Cayman National Bank and Trust Company (Isle of Man) Limited

Report and financial statements

for the year ended 30 September 2016

Contents

Directors' report for the year ended 30 September 2016

Report of the directors
The directors present herewith their report and the audited financial statements of the company for the year ended 30 September 2016.

Principal activities
The principal activities of the company are the provision of banking, custodian, and trust and corporate administration services. The company holds a Financial Services Licence issued on 1 January 2009 under section 7 of the Financial Services Act 2008 and is authorised to undertake deposit taking, investment business, services to collective investment schemes, corporate services and trust services.

Results and dividends
The company made a profit for the year ended 30 September 2016 after taxation of £174,268 (2015 profit: £290,406). No dividend was paid during the year. In the prior year a dividend of 5.38p per ordinary share was paid, amounting to £188,280.

Directors
The directors who served throughout the year and to date were:

S J Dack (Chairman)	
M B Hartley (Deputy Chairman)	
I M E Bancroft (Managing)	
T M Bodden	- resigned 18 May 2016
D W Trimble	- resigned 30 September 2016
G K Watterson	
B J Williams	
L N Ebanks OBE	- appointed 30 September 2016

None of the directors held any direct beneficial interests in the company during the year and to date.

Registered Office
Cayman National House
4-8 Hope Street
Douglas
Isle of Man
IM1 1AQ

Auditor
PricewaterhouseCoopers LLC, being eligible, has indicated its willingness to continue in office in accordance with Section 12(2) of the Isle of Man Companies Act 1982.

Approved by the Board of Directors
and signed on behalf of the Board

I M E Bancroft
Director
2 December 2016

Statement of Directors' Responsibilities in respect of the report and the financial statements

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable Isle of Man law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The directors have elected to prepare the financial statements in accordancee with International Financial Reporting Standards. The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;

- make judgements and estimates that are reasonable and prudent;

- state whether the historical cost convention and applicable International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Isle of Man Companies Acts 1931 to 2004. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the Isle of Man governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By Order of the Board

I M E Bancroft
Director
2 December 2016

Independent auditor's report to the member of Cayman National Bank and Trust Company (Isle of Man) Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Cayman National Bank and Trust Company (Isle of Man) Limited which comprise the Statement of Financial Position as at 30 September 2016 and the Statement of Comprehensive Income, Statement of Changes in Equity, and Statement of Cash Flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with applicable Isle of Man law and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report, including the opinion, has been prepared for and only for the company's member as a body in accordance with Section 15 of the Isle of Man Companies Act 1982 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 the directors, 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 financial statements give a true and fair view of the financial position of the company as at 30 September 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards; and
- the financial statements have been properly prepared in accordance with the Isle of Man Companies Acts 1931 to 2004.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Isle of Man Companies Acts 1931 to 2004 require us to report to you if, in our opinion :

- proper books of account have not been kept by the company or, proper returns adequate for our audit have not been received from branches not visited by us; or
- the company's Statement of Financial Position and Statement of Comprehensive Income are not in agreement with the books of account and returns; or
- we have not received all the information and explanations necessary for the purposes of our audit; and
- certain disclosures of directors' loans and remuneration specified by law have not been complied with.

PricewaterhouseCoopers LLC
Chartered Accountants
Douglas, Isle of Man
2 December 2016

Cayman National Bank and Trust Company (Isle of Man) Limited
Statement of Financial Position
30 September 2016

	Note	30 September 2016 £	30 September 2015 £
ASSETS			
Cash and due from banks	3	86,155,757	79,231,510
Held-to-maturity investments	5	50,573,134	22,204,624
Loans and advances to customers	6	21,416,624	20,141,044
Derivatives - foreign exchange forward contracts	10	-	30,113
Interest receivable		6,910	7,530
Accounts receivable and other assets	7	614,189	311,217
Property and equipment	8	124,853	110,696
Investments in subsidiaries	4	8	8
Intangible assets	9	66,353	79,849
TOTAL ASSETS		**158,957,828**	**122,116,591**
LIABILITIES			
Customer accounts			
Current		117,441,199	81,138,815
Savings		9,518,154	10,317,657
Fixed deposit		26,381,837	25,236,129
Total customer accounts		**153,341,190**	**116,692,601**
Interest payable		51,456	39,037
Accounts payable and other liabilities	11	221,847	187,009
Current taxation	22	11,491	19,316
Deferred revenue		140,534	163,616
Deferred taxation	22	7,271	5,241
TOTAL LIABILITIES		**153,773,789**	**117,106,820**
EQUITY			
Share capital	12	3,500,000	3,500,000
Accumulated retained earnings		1,684,039	1,509,771
TOTAL EQUITY		**5,184,039**	**5,009,771**
TOTAL LIABILITIES AND EQUITY		**158,957,828**	**122,116,591**

The financial statements on pages 4 to 31 were approved and authorised for issue by:

I M E Bancroft
Director

M B Hartley
Director

Date: 2 December 2016

The notes on pages 8 to 31 are an integral part of these financial statements.

Cayman National Bank and Trust Company (Isle of Man) Limited
Statement of Comprehensive income

	Note	2016	2015
		£	£
Interest			
Interest income	20	1,077,760	940,105
Interest expense	20	(191,451)	(319,300)
Net interest income		**886,309**	**620,805**
Other income			
Banking fees and commissions		706,681	589,813
Foreign exchange dealing		350,475	203,133
Foreign exchange revaluation		(33,158)	43,466
Trust and company management fees		932,353	1,019,861
Rental income		6,720	6,720
Depositor compensation scheme refund	15	5,736	22,978
Recharges	13	61,561	132,737
Total income		**2,916,677**	**2,639,513**
Expenses			
Personnel	21	1,436,281	1,383,269
Other operating expenses		817,530	588,196
Increase in loan impairment provision	6	60,897	19,847
Increase in provision for impairment of accounts receivable	7	54,868	1,205
Premises - rent and other maintenance expenses		223,567	221,319
Depreciation, amortisation and impairment	8, 9	46,416	50,232
Audit fees		55,743	32,968
Directors fees		33,250	33,088
Total expenses		**2,728,552**	**2,330,124**
Net profit before taxation		**188,125**	**309,389**
Income tax expense	22	(13,857)	(18,983)
Profit for the year		**174,268**	**290,406**
Total comprehensive income for the year		**174,268**	**290,406**

The notes on pages 8 to 31 are an integral part of these financial statements.

