

CAYMAN NATIONAL PENSION FUND

FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

CAYMAN NATIONAL PENSION FUND

FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

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Independent auditor's report

To the Board of Trustees solely in its capacity as trustees of Cayman National Pension Fund

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Cayman National Pension Fund (the "Plan") as at September 30, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Plan's financial statements comprise:

- the statement of net assets available to participants for benefits as at September 30, 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in net assets available to participants for benefits for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Plan in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines 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, management is responsible for assessing the Plan'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 management either intends to liquidate the Plan or to cease operations, or has no realistic alternative but to do so.



Independent auditor's report (continued)

To the Board of Trustees solely in its capacity as trustees of Cayman National Pension Fund

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 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Plan's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Plan to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Independent auditor's report (continued)

To the Board of Trustees solely in its capacity as trustees of Cayman National Pension Fund

Other Matter

This report, including the opinion, has been prepared for and only for the Plan in accordance with the terms of our engagement letter and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

February 25, 2019

CAYMAN NATIONAL PENSION FUND

STATEMENT OF NET ASSETS AVAILABLE TO PARTICIPANTS FOR BENEFITS

AS AT SEPTEMBER 30, 2018

(Expressed in Cayman Islands dollars)

	<u>September 30,</u>	<u>2017</u>
	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents (Notes 3 and 9)	467,351	1,417,681
Due from broker (Note 9)	486,731	553,292
Financial assets at fair value through profit or loss (Notes 4 and 12)	63,830,552	56,311,279
Loans and receivables (Note 5)	1,869,882	1,778,796
Dividend receivables	82,354	78,781
Other receivables	<u>91</u>	<u>-</u>
Total assets	<u>66,736,961</u>	<u>60,139,829</u>
LIABILITIES		
Accounts payable and accrued expenses (Note 6)	156,093	146,146
Prepaid contributions	487,582	373,264
Redemptions payable	<u>202,365</u>	<u>192,338</u>
Liabilities (excluding net assets available to participants for benefits)	<u>846,040</u>	<u>711,748</u>
Net assets available to participants for benefits (Note 8)	<u>\$65,890,921</u>	<u>\$59,428,081</u>
Net asset value per unit (Note 8)		
Participating Units		
\$63,284,287 / 24,253,324.28 units (2017: \$57,208,266 / 24,426,031.36 units)	\$ <u>2.609</u>	\$ <u>2.342</u>
RSA Side Pocket Units		
\$2,606,634 / 2,478,611.39 units (2017: \$2,219,815 / 2,112,245.98 units)	\$ <u>1.052</u>	\$ <u>1.051</u>

Approved for issuance on behalf of Cayman National Fund Services Ltd. by:

Jill Anderson

Susan Levy-Elliott

February 25, 2019

February 25, 2019

Approved for issuance on behalf of the Cayman National Pension Fund's Board of Trustees by:

Karen Baptiste

Ian Phillips

February 25, 2019

February 25, 2019

The accompanying notes form an integral part of these financial statements.

CAYMAN NATIONAL PENSION FUND
STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED SEPTEMBER 30, 2018

(Expressed in Cayman Islands dollars)

	Year ended September 30,	
	<u>2018</u>	<u>2017</u>
Revenue		
Interest income	414,402	269,531
Dividend income	808,243	701,157
Net realised gains on investments	21,214	543,624
Net realised gains/ (losses) on foreign currency transactions	230	(155)
Net change in unrealised appreciation on investments	<u>5,474,365</u>	<u>5,493,329</u>
Total revenue	<u>6,718,454</u>	<u>7,007,486</u>
Expenses		
Administrator fees (Note 7)	362,166	329,996
Audit fees	33,779	25,781
Government fees	63,000	60,360
Trustee fees	2,250	2,250
Sundry	<u>20,422</u>	<u>16,509</u>
Total expenses	<u>481,617</u>	<u>434,896</u>
Withholding tax on dividends	<u>201,963</u>	<u>184,292</u>
Net increase in net assets available to participants for benefits/net comprehensive income	<u>\$ 6,034,874</u>	<u>\$ 6,388,298</u>

The accompanying notes form an integral part of these financial statements.

