

Cayman National Bank (Isle of Man) Limited
Directors' report and financial statements
for the year ended 30 September 2019

Cayman National Bank (Isle of Man) Limited

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Cayman National Bank (Isle of Man) Limited

Directors' report for the year ended 30 September 2019

Report of the directors

The directors present herewith their report and the audited financial statements of Cayman National Bank (Isle of Man) Limited (the 'Company') for the year ended 30 September 2019.

Principal activities

During the year the principal activities of the Company were the provision of banking, custodian, and trust 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 and trust services.

Results and dividends

The Company made a loss for the year ended 30 September 2019 after taxation of £226,296 (2018 profit: £393,412). No dividend was paid during the year (2018: £nil).

Subsequent events

On 18 November 2019 the Company announced that it had experienced a data hack. The Company is aware that confidential client data has been posted online and that the data released includes personal and financial data, such as the names, addresses, account numbers, and account balances of clients. At this time, the Company is not aware of any evidence of identity theft or fraud relating to clients. The Company has notified clients about the data breach by correspondence and via its website, and will continue to keep clients informed. Included in these accounts is a provision of £623,350 for the expected cost of the hack (see note 25).

Going concern

Although the Company has made a loss in the current year, the main factor contributing to this loss is the fact that the professional costs incurred to date of £623,350 have been provided for in these financial statements. Despite the fact the Company is loss making, the directors have prepared these financial statements on a going concern basis as they believe that parental support would be forthcoming from the Company's immediate parent company (Cayman National Corporation Ltd), should it be required to enable the Company to settle its liabilities as and when they fall due.

Directors

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

S J Dack (Chairman)		
M B Hartley (Deputy Chairman)		
N C Gautrey (Managing)		
J C Bierley		
G K Watterson		
B J Williams	resigned	16 January 2020
L N Ebanks OBE		
J P Woodall	appointed	1 January 2020
P O'Shea	appointed	1 December 2019

None of the directors held any direct beneficial interests in the Company during the year and to date (2018: £nil).

Registered Office

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

Directors' report for the year ended 30 September 2019

Auditor

During the year Ernst & Young LLC were appointed as auditors and replaced PricewaterhouseCoopers LLC. In accordance with Section 12(2) of the Isle of Man Companies Act 1982 Ernst & Young LLC have indicated their willingness to continue in office.

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

N C Gautrey

Director

29 January 2020

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

Company law requires the Directors to prepare financial statements for each financial year which 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 year. The Directors have elected to prepare the financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRS').

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and estimates that are reasonable and prudent; 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 which 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

N C Gautrey
Director
29 January 2020

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

Report on the audit of the financial statements

Our opinion

We have audited the financial statements of Cayman National Bank (Isle of Man) Limited for the year ended 30 September 2019 which comprise Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and the related notes 1 to 25, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 September 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs; and
- have been prepared in accordance with the requirements of the Companies Acts 1931 to 2004.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Isle of Man, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 2, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Acts 1931-2004 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our Report

This report is made solely to the company's members, as a body, pursuant to Section 15 of the Companies Act 1982. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report or for the opinions we have formed.

Ernst & Young LLC
Chartered Accountants
Isle of Man
29 January 2019

Notes

1. The maintenance and integrity of the Cayman National Bank (Isle of Man) Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changed that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the Isle of Man governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Cayman National Bank (Isle of Man) Limited
Statement of Financial Position
30 September 2019

	Note	30 September 2019 £	Restated (Note 23) 30 September 2018 £
ASSETS			
Cash and cash equivalents	2.5	66,131,327	53,460,775
Due from banks	2.5	4,231,314	-
Loans and advances to customers	4	20,617,012	22,211,309
Investment securities	5	24,402,119	33,098,409
Investment interest receivable		235,101	291,777
Property and equipment	6	237,845	190,651
Accounts receivable and other assets	7	1,075,412	906,817
Investments in subsidiaries	8	2	2
TOTAL ASSETS		116,930,132	110,159,740
LIABILITIES			
Customers' current, savings and deposit accounts	9	110,070,313	103,634,923
Interest payable		32,961	17,082
Accounts payable and other liabilities	10	356,999	401,840
Provision	25	623,350	-
Current taxation		-	30,891
Deferred taxation		16,211	7,928
TOTAL LIABILITIES		111,099,834	104,092,664
EQUITY			
Share capital	11	3,500,000	3,500,000
Net unrealised loss on investments available-for-sale		-	(22,565)
Accumulated retained earnings		2,330,298	2,589,641
TOTAL EQUITY		5,830,298	6,067,076
TOTAL LIABILITIES AND EQUITY		116,930,132	110,159,740

The financial statements on pages 6 to 51 were approved and authorised for issue by:

N C Gautrey
Director

G K Watterson
Director

Date: 29 January 2020

The notes on pages 10 to 51 are an integral part of these financial statements.

Cayman National Bank (Isle of Man) Limited
Statement of Comprehensive Income
for the year ended 30 September 2019

	Note	2019 £	2018 £
Interest income	12 a)	1,739,400	1,637,842
Interest expense	12 b)	(327,264)	(232,039)
Net interest income		1,412,136	1,405,803
Other income	12 c)	1,722,150	1,622,117
Total income		3,134,286	3,027,920
Operating expenses	12 d)	(3,393,083)	(2,487,784)
Operating (loss)/profit		(258,797)	540,136
Credit loss on financial assets	13	5,056	(115,718)
Net (loss)/profit before taxation		(253,741)	424,418
Income tax credit/(expense)	14	27,445	(31,006)
Net (loss)/profit after taxation		(226,296)	393,412

The notes on pages 10 to 51 are an integral part of these financial statements.

Cayman National Bank (Isle of Man) Limited
Statement of Changes in Equity
for the year ended 30 September 2019

	Share Capital	Retained Earnings	Net unrealised loss on investments available-for-sale	Total
	£	£	£	£
Balance as at 1 October 2017	3,500,000	2,196,229	(21,540)	5,674,689
Total comprehensive income for the year	-	393,412	(1,025)	392,387
Balance as at 30 September 2018	3,500,000	2,589,641	(22,565)	6,067,076
Net impact of adopting IFRS 9	-	(33,047)	22,565	(10,482)
Restated opening balance under IFRS 9	3,500,000	2,556,594	-	6,056,594
Total comprehensive loss for the year	-	(226,296)	-	(226,296)
Balance as at 30 September 2019	3,500,000	2,330,298	-	5,830,298

The notes on pages 10 to 51 are an integral part of these financial statements.

Cayman National Bank (Isle of Man) Limited
Statement of Cash Flows
for the year ended 30 September 2019

	2019	Restated (Note 23)
	£	2018 £
Operating activities		
Net (loss)/profit before tax	(253,741)	424,418
<i>Adjustments for items not involving cash:</i>		
Depreciation	45,972	37,018
Credit loss expense on financial assets	(5,056)	115,718
Amortisation of premium/discount on investment securities	128,736	278,587
Translation difference	3,693	(2,338)
Loss on disposal of property and equipment	2,065	-
Decrease/(increase) in advances	1,467,268	(204,129)
Increase/(decrease) in customers' deposits	8,576,550	(46,934,199)
Increase in other assets and investment receivable	(4,347,281)	(1,485,724)
Increase in other liabilities and accrued interest payable	600,212	141,916
Taxes paid	(30,890)	(44,396)
Tax rebate	35,728	-
Net cash provided by/(used in) operating activities:	6,223,256	(47,673,129)
Investing activities		
Purchase of investment securities	(21,240,588)	(11,236,434)
Redemption of investment securities	29,355,279	27,891,026
Purchase of property and equipment	(94,044)	(123,274)
Net cash generated from investing activities:	8,020,647	16,531,318
Effect of exchange rate changes on cash and cash equivalents	(1,573,351)	(1,637,482)
Increase/(decrease) in cash and cash equivalents	12,670,552	(32,779,293)
Cash and cash equivalents at beginning of year	53,460,775	86,240,068
Cash and cash equivalents at end of year	66,131,327	53,460,775

The notes on pages 10 to 51 are an integral part of these financial statements.

Cayman National Bank (Isle of Man) Limited

Notes to the financial statements for the year ended 30 September 2019

1 Company and background information

Cayman National Bank (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 were the provision of banking, custodian, and trust 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, and trust services.

The Company's immediate parent company is Cayman National Corporation Ltd, a company incorporated in the Cayman Islands. The ultimate parent company is Republic Financial Holdings Limited, a company incorporated in Trinidad and Tobago.

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

2 Significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Company are prepared in accordance with International Financial Reporting Standards (IFRS), and are stated in Pounds Sterling (GBP). These financial statements have been prepared on a historical cost basis, except for the measurement at fair value of investment securities classified as available-for-sale under IAS 39 before 1 October 2018 and at fair value through profit or loss. The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions. Actual results could differ from those estimates. Significant accounting judgements and estimates in applying the Company's accounting policies have been described in Note 3.

Although the Company has made a loss in the current year, the main factor contributing to this loss is the fact that the professional costs incurred to date of £623,350 have been provided for in these financial statements. Despite the fact the Company is loss making, the directors have prepared these financial statements on a going concern basis as they believe that parental support would be forthcoming from the Company's immediate parent company (Cayman National Corporation Ltd), should it be required to enable the Company to settle its liabilities as and when they fall due.

2.2 Accounting Developments

New accounting policies/improvements adopted

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 30 September 2018, except for the adoption of new standards and interpretations below.

Restated comparatives

On 1 October 2018 the Company reclassified financial assets with original maturities of more than 3 months as investment securities. The comparative figures have been restated to reflect this reclassification with a reconciliation provided in Note 23.

IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters (effective 1 January 2018)

The amendment deletes short-term exemptions in paragraphs E3–E7 of IFRS 1 because they have now served their intended purpose. The adoption and amendment to this standard had no impact on the Company.

Cayman National Bank (Isle of Man) Limited

Notes to the financial statements for the year ended 30 September 2019

IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice (effective 1 January 2018)

The amendment clarifies that:

- An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.
- If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

If an entity applies those amendments for an earlier period, it must disclose that fact. The adoption and amendment to this standard had no impact on the Company.

IFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2 (effective 1 January 2018)

These amendments are in relation to the classification and measurement of share-based payment transactions. The amendments address three main areas:

- The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction.
- The classification of a share-based payment transaction with net settlement features for withholding tax obligations.
- The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The adoption and amendment to this standard had no impact on the Company.

IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)

IFRS 15 replaces all existing revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers. It also provides a model for the recognition and measurement of disposal of certain non-financial assets including property, equipment and intangible assets.

There have not been any material changes to the recognition of revenue as a result of implementing this standard.

IAS 40 Investment Property: Transfers of Investment Properties - Amendments to IAS 40 (effective 1 January 2018)

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of the property does not provide evidence of a change in use. The adoption and amendment to this standard had no impact on the Company.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective 1 January 2018)

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

Cayman National Bank (Isle of Man) Limited

Notes to the financial statements for the year ended 30 September 2019

The adoption and amendment to this standard had no impact on the Company.

New and amended standards and interpretations

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018. The Company has not restated comparative information for 2018 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2018 is reported under IAS 39 and is not comparable to the information presented for 2019. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 October 2018 and are disclosed in this Note.

Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available-for-sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost (AC)
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets at FVPL

The accounting for financial liabilities remains largely the same as it was under IAS 39.

The Company's classification of its financial assets and liabilities is explained in Notes 2.5c(iii) and 2.5d. The quantitative impact of applying IFRS 9 as at 1 October 2018 is disclosed in the transition disclosures in this Note.

Changes to impairment calculation

The adoption of IFRS 9 has fundamentally changed the Company's accounting for financial asset impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Company to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

Details of the Company's impairment methodology are disclosed in Note 2.5 (g). The quantitative impact of applying IFRS 9 as at 1 October 2018 is disclosed in this Note.

IFRS 7R Financial Instruments: Disclosures Revised

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Company has adopted it, together with IFRS 9, for the year beginning 1 October 2018. Changes include transition disclosures as shown in this Note.

Reconciliations from opening to closing ECL allowances are presented in Notes 4(d) and 5(d).

Transition disclosures

The following sets out the impact of adopting IFRS 9 on the statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs.

Cayman National Bank (Isle of Man) Limited
Notes to the financial statements for the year ended 30 September 2019

A reconciliation between the carrying amounts under IAS39 to the balances reported under IFRS 9 as of 1 October 2018 is as follows:

	IAS 39 Re-classification		Re-measurement		IFRS 9	Category
	Amount		ECL	Other	Amount	
Financial assets						
Cash and due from banks	53,460,775	-	-	-	53,460,775	AC
Due from banks	-	-	-	-	-	AC
Loans and advances	22,211,309	-	(36,135)	-	22,175,174	AC
Other financial assets	1,198,594	-	-	-	1,198,594	AC
	<u>76,870,678</u>	-	<u>(36,135)</u>	-	<u>76,834,543</u>	
Investment securities						
Held-to-maturity (HTM):						
<i>To debt instruments - amortised cost</i>	28,584,778	(28,584,778)	-	-	-	AC
Available-for-sale (AFS):						
<i>To debt instruments - amortised cost</i>	4,513,632	(4,516,719)	-	3,087	-	FVPL
	<u>33,098,410</u>	<u>(33,101,497)</u>	-	<u>3,087</u>	-	
Debt - instruments - amortised cost						
<i>From investment securities - HTM</i>	-	28,584,778	-	-	28,584,778	AC
<i>From investment securities - AFS</i>	-	4,516,719	-	-	4,516,719	AC
	-	<u>33,101,497</u>	-	-	<u>33,101,497</u>	
Total Financial Assets	109,969,088	-	(36,135)	3,087	109,936,040	
Non-financial assets						
Deferred tax assets	-	-	-	-	-	
Total Adjusted Assets	109,969,088	-	(36,135)	3,087	109,936,040	
Financial liabilities						
Customer accounts	103,634,923	-	-	-	103,634,923	AC
Other financial liabilities	457,742	-	-	-	457,742	AC
Total Financial Liabilities	104,092,665	-	-	-	104,092,665	
Non-financial liabilities						
Deferred tax liabilities	-	-	-	-	-	AC
Total Adjusted Liabilities	104,092,665	-	-	-	104,092,665	

As of 1 October 2018 the Company has classified all of its previous AFS portfolio as debt instruments at amortised cost. These instruments met the solely payments of principal and interest (SPPI) criterion, were not actively traded and were held with the intention to collect cash flows and without the intention to sell.

As of 1 October 2018 the Company did not have any debt instruments that did not meet the SPPI criterion within its held-to-maturity portfolio. Therefore, it elected to classify all of these instruments as debt instruments measured at amortised cost.

IAS 39 categories include Loans and receivables (L&R), Available-for-sale (AFS), Held-to-maturity (HTM) and Fair Value through profit or loss (FVPL). IFRS 9 categories include Amortised cost (AC) and Fair Value through profit or loss (FVPL).

All classes of cash and due from banks as disclosed in Note 2.5 were reclassified from loans and receivables ("L&R") measurement category under IAS 39 to AC measurement category under IFRS 9 at the adoption date of the standard. The ECLs for cash and cash equivalents balances were insignificant.

Cayman National Bank (Isle of Man) Limited
Notes to the financial statements for the year ended 30 September 2019

All classes of short term placement balances were reclassified from L&R measurement category under IAS 39 to AC measurement category under IFRS 9.

All classes of loans and overdraft balances disclosed in Note 4 were reclassified from L&R measurement category under IAS 39 to AC measurement category under IFRS 9. The Company does not hold any loans that failed to meet the SPPI requirement.

All classes of accounts receivables' balances were reclassified from L&R measurement category under IAS 39 to AC measurement category under IFRS 9.

The impact on transition to IFRS on reserves and retained earnings is as follows:

	Share Capital £	Other Reserves £	Retained earnings £	Total £
Closing balance under IAS 39	3,500,000	(22,565)	2,589,640	6,067,075
Re-classification of investment securities from available-for-sale to amortised cost	-	22,565	-	22,565
Initial recognition of IFRS 9 ECLs	-	-	(36,135)	(36,135)
Opening balance under IFRS 9	3,500,000	-	2,553,505	6,053,505

The following table reconciles the aggregate opening financial asset impairments under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions, Contingent Liabilities, and Contingent Assets to the ECL allowance for financial assets under IFRS 9.

	Impairment under IAS 39 £	Measurement change £	ECLs under IFRS 9 £
Impairment allowance			
Loans and receivables per IAS39/financial assets at amortised cost under IFRS 9	600,854	36,135	636,989
	600,854	36,135	636,989

There were no other new standards, amendments or interpretations adopted by the Company for the first time for the financial year beginning on or after 1 October 2018 that had a material impact on the Company.

2.3 Standards in issue not yet effective

The following is a list of standards and interpretations that are not yet effective up to the date of issuance of the Company's financial statements. These standards and interpretations will be applicable to the Company at a future date and will be adopted when they become effective. The Company is currently assessing the impact of adopting these standards and interpretations.

IFRS 16 Leases (effective 1 January 2019)

IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

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Notes to the financial statements for the year ended 30 September 2019

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (effective 1 January 2019)

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately.
- The assumptions an entity makes about the examination of tax treatments by taxation authorities.
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.
- How an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

IFRS 9 Financial Instruments - Amendments to IFRS 9 (effective 1 January 2019)

The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments must be applied retrospectively; earlier application is permitted. The amendment provides specific transition provisions if it is only applied in 2019 rather than in 2018 with the rest of IFRS 9.

The amendments are intended to apply where the prepayment amount approximates to unpaid amounts of principal and interest plus or minus an amount that reflects the change in a benchmark interest rate. This implies that prepayments at current fair value or at an amount that includes the fair value of the cost to terminate an associated hedging instrument, will normally satisfy the SPPI criterion only if other elements of the change in fair value, such as the effects of credit risk or liquidity, are small. Most likely, the costs to terminate a 'plain vanilla' interest rate swap that is collateralised, so as to minimise the credit risks for the parties to the swap, will meet this requirement.

IAS 28 Investments in Associates and Joint Ventures - Amendments to IAS 28 (effective 1 January 2019)

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

In applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

Entities must apply the amendments retrospectively, with certain exceptions.

IAS 19 Employee Benefits - Amendments to IAS 19 (effective 1 January 2019)

The amendments to IAS 19 Employee Benefits address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period.

The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

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The amendments clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

This clarification provides that entities might have to recognise a past service cost, or a gain or loss on settlement, that reduces a surplus that was not recognised before. Changes in the effect of the asset ceiling are not netted with such amounts.

IAS 1 Presentation of Financial Statements and IAS 8 Accounting policies, Changes in Accounting Estimates (effective 1 January 2020)

The amendments must be applied prospectively. Early application is permitted and must be disclosed.

Although the amendments to the definition of material is not expected to have a significant impact on an entity's financial statements, the introduction of the term 'obscuring information' in the definition could potentially impact how materiality judgements are made in practice, by elevating the importance of how information is communicated and organised in the financial statements.

IFRS 3 Business combinations - Amendments to IFRS 3 (effective 1 January 2020)

The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier application is permitted and must be disclosed.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, most entities will likely not be affected by these amendments on transition. However, entities considering the acquisition of a set of activities and assets after first applying the amendments should update their accounting policies in a timely manner.

