest rates for the above debt instruments range from 3.875% to 7.50% (2007: 3.4% to 7.75%).

Net amortisation of discounts/premiums on debt securities of \$22,078 (2007: \$2,207) is included within interest income.

5. Loans and Overdrafts

Composition and aging of the loan portfolio are as follows:

	Period from year end to maturity				Total
	Under one year	Within two to five years	Within six to ten years	Over ten years	
(all figures in \$000's)					
At 30 September 2008					
Commercial	\$85,328	\$13,457	\$31,671	\$51,957	\$182,413
Personal	24,945	26,492	44,715	135,432	231,584
Corporate	3,747	3,092	1,102	-	7,941
Total	\$114,020	\$43,041	\$77,488	\$187,389	\$421,938
Provision for loan impairment					(3,786)
					\$418,152
At 30 September 2007					
Commercial	\$70,500	\$18,160	\$28,326	\$52,368	\$169,354
Personal	20,520	24,566	33,436	118,823	197,345
Corporate	3,976	3,801	3,729	-	11,506
Total	\$94,996	\$46,527	\$65,491	\$171,191	\$378,205
Provision for loan impairment					(4,726)
					\$373,479

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

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

5. Loans and Overdrafts (Continued)

Movements in the provision for loan impairment are as follows:

	2008	2007
Provision for loan impairment, beginning of year	\$4,726,493	\$5,177,059
Decrease credited to income	(558,582)	(160,068)
Loans written off	(381,894)	(290,498)
Provision for loan impairment, end of year	\$3,786,017	\$4,726,493

Included in the 2008 impairment provisions is \$1,100,580 (2007: \$763,050) in respect of loans classified as delinquent. The aggregate amount included in the balance sheet for loans and overdrafts in arrears by more than 90 days is \$5,453,377 (2007: \$4,545,069). Recoveries for loans previously written-off were \$194,243 (2007: \$412,143). See Note 19 for discussion of credit risk.

6. Fixed Assets

	Freehold land and buildings	Leasehold property and improvements	Computers, software, furniture and equipment	Motor Vehicles	Total
Cost:					
At 30 September 2007	\$21,012,778	\$4,666,626	\$21,559,165	\$279,097	\$47,517,666
Additions	1,724,560	1,185,950	1,676,592	13,452	4,600,554
Disposals	-	-	(8,520)	-	(8,520)
At 30 September 2008	\$22,737,338	\$5,852,576	\$23,227,237	\$292,549	\$52,109,700
Accumulated Depreciation:					
At 30 September 2007	\$3,288,087	\$1,968,043	\$15,452,784	\$126,972	\$20,835,886
Charge for year	634,596	332,046	1,804,870	59,873	\$2,831,385
Disposals	-	-	(8,520)	-	(8,520)
At 30 September 2008	\$3,922,683	\$2,300,089	\$17,249,134	\$186,845	\$23,658,751
Net Book Value:					
At 30 September 2008	\$18,814,655	\$3,552,487	\$5,978,103	\$105,704	\$28,450,949
At 30 September 2007	\$17,724,691	\$2,698,583	\$6,106,381	\$152,125	\$26,681,780

During the year ended 30 September 2008, fixed assets with a cost of \$8,520 (2007: \$201,641), and a net book value of nil (2007: \$123,363) were disposed as they were replaced with enhanced assets. No proceeds were received on disposal of these assets.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

7. Goodwill

Goodwill is summarised as follows:

	2008	2007
Cost:		
Balance at beginning of year	\$6,046,753	\$5,898,988
Purchase consideration paid in year	-	147,765
Balance at end of year	6,046,753	6,046,753
Accumulated impairment:		
Balance at beginning of year	1,175,522	1,027,757
Impairment charge for the year	817,002	147,765
Balance at end of year	1,922,524	1,175,522
Goodwill at end of year	\$4,054,229	\$4,871,231

Goodwill comprises the following business combinations:

Business acquired:	Year of acquisition	Original cost	Previously recognised accumulated amortisation*	Cumulative impairment charge	Carrying value
Cayman National Insurance Brokers and Cayman National Insurance Managers	1998	\$299,755	\$(299,755)	\$ -	\$ -
Fiduciary Trust (Cayman) Limited	2003	1,543,550	(550,356)	-	993,194
Cayman Islands Securities Ltd.	2003	378,011	(313,010)	-	65,001
Aall Trust & Bank ("ATB")	2005 -2007	4,988,558	-	(1,992,524)	2,996,034
		\$7,209,874	\$(1,163,121)	\$(1,992,524)	\$4,054,229

* Prior to adoption of IFRS 3.

The main factors contributing to the impairment were:

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

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

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8. Fixed Deposit

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

9. Insurance Related Balances

Investment in associate

Effective 30 September 2007, the Group sold its remaining 24.2% equity interest in Sagicor General Insurance (Cayman) Ltd. ("SGI") to Sagicor Life of the Cayman Islands Ltd. at a price of \$3,393,250. Proceeds of sale were received by the Group on 22 October 2007. Included in the consolidated statement of income for the year ended 30 September 2007 was a gain on sale of investment in associate \$394,937 representing the difference between the selling price and the book value of the equity interest of \$2,998,313 at 30 September 2007, and income of \$433,040, which represented the Corporation's 24.2% share of SGI's profit under the equity method of accounting.