CAYMAN NATIONAL PENSION FUND

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE TO PARTICIPANTS FOR BENEFITS

YEAR ENDED SEPTEMBER 30, 2018

(Expressed in Cayman Islands dollars)

	Year ended September 30,	
	<u>2018</u>	<u>2017</u>
Net increase in net assets available to participants for benefits/net comprehensive income	<u>6,034,874</u>	<u>6,388,298</u>
Contributions and transfers in		
Employers - contributions and transfers in	2,004,354	2,116,831
Employees - contributions and transfers in	<u>2,267,959</u>	<u>2,151,278</u>
Total contributions and transfers in	<u>4,272,313</u>	<u>4,268,109</u>
Benefits paid to holders of units and transfers out	<u>(3,844,346)</u>	<u>(2,226,789)</u>
Net increase in net assets available to participants for benefits	6,462,841	8,429,618
Net assets available to participants for benefits, beginning of year	<u>59,428,081</u>	<u>50,998,463</u>
Net assets available to participants for benefits, end of year	\$ <u>65,890,921</u>	\$ <u>59,428,081</u>

The accompanying notes form an integral part of these financial statements.

CAYMAN NATIONAL PENSION FUND

STATEMENT OF CASH FLOWS

YEAR ENDED SEPTEMBER 30, 2018

(Expressed in Cayman Islands dollars)

	Year ended <u>September 30,</u>	
	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Net increase in net assets available to participants for benefits/net comprehensive income	6,034,874	6,388,298
Adjustments to reconcile net increase in net assets from operations available to participants for benefits to net cash provided by/ (used in) operating activities:		
Amortization of bond premium and discount	128,696	101,848
Net realised gains on financial assets and liabilities at fair value	(21,214)	(543,624)
Net change in unrealised appreciation of financial assets and liabilities at fair value through profit and loss	(5,474,365)	(5,493,329)
Decrease in due from broker	66,561	1,148,869
Increase in loans and receivables	(91,086)	(15,503)
Increase in interest receivable	(46,153)	(31,820)
Increase in dividend receivable	(3,573)	(12,961)
(Increase)/ Decrease in other receivables	(91)	13,967
Increase in accounts payable and accrued expenses	<u>9,947</u>	<u>40,698</u>
Net cash provided by operating activities	<u>603,597</u>	<u>1,596,443</u>
Cash flows from investing activities		
Purchase of investments	(9,921,472)	(9,186,323)
Proceeds from sale of investments	<u>7,815,234</u>	<u>4,756,932</u>
Net cash used in investing activities	<u>(2,106,238)</u>	<u>(4,429,392)</u>
Cash flows from financing activities		
Employer contributions	2,060,708	2,134,011
Employee contributions	2,325,923	2,197,517
Benefits paid to participants and transfers out	<u>(3,834,319)</u>	<u>(2,142,522)</u>
Net cash provided by financing activities	<u>552,312</u>	<u>2,189,006</u>
Net decrease in cash and cash equivalents	(950,330)	(643,942)
Cash and cash equivalents, beginning of year	<u>1,417,681</u>	<u>2,061,623</u>
Cash and cash equivalents, end of year	<u>\$ 467,351</u>	<u>\$ 1,417,681</u>
Supplementary information on cash flows from operating activities		
Interest received	<u>\$ 460,555</u>	<u>\$ 339,559</u>
Dividends received (gross)	<u>\$ 804,670</u>	<u>\$ 688,196</u>
Withholding tax paid	<u>\$ (201,963)</u>	<u>\$ (184,292)</u>

The accompanying notes form an integral part of these financial statements.

CAYMAN NATIONAL PENSION FUND

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

(Expressed in Cayman Islands dollars)

1. Description of the Plan

General: The Cayman National Pension Fund (the “Plan”) is a defined contribution pension plan that commenced operations on June 1, 1997. The Plan replaced the Cayman National Corporation Pension Fund defined benefit plan and was formed in anticipation of new regulatory requirements under the National Pensions Law of the Cayman Islands. The revised Law and regulations were issued on July 21, 1998. The Plan was registered under the National Pensions Law (the “Law”) with the Office of the Superintendent of Pensions (Registration number OSP4/03/B/002) with effect from June 1, 1998. The registered office of the Plan is Suite 6201, 62 Forum Lane, Camana Bay P.O. Box 30239, Grand Cayman KY1-1201.