Cayman National Bank and Trust Company (Isle of Man) Limited
Statement of Changes in Equity

	Share Capital	Retained Earnings	Total
	£	**£**	**£**
Balance as at 1 October 2014	**3,500,000**	**1,407,645**	**4,907,645**
Net profit for the year	-	290,406	290,406
Other comprehensive income	-	-	-
Total comprehensive income for 2015	**-**	**290,406**	**290,406**
Transactions with owners in their capacity as owners:			
Dividends declared (note 23)	-	(188,280)	(188,280)
Balance as at 30 September 2015	**3,500,000**	**1,509,771**	**5,009,771**
Net profit for the year	-	174,268	174,268
Other comprehensive income	-	-	-
Total comprehensive income for 2016	**-**	**174,268**	**174,268**
Transactions with owners in their capacity as owners:			
Dividends declared (note 23)	-	-	-
Balance as at 30 September 2016	**3,500,000**	**1,684,039**	**5,184,039**

The notes on pages 8 to 31 are an integral part of these financial statements.

Cayman National Bank and Trust Company (Isle of Man) Limited
Statement of Cash Flows

	2016 £	2015 £
Operating activities		
Net profit before tax	188,125	309,389
Adjustments for items not involving cash:		
Depreciation and amortisation	46,416	50,232
Amortisation of premium/discount on investments held-to-maturity	636,474	155,324
Loan impairment charges	60,897	19,847
Impairment of accounts receivable	54,868	1,205
Foreign exchange effect	4,580	46,684
	991,360	**582,681**
Changes in non-cash working capital items:		
Short term placements	-	3,176,913
Interest and accounts receivable	(334,236)	(67,883)
Customer accounts	45,618,406	31,895,104
Interest and other liabilities	16,106	(23,144)
Net advances for loans and overdrafts	(1,356,569)	(2,864,025)
Current income tax paid	(19,652)	-
Net cash generated from operating activities:	**44,915,415**	**32,699,646**
Investing activities		
Purchase of additions to property and equipment	(47,077)	(45,876)
Proceeds on maturity of investments held-to-maturity	12,865,178	4,445,955
Purchase of investments held-to-maturity	(42,776,749)	(23,807,102)
Purchase of intangible assets	-	(21,602)
Net cash used in investing activities:	**(29,958,648)**	**(19,428,625)**
Financing activities		
Dividends paid	-	(188,280)
Net cash used in financing activities	**-**	**(188,280)**
Effect of exchange rate changes on cash and cash equivalents	(8,032,519)	3,697,598
Increase in cash and cash equivalents	**6,924,248**	**16,780,339**
Cash and cash equivalents at beginning of year	**79,231,510**	**62,451,171**
Cash and cash equivalents at end of year	**86,155,758**	**79,231,510**

The notes on pages 8 to 31 are an integral part of these financial statements.

1 Company and background information

Cayman National Bank and Trust Company (Isle of Man) Limited (the "Company") was incorporated on 22 February 1985 and operates subject to the provisions of Companies Law of the Isle of Man.

The principal activities of the Company are the provision of banking, custodian, and trust and corporate administration services. The Company holds a Financial Services Licence issued on 1 January 2009 under section 7 of the Financial Services Act 2008 and is authorised to undertake deposit taking, investment business, services to collective investment schemes, corporate services and trust services.

The Company is a wholly owned subsidiary of Cayman National Corporation Ltd, a company incorporated in the Cayman Islands.

The Company's registered office is Cayman National House, 4-8 Hope Street, Douglas, Isle of Man, IM1 1AQ.

2 Basis of preparation

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivatives, in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS interpretations committee applicable to companies reporting under IFRS. The preparation of financial statements in conformity with IFRS requires the use of certain accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas where assumptions and estimates are significant to the financial statements are disclosed below. The significant accounting policies adopted by the Company are as follows:

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 October 2015 and not early adopted

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling.

There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' are related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017, and earlier application is permitted. The Company is assessing the impact of IFRS 15.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a significant impact on the Company.

Subsidiaries
The Company's investments in subsidiaries are stated at cost less accumulated impairment losses.

Consolidated accounts have not been prepared as the Company is permitted by the Isle of Man Companies Act 1982 Section 4(2) (a) to not prepare consolidated financial statements as in the directors' opinion it would be of no real value to the member of the Company, it would involve disproportionate expense or undue delay and the subsidiaries are individually and collectively immaterial.

The Company is also exempt from the requirement of IAS 27 'Consolidated and separate financial statements' to prepare consolidated financial statements as it is an unlisted wholly owned subsidiary of Cayman National Corporation Ltd, a company incorporated in the Cayman Islands. The consolidated financial statements of Cayman National Corporation Ltd are available to the public and comply with IFRS.

Foreign currency translation
(a) Functional and Presentation Currency
Items included in these financial statements are measured using the currency of the primary economic environment in which the Company operates (“the Functional Currency”). The financial statements are presented in Pounds Sterling (GBP), which is the Company’s functional and presentation currency.

(b) Transactions and Balances
Revenue and expense transactions involving currencies other than the Functional Currency have been translated at exchange rates ruling at the date of those transactions. Monetary assets and monetary liabilities are translated at the closing rate in effect at the statement of financial position date. Non–monetary assets and liabilities are translated at historical rates. Gains and losses on exchange are credited or charged in the statement of comprehensive income.

Property and equipment
Property and equipment are recorded at cost less accumulated depreciation and impairment losses. Property and equipment are depreciated in accordance with 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:

Fixtures and fittings	7 - 10 years
Office equipment and software	3 - 7 years
Motor vehicles	4 years

Expected useful lives are reviewed annually. Property and equipment are reviewed annually at each statement of financial position 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 comprehensive income.

Loans and provision for loan impairment

Loans are recognised at fair value 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 Company 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 and are presented as a loss within the statement of comprehensive income. Additions to the provision are charged to expenses in order to maintain the reserve at a level deemed appropriate by management to absorb known and inherent risks in the loan portfolio. See critical accounting estimates and judgments below. When a financial asset is uncollectible, it is written off against the related allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument or, where appropriate, a shorter period. The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Accounts receivable

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of accounts receivable is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income. When an account receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the statement of comprehensive income.