Joint Venture

Effective 1 October 2006, the Group entered into a 50% joint venture agreement, AON/CNIB, which provides insurance brokerage services. Included in accounts receivable is \$353,869 (2007: \$353,869) due from AON Insurance Managers (Cayman) Ltd. (the joint partner) in respect of the initial establishment of the joint venture; this is repayable three years after the date of the joint venture. The following amounts represent the Group's 50% share of the assets and liabilities, and revenues and expenses of the joint venture, included in the balance sheet and income statement as follows:

	2008	2007
Total Assets	\$871,000	\$ 496,223
Total Liabilities	\$738,000	\$ 377,323
Net Assets	\$133,000	\$ 118,900
Income	\$527,000	\$ 368,372
Expenses	\$512,500	\$ 346,170
Net Income	\$14,500	\$22,202

50% of net assets of CNIB on the date of disposal was \$96,698, resulting in a realised gain to the Group of \$257,171.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

10. Taxation

The asset/liability for taxation comprises	2008	2007
Deferred tax asset	\$5,392	\$8,813

The CNB&T (IOM) and CNFS (IOM) operations incurred a tax credit for the year ended 30 September 2008 of \$3,345 (2007: charge of \$3,163).

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

	2008	2007
<u>Authorised:</u>		
200,000,000 shares of \$1 par value each (2007: 200,000,000)		
<u>Issued and fully paid:</u>		
42,372,201 shares (2007: 42,378,547)	\$42,372,201	\$42,378,547

Share Premium

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

General Reserve

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

Earnings and Diluted Earnings Per Share

Earnings per share is calculated by dividing the net income attributable to shareholders by the weighted average number of ordinary shares in issue during the year. Diluted earnings per share is calculated by dividing net income attributable to shareholders by the diluted weighted average number of ordinary shares in issue which is based on the maximum total amount of exercisable stock options which the directors can exercise during the year (see Notes 2 and 18). At 30 September 2008 and 2007, these stock options were dilutive.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

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

Earnings and Diluted Earnings Per Share (continued)

	2008	2007
Net income attributable to equity holders of the Corporation	\$14,224,902	\$20,444,008
Weighted average number of shares in issue	42,371,777	42,173,489
Diluted weighted average number of shares in issue	42,405,111	42,239,942
Earnings per share	\$0.34	\$0.48
Diluted earnings per share	\$0.34	\$0.48

12. Equity Adjustments from Foreign Currency Translation

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

13. Related Party Balances and Transactions

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

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

	2008	2007
Accounts receivable:		
Affiliated companies	\$92,374	\$117,792
Loans and overdrafts:		
Directors	\$10,409,912	\$10,173,390
Investments (Note 4):		
Affiliated companies	\$591,648	\$689,943
Directors	1,666,675	833,333
	\$2,258,323	\$1,523,276
Customers' accounts:		
Affiliated companies	\$123,081,520	\$79,624,572
Directors	1,984,562	1,399,577
	\$125,066,082	\$81,024,149

Cayman National Corporation Ltd.

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13. Related Party Balances and Transactions (Continued)

Included within interest income is interest of \$596,902 (2007: \$459,098) on loans and overdrafts to directors and key management.

All transactions with related parties, other than staff loans and overdrafts, are conducted on normal commercial terms and at non-preferential interest rates. Staff loans, which totaled \$35,281,818 (2007: \$37,043,284) at the balance sheet date, are at preferential rates varying between 5% and 6% p.a. (2007: 5.0% and 6.0% p.a.). Employees of a former associated company continue to receive discounted loans at rates consistent with staff loans.

Customers' accounts with affiliated companies represents deposits from clients, trusts and companies managed by CNT. Included within interest expense is interest of \$2,735,448 (2007: \$3,830,166) on these deposits.

The Group owns the sponsor's shares totaling US\$100 in Cayman National Mortgage Fund Ltd. ("CNMF"), a fund for which the Group provides the banker and mortgage advisor services and is remunerated by way of commitment fees negotiated between the Group and the individual mortgagors. In addition, the Group provides the administration, registrar and transfer agent services and receives a fee amounting to 1.5% p.a. of the daily net assets of the fund. The Group also provides administration services for CNB Money Market Fund ("CMMF") and the Cayman National Master Series Trust ("CNMST") and receives an annual fee amounting to 1% of the daily net assets of CMMF. No fees were charged during the year ended 30 September 2008 and 2007 in respect of the management of CNMST. The Group provides the trustee of both CMMF and CNMST. Additionally, the Group provides certain financial, accounting, administrative and other services on behalf of Cayman National Pension Fund ("CNPF") and receives an annual fee amounting to 2% of annual contributions into CNPF plus 0.25% of CNPF's net assets at the end of the year.

The following is a summary of the fees received from these related parties:

	2008	2007
Cayman National Mortgage Fund	\$ 471,375	\$ 619,407
CNB Money Market Fund	420,743	350,583
Cayman National Pension Fund	126,153	125,452

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 \$57,633,902 at 30 September 2008 (2007: \$33,103,076). No material losses are anticipated by management as a result of these transactions.