The Plan was formed by Declaration of Trust (the “Trust Deed”) by four directors of Cayman National Trust Co. Ltd. (“CNT”) on June 9, 1998 for the sole purpose of providing pension benefits to the beneficiaries in accordance with the Plan. CNT was appointed the administrator of the Plan by the Board of Trustees (“the Trustees”). The Plan is administered by Cayman National Fund Services Ltd. (“the Administrator”). The Administrator and CNT are wholly owned subsidiaries of Cayman National Corporation Ltd.

At September 30, 2018, 47.07% (2017: 46.47%) of the membership comprised employees of the Cayman National Group of Companies. Other members include unitholders located in the Cayman Islands.

Description of the Plan: The Plan is a defined contribution plan whereby amounts provided at retirement for each member of the Plan are based on the accumulated contributions made on the member's behalf and accumulated investment earnings on those contributions after deduction of administrative expenses. Employees can voluntarily make additional contributions.

Contributions: As outlined in the Law, members of the Plan generally contribute at least 5% of earnings. Employers are required to match the employee's contributions up to 5% of the annual pensionable earnings up to CI \$87,000.

Vesting: Members are immediately vested with their contributions and the employer's matching contributions, together with the actual earnings thereon.

Retirement benefits: The normal retirement date shall not be later than one year after a person has attained sixty years of age. Upon retirement or termination of employment, members are entitled to deferred benefits in accordance with the Law and may require the Administrator to pay an amount equal to the commuted value of such benefits:

1. to another pension plan; or
2. into a prescribed retirement savings arrangement (an “RSA”); or
3. for the purchase of life annuity; or
4. to the member, if the commuted value is less than \$5,000

Early retirement is available at age 50 under the Plan.

On August 1, 2015, the Plan established a side pocket class of units (the “RSA side pocket”) to manage an RSA within the existing structure of the Plan (see Note 8).

As a result of the National Pensions (Amendment) Law 2016 becoming effective on January 1, 2017, the normal retirement and early retirement ages have been increased to 65 and 55, respectively.

CAYMAN NATIONAL PENSION FUND

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

(Expressed in Cayman Islands dollars)

1. Description of the Plan (continued)

Refund options: Refund options available to holders of participating units comprise the following:

1. transfer funds to another pension provider;
2. to the member, upon termination of employment if the commuted value is less than \$5,000;
3. to the member, if the commuted value is greater than \$5,000 and all of the following conditions have been met:
 - a member's employment is terminated and
 - the member ceases to reside in the Cayman Islands for a period of two years or
 - if no contributions have been made to a pension plan by or on behalf of the member for a period of two years they can request refund after they cease to reside in the Cayman Islands for a period of two years.

Transfer options: The Cayman Islands Pensions Law was amended in November 2011 to allow members to withdraw up to \$35,000 from their pension plan to purchase a home, construct a home, pay off an existing mortgage or purchase a parcel of residential land. During the year, approximately \$301,136 (2017: \$246,982) was withdrawn in relation to this amendment.

2. Significant accounting policies

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

Basis of preparation: The financial statements of the Plan have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Trustees to exercise its judgment in the process of applying the Plan's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

All references to net assets throughout this document refer to net assets available to participants for benefits unless otherwise stated.

Standards and amendments to existing standards effective October 1, 2017: There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning October 1, 2017 that would be expected to have a material impact on the Plan.

New standards, amendments and interpretations issued but not effective for the financial year beginning October 1, 2018 and not early adopted: IFRS 9 'Financial Instruments' addresses the classification, measurement and derecognition of financial assets and liabilities. It replaces the multiple classification and measurement models in IAS 39 and is effective for reporting periods beginning on or after January 1, 2018.