There were no other such standards, interpretations or amendments to existing standards that are expected to have a significant impact on the Company.

2.4 Improvements to International Financial Reporting Standards

The annual improvements process of the International Accounting Standards Board deals with non-urgent but necessary clarifications and amendments to IFRS. The following amendments are applicable to annual periods beginning on or after January 1, 2019:

IFRS	Subject of Amendment
IFRS 3	Business Combinations - Previously held Interests in a joint operation (effective 1 January 2019)
IFRS 11	Joint Arrangements - Previously held Interests in a joint operation (effective 1 January 2019)
IAS 12	Income Taxes - Income tax consequences of payments on financial instruments classified as equity (effective 1 January 2019)
IAS 23	Borrowing Costs - Borrowing costs eligible for capitalisation (effective 1 January 2019)

2.5 Summary of significant accounting policies

a) Cash and cash equivalents

For the purposes of the statement of cash flows, the Company considers all cash at banks, money market instruments, and cash in hand as cash or cash equivalents. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

b) Due from banks

For the purpose of presentation in the statement of cash flows, due from banks consist of cash at bank with original maturities of less than three months.

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c) Financial instruments - initial recognition

(i) Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e. the date that the Company becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Company recognises balances due to customers when funds are transferred to the Company.

(ii) Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Note 2.5(d)(i). Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount.

(iii) Measurement categories of financial assets and liabilities

From 1 October 2018 the Company classifies all of its financial assets based on the business model for managing the assets and the assets' contractual terms, measured at either:

- Amortised cost, as explained in Note 2.5d (i)
- FVPL, as explained in Note 2.5d (ii)

Before 1 October 2018 the Company classified its financial assets as loans and receivables (amortised cost), FVPL, available-for-sale or held-to-maturity (amortised cost), as explained in Notes 2.5d (iv) and 2.5 (v).

Financial liabilities, other than loan commitments and financial guarantees are measured at amortised cost.

d) Financial assets and liabilities

Under IFRS 9 (Policy applicable from 1 October 2018)

(i) Due from banks, Short term placements, Advances and Investment securities

Before 1 October 2018 Due from banks, Short term placements, Advances to customers and Investment securities included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Company intended to sell immediately or in the near term.
- That the Company, upon initial recognition, designated as at FVPL or as available-for-sale.
- For which the Company may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale.

From 1 October 2018 the Company only measures Due from banks, Advances to customers and Investment securities at amortised cost if both of the following conditions are met:

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding and
- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

The details of these conditions are outlined below.

The SPPI test

For the first step of its classification process, the Company assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

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'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL or FVOCI without recycling.

Business model assessment

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel.
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.
- The expected frequency, value and timing of sales are also important aspects of the Company's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

(ii) Financial assets at fair value through profit or loss

Financial assets in this category are those that are designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis, or
- The assets (until 30 September 2018 under IAS 39) are part of a group of financial assets under IAS 39, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Financial assets at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income, using the Effective Interest Rate (EIR), taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other income when the right to the payment has been established.

(iii) Undrawn loan commitments

Undrawn loan commitments and letters of credit are commitments under which, over the duration of the commitment, the Company is required to provide a loan with pre-specified terms to the customer. These contracts are in the scope of the ECL requirements but no ECL was determined based on historical observation of defaults.

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Notes to the financial statements for the year ended 30 September 2019

Under IAS 39 (Policy applicable before 1 October 2018)

(iv) Available-for-sale financial investments

Available-for-sale investments are securities intended to be held for an indefinite period of time, but may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Securities held as available-for-sale are initially recognised at fair value plus transaction costs and are continuously remeasured at fair value based on quoted market prices where available or discounted cash flow models. Unquoted equity instruments are recognised at cost, being the fair value of the consideration paid for the acquisition of the investment.

Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in other comprehensive income net of applicable deferred tax.

When the securities are disposed of, the related accumulated fair value adjustments are included in other income. When securities become impaired, the related accumulated fair value adjustments previously recognised in equity are included in the statement of income as an impairment expense on investment securities.

(v) Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the EIR less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in interest and similar income in the statement of income. The losses arising from impairment of such investments are recognised in the statement of income within credit loss expense.

If the Company were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Company would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

e) Reclassification of financial assets and liabilities

From 1 October 2018, the Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Company did not reclassify any of its financial assets or liabilities in 2019, except on the initial adoption of IFRS 9 as required. On adoption, the Company classified its financial assets and liabilities in accordance with its existing business models.

f) Derecognition of financial assets and liabilities

Derecognition due to substantial modification of terms and conditions

The Company derecognises a financial asset, such as a loan to a customer, to facilitate changes to the original loan agreement or arrangement due to weaknesses in the borrower's financial position and/or non-repayment of the debt as arranged and terms and conditions have been restructured to the extent that, substantially, it becomes a new loan, with the difference recognised as an impairment loss. The newly recognised loans are classified as Stage 2 for ECL measurement purposes.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Company considers the following factors:

- Change in counterparty.
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original rate, the Company records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

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Derecognition other than for substantial modification

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Company also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Company has transferred the financial asset if, and only if, either:

- The Company has transferred its contractual rights to receive cash flows from the financial asset, or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

Pass-through arrangements are transactions whereby the Company retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Company has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates.
- The Company cannot sell or pledge the original asset other than as security to the eventual recipients.
- The Company has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Company is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Company has transferred substantially all the risks and rewards of the asset, or
- The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Company considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Company has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Company's continuing involvement, in which case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Company could be required to pay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

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Notes to the financial statements for the year ended 30 September 2019

g) Impairment of financial assets (Policy applicable from 1 October 2018)

(i) Overview of the ECL principles

As described in Note 2.2 New and Amended Standards of Interpretations of IFRS 9 has fundamentally changed the Company's financial asset impairment methodologies by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 October 2018 the Company has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The Company uses the general probability of default approach when calculating ECLs. The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Company's policies for determining if there has been a significant increase in credit risk are set out in Note 15.2.5.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the size and nature of the underlying portfolio of financial instruments. The Company's policy for grouping financial assets measured on a collective basis is explained in Note 15.2.6.

The Company has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Company classifies its financial assets into Stage 1, Stage 2 and Stage 3, as described below:

Stage 1

When financial assets are first recognised, the Company recognises an allowance based on 12m ECLs. Stage 1 financial assets also include facilities where the credit risk has improved and the financial asset has been reclassified from Stage 2.

Stage 2

When a financial asset has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. Stage 2 financial assets also include facilities, where the credit risk has improved and the financial asset has been reclassified from Stage 3.

Stage 3

Financial assets considered credit-impaired (as outlined in Note 15.2). The Company records an allowance for the LTECLs.

For financial assets for which the Company has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

(ii) The calculation of ECLs

The Company calculates ECLs based on the historical measure of cash shortfalls, discounted at the instrument's coupon rate. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

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Notes to the financial statements for the year ended 30 September 2019

PD The Probability of Default is an estimate of the likelihood of default over a given period of time. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PDs is further explained in Note 15.2.4.

EAD The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

When estimating the ECLs, the Company considers among other factors the risk rating category and aging of the financial asset. Each of these is associated with different PDs, EADs and LGDs. When relevant, it also incorporates how defaulted financial assets are expected to be recovered, including the value of collateral or the amount that might be received for selling the asset.

Impairment losses and recoveries are accounted for and disclosed separately. The mechanics of the ECL method are summarised below:

Provisions for ECLs for undrawn loan commitments are assessed as set out in Note 15.2.3.

Stage 1

The 12mECL is calculated as the portion of LTECLs that represents the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Company calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD which are derived as explained under Stage 3 for loans and using Global Credit Loss tables for stranded investments and modified with management overlays when not traded.

Stage 2

When a financial asset has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECLs. The mechanics are similar to those explained above, but PDs and LGDs are estimated over the lifetime of the instrument. The LGDs are derived as explained under Stage 3 for loans and using Global Credit Loss tables for traded financial assets and modified with management overlays when not traded.

Stage 3

For financial assets considered credit-impaired (as defined in Note 15.2), the Company recognises the lifetime expected credit losses for these financial assets. The method is similar to that for Stage 2 assets, with the PD set at 100%.

In most instances, LGDs are determined on an individual financial asset basis, including discounting the expected cash flows at the original EIR. Stage 3 LGDs are grouped by similar types to provide percentage averages to be applied for Stage 1 and Stage 2 loans.

In limited circumstances within the Company, where portfolios were small and the products homogenous with minimal history of defaults, a simplified ECL approach was applied using historical loss rates and staged based on the sovereign rating of the residence of the loan.

(iii) Due from banks

Due from banks represent deposits and placements with other banks with original maturities of 90 days or less.

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(iv) Undrawn loan commitments

Loan commitments are off-balance sheet instruments and have no history of default.

(v) Forward looking information

In its ECL models, the Company considers a broad range of forward looking information as economic inputs, such as:

- Currency rates
- GDP growth
- Unemployment rates
- Industry risk
- Real estate price trends
- Commodity price inflation rates

Within the countries in which the Company operates, there was little correlation between the overall performance of the economies and historic loss trends. It was therefore not possible to directly correlate macroeconomic expectations to adjustments within the ECL models.

The Company however recognised that the inputs and models used for calculating ECLs may not always capture all characteristics and expectations of the market at the date of the financial statements. To reflect this, management adjustments or overlays are occasionally made based on judgements as temporary adjustments when such differences are significantly material.

h) Collateral valuation

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's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under IAS 39. Collateral, unless repossessed, is not recorded on the Company's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed at inception and re-assessed on a periodic basis.