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Notes to Consolidated Financial Statements

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14. Commitments (Continued)

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

Year ended 30 September	Annual commitment
2009	\$2,649,195
2010	\$2,720,968
2011	\$2,794,894
2012	\$2,871,038
2013 or greater	\$12,644,915

15. Pension Obligations

The Cayman National Corporation Pensions Fund (“the Fund” or “CNPF”) is a defined contribution pension scheme which became effective on 1 July 1997. The Fund is administered by Cayman National Trust Co. Ltd. and is available for participation by Group and third party employees. Membership is mandatory for all Group employees between the ages of 18 and 60, with contributions from both employer and employees. The required contribution is 5% of employees’ salary matched by the employer on a maximum salary of \$60,000 per annum. Included in personnel expense is an amount of \$757,042 (2007: \$586,816) representing the Group’s contribution to the Fund.

16. Contingent Liabilities

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

The Group has issued letters of credit and guarantees to third parties totaling \$16,009,825 (2007: \$4,493,441) 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.

Effective 30 November 2006, CNC sold a 51% stake in Cayman General Insurance Co Ltd (whose name was subsequently changed to Sagicor General Insurance (Cayman) Ltd). This sale was subject to various warranties made by CNC in the sale agreement. In January 2009, SGI made a further claim under the warranties (see Note 28). There is potential for a further, but at this stage, unquantifiable claim under the warranties.

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17. Dividends Per Share

Final proposed dividends (Note 28) are presented as a separate component of shareholder’s equity until they have been formally ratified at the Annual General Meeting (“AGM”).

	2008
2007 proposed dividend paid in 2008	\$3,390,284
Interim 2008 dividend declared and paid in 2008	3,390,284
Total dividend paid out of 2008 earnings	\$6,780,568
Final proposed dividend – \$0.085 per share	\$3,601,637
	2007
2006 proposed dividend paid in 2007	\$2,501,178
Interim 2007 dividend declared and paid in 2007	\$2,966,498
Total dividend paid out of 2007 earnings	5,467,676
Final proposed dividend – \$0.08 per share	\$3,390,284

18. Directors and Officers Remuneration

During the year ended 30 September 2008, the Corporation had a total of 8 directors (2007: 8) of whom one is an executive officer (2007: 1). For the financial year ended 30 September 2008, the aggregate compensation for directors’ services was \$240,186 (2007: \$224,600).

Salaries and other short term employee benefits for key management (being those executives with the authority to direct the Group’s operating policy) of \$1,332,587 (2007: \$1,341,095) are included within personnel expenses.

Share options were granted to directors on 28 March 2004 at a strike price of \$3.00 per share (the prevailing market price at that date). The options expire five years after the authorisation date of each director’s option agreement. A minimum of 1,000 options can be exercised at any one time and a maximum, ranging between 10,000 to 20,000 options, can be exercised per director per year, cumulative.

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

	2008	2007
Beginning balance	464,000	500,000
Granted	–	–
Exercised	(14,000)	(36,000)
Lapsed	–	–
At 30 September	450,000	464,000
Exercisable at 30 September	450,000	364,000

Cayman National Corporation Ltd.

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19. Financial Risk Management

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

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

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

Market risk

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

Interest rate risk

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

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

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

19. Financial Risk Management (Continued)

Interest rate risk (continued)

At 30 September 2008	1–3 months	3–6 months	6–12 months	1–5 Years	Over 5 Years	Non-interest Bearing	Total
Assets							
Cash and bank balances	\$419,753,451	\$–	\$–	\$–	\$–	\$6,745,480	\$426,498,931
Short term placements	–	8,752,539	34,277,792	2,500,000	–	–	45,530,331
Investments	2,500,000	–	1,333,959	5,898,705	–	8,795,404	18,528,068
Financial Assets designated at fair value	–	–	–	–	3,451,858	–	3,451,858
Loans and overdrafts	67,270,030	11,092,336	35,545,005	268,131,550	36,112,854	–	418,151,775
Other assets	–	–	–	–	–	13,920,029	13,920,029
Fixed Assets	–	–	–	–	–	28,450,949	28,450,949
TOTAL	\$489,523,481	\$19,844,875	\$71,156,756	\$276,530,255	\$39,564,712	\$57,911,862	\$954,531,941
Liabilities and Equity							
Demand & Term Deposits	\$506,592,917	\$26,587,006	\$31,910,591	\$2,807,851	\$–	\$277,853,135	\$845,751,500
Other liabilities	–	–	–	–	–	20,630,301	20,630,301
TOTAL	\$506,592,917	\$26,587,006	\$31,910,591	\$2,807,851	\$–	\$298,483,436	\$866,381,801
Off-balance liabilities	16,009,825	–	–	–	–	–	–
Total Interest Sensivity Gap	\$(33,079,261)	\$(6,742,131)	\$39,246,165	\$273,722,404	\$39,564,712		