Accounts payable

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from vendors. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non–current liabilities.
Accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Interest income and expense

Interest income and expense for all interest–bearing financial instruments are recognised within ‘interest income’ and ‘interest expense’ in the statement of comprehensive income using the effective interest method.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

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 an adjustment to the effective interest rate on the loan over the expected life of the related loans and recorded in interest income.

Cash and cash equivalents
For the purposes of the statement of cash flows, the Company considers all cash at banks, highly liquid money market accounts with original maturities of 90 days or less and short term placements with original maturities of 90 days or less from date of placement as cash or cash equivalents.

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

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

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

Held-to-maturity investments
The Company classifies its investments as held-to-maturity. Management determines the classification of its investments at initial recognition. Purchases and sales of investments held to maturity are recognised on trade date basis, which is the date the Company commits to purchase or sell the investment. Held-to-maturity investments are initially recognised at fair value plus transaction costs. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

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

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

Customer accounts and other financial liabilities
Customer accounts are non-derivative financial liabilities to individuals or corporate customers. Financial liabilities are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument or, where appropriate, a shorter period. The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Derivatives - foreign exchange forward contracts
Derivatives are categorised as held for trading. The Company does not designate any derivatives as hedges. They are stated at fair value, with any resultant gain or loss recognised in the statement of comprehensive income.

Intangible assets
Intangible assets with finite useful lives that are acquired are initially recognised at cost and subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimation being accounted for on a prospective basis. See note 9 for details of intangible assets held.

Dividends
Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the financial statements are authorised for issue, are disclosed as a subsequent event.

Income taxes
Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised.

Critical accounting estimates and judgments
The Company 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 Company reviews its loan portfolios to assess impairment at least on a quarterly basis or when an indicator of impairment is present. The Company measures the credit risk on loans and advances as set out in note 16 (i). In determining whether an impairment loss should be recorded in the statement of comprehensive income on these loans, the Company 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 Company or local economic conditions that correlate with defaults on assets in the Company. 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 recoverable collateral differs by +/–10 percent, the provision would change by +/– £72,586 (2015: £77,574). Additionally, the Company periodically reviews its provisions for losses incurred in the performing loan portfolio but not specifically identifiable at year end. In determining the provision for loan losses management makes certain judgements 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 consolidated statement of financial position date.

3 Cash and due from banks

Cash and due from banks comprise placements and money market accounts with original maturities of 90 days or less and nostro accounts with banks.

	2016	**2015**
	£	**£**
Current accounts	73,880,798	64,336,766
Money market accounts	2,227,694	2,040,944
Deposits with other banks	10,047,265	12,853,800
Total cash due from banks	**86,155,757**	**79,231,510**

Deposits with other banks attracted interest rates ranging from 0.28% to 0.43% (2015: 0.35% to 0.43%) during the financial year.

4 Investments in subsidiaries

The following subsidiaries provide a range of corporate services, including secretarial, nominee, trustee, and corporate directors services to third parties. None of the subsidiary companies receive any income and all expenses of such subsidiaries are borne by the Company. Assets held in a fiduciary capacity are not included in these financial statements. The subsidiaries of the Company, all of which are non-trading, are:

Entity	**% owned**	**Principal activity**	**Country of incorporation**
CNB Nominees Limited	100	Corporate services	Isle of Man
CN Director Limited	100	Corporate services	Isle of Man
Cayman National Nominees Limited	100	Corporate services	Isle of Man
Cayman National Secretarial Limited	100	Corporate services	Isle of Man
Beeston Administration Limited (dissolved 30 June 2016)	100	Corporate services	Isle of Man
Beeston Management Limited	100	Corporate services	Isle of Man

5 Held-to-maturity investments

	2016	**2015**
Held-to-maturity investments comprise:	**£**	**£**
Government, Multilateral Development Bank, and		
Public Sector Entity bonds	48,262,204	5,358,402
Corporate bonds	2,310,930	16,846,222
Total investment securities held to maturity	**50,573,134**	**22,204,624**

Net amortisation of discounts/premiums on purchase of debt securities of £195,163 (2015: £60,373) is included within interest income.

6 Loans and advances to customers

	2016	2015
	£	£
Personal	11,012,284	8,102,879
Corporate	10,860,620	12,436,889
Total	21,872,904	20,539,768
Provision for loan impairment	(456,280)	(398,724)
Total loans and advances to customers	**21,416,624**	**20,141,044**

Substantially all of the Company's loans and advances are advanced to customers in the Isle of Man and the United Kingdom. Loans to clients in other geographical areas do not exceed 10%.

Movements in the provision for loan impairment are as follows:	**2016**	**2015**
	£	£
Provision for loan impairment, beginning of year	398,724	368,682
Impairment reversed during the year	-	-
Increase in impairment charged to profit or loss	60,897	19,847
Loans and advances (written off)/recovered	(3,341)	10,195
Provision for loan impairment, end of year	**456,280**	**398,724**

At the balance sheet date each of the amounts quoted below exceeded 10% of the total of the company’s adjusted capital base:

	2016	2015
	£	£
Commercial loans (2016: 7, 2015: 4)	4,265,321	3,099,552
Retail loans (2016: 1, 2015: 1)	537,280	532,111
Cash backed loans (2016: 2, 2015: 2)	3,446,081	4,843,119
Money market accounts (2016: 2, 2015: 2)	2,227,694	2,040,944
Held-to-maturity investments (2016: 5, 2015: 6)	20,405,190	11,622,523
Derivatives - foreign exchange forward contracts (2016: 0, 2015: 1)	-	651,000

7 Accounts receivable and other assets

Accounts receivable and other assets is comprised of:	**2016**	**2015**
	£	£
Accounts receivable	212,416	229,192
Due from related parties	19,875	17,816
Prepayments	78,558	63,729
Other receivables	303,340	480
Total accounts receivable and other assets	**614,189**	**311,217**

At the year end, the accounts receivable balance is comprised of:	**2016**	**2015**
	£	£
Accounts receivable	246,815	266,501
Less provision for impairment of accounts receivable	(34,399)	(37,309)
Total accounts receivable	**212,416**	**229,192**