Classification and measurement of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual cash flows under the instrument solely represent payments of principal and interest (SPPI). A debt instrument is measured at fair value through other comprehensive income if the objective of the business model is to hold the financial asset both to collect contractual cash flows from SPPI and to sell. All other debt instruments must be recognised at fair value through profit or loss. An entity may however, at initial recognition irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

CAYMAN NATIONAL PENSION FUND

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

(Expressed in Cayman Islands dollars)

2. Significant accounting policies (continued)

Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income. IFRS 9 also introduces a new expected credit loss (ECL) impairment model.

On adoption of IFRS 9 the Plan's investment portfolio will continue to be classified as fair value through profit or loss. Other financial assets which are held for collection will continue to be measured at amortised cost with no material impact expected from application of the new impairment model. As a result, the adoption of IFRS 9 is not expected to have a material impact on the Plan's financial statements.

In addition to the above, a number of new standards, amendments to standards and interpretations are effective for annual periods beginning after October 1, 2018, and have not been applied in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Plan.

Cash and cash equivalents: Cash and cash equivalents comprise of all cash and short-term deposits with original maturities of three months or less.

Financial assets and liabilities at fair value through profit or loss: Investments classified as held for trading securities are categorized as financial assets or liabilities at fair value through profit or loss. Financial assets and financial liabilities at fair value through profit or loss are initially recognized at fair value, which is considered the cost basis of the security. The Plan records security transactions on a trade date basis, recognizing the cost or sales proceeds of securities sold or purchased on an average cost basis. Realized and unrealized gains or losses are recorded in the statement of comprehensive income as revenue. Securities are valued on the last day of each month ("Valuation Day") at fair value, using data provided by one or more reputable third party pricing vendors which is in turn based upon (1) prices quoted on the exchange upon which such securities are traded, (2) valuation models using observable market inputs, or (3) prices quoted by the principal market makers for non-exchange traded investments. The fair value of investments held in other funds are determined based on the attributable net asset value reported by the administrator or Investment Manager of that fund, which represents the price at which the Plan could dispose of its holding on any given valuation date.

Loans and receivables: Investments classified as loans and receivables are recorded at amortised cost less any impairment loss recognized to reflect unrecoverable amounts. Fixed deposits and debt securities with original terms to maturity which exceed 3 months that are non-derivative financial assets with fixed and determinable payments and are not quoted in an active market are classified as loans and receivables. The Plan records these investment transactions on a trade date basis. Transaction costs are expensed as incurred and have been included in other expenses.

Investment income: Interest is accounted for using the effective interest method. The amortisation of any premiums and discounts on acquisition of investments is included within interest income.

Dividend income: Dividend income is recognised at the time the income becomes receivable (the "ex-dividend" date).

Contributions: Units for contributions received are issued by the Plan on the first day of the month following the month of receipt ("Trading Day"). Unit allocations are based on the net asset value of the Plan, calculated on Trading Day and are issued or redeemed on the Trading Day. Title to contributions passes to the Plan when the funds representing both employee and employer contributions are received by the Plan. Under section 49.1 of the Law, the employer is deemed to hold employee and employer contributions due to the Plan in trust for the employees. Contributions received prior to Trading Day are recorded as prepaid contributions.

Expenses and benefit payments: Expenses and benefit payments are accounted for on the accrual basis.

CAYMAN NATIONAL PENSION FUND

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

(Expressed in Cayman Islands dollars)

2. Significant accounting policies (continued)

Foreign currencies: Foreign currency assets and liabilities are translated into Cayman Islands dollars at the rate of exchange ruling at the year end date. Foreign currency income and expenditure items are converted to Cayman Islands dollars at the rate of exchange ruling on the date of the transaction. The Plan does not isolate that portion of the results of operations resulting from unrealised changes in foreign exchange rates on investments from the unrealised gains/losses arising from changes in value of securities held. Gains and losses on foreign currencies are included in the statement of operations.

Functional and presentation currency: Items included in the Plan's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Cayman Islands Dollar, which reflects the Plan's currency of contributions receipts and benefit payments and the economic environment of its members. In addition, the Plan has adopted the Cayman Islands Dollar as its presentation currency. Unless otherwise stated, all balances and transactions presented and disclosed in these financial statements are stated in Cayman Islands Dollars.