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, customer overdrafts and credit cards 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 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.

To the extent possible, the Company uses active market data for valuing financial assets held as collateral. Non-financial collateral, such as real estate, is valued based on independent valuations and other data provided by third parties.

i) Collateral repossessed

The Company's accounting policy under IFRS 9 remains the same as it was under IAS 39. The Company's policy is for a repossessed asset to be sold. Assets to be sold are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date, in line with the Company's policy.

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In its normal course of business, should the Company repossess properties or other assets in its retail portfolio, it sometimes engages external agents to assist in the sale of these assets to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the statement of financial position.

j) Write-offs

The Company's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Company has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to other income.

k) Impairment of financial assets (Policy applicable before 1 October 2018)

The Company assesses, at each statement of financial position date, whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired when the carrying value is greater than the recoverable amount and there is objective evidence of impairment. The recoverable amount is the present value of the future cash flows.

(i) Advances

All non-performing and individually significant advances are individually reviewed and specific provisions made for the impaired portion based on the present value of estimated future cash flows and discounted by the original effective interest rate of the loan. The provision made is the difference between the loan balance and the discounted value of the collateral. Individually insignificant loans with similar characteristics are assessed for impairment on a group basis.

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.

When all efforts have been exhausted to recover a non-performing loan, that loan is deemed uncollectible and written off against the related provision for loan losses.

(ii) Investment securities

The Company individually assesses each investment security for objective evidence of impairment. If an impaired debt instrument has been renegotiated, interest continues to be accrued on the reduced carrying amount of the asset and is recorded as part of 'interest income'. If the fair value of the instrument increases in a subsequent year, the impairment loss is reversed through the statement of comprehensive income.

If there is objective evidence that the cost of an available-for-sale equity security may not be recovered, the security is considered to be impaired. Objective evidence that the cost may not be recovered includes qualitative impairment criteria as well as a significant or prolonged decline in the fair value below cost. The Company's policy considers a significant decline to be one in which the fair value is below the weighted-average cost by more than 30% or a prolonged decline to be one in which fair value is below the weighted-average cost for greater than one year.

If an available-for-sale equity security is impaired based upon the Company's qualitative or quantitative impairment criteria, any further declines in the fair value at subsequent reporting dates are recognised as impairments. Therefore, at each reporting period, for an equity security that is determined to be impaired based upon the Company's impairment criteria, an impairment is recognised for the difference between the fair value and the original cost basis, less any previously recognised impairments.

Any subsequent increases in value of previously impaired securities are taken to OCI.

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Notes to the financial statements for the year ended 30 September 2019

l) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. Renewal of operating leases is based on mutual agreement between parties prior to the expiration date.

m) 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.

n) Impairment of non-financial assets

Further disclosures relating to impairment of non-financial assets are also provided in the following notes:

- Disclosures for significant assumptions (Note 3)
- Premises and equipment (Note 7)

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value-in-use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value-in-use, the estimated future cash flows available to shareholders are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount.

o) Taxation

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Cayman National Bank (Isle of Man) Limited

Notes to the financial statements for the year ended 30 September 2019

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 other operating expenses.

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 expense in the period in which profits arose.

p) Foreign currency translation

(i) 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.

(ii) 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 reporting 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.

q) Revenue recognition

The effective interest rate method

Under both IFRS 9 and IAS 39, interest income and expense is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the asset) is calculated by taking into account any discount/premium on acquisition, fees and costs that are an integral part of the EIR. The Company recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognises the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk. The adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the statement of financial position with an increase or reduction in interest income. The adjustment is subsequently amortised through interest and similar income in the statement of comprehensive income.

Interest income and expense

The Company calculates interest income and expense by applying the EIR to the gross carrying amount of financial assets and liabilities other than credit-impaired assets.

When a financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Company calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets recover (as outlined in Note 15.2.3) and are no longer credit-impaired, the Company reverts to calculating interest income on a gross basis.

Fee and commission income

Unless included in the effective interest calculation, fees and commissions are recognised on an accruals basis as the service is provided. Fees and commissions not integral to effective interest arising from negotiating, or participating in the negotiation of a transaction from a third party are recognised on completion of the underlying transaction. Custody fees are recognised based on the applicable service contracts.

Cayman National Bank (Isle of Man) Limited

Notes to the financial statements for the year ended 30 September 2019

Loan origination fees for loans which are likely to be drawn down are deferred, together with incremental direct costs, and recognized as an adjustment to the effective interest rate on the loan over the average life of the related loans.

r) Fair value

The Company measures financial instruments at fair value at each reporting date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value, where fair values are disclosed, are shown in Note 18 to the financial statements.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1

Included in the Level 1 category are financial assets and liabilities that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2

Included in the Level 2 category are financial assets and liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions and for which pricing is obtained via pricing services, but where prices have not been determined in an active market. This includes financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Company's own models whereby the majority of assumptions are market observable.

Level 3

Included in the Level 3 category are financial assets and liabilities that are not quoted as there are no active markets to determine a price. These financial instruments are held at cost, being the fair value of the consideration paid for the acquisition of the investment, and are regularly assessed for impairment.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Cayman National Bank (Isle of Man) Limited

Notes to the financial statements for the year ended 30 September 2019

Where the Company's investments are not actively traded in organised financial markets, the fair value is determined using discounted cash flow analysis, which requires considerable judgement in interpreting market data and developing estimates. Accordingly, estimates contained herein are not necessarily indicative of the amounts that the Company could realise in a current market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair values. Management is not aware of any factors that would significantly affect the estimated fair value amounts.

Investments classified as 'at fair value through profit or loss' are actively traded in organised markets and fair value is determined by reference to the market price at year end or on the last trade date prior to year end.

Financial instruments where carrying value is equal to fair value:- Due to their short-term maturity, the carrying value of certain financial instruments is assumed to approximate their fair values. These include cash and cash equivalents, investment interest receivable, customers' deposit accounts, other fund raising instruments, other assets and other liabilities.

Advances are net of specific and other provisions for impairment. The fair values of advances is based on a current yield curve appropriate for the remaining term to maturity.

The fair values of the floating rate debt securities in issue is based on quoted market prices where available and where not available is based on a current yield curve appropriate for the remaining term to maturity. For balances due to banks, where the maturity period is less than one year, the fair value is assumed to equal carrying value. Where the maturity period is in excess of one year, these are primarily floating rate instruments, the interest rates of which reset with market rates, therefore the carrying values are assumed to equal fair values.

The fair value of fixed rate debt securities carried at amortised cost is estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money market interest rates for facilities with similar credit risk and maturity.

s) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Company has control. 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.

t) Equity reserves

The reserves recorded in equity on the Company's statement of financial position include:

Stated capital - Ordinary stated capital is classified within equity and is recognised at the fair value of the consideration received by the Company.

Net unrealised gains - prior to 1 October 2018, net unrealised gains comprised changes in fair value of available-for-sale investments.

u) Dividends

Dividend distributions to the Company's shareholder are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholder.

Cayman National Bank (Isle of Man) Limited

Notes to the financial statements for the year ended 30 September 2019

3 Critical accounting estimates and judgments

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Other disclosures relating to the Company's exposure to risks and uncertainties include:

- Risk management (Note 15)
- Capital management (Note 17)

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Impairment losses on financial assets (Policy applicable under IFRS 9)

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Company's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The estimation of the amount and timing of future cash flows and collateral values when determining impairment losses;
- The Company's internal credit grading model assigns grades for corporate facilities and this was the basis for Companying PDs;
- The Company's criteria for assessing if there has been a significant increase in credit risk and if so, allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The group of financial assets where ECL is assessed on a collective basis;
- Development of ECL models, including the various formulae and the choice of inputs;
- The inclusion of overlay adjustments based on judgement and future expectations.

Impairment losses and investment valuation (Policy applicable under IAS 39)

Under IAS 39, financial assets are determined impaired when the carrying value is greater than the recoverable amount and there is objective evidence of impairment. The recoverable amount is the present value of the future cash flows.

It has been the Company's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Inherent provisions on advances (Note 4d)

Inherent provisions on advances are calculated on an estimate of impairment incurred but not reported, existing in assets as at the reporting date. Estimated impairment incurred is determined by applying against performing loan balances, the average loan default rates and adjusting this balance for current economic factors that affect loan performance. An anticipated recovery rate (determined from historical average) is then applied to determine the value that is recoverable. This calculation is computed by product type.

Cayman National Bank (Isle of Man) Limited
Notes to the financial statements for the year ended 30 September 2019

Valuation of investments (Note 5)

The Company has applied IAS 39 in its classification of investment securities which requires measurement of securities at fair value. For unlisted securities, fair values are estimated using price/earnings or price/cash flow ratios which have been refined to accommodate the specific circumstances of the issuer.

Other assumptions

Deferred taxes (Note 14)

In calculating the provision for deferred taxation, management uses judgement to determine the probability that future taxable profits will be available to facilitate utilisation of temporary tax differences which may arise.

Judgements

In the process of applying the Company's accounting policies, management has made the following judgement, which has the most significant effect on the amounts recognised in the financial statements:

Property and equipment (Note 6)

Management exercises judgement in determining whether costs incurred can accrue sufficient future economic benefits to the Company to enable the value to be treated as a capital expense. Further judgement is used upon annual review of the residual values and useful lives of all capital items to determine any necessary adjustments to carrying value.