Movements in the provision for impairment of accounts receivable are as follows:	**2016**	**2015**
	£	£
Provision, beginning of year	37,309	44,249
Provision charged to profit or loss	54,868	1,205
Accounts receivable written off	(57,778)	(8,145)
Provision, end of year	**34,399**	**37,309**

The table below presents a summary of the accounts receivable by credit status:

	2016	2015
	£	£
Neither past due nor impaired	**46,319**	**73,402**
Past due, not impaired:		
1-3 months	56,887	33,840
3-6 months	10,644	34,105
6-9 months	94,300	14,599
9-12 months	1,333	101,886
Over 1 year	-	-
	163,164	**184,430**
Past due and impaired:		
1-3 months	-	-
3-6 months	-	-
6-9 months	-	-
9-12 months	-	-
Over 1 year	37,332	8,669
	37,332	**8,669**
Total gross accounts receivable	**246,815**	**266,501**

8 Property and equipment

	Fixtures and fittings	Office equipment & software	Motor vehicles	Total
Cost	£	£	£	£
At 1 October 2014	107,809	329,583	35,000	472,392
Additions	32,855	13,021	-	45,876
At 30 September 2015	**140,664**	**342,604**	**35,000**	**518,268**
Additions	33,218	13,859	-	47,077
At 30 September 2016	**173,882**	**356,463**	**35,000**	**565,345**
Depreciation				
At 1 October 2014	48,681	290,080	35,000	373,761
Charge for the year	13,624	20,187	-	33,811
At 30 September 2015	**62,305**	**310,267**	**35,000**	**407,572**
Charge for the year	16,007	16,913	-	32,920
At 30 September 2016	**78,312**	**327,180**	**35,000**	**440,492**
Net book value				
At 30 September 2016	95,570	29,283	-	124,853
At 30 September 2015	78,359	32,337	-	110,696

9 Intangible assets

	Total
	£
Cost	
At 1 October 2014	96,912
Additions	21,602
At 30 September 2015 and 30 September 2016	**118,514**
Amortisation and impairment	
At 1 October 2014	22,244
Charge for the year	16,421
At 30 September 2015	**38,665**
Charge for the year	13,496
At 30 September 2016	**52,161**
Carrying amount	
At 30 September 2016	66,353
At 30 September 2015	79,849

On 31 August 2013 the Company entered into an agreement with Harding Lewis Fiduciaries Limited ("HLF") for the acquisition of certain HLF fiduciary clients. The consideration payable to HLF for the acquisition of such clients was payable in three instalments over a period of twenty four months. The total amount payable was based on the level of retention of HLF clients by the Company during the consideration period, and on the gross revenues earned by the Company from such clients during that period. The amount provided in the financial statements as cost of £118,514 represents the total amount payable under the purchase and sale agreement.

Intangible assets relate to customer client lists which are amortised to the statement of comprehensive income over their useful economic life of 8 years. At the year end the remaining amortisation period is 59 months (2015: 71 months).

10 Derivatives - foreign exchange forward contracts

The table below sets out fair values, at the end of the reporting period, of currencies receivable or payable under foreign exchange forward and swap contracts entered into by the Company. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the end of the respective reporting period. The contracts are short term in nature:

	2016 Contracts fair value	2015 Contracts fair value
Foreign exchange forwards	£	£
fair values at the end of the reporting period		
GBP payable on settlement	-	(9,496,652)
EUR payable on settlement	-	(1,111,852)
USD receivable on settlement	-	10,638,617
Net fair value of foreign exchange forwards	**-**	**30,113**

Foreign exchange derivative financial instruments entered into by the Company are traded with customers on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

11 Accounts payable and other liabilities

	2016	2015
	£	£
Due to customers	5,412	5,204
Accounts payable & accrued expenses	216,435	181,805
Accounts payable and other liabilities	**221,847**	**187,009**

12 Share capital

	2016	2015
	£	£
Authorised share capital - £1 ordinary shares	3,500,000	3,500,000
Issued and fully paid - £1 ordinary shares	3,500,000	3,500,000

13 Related party balances and transactions

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

The following related party balances are with the Company's parent company, fellow subsidiaries, affiliates, or other related parties:

	2016			
	Immediate parent company	Entities under common control	Key management personnel	Other related parties
Due from related parties:	£	£	£	£
Cash and cash equivalents	-	127,995	-	-
Investment in subsidiaries	-	8	-	-
Loans and advances to customers	-	-	942,557	
Accounts receivable and other assets	-	64,406	-	-
Due to related parties:				
Customers' accounts	-	141,101	141,966	230,698

	2015			
	Immediate parent company	Entities under common control	Key management personnel	Other related parties
Due from related parties:	£	£	£	£
Cash and cash equivalents	-	25,140	-	-
Investment in subsidiaries	-	8	-	-
Loans and advances to customers	-	-	1,191,137	
Accounts receivable and other assets	-	67,917	-	-
Due to related parties:				
Customers' accounts	-	82,003	127,674	254,642

The following related party transactions were with the Company's parent company, fellow subsidiaries, affiliates, or other related parties:

	2016			
	Immediate parent company	Entities under common control	Key management personnel	Other related parties
	£	£	£	£
Interest income	-	-	29,039	-
Interest expense	-	-	973	666
Recharges	-	61,561	-	-
Management charges	-	-	-	-

	2015			
	Immediate parent company	Entities under common control	Key management personnel	Other related parties
	£	£	£	£
Interest income	-	-	19,594	-
Interest expense	-	-	779	999
Recharges	-	132,737	-	-
Management charges	25,281	-	-	-

Other related parties are entities over which a director of the Company exercises significant influence.
Key management compensation is presented below:

	2016 Expense	2016 Accrued liability	2015 Expense	2015 Accrued liability
	£	£	£	£
Short term benefits	551,626	22,344	543,829	21,154

The accrued liability relates to short-term benefits which fall due wholly within twelve months after the end of the period in which management rendered the related services.

14 Commitments

In the normal course of business there are various commitments on behalf of customers to extend credit. Commitments to extend credit totalled £305,000 at 30 September 2016 (2015: £247,000). No material losses are anticipated by management as a result of these transactions.