Income taxes: There are currently no income, profits or capital gains taxes in the Cayman Islands. The Plan may be subject to withholding tax on investment income in other jurisdictions.

Net assets available to participants for benefits: Prior to August 1, 2015, the Plan classified its puttable instruments as equity in accordance with IAS 32 (Amendment), 'Financial instruments: Presentation, which requires puttable financial instruments that meet the definition of a financial liability to be classified as equity where certain strict criteria are met. Those criteria include:

- . the puttable instruments must entitle the holder to a pro-rata share of net assets;
- . the puttable instruments must be the most subordinated class and class features must be identical;
- . there must be no contractual obligations to deliver cash or another financial asset other than the obligation on the issuer to repurchase; and
- . the total expected cash flows from the puttable instrument over its life must be based substantially on the profit or loss of the issuer.

These conditions were met until the RSA Side Pocket was created on August 1, 2015 (Note 8), at which point the participating units were no longer the sole unit class in the Plan. As a result, net assets available to participants for benefits were classified as liabilities as of August 1, 2015.

3. Cash and cash equivalents

Cash and cash equivalents at September 30, 2018 and 2017 comprise the following:

	<u>2018</u>	<u>2017</u>
Current accounts (Note 9)	467,351	911,491
Deposits with CNB with original maturities of 3 months or less (Note 9)	<u>-*</u>	<u>506,190*</u>
	<u>\$ 467,351</u>	<u>\$1,417,681</u>

*Yield is nil% (2017: 1.20%) and the maturity is within three months.

CAYMAN NATIONAL PENSION FUND

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

(Expressed in Cayman Islands dollars)

4. Financial assets at fair value through profit and loss

The following investments were held by the Plan at September 30, 2018:

Equities/Mutual Funds

<u>Units</u>	<u>Security</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Percentage of total assets</u>
16,025	ABERDEEN EMEG MRKS	137,685	91,610	0.14%
5,000	BERKSHIRE HATHAWAY INC CL B	369,482	892,125	1.34%
13,542	BIAS EQUITIES FUND	833,333	1,214,878	1.82%
81,173	CARIBBEAN UTILITIES CO	695,455	879,374	1.32%
145,716	CAYMAN NATIONAL CORP LTD	324,210	667,865	1.00%
30,660	CAYMAN NATIONAL SECURITIES MUTUAL FUND SPC-INTERNATIONAL EQUITY	234,377	241,675	0.36%
241,636	CAYMAN NATIONAL SECURITIES MUTUAL FUND SPC-US BOND	2,034,148	2,022,376	3.03%
22,181	CAYMAN NATIONAL SECURITIES MUTUAL FUND SPC-US EQUITY	292,248	342,329	0.51%
6,335	CHINA FUND INC	134,618	103,472	0.16%
14,988	GLOBAL X MSCI NORWAY ETF	167,552	190,098	0.28%
21,165	INVESTICO INDIA	370,980	422,418	0.63%
9,776	ISHARES FTSE/XINHUA CHINA 25	349,511	348,840	0.52%
8,769	ISHARES MSCI AUSTRALIA INDEX FUND	167,517	161,642	0.24%
6,900	ISHARES MSCI BRAZIL FREE INDEX	356,137	193,948	0.29%
14,294	ISHARES MSCI CANADA INDEX FUND	333,479	342,818	0.51%
7,000	ISHARES MSCI EMERGING MARKET S	260,132	250,367	0.38%
6,455	ISHARES MSCI GERMANY	167,534	159,976	0.24%
4,900	ISHARES MSCI JAPAN INDEX FUND	167,554	245,939	0.37%
15,352	ISHARES MSCI SWITZERLAND	334,814	443,801	0.66%
1,500	ISHARES TR DJ US FINANCIAL	135,513	166,613	0.25%
16,495	ISHARES TR MSCI EAFE INDEX	877,984	934,579	1.40%
6,743	ISHARES TR RUSSELL 2000	376,284	947,111	1.42%
17,325	MIDCAP SPDR TR UNIT SER 1	1,303,394	5,305,203	7.95%
7,200	MS INDIA INVEST FUND	182,529	140,700	0.21%
23,814	NASDAQ 100 TR POWERSHARES QQQ NAS	1,149,783	3,687,003	5.52%
37,964	SPDR DOW JONES INDUSTRIAL AVG ETF TRUST	3,375,952	8,364,735	12.53%
67,566	SPDR TR UNIT SER 1	7,213,778	16,368,990	24.53%
2,849	TEMPLETON DRAGON FUND	46,483	47,309	0.07%
11,648	UTILITIES SELECT SEC TOR SPDR FUND	418,791	511,056	0.77%
1,476	VANGUARD ENERGY ETF	167,498	129,285	0.19%
4,043	VANGUARD SMALL-CAP GROWTH ETF	418,647	631,112	0.95%
		<u>23,397,399</u>	<u>46,449,243</u>	<u>69.60%</u>