Cayman National Bank (Isle of Man) Limited
Notes to the financial statements for the year ended 30 September 2019

4 Advances

	30 September 2019			
a) Advances	Retail lending	Commercial & Corporate lending	Mortgages	Total
Performing advances	34,304	5,796,087	14,778,718	20,609,109
Non-performing advances	-	657,835	30,744	688,579
	34,304	6,453,922	14,809,462	21,297,688
Allowance for ECLs - Note 4b	(149)	(526,650)	(3,525)	(530,324)
	34,155	5,927,272	14,805,937	20,767,364
Unearned loan origination fees	-	(28,089)	(122,263)	(150,352)
Net advances	34,155	5,899,183	14,683,674	20,617,012

	1 October 2018			
	Retail lending	Commercial & Corporate lending	Mortgages	Total
Performing advances	616,992	5,273,907	16,106,882	21,997,781
Non-performing advances	-	986,091	-	986,091
	616,992	6,259,998	16,106,882	22,983,872
Allowance for ECLs - Note 4b	-	(617,920)	(19,014)	(636,934)
	616,992	5,642,078	16,087,868	22,346,938
Unearned loan origination fees	(5,609)	(42,564)	(123,590)	(171,763)
Net advances	611,383	5,599,514	15,964,278	22,175,175

b) Impairment allowance for advances to customers

The table below shows the staging of advances and the related ECLs based on the Company's criteria as explained in Note 15.2.4. Policies on whether ECL allowances are calculated on an individual or collective basis are set out in Note 15.2.6.

	30 September 2019			
	Retail lending	Commercial & Corporate lending	Mortgages	Total
Gross loans	34,304	6,425,833	14,687,199	21,147,336
Stage 1: 12 Month ECL	(149)	(3,428)	(3,525)	(7,102)
Stage 2: Lifetime ECL	-	-	-	-
Stage 3: Credit Impaired Financial Assets	-	-	-	-
- Lifetime ECL	-	(523,222)	-	(523,222)
	34,155	5,899,183	14,683,674	20,617,012

	1 October 2018			
	Retail lending	Commercial & Corporate lending	Mortgages	Total
Gross loans	611,383	6,217,434	15,983,292	22,812,109
Stage 1: 12 Month ECL	-	(17,066)	(18,002)	(35,068)
Stage 2: Lifetime ECL	-	-	(1,012)	(1,012)
Stage 3: Credit Impaired Financial Assets	-	-	-	-
- Lifetime ECL	-	(600,854)	-	(600,854)
	611,383	5,599,514	15,964,278	22,175,175

Cayman National Bank (Isle of Man) Limited

Notes to the financial statements for the year ended 30 September 2019

	1 October 2018			
	Retail lending	Commercial & Corporate lending	Mortgages	Total
Stage 1: 12 Month ECL				
ECL allowance as at 1 October 2018 under IFRS 9	-	17,066	18,002	35,068
ECL on new instruments issued during the year	71	1,224	-	1,295
Other Credit Loss movements, repayments etc.	78	(14,862)	(14,477)	(29,261)
At 30 September 2019	149	3,428	3,525	7,102
Stage 2: Lifetime ECL				
ECL allowance as at 1 October 2018 under IFRS 9	-	-	1,012	1,012
Other Credit Loss movements, repayments etc.	-	-	(1,012)	(1,012)
At 30 September 2019	-	-	-	-
Stage 3: Credit Impaired Financial Assets - Lifetime ECL				
ECL allowance as at 1 October 2018 under IFRS 9	-	600,854	-	600,854
Charge-offs and write-offs	-	(90,400)	-	(90,400)
Credit Loss Expense	-	12,768	-	12,768
At 30 September 2019	-	523,222	-	523,222
Total	149	526,650	3,525	530,324

Of the Total ECL of £530,324, 1% was on a collective basis and 99% was on an individual basis.

c) Restructured/Modified Loans

Within the retail portfolio, management will in the normal course of business modify the terms and conditions of facilities in the case of difficulties by the borrower. These modifications rarely result in an impairment loss and if it does, it is not material.

The Company occasionally makes modifications to the original terms of large commercial and corporate loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. These modifications are made only when the Company believes the borrower is likely to meet the modified terms and conditions. Indicators of financial difficulties include defaults on covenants, overdue payments or significant concerns raised. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms.

Restructured loans are carefully monitored. Restructured large commercial and corporate loans are classified as Stage 2 and amounted to £nil as at 30 September 2019.

d) Advances to customers as at 30 September 2018

Composition and aging of the loan portfolio are based on the contractual maturity date 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	
Personal	18,419	1,241,491	2,007,125	7,335,412	10,602,447
Corporate	2,402,676	158,389	2,296,768	7,523,646	12,381,479
Net advances	2,421,095	1,399,880	4,303,893	14,859,058	22,983,926
Provision for impairment					(600,854)
Deferred Revenue					(171,763)
Total Loans and Overdrafts					22,211,309

Cayman National Bank (Isle of Man) Limited
Notes to the financial statements for the year ended 30 September 2019

5 Investment securities	2019	2018
	£	£
a) Available-for-sale		
Government, Multilateral Development Bank, and Public Sector Entity bonds	-	4,513,632
Total investment securities available-for-sale	-	4,513,632
b) Held-to-maturity		
Government, Multilateral Development Bank, and Public Sector Entity bonds	-	25,214,093
Total investment securities held-to-maturity	-	25,214,093
c) Debt instruments at amortised cost		
Government, Multilateral Development Bank, and Public Sector Entity bonds	20,465,358	-
Fixed deposits	3,936,761	3,370,684
Total investment securities held-to-maturity	24,402,119	3,370,684
Total investment securities	24,402,119	33,098,409

d) Financial investment securities subject to impairment assessment

Debt instruments measured at amortised cost

	30 September 2019			
	Stage 1	Stage 2	Stage 3	Total
	12 Month ECL	Lifetime ECL	Credit impaired Lifetime ECL	
Gross exposure	24,402,119	-	-	24,402,119
ECL	-	-	-	-
Net exposure	24,402,119	-	-	24,402,119

	1 October 2018			
	Stage 1	Stage 2	Stage 3	Total
	12 Month ECL	Lifetime ECL	Credit impaired Lifetime ECL	
Gross exposure	33,101,497	-	-	33,101,497
ECL	-	-	-	-
Net exposure	33,101,497	-	-	33,101,497

Cayman National Bank (Isle of Man) Limited
Notes to the financial statements for the year ended 30 September 2019

6 Property and equipment	Fixtures and fittings	Office equipment & software	Total
Cost	£	£	£
At 1 October 2017	173,882	367,044	540,926
Additions	-	123,285	123,285
Disposals	-	(57,499)	(57,499)
At 30 September 2018	173,882	432,830	606,712
Additions	-	95,231	95,231
Disposals	-	(97,640)	(97,640)
At 30 September 2019	173,882	430,421	604,303
Depreciation			
At 1 October 2017	96,672	339,870	436,542
Charge for the year	18,112	18,906	37,018
Eliminated on disposal	-	(57,499)	(57,499)
At 30 September 2018	114,784	301,277	416,061
Charge for the year	18,094	27,878	45,972
Eliminated on disposal	-	(95,575)	(95,575)
At 30 September 2019	132,878	233,580	366,458
Net book value			
At 30 September 2019	41,004	196,841	237,845
At 30 September 2018	59,098	131,553	190,651

7 Accounts receivable and other assets

Accounts receivable and other assets is comprised of:

	2019	2018
	£	£
Accounts receivable	101,069	66,017
Due from related parties	744,463	736,910
Prepayments	110,095	102,344
Income tax receivable	35,728	-
Other receivables	84,057	1,546
Total accounts receivable and other assets	1,075,412	906,817

At the year end, the accounts receivable balance is comprised of:

	2019	2018
	£	£
Accounts receivable	101,069	73,073
Specific provisions	-	(7,056)
Allowance for expected credit losses	-	-
Total accounts receivable	101,069	66,017

The balance is made up of fees due from customers for the provision of custodian services and banking charges receivable. ECLs are considered insignificant as the Company retains control of the assets under custody at all times.

The table below shows the ageing of accounts receivable at 30 September 2019.

	Gross amount	ECL	Net amount
	£	£	£
Current	41,120	-	41,120
1-3 months	58,594	-	58,594
3-6 months	1,355	-	1,355
Total	101,069	-	101,069

Cayman National Bank (Isle of Man) Limited
Notes to the financial statements for the year ended 30 September 2019

The table below shows the ageing of accounts receivable at 30 September 2018.

	Gross amount £	Specific provision £	Net amount £
Current	18,385	-	18,385
1-3 months	41,287	-	41,287
3-6 months	4,241	-	4,241
6-9 months	2,104	-	2,104
Greater than 12 months	7,056	(7,056)	-
Total	73,073	(7,056)	66,017

8 Investments in subsidiaries

The following subsidiary provides nominee services. The subsidiary company does not receive any income and all expenses of the subsidiary are borne by the Company. Assets held in a fiduciary capacity are not included in these financial statements. The subsidiary of the Company, which is non-trading, is:

	2019 £	2018 £
Entity		
CNB Nominees Limited	2	2
Total investments in subsidiaries	2	2

CNB Nominees Limited is wholly owned and was incorporated in the Isle of Man.