The Company entered into an operating lease agreement on Cayman National House, 4-8 Hope Street, Douglas, Isle of Man on 16 May 2006. The operating lease expires on 23 February 2022 and the annual commitment is £156,660 which is included in the statement of comprehensive income within premises expense.

The future aggregate minimum lease payments under non cancellable operating leases are as follows:

	2016	2015
	£	£
Due in one year	156,660	156,660
Due within two to five years	626,640	626,640
After five years	65,275	221,935
	848,575	**1,005,235**

15 Contingent liabilities

On 8 October 2008, the banking license granted to Kaupthing Singer and Friedlander (Isle of Man) Limited (“Kaupthing S&F”) was suspended and on 27 May 2009 Kaupthing S&F was placed into liquidation, thus triggering the provisions of the Scheme.

At that time, the majority of licensed deposit-taking institutions in the Isle of Man were participants of the statutory Isle of Man Depositors' Compensation Scheme under the Compensation of Depositors Regulations 2008 as amended by the Compensation of Depositors (Amendment) Regulations 2008 (“the Scheme”).

That Scheme provided compensation to a maximum of 100% of the first £50,000 or currency equivalent of individual depositors and £20,000 in any other case, subject to a maximum of £200,000,000 for all participants, in the event of the failure of a participant institution to meet its obligations to depositors.

The failure of Kaupthing S&F triggered the payment of a levy by each participant calculated at 0.125% of average deposit liabilities over such period preceding the levying of the contribution as was deemed appropriate by the Scheme Manager, with a minimum annual contribution of £35,000 and a maximum annual contribution of £350,000.

On 23 October 2010, the Depositors' Compensation Scheme Regulations 2010 ("the 2010 Scheme") were introduced. The 2010 Scheme replaces the Scheme in relation to any subsequent events, but does not change the liability of the Company under the Scheme in relation to Kaupthing S&F.

During the three years to 30 September 2011 the Company made total contributions of £147,945 to the Scheme, and these levies were expensed in the statement of comprehensive income.

The Company received an interim distribution from the Scheme of £89,115 in 2012, £21,852 in 2013, £22, 978 in 2015 and a further distribution of £5,736 in 2016. Distributions received to date represent 94% of the Company's contributions to the Scheme.

16 Financial risk management

The Company’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 Company’s aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Company’s financial performance.

The Company’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 Company 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 Company 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 and currency, both 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.

(i) 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 Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by the Banking Director.

The table below summarises the Company's exposure to interest rate risks. It includes the Company's financial instruments at carrying amounts categorised by when management expects interest rates to reset.

At 30 September 2016

	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 Years	Over 5 Years	Non interest bearing	Total
Assets	**£**	**£**	**£**	**£**	**£**	**£**	**£**
Cash and due from banks	86,155,757	-	-	-	-	-	86,155,757
Investments	3,190,772	10,416,422	14,528,199	22,437,741	-	-	50,573,134
Loans and advances	21,416,624	-	-	-	-	-	21,416,624
Other financial assets	-	-	-	-	-	542,542	542,542
Total financial assets	**110,763,153**	**10,416,422**	**14,528,199**	**22,437,741**	**-**	**542,542**	**158,688,057**
Liabilities							
Customer accounts	148,050,001	2,112,425	976,870	2,201,894	-	-	153,341,190
Other financial liabilities	-	-	-	-	-	176,414	176,414
Total financial liabilities	**148,050,001**	**2,112,425**	**976,870**	**2,201,894**	**-**	**176,414**	**153,517,604**
Total interest sensitivity Gap	(37,286,848)	8,303,997	13,551,329	20,235,847	-	366,128	5,170,453

At 30 September 2015

	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 Years	Over 5 Years	Non interest bearing	Total
Assets	**£**	**£**	**£**	**£**	**£**	**£**	**£**
Cash and due from banks	79,231,510	-	-	-	-	-	79,231,510
Investments	4,039,437	3,244,163	5,968,311	8,952,713	-	-	22,204,624
Loans and advances	20,141,044	-	-	-	-	-	20,141,044
Derivatives - foreign exchange forward contracts	30,112	-	-	-	-	-	30,112
Other financial assets	-	-	-	-	-	225,018	225,018
Total financial assets	**103,442,103**	**3,244,163**	**5,968,311**	**8,952,713**	**-**	**225,018**	**121,832,308**

Liabilities							
Customer accounts	112,227,803	961,409	1,451,495	2,051,894	-	-	116,692,601
Other financial liabilities	-	-	-	-	-	87,802	87,802
Total financial liabilities	**112,227,803**	**961,409**	**1,451,495**	**2,051,894**	**-**	**87,802**	**116,780,403**
Total interest sensitivity Gap	(8,785,700)	2,282,754	4,516,816	6,900,819	-	137,216	5,051,905

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 statement of financial position date. A 25 basis point (2015: 25 basis points) increase or decrease is used as it represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points (2015: 25 basis points) higher/lower and all other variables remained constant, the Company's profit and equity for the year ended 2016 would increase/decrease by £13,142 (2015: increase/decrease by £12,497). This is mainly attributable to the Company's exposure to interest rates in its fixed rate liabilities and variable rate loans.

(ii) Currency risk

The Company 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 generally matched with corresponding foreign currency deposits placed with correspondent banks such that the foreign currency risk is substantially economically hedged. The Company 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 Company's exposure to significant currency risks.

The following table presents, by major currency, the Company's exposure to foreign currency risk at 30 September 2016:

	GBP	**USD**	**EUR**	**CAD**	**OTHER**	**TOTAL**
	£	**£**	**£**	**£**	**£**	**£**
Assets						
Cash and due from banks	21,290,695	45,794,705	10,861,502	4,500,747	3,708,108	86,155,757
Investments	40,880,161	9,692,973	-	-	-	50,573,134
Loans and advances	21,209,390	207,234	-	-	-	21,416,624
Other financial assets	542,542	-	-	-	-	542,542
Total monetary financial assets	**83,922,788**	**55,694,912**	**10,861,502**	**4,500,747**	**3,708,108**	**158,688,057**
Liabilities						
Customer accounts						
Current	58,048,057	40,555,631	10,718,638	4,500,361	3,618,512	117,441,199
Savings	8,519,351	795,803	159,043	-	43,957	9,518,154
Fixed deposits	12,020,247	14,361,590	-	-	-	26,381,837
Sub Total	78,587,655	55,713,024	10,877,681	4,500,361	3,662,469	153,341,190
Other financial liabilities	176,414	-	-	-	-	176,414
Total monetary financial liabilities	**78,764,069**	**55,713,024**	**10,877,681**	**4,500,361**	**3,662,469**	**153,517,604**
Amounts receivable on foreign exchange forward contracts	-	-	-	-	-	
Amounts payable on foreign exchange forward contracts	-	-	-	-	-	
Net on Balance Sheet position	**5,158,719**	**(18,112)**	**(16,179)**	**386**	**45,639**	