CAYMAN NATIONAL PENSION FUND

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

(Expressed in Cayman Islands dollars)

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

The following investments were held by the Plan at September 30, 2018 (continued):

Fixed Income Securities

<u>Par Value</u>	<u>Security</u>	<u>Interest</u>	<u>Maturity</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Percentage of total assets</u>
1,000,000	ANHEUSER-BUSCH INBEV	3.60%	02/01/2021	855,529	854,458	128%
1,000,000	APPLE INC	1.90%	02/07/2020	830,891	823,417	123%
500,000	AT&T INC	2.38%	11/27/2018	417,076	416,517	0.62%
1,000,000	AUST & NZ BANKING	2.55%	11/23/2021	816,677	808,683	121%
500,000	BANK OF AMERICA CORP	7.63%	06/01/2019	432,660	429,588	0.64%
500,000	BARCLAYS PLC	2.75%	11/08/2019	418,099	414,754	0.62%
500,000	CATERPILLAR FIN	2.84%	01/10/2020	418,860	418,875	0.63%
1,000,000	CSX CORP	3.70%	10/30/2020	854,483	841,267	126%
500,000	DOW CHEMICAL CO	4.25%	11/15/2020	435,132	424,613	0.64%
1,000,000	GOLDMAN SACHS	3.53%	09/15/2020	843,437	847,867	127%
500,000	HARLEY DAVIDSON FIN	2.40%	09/15/2019	419,832	413,058	0.62%
400,000	HSBC USA INC	3.82%	11/14/2023	333,798	337,333	0.51%
1,000,000	ING BANK INV	3.28%	08/17/2020	842,038	843,492	126%
1,000,000	INTEL CORP	2.42%	05/11/2020	835,728	833,700	125%
250,000	JP MORGAN CHASE	3.00%	10/29/2020	211,298	206,515	0.31%
500,000	JP MORGAN CHASE & CO	2.97%	01/28/2019	417,390	417,479	0.63%
500,000	KELLOGGS CO	4.15%	11/15/2019	424,264	421,779	0.63%
500,000	MACQUARIE BK	3.46%	07/29/2020	419,843	422,163	0.63%
1,000,000	MCDONALDS CORP	2.75%	12/09/2020	844,886	828,133	124%
1,000,000	MICROSOFT CORP	1.85%	02/06/2020	831,295	823,117	123%
500,000	MONDELEZ INT. HLDGS	2.95%	10/28/2019	418,046	418,238	0.63%
1,000,000	NATIONAL AUSTRALIA BANK	3.22%	01/10/2022	846,581	843,158	126%
250,000	ROYAL BANK OF CANADA	2.58%	10/18/2018	208,338	208,621	0.31%
250,000	ROYAL BANK OF CANADA	2.90%	09/30/2020	208,547	204,813	0.31%
1,000,000	SHELL INT FIN	4.30%	09/22/2019	850,649	845,442	127%
500,000	TORONTO DOMINION BK	2.75%	01/18/2019	417,061	416,971	0.62%
500,000	UNITED STATES TREASURY BILL	1.50%	01/31/2019	416,445	415,560	0.62%
500,000	UNITED STATES TREASURY BILL	1.63%	04/30/2019	415,884	414,730	0.62%
500,000	UNITED STATES TREASURY BILL	1.38%	07/31/2019	413,960	412,598	0.62%
500,000	UNITED STATES TREASURY BILL	1.50%	10/31/2019	413,173	411,491	0.62%
1,000,000	WELLS FARGO & CO	2.66%	03/04/2021	852,425	852,817	128%
	Fixed income securities			17,364,328	17,271,243	25.88%
	Accrued interest on fixed income securities			110,066	110,066	0.16%
	Total fixed income securities (including accrued interest)			17,474,394	17,381,309	26.04%
	Total financial assets at fair value through profit or loss			40,871,793	63,830,552	95.64%
	Loans and receivables			1,869,882	1,869,882	2.80%
	Total investments			42,741,675	65,700,434	98.45%
	Cash and other assets				1,036,527	1.55%
	Total assets				66,736,961	100.00%