At 30 September 2007	1–3 months	3–6 months	6–12 months	1–5 Years	Over 5 Years	Non-interest Bearing	Total
Assets							
Cash and bank balances	\$404,888,896	\$–	\$–	\$–	\$–	\$13,207,963	\$418,096,859
Short term placements	–	3,360,334	13,092,680	–	–	–	16,453,014
Financial assets designed at fair value	–	–	–	–	3,858,008	–	3,858,008
Investments	–	–	–	13,212,229	3,416,170	874,219	17,502,618
Loans and overdrafts	74,869,756	13,210,847	6,914,997	241,439,650	37,043,284	–	373,478,534
Other assets	–	–	–	–	–	21,032,328	21,032,328
Fixed Assets	–	–	–	–	–	26,681,780	26,681,780
TOTAL	\$479,758,652	\$16,571,181	\$20,007,677	\$254,651,879	\$44,317,462	\$61,796,290	\$877,103,141
Liabilities and Equity							
Demand & Term Deposits	\$595,901,316	\$17,705,166	\$25,775,060	\$984,890	\$–	\$137,876,264	\$778,242,696
Other liabilities	–	–	–	–	–	18,857,069	18,857,069
TOTAL	\$595,901,316	\$17,705,166	\$25,775,060	\$984,890	\$–	\$156,733,333	\$797,099,765
Off-balance liabilities	4,493,411	–	–	–	–	–	–
Total Interest Sensivity Gap	\$(120,636,075)	\$(1,133,985)	\$(5,767,383)	\$253,666,989	\$44,317,462		

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Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

19. Financial Risk Management (Continued)

Interest rate sensitivity analysis

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

If interest rates had been 100 basis points higher/lower and all other variables remained constant, the Group's profit and equity for the year ended 2008 would increase/decrease by \$3,215,073 (2007: increase/decrease by \$1,704,170). This is mainly attributable to the Group's exposure to interest rates in its variable rate liabilities.

Other price risk

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

Equity price sensitivity analysis

If equity prices had been 15% higher/lower:

- net profit for the year would have been unaffected as the equity investments are classified as available for sale and no investments were impaired.
- equity would increase/decrease by \$225,000 (2007: \$132,000) for the Group as a result of the change in fair value of available-for-sale investments.

Currency Risk

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

Cayman National Corporation Ltd.

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for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

19. Financial Risk Management (Continued)

Currency Risk (continued)

The following table presents, by major currency, the Group's exposure to foreign currency risk at 30 September 2008:

2008	KYD	USD	GBP	CAD	EURO	OTHER	Total
Assets							
Cash & Due From Banks	\$14,936,015	\$301,123,940	\$95,131,377	\$9,244,105	\$1,823,518	\$4,239,976	\$426,498,931
Short term placements	-	44,781,674	-	119,070	629,587	-	45,530,331
Investments	-	18,528,068	-	-	-	-	18,528,068
Financial Assets designated at fair value	-	3,451,858	-	-	-	-	3,451,858
Loans & Overdrafts	259,065,917	149,779,445	8,098,167	-	-	1,208,246	418,151,775
Other Assets	10,452,488	2,591,281	825,060	26,165	11,319	13,716	13,920,029
Fixed Assets	28,214,872	-	236,077	-	-	-	28,450,949
Total Assets	\$312,669,292	\$520,256,266	\$104,290,681	\$9,389,340	\$2,464,424	\$5,461,938	\$954,531,941
Liabilities							
Depositors Accounts							
Current	\$68,104,632	\$60,972,947	\$135,170	\$35,238	\$703	\$-	\$129,248,690
Savings	56,863,270	81,488,592	12,352,649	2,790,990	1,075,371	3,167,007	157,737,879
Fixed Deposits	91,006,243	374,460,538	84,761,244	5,541,990	1,082,526	1,912,390	558,764,931
Interest Payable	328,821	903,372	250,565	25,446	9,735	4,624	1,522,563
Accounts Payable & Accruals	12,675,305	5,430,982	959,937	41,491	23	-	19,107,738
Total Liabilities	\$228,978,271	\$523,256,431	\$98,459,565	\$8,435,155	\$2,168,358	\$5,084,021	\$866,381,801
Net on Balance Sheet position	\$83,691,021	\$(3,000,165)	\$5,831,116	\$954,185	\$296,066	\$377,917	\$88,150,140

Cayman National Corporation Ltd.

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19. Financial Risk Management (Continued)

Currency Risk (continued)

The following table presents, by major currency, the Group's exposure to foreign currency risk at 30 September 2007:

2007	KYD	USD	GBP	CAD	EURO	OTHER	Total
Assets							
Cash & Due From Banks	\$7,036,151	\$325,788,871	\$70,176,065	\$8,942,313	\$3,236,501	\$2,916,958	\$418,096,859
Short term placements	-	14,344,417	1,307,693	351,288	449,616	-	16,453,014
Investments	-	17,502,618	-	-	-	-	17,502,618
Financial Assets designated at fair value	-	3,858,008	-	-	-	-	3,858,008
Loans & Overdrafts	238,026,662	124,863,584	9,485,418	-	3	1,102,867	373,478,534
Other Assets	17,335,297	2,635,807	1,003,359	33,228	11,911	12,726	21,032,328
Fixed Assets	26,532,680	-	149,100	-	-	-	26,681,780
Total Assets	\$288,930,790	\$488,993,305	\$82,121,635	\$9,326,829	\$3,698,031	\$4,032,551	\$877,103,141
Liabilities							
Depositors Accounts							
Current	\$58,125,964	\$73,528,573	\$9,273,239	\$79,870	\$1,180	\$-	\$141,008,826
Savings	52,060,880	85,048,523	8,066,570	2,973,637	2,214,653	1,769,314	152,133,577
Fixed Deposits	90,905,197	330,194,194	55,357,656	5,430,887	1,256,613	1,955,746	485,100,293
Interest Payable	544,923	1,394,796	358,513	27,098	7,442	4,324	2,337,096
Accounts Payable & Accruals	13,407,068	1,883,795	1,196,236	32,874	-	-	16,519,973
Total Liabilities	\$215,044,032	\$492,049,881	\$74,252,214	\$8,544,366	\$3,479,888	\$3,729,384	\$797,099,765
Net on Balance Sheet position	\$73,886,758	\$(3,056,576)	\$7,869,421	\$782,463	\$218,143	\$303,167	

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for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

19. Financial Risk Management (Continued)

Currency sensitivity analysis

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

The following table details the Group’s sensitivity to a 25% increase and decrease in the KYD against the relevant foreign currencies. 25% represents management’s assessment of the reasonably possible change in foreign exchange rates.

	GBP		CAD		EURO	
	2008	2007	2008	2007	2008	2007
	KYD'000	KYD'000	KYD'000	KYD'000	KYD'000	KYD'000
Profit or Loss	(i) 1,458	1,967	(ii) 239	196	(iii) 74	55

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

(ii) This is mainly attributable to the exposure to outstanding loans and advances at year end.

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

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

Liquidity risk

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

Liquidity risk management process

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

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

Cayman National Corporation Ltd.

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19. Financial Risk Management (Continued)

Liquidity risk management process (continued)

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

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

To mitigate exposure to liquidity risk, the Board of Directors have established a maximum ratio of loans to total customers' deposits of 70% which is continuously monitored by management. Actual maturities could differ from contractual maturities because the counterparty may have the right to call or prepay obligations with or without call or prepayment penalties. Examples of this include: mortgages, which are shown at contractual maturity but which often repay earlier; certain term deposits, which are shown at contractual maturity but which are often cashed before their contractual maturity and certain investments which may have call or prepayment features.

Funding approach

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

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

At 30 September 2008	1-3 months	3-6 months	6-12 months	1-5 Years	Over 5 Years	Total
Liquidity Risk (2008)						
LIABILITIES & EQUITY						
Demand & Term Deposits	786,148,238	27,021,728	32,728,129	3,129,916	-	849,028,011
Other Liabilities	15,049,160	1,198,072	-	247,132	-	16,494,364
Total	\$801,197,398	\$28,219,800	\$32,728,129	\$3,377,048	\$-	\$865,522,374

At 30 September 2007	1-3 months	3-6 months	6-12 months	1-5 Years	Over 5 Years	Total
Liquidity Risk (2007)						
LIABILITIES & EQUITY						
Demand & Term Deposits	737,024,042	18,190,286	26,969,876	1,089,701	-	783,273,905
Other Liabilities	11,444,150	1,924,493	-	359,088	-	13,727,731
Total	\$748,468,192	\$20,114,779	\$26,969,876	\$1,448,789	\$-	\$797,001,636

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19. Financial Risk Management (Continued)

Credit risk

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

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

(i) Credit risk measurement

Loans and advances

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

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

Cayman National Corporation Ltd.

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19. Financial Risk Management (Continued)

Credit risk (continued)

(i) Credit risk measurement (continued)

Loans and advances (continued)

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

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

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

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

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

19. Financial Risk Management (Continued)

Credit risk (continued)

(i) Credit risk measurement (continued)

Debt securities and other bills

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

Other assets

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

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

(ii) Risk limit control and mitigation policies

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

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

Exposure Policy

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

Other specific control and mitigation measures are outlined below:

Adequate collateralisation

It is the Group's policy when making loans to establish that they are within the customer's capacity to repay rather than

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

19. Financial Risk Management (Continued)

Credit risk (continued)

(ii) Risk limit control and mitigation policies (continued)

Exposure Policy (continued)

Adequate collateralisation (continued)

relying exclusively on security. However, while certain facilities may be unsecured depending on the client's standing and the type of product, collateral can be an important mitigant of credit risk.

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

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

Credit-related commitments

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

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

Impairment and provisioning policies

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

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Notes to Consolidated Financial Statements

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19. Financial Risk Management (Continued)

Credit risk (continued)

(ii) Risk limit control and mitigation policies (continued)

Impairment and provisioning policies (continued)

Bank's rating	2008		2007	
	Loans and advances (%)	Impairment provision (%)	Loans and advances (%)	Impairment provision (%)
1. Excellent	80.49	–	89.39	–
2. Good	8.46	1.00	2.50	0.28
3. Average	1.05	–	0.76	0.04
4. Fair	3.44	0.40	4.50	0.11
5. Watch List	5.30	0.60	1.68	82.40
6. Substandard	0.31	22.00	0.84	2.39
7. Non Accrual	0.84	60.00	0.20	5.97
8. Doubtful / Loss	0.11	16.00	0.13	8.81
	100.00	100.00	100.00	100.00

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group:

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

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

Cayman National Corporation Ltd.