The following table presents, by major currency, the Company's exposure to foreign currency risk at 30 September 2015:

	GBP	USD	EUR	CAD	OTHER	TOTAL
	£	£	£	£	£	£
Assets						
Cash and due from banks	31,868,007	37,671,863	6,762,824	1,839,876	1,088,940	79,231,510
Investments	21,882,880	321,744	-	-	-	22,204,624
Loans and advances	19,961,533	179,511	-	-	-	20,141,044
Other financial assets	225,018	-	-	-	-	225,018
Total monetary financial assets	**73,937,438**	**38,173,118**	**6,762,824**	**1,839,876**	**1,088,940**	**121,802,196**
Liabilities						
Depositors' accounts						
Current	38,962,707	34,275,030	5,221,417	1,840,900	838,761	81,138,815
Savings	9,526,293	640,367	113,727	-	37,270	10,317,657
Fixed deposits	10,810,484	13,946,317	280,571	-	198,757	25,236,129
Sub Total	59,299,484	48,861,714	5,615,715	1,840,900	1,074,788	116,692,601
Accounts payable and Other financial liabilities	87,802	-	-	-	-	87,802
Total monetary financial liabilities	**59,387,286**	**48,861,714**	**5,615,715**	**1,840,900**	**1,074,788**	**116,780,403**
Amounts receivable on foreign exchange forward contracts	-	10,638,617	-	-	-	
Amounts payable on foreign exchange forward contracts	9,496,652	-	1,111,852	-	-	
Net on Balance Sheet position	**5,053,500**	**(49,979)**	**35,257**	**(1,024)**	**14,152**	

Currency sensitivity analysis

The Company is mainly exposed to the currency of the United States of America (USD) and the European Union (EUR). The Company's policy is to closely match (within set limits) assets and liabilities in non–functional currencies.

If the exchange rates of the above currencies against GBP had increased/decreased by 10% at 30 September 2016, the effect on shareholder's equity resulting from changes in the statement of comprehensive income and would have been an increase/decrease of £895 (2015: £307).

Liquidity risk

Liquidity risk is the risk that the Company 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 fulfil commitments to lend.

Liquidity risk management process

The Company's liquidity management process, as carried out within the Company and monitored by a separate team, the Asset and Liability Committee (ALCO), which includes the Managing Director and the Banking Director, 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 Company maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt security maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are the key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets. The monitoring of debt security maturities are diarised and re−assessed and reported on a quarterly basis. The Board 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 30% 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 the Board of Directors or by ALCO to monitor diversification by currency, geography, provider, and product. The Company ensures that sufficient cash and due from banks and short term placements are held in order to address liquidity demands. These are the key financial assets used to mitigate liquidity risk, see Note 3 for composition of these balances.

The table below presents the cash flows payable and receivable by and to the Company for financial assets and liabilities remaining as at the statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows including interest for the disclosed liabilities. Assets are presented on a discounted basis.

As at 30 September 2016	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**1 - 5 Years**	**Over 5 Years**	**Total**
Assets	**£**	**£**	**£**	**£**	**£**	**£**
Cash and due from banks	86,155,757	-	-	-	-	86,155,757
Investments	3,190,772	10,416,422	14,528,199	22,437,741	-	50,573,134
Loans and advances	743,872	1,874,487	863,837	929,726	17,004,702	21,416,624
Other financial assets	542,542	-	-	-	-	542,542
Total financial assets	**90,632,943**	**12,290,909**	**15,392,036**	**23,367,467**	**17,004,702**	**158,688,057**
Liabilities						
Customer accounts:						
Current	117,441,199	-	-	-	-	117,441,199
Savings	9,062,928	455,226	-	-	-	9,518,154
Fixed deposits	-	23,123,850	3,196,015	61,972	-	26,381,837
Subtotal	126,504,127	23,579,076	3,196,015	61,972	-	153,341,190
Other financial liabilities	176,414	-	-	-	-	176,414
Total financial liabilities	**126,680,541**	**23,579,076**	**3,196,015**	**61,972**	**-**	**153,517,604**
Loan commitments	194,000	**-**	**-**	111,000		305,000
Net exposure	**(36,241,598)**	**(11,288,167)**	**12,196,021**	**23,194,495**	**17,004,702**	**4,865,453**

As at 30 September 2015	**1 - 3 months**	**3 - 6 months**	**6 - 12 months**	**1 - 5 Years**	**Over 5 Years**	**Total**
Assets	**£**	**£**	**£**	**£**	**£**	**£**
Cash and due from banks	79,231,510	-	-	-	-	79,231,510
Investments	4,039,437	3,244,163	5,968,311	8,952,713	-	22,204,624
Loans and advances	994,641	110,999	146,755	4,144,894	14,743,755	20,141,044
Other financial assets	225,018	-	-	-	-	225,018
Amounts receivable on foreign exchange forward contracts	10,638,617	-	-	-	-	10,638,617
Total financial assets	**95,129,223**	**3,355,162**	**6,115,066**	**13,097,607**	**14,743,755**	**132,440,813**
Liabilities						
Customer accounts:						
Current	81,138,815	-	-	-	-	81,138,815
Savings	9,892,745	424,912	-	-	-	10,317,657
Fixed deposits	21,196,242	536,497	1,451,496	2,051,894	-	25,236,129
Subtotal	112,227,802	961,409	1,451,496	2,051,894	-	116,692,601
Amounts payable on foreign exchange forward contracts	10,608,504	-	-	-	-	10,608,504
Other financial liabilities	87,802	-	-	-	-	87,802
Total financial liabilities	**122,924,108**	**961,409**	**1,451,496**	**2,051,894**	**-**	**127,388,907**
Loan commitments	125,000	-	-	122,000	-	247,000
Net exposure	**(27,919,885)**	**2,393,753**	**4,663,570**	**10,923,713**	**14,743,755**	**4,804,906**

Credit risk

The Company takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Company by failing to discharge an obligation. Credit risk is the most important risk for the Company'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 Company'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, which comprises the Managing Director and the Banking Director, who in turn report to a Committee 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 Company 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 Company will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans. The operational measurements are consistent with impairment allowances required under IAS 39, which are based on losses that have been incurred at the statement of financial position date (the 'incurred loss model') rather than expected losses. The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in the statement of comprehensive income.