9 Customers' current, savings and deposit accounts

	2019 £	2018 £
Corporate and commercial	96,646,735	93,414,791
Personal	13,423,578	10,220,132
Customers' current, savings and deposit accounts	110,070,313	103,634,923

10 Accounts payable and other liabilities

	2019 £	2018 £
Due to customers	155,689	150,516
Accounts payable & accrued expenses	824,660	251,324
Accounts payable and other liabilities	980,349	401,840

11 Share capital

	2019 £	2018 £
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

12 Operating profit

a) Interest income

	2019 £	2018 £
Advances	1,067,736	942,774
Investment securities	311,110	382,468
Liquid assets	360,554	312,600
Interest income	1,739,400	1,637,842

Cayman National Bank (Isle of Man) Limited
Notes to the financial statements for the year ended 30 September 2019

b) Interest expense	2019	2018
	£	£
Customers' current accounts	(50,939)	(40,685)
Customers' savings accounts	(59,757)	(40,204)
Customers' deposit accounts	(184,497)	(140,918)
Liquid assets	(32,071)	(10,232)
Interest expense	(327,264)	(232,039)

c) Other income	2019	2018
	£	£
Banking fees and commissions	718,169	662,735
Foreign exchange dealing	258,638	240,636
Foreign exchange revaluation	3,665	(2,338)
Rental income	7,378	6,720
Recharges	734,300	714,364
Other income	1,722,150	1,622,117

The Company shares premises and other operational expenses with Cayman National Trust Company (Isle of Man) Limited ('CNTIOM'), a company with the same immediate and ultimate beneficial owner. The costs incurred are met by the Company and recharged to CNTIOM according to their usage.

d) Operating expenses	2019	2018
	£	£
Staff costs	1,580,715	1,391,326
General administrative expenses	808,919	731,189
Provision (note 25)	623,350	-
Operating lease payments	158,531	157,592
Property related expenses	66,311	63,335
Depreciation expense	45,972	37,018
Advertising and public relations expenses	13,553	14,654
Audit fees	63,482	51,987
Directors fees	32,250	40,683
Operating expenses	3,393,083	2,487,784

13 Credit loss expense	2019	2018
	£	£
Advances (Note 4b)	12,768	99,436
Accounts receivable (Note 7)	(17,824)	16,282
Credit loss expense	(5,056)	115,718

14 Taxation	2019	2018
	£	£
Current Tax		
Income tax	-	30,891
- Adjustment in respect of current year trading losses relieved in prior year	(35,728)	-
Deferred tax		
- Relating to origination and reversal of temporary differences	8,283	115
Taxation (credit)/expense	(27,445)	31,006

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Cayman National Bank (Isle of Man) Limited
Notes to the financial statements for the year ended 30 September 2019

The income tax rates applicable to the Company's income are 0%/10%/20% (2018: 0%/10%/20%). The income tax credit/charge shown in the income statement differs from the tax charge that would apply if all profits had been charged at a rate of 10%. A reconciliation between the tax credit/charge and the accounting loss/profit multiplied by the Isle of Man Banking business rate for the years ended 31 December 2019 and 2018 is, as follows:

	2019	2018
	£	£
(Loss)/profit before taxation	(253,741)	424,418
Theoretical tax charge at statutory rate of 10% (2018: 10%)	-	42,442
Adjustment in respect of current year trading losses relieved in prior years at statutory rate of 10% (2018: 10%)	(25,374)	-
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Non-taxable and non-deductible items	(4,926)	(2,868)
- Different rates of taxation applied	4,490	(8,684)
Over accrual in prior years	(9,918)	-
Deferred tax	8,283	116
Income tax (credit)/expense for the year	(27,445)	31,006

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.

	2019	2018
	£	£
Deferred tax at start of year	7,928	7,812
Charged to profit or loss	8,283	116
Deferred tax liability	16,211	7,928

Cayman National Bank (Isle of Man) Limited

Notes to the financial statements for the year ended 30 September 2019

15 Risk management

15.1 General

The Company's prudent banking practices are founded on solid risk management. In an effort to keep pace with its dynamic environment, the Company has established a comprehensive framework for managing risks, which is continually evolving as the Company's business activities change in response to market, credit, product and other developments.

The basic principles of risk management followed by the Company include:

- Managing risk within parameters approved by the Board of Directors and Executives;
- Assessing risk initially and then consistently monitoring those risks through their life cycle;
- Abiding by all applicable laws, regulations and governance standards in every country in which we do business;
- Applying high and consistent ethical standards to our relationships with all customers, employees and other stakeholders; and
- Undertaking activities in accordance with fundamental control standards. These controls include the disciplines of planning, monitoring, segregation, authorisation and approval, recording, safeguarding, reconciliation and valuation.

The Board of Directors has ultimate responsibility for the management of risk within the Company. Acting with authority delegated by the Board, the Credit, Audit, Asset/Liability Committee and Other Risks Committees, review specific risk areas.

The Group internal audit function audits Risk Management processes throughout the Company by examining both the adequacy of the procedures and the Company's compliance with these procedures. Internal Audit discusses the results of all assessments with Management and reports its findings and recommendations to the Group Audit Committee and the Company.

The Company's activities are primarily related to the use of financial instruments. The Company accepts funds from customers and seeks to earn above average interest margins by investing in high quality assets such as government and corporate securities as well and seeks to increase these margins by lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The main risks arising from the Company's financial instruments are credit risk, interest rate and market risk, liquidity risk, foreign currency risk and operational risk. The Company reviews and agrees policies for managing each of these risks as follows:

15.2 Credit risk

Credit risk is the potential that a borrower or counterparty will fail to meet its stated obligations in accordance with agreed terms. The objective of the Company's credit risk management function is to maximise the Company's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. The effective management of credit risk is a key element of a comprehensive approach to risk management and is considered essential to the long-term success of the Company.

The Company's credit risk management process operates on the basis of a hierarchy of discretionary authorities. A Board Credit Committee, including executive and non-executive directors, is in place, with the authority to exercise the powers of the Board on all risk management decisions.

The Banking Director is accountable for the general management and administration of the Company's credit portfolio, ensuring that lendings are made in accordance with current legislation, sound banking practice and in accordance with the applicable general policy of the Board of Directors.

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The Company uses a risk rating system which groups commercial/corporate accounts and overdrafts into various risk categories to facilitate the management of risk on both an individual account and portfolio basis. Retail lending, mortgages and retail overdrafts are managed by product type. Preset risk management criteria is in place to facilitate decision-making for all categories of loans. Trend indicators are also used to evaluate risk as improving, static or deteriorating. The evaluation of the risk and trend inform the credit decision and determines the intensity of the monitoring process.

The debt securities within the Company's investment security portfolio are exposed to credit risk and are managed by investment grading or country exposure with preset exposure limits as approved by the Board of Directors. The credit quality of each individual security is assessed based on the financial strength, reputation and market position of the issuing entity and the ability of that entity to service the debt.

The Company avoids exposure to undue concentrations of risk by placing limits on the amount of risk accepted from a number of borrowers engaged in similar business activities, or activities in the same geographic region or with similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Such risks are controlled and monitored on a revolving basis and are subject to an annual or more frequent review. Limits on the level of credit risk by product, client and geography are approved by the Board of Directors.

The Company's credit control processes emphasise early detection of deterioration and prompt implementation of remedial action and where it is considered that recovery of the outstanding balance may be doubtful or unduly delayed, such accounts are transferred from performing to non-performing status.

15.2.1 Analysis of risk concentration

The Company's concentrations of risk are managed by client/counterparty, geographical region and industry sector. The table below shows the Company's maximum exposure to any client or counterparty before taking into account collateral or other credit enhancements.

	2019	2018
	£	£
Due from banks	4,231,314	-
Advances	20,617,012	22,211,309
Investment securities	24,402,119	33,098,409
Investment interest receivable	235,101	291,777
Total	49,485,546	55,601,495
Undrawn commitments	419,000	191,000
Total	419,000	191,000
Total credit risk exposure	49,066,546	55,410,495

Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

a) Industry sectors

The following table shows the risk concentration by industry for the components of the statement of financial position. Additional disclosures for credit quality and the maximum exposure for credit risk per categories based on the Company's internal credit rating system and year-end stage classification are further disclosed in Notes 4d.

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	2019	2018
	£	£
Financial sector	1,369,437	288,233
Real estate	18,751,038	21,391,629
Manufacturing	462,382	497,632
Personal	34,155	33,815
	20,617,012	22,211,309

Credit exposure with state-owned bodies have been categorised according to the service offered by the organisation rather than within 'Government and Central Government Bodies'.

b) Geographical sectors

The Company's maximum credit exposure, after taking account of credit loss provisions established but before taking into account any collateral held or other credit enhancements, can be analysed by the following geographical regions based on the country of domicile of its counterparties:

	2019	2018
	£	£
Isle of Man	11,677,959	14,679,779
United Kingdom	8,939,053	7,531,530
	20,617,012	22,211,309

15.2.2 Impairment assessment (Policy applicable from 1 October 2018)

Financial asset provisions are reviewed quarterly in accordance with established guidelines and recommended provisions arising out of this review are submitted to the Board for approval. Non-performing debts recommended for write-off are also reviewed quarterly and action taken in accordance with prescribed guidelines. The Company's impairment assessment and measurement approach is set out below.

15.2.3 Default and recovery

The Company considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in cases when the borrower becomes 90 days past due on its contractual payments.

As a part of a qualitative assessment of whether a customer is in default, the Company also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Company carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate.

It is the Company's policy to consider a financial instrument as 'recovered' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once recovered depends on the updated credit grade at the time of recovery.

15.2.4 The Company's internal rating and PD estimation process

Commercial and corporate lending and mortgages

The Company has an independent internal credit risk department. Risk ratings were selected as cohort for PD analyses. A vintage approach was applied looking at the movements of ratings over a period of time. Historical PDs were developed and there being no correlation between macroeconomic trends and historical default rates, management applied judgemental overlays based on expectations. As previously mentioned, LGD percentage estimates were developed based on historical loss trends for non-performing loans which are assessed on an individual level including estimating the present value of future cash flows. EAD equals the loan balance outstanding plus accrued interest.

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Retail lending and mortgages

Product types were selected as cohort for PD analyses for retail lending and retail mortgages. A vintage approach was applied looking at the number of defaults by segment over a period of time. Historical PDs were developed and there being no correlation between macroeconomic trends, management applied judgemental overlays based on expectations. LGD percentage estimates were developed based on historical loss trends for non-performing loans which are assessed on both an individual and collective level. EAD equals the loan balance outstanding plus accrued interest.