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for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

19. Financial Risk Management (Continued)

Credit risk (continued)

(ii) Risk limit control and mitigation policies (continued)

Impairment and provisioning policies (continued)

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

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

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

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

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Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

19. Financial Risk Management (Continued)

Credit risk (continued)

(ii) Risk limit control and mitigation policies (continued)

Impairment and provisioning policies (continued)

	2008	2007
Credit risk exposures relating to on-balance sheet assets are as follows:		
Placements with banks	\$467,207	\$427,463
Loans and advances to customers:		
Loans to individuals:		
Overdrafts	19,204	27,146
Credit cards	9,691	9,455
Term loans	39,462	38,217
Mortgages	182,293	149,566
Loans to corporate entities:	171,288	153,821
Financial assets designated at fair value:		
Debt securities	3,452	3,858
Investment securities		
Debt securities	12,585	15,744
Other assets	9,866	12,768
Credit risk exposures relating to off-balance sheet items are as follows:		
Financial guarantees	1,496	1,450
Loan commitments and other credit related liabilities	15,126	4,545
At 30 September	931,670	844,033

The above table represents a worse case scenario of credit risk exposure to the Group at 30 September 2008 and 2007, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

19. Financial Risk Management (Continued)

Credit risk (continued)

(ii) Risk limit control and mitigation policies (continued)

Impairment and provisioning policies (continued)

Loans and advances are summarised as follows:

('000)	30-Sep-08		30-Sep-07	
	Loans and advances to customers	Placements with banks	Loans and advances to customers	Placements with banks
Neither past due nor impaired	\$350,870	\$436,751	\$359,563	\$400,197
Past due but not impaired	65,615	-	14,096	-
Individually impaired	5,453	-	4,545	-
Gross	421,938	436,751	378,204	400,197
Less: allowance for impairment	3,786	-	4,726	-
Net	418,152	436,751	373,478	400,197

(a) Loans and advances neither past due nor impaired

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

(b) Loans and advances past due but not impaired

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

September 30, 2008	Individual (retail customers) and Corporate entities ('000)					Total
	Overdrafts	Credit Cards	Term Loans	Mortgages	Large Corporate Customers	
Past due up to 30 days	\$-	\$428	\$5,354	\$18,802	\$37,618	\$62,202
Past due 30-60 days	-	54	154	497	1,430	2,135
Past due 60-90 days	-	49	65	1,123	41	1,278
Total	-	531	5,573	20,422	39,089	65,615
Fair value of collateral			9,547	40,730	97,200	147,477

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

19. Financial Risk Management (Continued)

Credit risk (continued)

(ii) Risk limit control and mitigation policies (continued)

Impairment and provisioning policies (continued)

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

30 September 2007						
	Individual (retail customers) and Corporate entities ('000)					
	Overdrafts	Credit Cards	Term Loans	Mortgages	Large Corporate Customers	Total
Past due up to 30 days	\$-	\$600	\$714	\$7,913	\$2,709	\$11,936
Past due 30–60 days	-	88	83	501	-	672
Past due 60–90 days	-	48	300	1,140	-	1,488
Total	-	736	1,097	9,554	2,709	14,096
Fair value of collateral			1,389	11,476	3,039	16,294

(c) Loans and advances individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is \$5,453,000 (2007: \$4,545,000).

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

30 September 2008						
	Individual ('000)					
	Overdrafts	Credit Cards	Term Loans	Mortgages	Large Corporate Customers	Total
Individually impaired loans	\$117	\$60	\$614	\$2,961	\$1,701	\$5,453
Fair value of collateral	-	-	568	3,736	5,890	10,194
30 September 2007						
Individually impaired loans	134	80	659	2,433	1,239	4,545
Fair value of collateral	-	-	591	3,489	1,465	5,545

There are no individually impaired loans to banks.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

19. Financial Risk Management (Continued)

Credit risk (continued)

(ii) Risk limit control and mitigation policies (continued)

Impairment and provisioning policies (continued)

(d) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset from overdue to a performing status. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans, in particular customer finance loans. Renegotiated loans that would otherwise be past due or impaired totaled \$6,478,000 at 30 September 2008 (2007: \$917,000)

Loans and advances to customers – individuals ('000):	2008	2007
Terms loans	530	542
Mortgages	2,565	355
Corporate	3,883	520
Total	6,478	917

Investment securities and investments designated at fair value

The table below presents an analysis of investment securities and investments designated at fair value by rating agency designation at 30 September 2008, based on Standard & Poor's ratings or their equivalent:

('000)	Investment securities	Designated at fair value	Other Investments	Total
AAA	\$1,244	\$–	\$–	\$1,244
AA- to AA+	3,131	–	–	3,131
A- to A+	3,543	–	–	3,543
Lower than A-	9,044	3,452	–	12,496
Unrated	833	–	733	1,566
Total	17,795	3,452	733	21,980

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

19. Financial Risk Management (Continued)

Credit risk (continued)

Reposessed collateral

During 2008, the Group served demand notices on collateral held as security, as follows:

Nature of assets	Carrying amount ('000)
Residential property	\$2,689
Commercial property	Nil

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

Concentration of risks

Geographical sectors

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. Regulatory Requirements

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

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

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

IBG operations are regulated by the TCI Financial Services Commission.