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

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

While the above rating system is a recent undertaking, the ratings of the major rating agency shown in the table above are mapped to the Company's rating classes based on the Company's experience. The Company 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 Company 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 Company includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

Debt securities and other bills
For debt securities and other investments, external rating agencies such as Moody's and Standard & Poor's rating or their equivalents are used by the Company 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 receivable, prepayments, property and equipment, interest receivable (except where separately shown), and other receivables.

Management further manages credit risk by only transacting with reputable counterparties.

(ii) Risk limit control and mitigation policies
The Company manages limits and controls concentrations of credit risk wherever they are identified − in particular, to individual counterparties and Companies. It maintains a policy on large credit exposures, ensuring that concentrations of exposure by counterparty do not become excessive in relation to the Company's capital base and remain within internal and regulatory limits.

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

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

The Company 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, and customer overdrafts are generally unsecured. The principal collateral types accepted by the Company are as follows:

- In the personal sector, mortgages over residential properties.
- In the commercial real estate sector, charges over the properties being financed.

Credit–related commitments
Commitments 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 Company 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 Company 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 statement of financial position at year–end is derived from each of the eight internal rating grades. However, the majority of the impairment provision comes from the bottom three gradings. The table below shows the gross amount of the Company's statement of financial position items relating to loans and advances and the associated impairment provision for each of the Company's internal rating categories:

	2016		2015	
Bank's rating	**Loans and advances**	**Impairment provision**	**Loans and advances**	**Impairment provision**
	£	**£**	**£**	**£**
1. Excellent	19,450,036	-	18,408,292	-
2. Good	1,443,541	-	184,538	-
3. Average	-	-	654,884	-
4. Fair	-	-	148,454	-
5. Watch List	279,403	-	-	-
6. Substandard	-	-	-	-
7. Non-Accrual	665,087	456,280	1,140,317	394,928
8. Doubtful/Loss	34,837	-	3,283	3,796
	21,872,904	**456,280**	**20,539,768**	**398,724**

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

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

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

Maximum credit exposure at the year–end approximates to the carrying value of all assets, plus the off balance sheet items contained in the table below. The classes of financial instruments to which the Company is most exposed are loans and advances to customers.

The Company's cash and due from banks balances are primarily placed at institutions and/or subsidiaries of institutions with Moody's short term ratings of A–1 or above. Mortgage, consumer and other loans are presented net of provisions for loan losses. The majority of loans are secured by first mortgages on real estate. Credit risk with respect to mortgage, consumer and other loans is limited due to the large number of customers comprising the Company's customer base. The majority of other assets consist of prepayments, interest receivables and other receivables, which minimises the credit risk of the Company.

Maximum exposure to credit risk before collateral held or other credit enhancements is as follows:

	2016	**2015**
	£	**£**
Placements with banks	86,155,757	79,231,510
Loans to individuals:		
Unsecured loans	24,307	49,681
Secured loans	-	-
Mortgages	10,987,977	8,053,198
Loans to corporate entities	10,404,340	12,038,165
Held-to-maturity investments	50,573,134	22,204,624
Interest receivable	6,910	7,530
Accounts receivable	246,815	266,501
Credit risk exposures relating to off–balance sheet items are as follows:		
Loan commitments	305,000	247,000
Total as of 30 September	**158,704,240**	**122,098,209**

The above table represents a worst case scenario of credit risk exposure to the Company at 30 September 2016 and 2015, 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 carrying amounts as reported in the statement of financial position.

Loans and advances and cash and due from banks are summarised as follows:

	2016		**2015**	
	Loans and advances to customers	**Cash and due from banks**	**Loans and advances to customers**	**Cash and due from banks**
	£	**£**	**£**	**£**
Neither past due nor impaired	21,172,980	86,155,757	19,396,168	79,231,510
Individually impaired	699,924	-	1,143,600	-
Gross	**21,872,904**	**86,155,757**	**20,539,768**	**79,231,510**
Less: allowance for impairment	(456,280)	-	(398,724)	-
Net	**21,416,624**	**86,155,757**	**20,141,044**	**79,231,510**

(a) Loans and advances neither past due nor impaired

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

(b) Loans and advances individually impaired

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is £699,924 (2015: £1,143,600).

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

	Personal	Corporate	Total
30 September 2016	**£**	**£**	**£**
Individually impaired loans	-	699,924	**699,924**
Provision	-	456,280	**456,280**
Fair value of collateral	-	260,000	**260,000**

	Personal	Corporate	Total
30 September 2015	**£**	**£**	**£**
Individually impaired loans	-	1,143,600	**1,143,600**
Provision	-	398,724	**398,724**
Fair value of collateral	-	789,600	**789,600**

The fair value of real estate collateral at the end of the reporting period was estimated by indexing the values determined by the appointed property valuers or the Executive Director's at the time of either the loan inception date or most recent third party valuation for the average changes in residential real estate prices. The fair value of other real estate and other assets was determined by the Company's Executive Director's by considering the condition and location of the assets accepted as collateral.

Investment securities

The table below presents an analysis of investment securities by rating agency designation at 30 September 2016, based on Moody's ratings or their equivalent:

	£
Aaa	47,292,883
Aa1 to Aa3	1,523,986
A1 to A3	1,756,265
Lower than A3	-
Unrated	-
Total	**50,573,134**

The table below presents an analysis of investment securities by rating agency designation at 30 September 2015, based on Moody's ratings or their equivalent:

	£
Aaa	8,369,251
Aa1 to Aa3	9,462,030
A1 to A3	4,373,343
Lower than A3	-
Unrated	-
Total	**22,204,624**

Concentration of risks

Geographical sectors

The Company has a concentration of risk in respect of geographical area as both customers and assets held as collateral on loans are primarily based in the Isle of Man and United Kingdom. 1% (2015: 51%) of deposits with other banks at 30 September 2016 are placed within the Isle of Man and 99% (2015: 49%) are placed with banks in the United Kingdom and Jersey.