Management judgementally applied overlays as required as there was no noted correlation between macroeconomic trends and historical default rates.

Investment securities

PDs and LGDs for traded instruments were based on the global credit ratings assigned to the instruments or the country for sovereign exposures. PDs and LGDs for non-traded instruments were based on one notch below the credit rating of the sovereign in which the instrument is issued or on company ratings where they existed. Management applied judgemental overlays on local debt instruments. EAD equals the amortised security balance plus accrued interest.

Treasury bills and Due from banks

Due from banks are short term funds placed with correspondent banks and the Company therefore considers the risk of default to be very low. These facilities are highly liquid and without restriction and based on management's review of the underlying instruments the ECL on these instruments were determined to be zero.

Undrawn loan commitments

Loan commitments are off-balance sheet instruments and have no history of default. As a result, the Company considers the risk of default to be very low and the ECLs on these instruments were determined to be zero.

15.2.5 Significant increase in credit risk

The Company continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Company assesses whether there has been a significant increase in credit risk since initial recognition.

The Company also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets (as set out in Note 15.2.6), the Company applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

15.2.6 Grouping financial assets measured on a collective basis

As explained in Note 2.5g (i) dependent on the factors below, the Company calculates ECLs either on a collective or an individual basis. Asset classes where the Company calculates ECL on an individual basis include:

- All Stage 3 assets, regardless of the class of financial assets
- The commercial and corporate lending and overdraft portfolio
- The mortgage portfolio
- The retail lending portfolio

Asset classes where the Company calculates ECL on a collective basis include:

- The retail overdraft portfolio
- Past due not yet relegated credit facilities

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15.2.7 Analysis of gross carrying amount and corresponding ECLs are as follows:

	2019	2018
	%	%
Advances		
Stage 1	97%	94%
Stage 2	0%	2%
Stage 3	3%	4%
	100%	100%

	Retail lending	Commercial & Corporate lending	Mortgages	Total
Stage 1 at 30 September 2019				
Gross loans	34,304	5,767,998	14,688,050	20,490,352
ECL	(149)	(3,428)	(3,525)	(7,102)
	34,155	5,764,570	14,684,525	20,483,250
ECL as a % of Gross loans	0.43%	0.06%	0.02%	0.03%
Stage 1 at 1 October 2018				
Gross loans	611,383	5,231,343	15,534,916	21,377,642
ECL	-	(17,066)	(18,002)	(35,068)
	611,383	5,214,277	15,516,914	21,342,574
ECL as a % of Gross loans	0.00%	0.33%	0.12%	0.16%
Stage 2 at 30 September 2019				
Gross loans	-	-	-	-
ECL	-	-	-	-
	-	-	-	-
ECL as a % of Gross loans	0.00%	0.00%	0.00%	0.00%
Stage 2 at 1 October 2018				
Gross loans	-	-	413,330	413,330
ECL	-	-	(1,012)	(1,012)
	-	-	412,318	412,318
ECL as a % of Gross loans	0.00%	0.00%	0.24%	0.24%
Stage 3 at 30 September 2019				
Gross loans	-	657,835	-	657,835
ECL	-	(523,222)	-	(523,222)
	-	134,613	-	134,613
ECL as a % of Gross loans	0.00%	79.54%	0.00%	79.54%
Stage 3 at 1 October 2018				
Gross loans	-	986,091	35,046	1,021,137
ECL	-	(600,854)	-	(600,854)
	-	385,237	35,046	420,283
ECL as a % of Gross loans	0.00%	60.93%	0.00%	58.84%

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15.3 Liquidity risk

Liquidity risk is defined as the risk that the Company either does not have sufficient financial resources available to meet all its obligations and commitments as they fall due, or can access these only at excessive cost.

Liquidity management is therefore primarily designed to ensure that funding requirements can be met, including the replacement of existing funds as they mature or are withdrawn, or to satisfy the demands of customers for additional borrowings. Liquidity management focuses on ensuring that the Company has sufficient funds to meet all of its obligations.

The Asset and Liability Committee (ALCO), which includes the Managing Director and the Banking Director are responsible for the Company's liquidity management process, which 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 sometimes repay earlier; certain term deposits, which are shown at contractual maturity but which are sometimes cashed before their contractual maturity and certain investments which may have call or prepayment features.

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.

15.3.1 Analysis of financial assets and liabilities by remaining contractual maturities

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. As these balances include interest to be paid over the remaining life of the liabilities the balances are greater than the carrying amounts on the statement of financial position. Assets are presented on a discounted basis.

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At 30 September 2019	1 - 3 months £	3 - 6 months £	6 - 12 months £	1 - 5 Years £	Over 5 Years £	Total £
ASSETS						
Cash and cash equivalents	66,131,327	-	-	-	-	66,131,327
Due from banks	4,231,314	-	-	-	-	4,231,314
Loans and advances to customers	165,938	209,237	733,999	2,921,314	16,586,524	20,617,012
Investment securities	9,637,409	9,402,585	4,752,270	609,855	-	24,402,119
Other financial assets	1,548,360	-	-	-	-	1,548,360
TOTAL ASSETS	81,714,348	9,611,822	5,486,269	3,531,169	16,586,524	116,930,132

	£	£	£	£	£	£
LIABILITIES						
Customers' current, savings and deposit accounts	103,047,669	5,414,335	1,516,769	168,404	-	110,147,177
Other liabilities	996,560	-	-	-	-	996,560
Total liabilities	104,044,229	5,414,335	1,516,769	168,404	-	111,143,737
Acceptances	403,000	-	-	16,000	-	419,000
Net exposure	(22,732,881)	4,197,487	3,969,500	3,346,765	16,586,524	5,367,395

At 30 September 2018	1 - 3 months £	3 - 6 months £	6 - 12 months £	1 - 5 Years £	Over 5 Years £	Total £
ASSETS						
Cash and cash equivalents	53,460,775	-	-	-	-	53,460,775
Due from banks	-	-	-	-	-	-
Loans and advances to customers	388,251	506,744	1,238,058	1,389,477	18,688,779	22,211,309
Investment securities	10,977,867	2,812,365	10,028,237	9,279,940	-	33,098,409
Other financial assets	1,389,247	-	-	-	-	1,389,247
TOTAL ASSETS	66,216,140	3,319,109	11,266,295	10,669,417	18,688,779	110,159,740

	£	£	£	£	£	£
LIABILITIES						
Customers' current, savings and deposit accounts	99,032,829	1,885,824	2,208,771	591,099	-	103,718,523
Other liabilities	303,904	-	-	-	-	303,904
Total liabilities	99,336,733	1,885,824	2,208,771	591,099	-	104,022,427
Acceptances	175,000	-	-	16,000	-	191,000
Net exposure	(33,295,593)	1,433,285	9,057,524	10,062,318	18,688,779	5,946,313

The Company expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

15.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

15.4.1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Company has an Asset/Liability Committee which reviews on a quarterly basis the non-credit and non-operational risk for the Company and each subsidiary. Asset and Liability management is a vital part of the risk management process of the Company. The mandate of the Committee is to approve strategies for the management of the non-credit risks of the Company, including interest rate, foreign exchange, liquidity and market risks.

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The primary tools currently in use are gap analysis, interest rate sensitivity analysis and exposure limits for financial instruments. The limits are defined in terms of amount, term, issuer, depositor and country. The Company is committed to refining and defining these tools to be in line with international best practice.

The table below summarises the Company's exposure to interest rate risks. Interest on financial instruments classified as floating is repriced at intervals of less than one year while interest on financial instruments classified as fixed is fixed until the maturity of the instrument. Other financial instruments are categorised by when management expects interest rates to reset.

At 30 September 2019

	1 - 3 months £	3 - 6 months £	6 - 12 months £	1 - 5 Years £	Over 5 Years £	Non interest bearing £	Total £
Assets							
Cash and cash equivalents	66,131,327	-	-	-	-	-	66,131,327
Due from banks	4,231,314	-	-	-	-	-	4,231,314
Investment securities	9,637,409	9,402,585	4,752,270	609,855	-	-	24,402,119
Loans and advances	20,617,012	-	-	-	-	-	20,617,012
Other financial assets	26,279	-	-	-	-	1,174,141	1,200,420
Total assets	100,643,341	9,402,585	4,752,270	609,855	-	1,174,141	116,582,192
Liabilities							
Customer accounts	103,035,086	5,393,701	1,476,470	165,056	-	-	110,070,313
Other financial liabilities	-	-	-	-	-	869,587	869,587
Total liabilities	103,035,086	5,393,701	1,476,470	165,056	-	869,587	110,939,900
Sensitivity gap	(2,391,745)	4,008,884	3,275,800	444,799	-	304,554	5,642,292

At 30 September 2018

Assets							
Cash and cash equivalents	53,460,775	-	-	-	-	-	53,460,775
Due from banks	-	-	-	-	-	-	-
Investment securities	10,977,867	2,812,365	10,028,237	9,279,940	-	-	33,098,409
Loans and advances	22,211,309	-	-	-	-	-	22,211,309
Other financial assets	-	-	-	-	-	824,184	824,184
Total assets	86,649,951	2,812,365	10,028,237	9,279,940	-	824,184	109,594,677
Liabilities							
Customer accounts	99,014,464	1,875,451	2,179,169	565,839	-	-	103,634,923
Other financial liabilities	-	-	-	-	-	-	-
Total liabilities	99,014,464	1,875,451	2,179,169	565,839	-	-	103,634,923
Sensitivity gap	(12,364,513)	936,914	7,849,068	8,714,101	-	824,184	5,959,754

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An interest rate sensitivity analysis was performed to determine the impact on net profit and equity of a reasonably possible change in the interest rates prevailing as at 30 September, with all other variables held constant. The impact on net profit is the effect of changes in interest rates on the floating interest rates of financial assets and liabilities. Prior to 1 October 2018, the impact on net unrealised gains is the effect of changes in interest rates on the fair value of available-for-sale financial assets. This impact is illustrated on the following table:

If interest rates had been 50 basis points (2018: 50 basis points) higher/lower and all other variables remained constant, the Company's profit and equity for the year ended 2019 would increase/decrease by £28,211 (2018: increase/decrease by £29,799). This is mainly attributable to the Company's exposure to interest rates in its fixed rate liabilities and variable rate loans.