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

Management believes, as of 30 September 2008 and 2007 that all regulated subsidiaries meet the respective regulatory capital adequacy requirements established by CIMA and the Isle of Man Financial Supervision Commission.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

21. Fair Value

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

22. 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.

23. Geographical and Segmental Information

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

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

	2008	2007
Total Assets	\$79,153,019	\$49,823,483
Total Liabilities	\$73,563,246	\$43,548,280
Total Income	\$2,173,460	\$1,720,860
Net Income /(Loss)	\$14,573	\$(321,663)

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

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

23. Geographical and Segmental Information (Continued)

30 September 2008	Banking	Company Management	Asset Management	Other	Eliminations	Group
Gross Assets	\$875,041,950	\$84,111,808	\$4,226,799	\$30,753,954	\$(39,602,570)	\$954,531,941
Total Liabilities	793,129,276	74,734,150	1,665,242	8,264,848	(11,411,715)	866,381,801
Gross Revenue	45,443,169	7,191,046	2,388,461	1,114,165	(735,253)	55,401,588
Net Income (loss)	14,941,118	49,143	(22,645)	(728,214)	(14,500)	14,224,902
Capital expenditure	4,144,549	170,901	265,604	19,500	–	4,600,554
Depreciation charge	2,558,253	196,988	41,144	35,000	–	2,831,385
Goodwill impairment	673,819	56,264	86,919	–	–	817,002
30 September 2007						
Gross Assets	822,753,532	54,625,454	8,114,377	33,657,983	(42,048,205)	877,103,141
Total Liabilities	750,411,605	44,852,420	5,530,175	9,623,530	(13,317,965)	797,099,765
Gross Revenue	46,394,100	6,367,355	2,588,737	6,961,140	(6,284,860)	56,026,472
Net Income (loss)	19,088,921	(57,848)	683,114	5,644,949	(4,915,128)	20,444,008
Capital expenditure	5,856,423	788,366	20,398	162,814	–	6,828,001
Depreciation charge	2,338,127	144,830	96,830	11,999	–	2,591,786
Goodwill impairment	–	–	–	147,765	–	147,765

24. Interest Income

Interest income comprises of the following:

	2008	2007
Cash and short term funds	\$16,114,275	\$21,000,003
Investment securities	695,587	1,050,748
Loans and advances	29,607,130	34,482,028
	\$46,416,992	\$56,532,779

Substantially all interest expense is attributable to customer deposits

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

25. Foreign Exchange

Included within foreign exchange fees and commissions are net transaction gains of \$4,649,027 (2007: \$4,669,607) and realised foreign exchange losses of \$205,178 (2007: gain of \$429,708).

26. Income Received from Visa Shares

The Group's payment services business issues and acquires credit and debit card transactions through the VISA Inc. Association or its affiliates (collectively "Visa"). On 3 October 2007, Visa completed a restructuring and issued shares of Visa common stock to its financial institution members in contemplation of its initial public offering ("IPO") which occurred in the first quarter of 2008 (the "Visa Reorganisation").

As part of the re-organisation the Group received its proportionate number of Visa common stock (Class C), a portion of which were simultaneously redeemed for cash, with the remaining shares to be converted to Class A ordinary shares three years after the IPO.

A total of 154,355 class C (series 1) common shares were initially allotted to the Group with 67,629 remaining at year end subsequent to the mandatory redemption which were recorded as an investment at fair value on initial receipt with a corresponding entry to the statement of income.

Net income for the year therefore includes a one-off gain on the restructuring of Visa of \$5,501,290, which is split out as follows in the consolidated statement of income:

	Income	Shares
Initial realised gain from Visa IPO on mandatory share redemption	\$3,090,880	86,726
Initial recognition of remaining Visa shares held	\$2,410,410	67,629
Total income impact of Visa IPO holding	\$5,501,290	154,355
Unrealised gain on remaining Visa shares held	\$1,410,197	67,629
Total income and equity impact of Visa IPO	\$6,911,487	154,355

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

27. Personnel

Personnel costs comprise of the following:

	2008	2007
Salaries and overtime	\$19,137,975	\$17,414,716
Pension	757,042	579,463
Health insurance	1,571,489	1,236,529
Bonus	920,491	1,150,000
Training	378,152	298,082
Other	988,305	811,740
	\$23,753,454	\$21,490,530

Certain employees and directors are voluntarily able to participate in the Corporation’s Staff Share Purchase Scheme (the “Scheme”). Under the Scheme employees can contribute up to 2% of salary which is matched by the Corporation, and directors contribute up to 20% of their quarterly directors’ fees which is also matched by the Corporation. The contributions are used to purchase shares in the open market at prevailing prices and the shares are subject to certain vesting terms as set out in the Scheme. The net cost to the Corporation of this Scheme for the year was \$150,284 (2007: \$143,556) which is included within personnel costs in the statement of income.