Customer accounts concentration
As at 30 September 2016, the Company also has concentration of risk with respect to depositors as 34% (2015: 38%) of total deposits were held by five (2015: five) depositors; two (2015: two) of the five depositors, each held in excess of 5% of total deposits with maturities of one year or less.

17 Regulatory requirements
The Company is required to meet minimum capital requirements set by the Isle of Man Financial Supervision Commission and, from 1 November 2015, by its successor the Isle of Man Financial Services Authority (each "the Regulator"). Failure to meet minimum capital requirements can initiate certain actions by the Regulator, that if undertaken could have a direct material effect on the Company’s financial statements. The Company must meet specific capital guidelines that involve quantitative measures of the assets and liabilities. The Company's capital amount and classifications are also subject to qualitative analysis by the Regulator. Quantitative measures established by the Regulator to ensure capital adequacy requires that the Company maintains a minimum amount of capital and/or a minimum ratio of risk–weighted assets to capital.

The Company's eligible capital is defined as share capital and retained earnings less intangible assets as shown on the statement of financial position. In order to maintain or adjust the capital structure, the Board of Directors may declare and pay dividends in such amounts as they think fit. There is no formal dividend payout policy and it is at the discretion of the Board of Directors to declare such dividends. The Company manages the capital structure through:

- Establishing and implementing sound and prudent policies governing the quantity and quality of capital required to support the Company; and
- through developing and implementing appropriate and effective procedures to monitor, on an ongoing basis, the Company's capital requirements, and capital position to ensure the Company meets its capital requirements, and will continue to meet its future capital requirements.

The Company's actual capital amount and the Regulator's minimum requirements are presented in the following table:

	Actual		Regulatory minimum	
	2016	**2015**	**2016**	**2015**
	£'000	**£'000**	**£'000**	**£'000**
Share capital	3,500	3,500	3,500	3,500
Eligible capital	4,944	4,827	4,081	3,883
Risk asset ratio	14.54%	14.97%	12.00%	12.00%

During the year and at the 30 September 2016 and 2015 the Company met its minimum regulatory requirements.

The Isle of Man has fully implemented Basel II and the Company remains compliant with its regulatory requirements. The Regulator continues to consider the implementation of the Basel Committee’s Basel III: A global regulatory framework for more resilient banks and banking systems.

18 Fair value
The majority of the Company’s financial assets and liabilities, with the exception of loans and certain investments, are short term, with maturities within one year, and the carrying amounts of these financial assets and liabilities approximate fair value because of the short maturity of these instruments. For personal, commercial and corporate loans, the interest is based upon variable rates, which are mainly linked to the Bank of England base rate and accordingly, the recorded amount of these financial instruments approximates their fair value. However, the lack of any active 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 Company is required to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

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

The determination of what constitutes ‘observable’ requires significant judgement by the Company. The Company considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

IFRS 13 requires the Company to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The only financial instruments carried at fair value in the financial statements are foreign exchange forward contracts. These financial instruments fall within level 1 of the hierarchy.

The carrying amounts of the Company's financial assets and liabilities carried at amortised cost at the balance sheet date approximated their fair value due to the relative short term nature of the balances and/or fact that interest rates on bonds reflect rates for new similar bonds.

There were no transfers between levels during the 2016 and 2015 financial years.

19 Fiduciary activities

The Company provides custody, trustee, and corporate administration services to third parties. Those assets that are held in a fiduciary capacity are not included in these financial statements.

20 Interest income and expense

	2016	**2015**
Interest income comprises of the following:	**£**	**£**
Cash and short term funds	132,685	144,660
Investment securities	194,346	54,881
Loans and advances	750,729	740,564
Total interest income	**1,077,760**	**940,105**

Substantially all interest expense is attributable to customer deposits.

21 Personnel

	2016	**2015**
	£	**£**
Personnel costs comprise of the following:		
Salaries and overtime	1,256,265	1,227,612
Pension	85,832	81,777
Health insurance	18,235	14,824
Bonus	45,998	37,500
Training	7,989	(679)
Other	21,962	22,235
	1,436,281	**1,383,269**

Certain employees and directors are able to voluntarily participate in the Group's Staff Share Purchase Scheme (the "Scheme"). Under the Scheme employees can contribute up to 2% of salary which is matched by the Company, and directors contribute up to 20% of their quarterly directors' fees which is also matched by the Company. The contributions are used to purchase shares in Cayman National Corporation Ltd 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 Company of this Scheme for the year was £1,989 (2015: £3,448) which is included within other personnel costs.

At 30 September 2016, the Company employed a total of 23 personnel (2015: 27).

22 Income taxes

a) Components of income tax expense

Income tax expense comprises the following:

	2016	2015
	£	£
Current tax	11,827	17,043
Deferred tax	2,030	1,940
Income tax expense for the year	**13,857**	**18,983**

b) Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rates applicable to the Company's income are 0%/10% (2015: 0%/10%). A reconciliation between the actual taxation charge is provided below.

	2016	2015
	£	£
Profit before taxation	188,125	309,389
Theoretical tax charge at statutory rate of 10% (2015: 10%)	18,813	30,939
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-taxable and non-deductible items	(1,646)	(1,001)
- Different rates of taxation applied	(5,676)	(12,895)
Prior year adjustment	336	-
Deferred tax	2,030	1,940
Income tax expense for the year	**13,857**	**18,983**

c) Deferred tax

Differences between IFRS and statutory taxation regulations in the Isle of Man give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

	2016	2015
	£	£
Deferred tax at start of year	5,241	3,301
Charged to profit or loss	2,030	1,940
Deferred tax liability	**7,271**	**5,241**

23 Dividends

	2016	2015
	£	£
Dividends declared during the year	-	188,280
Dividends paid during the year	-	(188,280)
Dividends payable at 30 September	-	-

The dividends per share in 2015 amounted to 5.38p.