15.4.2 Currency rate risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. 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 also monitors its foreign currency position for both overnight and intra-day transactions.

Changes in foreign exchange rates affect the Company's earnings and equity through differences on the re-translation of the net assets, from the foreign currency to GBP. Gains or losses on related foreign currency funding are recognised in the statement of income.

The principal currencies of the Company are USD, GBP, CAD, EUR, JPY and CHF.

The tables below indicate the currencies to which the Company had significant exposure at 30 September on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis also calculates the effect of a reasonably possible movement of each currency rate against GBP, with all other variables held constant.

2019	GBP	USD	EUR	CAD	OTHER	TOTAL
	£	£	£	£	£	£
Assets						
Cash and cash equivalents	14,876,269	26,936,287	7,833,658	995,524	15,489,589	66,131,327
Due from banks	3,001,656	-	-	1,229,658	-	4,231,314
Loans and advances to customers	19,081,644	1,535,368	-	-	-	20,617,012
Investment securities	17,130,390	7,271,729	-	-	-	24,402,119
Investment interest receivable	197,652	37,449	-	-	-	235,101
Total financial assets	54,287,611	35,780,833	7,833,658	2,225,182	15,489,589	115,616,873
Liabilities						
Customers' current, savings and deposit accounts	47,768,019	36,665,679	7,929,442	2,221,422	15,485,751	110,070,313
Interest payable	9,100	23,166	-	695	-	32,961
Total financial liabilities	47,777,119	36,688,845	7,929,442	2,222,117	15,485,751	110,103,274
Net currency risk exposure	6,510,492	(908,012)	(95,784)	3,065	3,838	
Reasonably possible change in currency rate	0%	1%	1%	1%	1%	
Effect on profit before tax	-	(9,080)	(958)	31	38	

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2018	GBP	USD	EUR	CAD	OTHER	TOTAL
Assets	£	£	£	£	£	£
Cash and cash equivalents	29,880,042	6,437,122	5,869,233	1,597,119	9,677,259	53,460,775
Due from banks	-	768,909	-	-	-	768,909
Loans and advances to customers	21,463,324	747,985	-	-	-	22,211,309
Investment securities	18,177,954	14,151,546	-	-	-	32,329,500
Investment interest receivable	219,016	72,761	-	-	-	291,777
Total financial assets	69,740,336	22,178,323	5,869,233	1,597,119	9,677,259	109,062,270
Liabilities						
Customers' current, savings and deposit accounts	64,408,776	22,064,751	5,927,943	1,589,175	9,644,278	103,634,923
Interest payable	6,138	10,944	-	-	-	17,082
Total financial liabilities	64,414,914	22,075,695	5,927,943	1,589,175	9,644,278	103,652,005
Net currency risk exposure	5,325,422	102,628	(58,710)	7,944	32,981	
Reasonably possible change in currency rate	0%	1%	1%	1%	1%	
Effect on profit before tax	-	1,026	(587)	79	330	

15.5 Operational risk

The growing sophistication of the financial industry has made the Company's operational risk profile more complex. Operational risk is inherent within all business activities and is the potential for financial or reputational loss arising from inadequate or failed internal controls, operational processes or the systems that support them. It includes errors, omissions, disasters and deliberate acts such as fraud.

The Company recognises that such risk can never be entirely eliminated and manages the risk through a combination of systems and procedures to monitor and document transactions. The Company's operational risk department oversees this and where appropriate, risk is transferred by the placement of adequate insurance coverage.

The Company has developed contingency arrangements and established facilities to support operations in the event of disasters. Independent checks on operational risk issues are also undertaken by the internal audit function.

16 Related party balances and transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions. A number of banking transactions are entered into with related parties in the normal course of business. These transactions are both secured and unsecured and were carried out on commercial terms and conditions, at market rates.

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

	2019	2018
	£	£
Advances, investments and other assets		
Directors and key management personnel	540,277	607,571
Cayman National Bank Ltd	45,730	51,485
Cayman National Securities Limited	12,103	12,133
Cayman National Trust Company (Isle of Man) Limited	744,464	736,911
CNB Nominees Limited	2	2
	1,342,576	1,408,102

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Deposits and other liabilities

Directors and key management personnel	232,040	69,646
Cayman National Trust Company (Isle of Man) Limited	1,042,471	1,038,760
	<u>1,274,511</u>	<u>1,108,406</u>

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

Interest and other income

Directors and key management personnel	17,739	18,009
Cayman National Trust Company (Isle of Man) Limited	734,300	714,364
	<u>752,039</u>	<u>732,373</u>

Interest and other expense

Directors and key management personnel	1,697	900
Cayman National Trust Company (Isle of Man) Limited	1,539	-
	<u>3,236</u>	<u>900</u>

Key management compensation

Short-term benefits	878,821	727,151
	<u>878,821</u>	<u>727,151</u>

17 Capital management

The Company is required to meet minimum capital requirements set by the Isle of Man Financial Services Authority ("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	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Share capital	3,500	3,500	3,500	3,500
Eligible capital	5,830	5,675	4,316	4,003
CET 1 ratio	18.91%	19.85%	12.00%	12.00%
Tier 1 ratio	18.91%	19.85%	12.00%	12.00%
Total capital ratio	18.91%	19.85%	12.00%	12.00%

During the year and at the 30 September 2019 and 2018 the Company met its minimum regulatory requirements.

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The Isle of Man has fully implemented Basel III and the Company remains compliant with its regulatory requirements.

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

	2019	2018
	£	£
Commercial loans (2019: 5, 2018: 5)	4,477,957	4,475,668
Retail loans (2019: 1, 2018: 1)	684,896	577,568
Cash backed loans (2019: 1, 2018: 1)	1,369,437	741,300
Money market accounts (2019: 2, 2018: 2)	2,301,060	2,189,378
Investment securities (2019: 5, 2018: 6)	20,465,357	28,982,294

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 company does not have any financial instruments carried at fair value in the financial statements.

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 2019 and 2018 financial years.

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19 Commitments

In the normal course of business there are various commitments on behalf of customers to extend credit. Commitments to extend credit totalled £419,000 at 30 September 2019 (2018: £191,000). 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:

	2019	2018
	£	£
Due in one year	156,660	156,660
Due within two to five years	221,935	378,595
After five years	-	-
	378,595	535,255

20 Contingent liabilities

The Company is licensed by the Isle of Man Financial Services Authority to conduct deposit-taking activities. All retail deposit-taking institutions in the Isle of man are members 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').

The Scheme provides 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.

Such a failure triggers 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 deemed appropriate by the Scheme Manager, with a minimum annual contribution of £35,000 and a maximum annual contribution of £350,000. During the year the Company paid contributions of £nil (2018: £nil).

21 Fiduciary activities

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

22 Employee benefits

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 £250 (2018: £1,500) which is included within other personnel costs.

The Company's employees participate in a defined contribution scheme. A defined contribution scheme is a pension scheme under which the Company pays fixed contributions into a separate entity. The Company has no further payment obligations once the contributions have been paid. Payments to defined contribution retirement schemes are charged as and when the service is provided by the employee. The Company does not operate any defined benefit schemes.

At 30 September 2019, the Company employed a total of 29 personnel (2018: 28).

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23 Restated comparatives

A reconciliation between the classification of financial assets at 30 September 2018 and 1 October 2018 after the changes described in Note 2.5 is as follows:

	30 September 2018	Reclassification	1 October 2018
Financial assets			
Cash and cash equivalents	56,062,550	(2,601,775)	53,460,775
Short term placements	768,909	(768,909)	-
Investment securities	29,999,792	3,098,617	33,098,409
Investment interest receivable	-	291,777	291,777
Interest receivable	19,710	(19,710)	-
	<u>86,850,961</u>	<u>-</u>	<u>86,850,961</u>

24 Subsequent events

As announced by the Company on 18 November 2019, the Company experienced a data hack. The Company is aware that confidential client data has been posted online. The confidential data released online includes personal and financial data, such as the names, addresses, account numbers, and account balances of clients. At this time, the Company is not aware of any evidence of identity theft or fraud relating to clients. The Company has notified clients about the data breach by correspondence and via its website, and will continue to keep clients informed. The Company has also notified the Isle of Man Financial Services Authority and the Isle of Man Information Commissioner and continues to keep all relevant parties updated and informed.

On 12 December 2019 the Company increased its authorised share capital from £3,500,000 to £20,000,000.

No other subsequent events requiring disclosure have occurred since 30 September 2019.

25 Provision

A provision has been created in these financial statements in relation to professional fees associated with the data hack that has been disclosed in note 24. The costs provided for represent the known costs that can be reliably measured and that have been incurred since the data hack was discovered. The Company is potentially liable to additional professional costs as well as fines and penalties but as these cannot be reliably measured at this time, no provision for these costs has been made in these financial statements.

	2019
	£
Opening balance	-
Additions during the year	623,350
Closing balance	623,350