At 30 September 2008, the Group employed a total of 311 personnel (2007: 301).

28. Subsequent Events

During November 2008, CNC declared a final dividend of \$0.085 per share (\$3,601,637) which will be paid to shareholders of record 31 December 2008 after approval by shareholders at the annual General meeting in March 2009. The payment of the CNC dividend will be funded by dividends from the various Group subsidiaries; although the exact amount of dividends to be paid from each subsidiary has not yet been determined, the majority of the dividend will be paid by CNB. In anticipation of this dividend declaration at 30 September 2008, the directors made an appropriation from retained earnings to the reserve for dividends.

Included in loan commitments as of 30 September 2008 is a commitment by the Group to lend Yellow Pilgrim, a company owned by Cayman National Corporation Provident Fund, \$2,950,000 to facilitate the purchase of 1,000,000 shares of Cayman National Corporation from Aall Banking & Trust Corporation Ltd. (Aall). The loan was drawn on 12 October 2008. These shares had been originally issued to Aall in consideration of Cayman National Corporation acquiring certain assets from Aall in 2005.

Cayman National Corporation Ltd.

Notes to Consolidated Financial Statements

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

28. Subsequent Events (Continued)

On 13 November 2008 the Group was granted a license to operate a representative office in Dubai by the Dubai Financial Services Authority. The Group is authorised to conduct financial services such as arranging credit or deals in investments, advising on financial products or credit, and carrying on authorised financial services with or for retail clients.

As referred to in Note 16, a claim of C\$1,145,115 was made by SGI under the terms of the warranties relating to the 2005 sale of the CGI shares to Life of Jamaica Ltd. This amount was paid to SGI on 2 January 2009. The claim arose following certain rulings of the Cayman Islands Courts in December 2008 in relation to third party proceedings brought by SGI. Further liabilities may arise on conclusion of possible further claims under the warranty arrangements. Such further liabilities are unquantifiable at present and management intends to vigorously assert all CNC's rights under the terms of the warranty arrangements so as to minimise their impact. However the amount of any ultimate settlement could be material. The sale agreement provided for a cap on warranties of C\$8 million of which a total of C\$2,471,906 has been disbursed in relation to accepted claims.

Cayman National Bank Ltd.

Consolidated Balance Sheet

30 September 2008 (expressed in Cayman Islands dollars)

Assets	2008	2007
Cash and due from banks	\$358,512,124	\$376,575,977
Short term placements	44,933,599	15,840,722
Investments	18,386,390	17,308,618
Financial assets designated at fair value	3,451,858	3,858,008
Loans and overdrafts	415,459,727	373,554,279
Interest receivable	3,052,519	4,361,041
Accounts receivable	3,464,025	4,385,658
Fixed assets	27,136,667	25,550,370
Goodwill	645,041	1,318,859
	\$875,041,950	\$822,753,532
Liabilities		
Customers' accounts		
Current	130,890,412	\$133,508,806
Savings	146,962,705	146,341,295
Fixed deposits	498,781,766	459,485,019
	\$776,634,883	\$739,335,120
Interest payable	\$1,335,493	\$2,257,008
Accounts payable and accrued expenses	15,158,900	8,819,477
	\$793,129,276	\$750,411,605
Shareholder's Equity		
Share capital	\$2,436,585	\$2,436,585
Share premium	1,695,816	1,695,816
General reserve	39,500,000	39,500,000
Retained earnings	36,763,466	28,602,916
Net unrealised appreciation on investments available-for-sale	1,516,807	106,610
	\$81,912,674	\$72,341,927
Total Liabilities and Shareholder's Equity	\$875,041,950	\$822,753,532

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

Director


S.J. Dack

Director


O.A. Williams

Date: 23 December 2008

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

Cayman National Bank Ltd.

Consolidated Statement of Income

for the year ended 30 September 2008 (expressed in Cayman Islands dollars)

	2008	2007
Interest Income		
Interest income	\$43,501,693	\$55,368,990
Interest expense	16,164,737	22,876,641
Net Interest Income	\$27,336,956	\$32,492,349
Other Income		
Foreign exchange fees and commissions	\$5,553,924	\$6,127,164
Other fees and commissions	7,457,149	7,697,156
Initial realised gain from Visa IPO on mandatory share redemption	3,090,880	122,786
Initial recognition of remaining Visa shares held	2,410,410	-
(Loss)\gain from financial instruments designated at fair value	(406,150)	78,008
Total Income	\$45,443,169	\$46,517,463
Expenses		
Depreciation	\$2,558,252	\$2,338,127
Decrease in reserve for loan loss	(650,000)	(169,112)
Other operating expenses	7,953,692	7,868,062
Personnel	17,434,234	15,692,996
Premises	2,532,055	1,575,106
Loss on disposal of fixed assets	-	123,363
Goodwill impairment	673,818	-
	\$30,502,051	\$27,428,542
Net Income	\$14,941,118	\$19,088,921

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

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** Members of the Group Audit Committee

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Cayman National Fund Services (Isle of Man) Limited

Cayman National Bank Ltd. Oficina de Representación (Panama)

Cayman National (Dubai) Ltd.