CAYMAN NATIONAL PENSION FUND

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

The following investments were held by the Plan at September 30, 2017:

Equities/Mutual Funds

<u>Units</u>	<u>Security</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Percentage of total assets</u>
13,257	ASIA TIGERS FUND INC	137,685	136,877	0.23%
5,000	BERKSHIRE HATHAWAY INC CL B	369,482	763,833	1.27%
11,418	BIAS GLOBAL EQUITIES FUND	833,333	1,064,836	1.77%
81,173	CARIBBEAN UTILITIES CO	695,455	899,667	1.50%
145,716	CAYMAN NATIONAL CORP LTD	324,210	333,933	0.56%
23,789	CAYMAN NATIONAL SECURITIES MUTUAL FUND SPC-INTERNATIONAL EQUITY	172,429	194,083	0.32%
180,676	CAYMAN NATIONAL SECURITIES MUTUAL FUND SPC-US BOND	1,519,965	1,529,313	2.54%
17,364	CAYMAN NATIONAL SECURITIES MUTUAL FUND SPC-US EQUITY	212,862	241,621	0.40%
6,335	CHINA FUND INC	134,618	107,431	0.18%
14,988	GLOBAL X MSCI NORWAY ETF	167,552	169,223	0.28%
9,776	ISHARES FT SE/XINHUA CHINA 25	349,511	358,779	0.60%
8,769	ISHARES MSCI AUSTRALIA INDEX FUND	167,517	163,980	0.27%
6,900	ISHARES MSCI BRAZIL FREE INDEX	356,137	239,718	0.40%
14,294	ISHARES MSCI CANADA INDEX FUND	333,479	344,724	0.57%
7,000	ISHARES MSCI EMERGING MARKETS	260,132	261,392	0.43%
6,455	ISHARES MSCI GERMANY	167,534	174,446	0.29%
4,900	ISHARES MSCI JAPAN INDEX FUND	167,554	227,483	0.38%
15,352	ISHARES MSCI SWITZERLAND	334,814	448,150	0.75%
1,500	ISHARES TR DJ US FINANCIAL	135,513	149,825	0.25%
16,495	ISHARES TR MSCI EAFE INDEX	877,984	941,315	1.57%
6,743	ISHARES TR RUSSELL 2000	376,284	832,648	1.38%
21	L & C GERMAN REAL ESTATE MASTER	3,084	2,648	0.00%
17,325	MIDCAP SPDR TR UNIT SER 1	1,303,394	4,711,389	7.83%
7,200	MS INDIA INVEST FUND	182,529	205,440	0.34%
23,814	NASDAQ 100 TR POWERSHARES QQQ NAS	1,149,781	2,886,454	4.80%
21,165	POWERSHARES INDIA PORTFOLIO	370,980	417,480	0.69%
37,964	SPDR DOW JONES INDUSTRIAL AVG ETF TRUST	3,375,952	7,080,919	11.77%
67,566	SPDR TR UNIT SER 1	7,213,778	14,145,505	23.52%
2,849	TEMPLETON DRAGON FUND	46,483	49,383	0.08%
11,648	UTILITIES SELECT SEC TOR SPDR FUND	418,791	514,939	0.86%
1,476	VANGUARD ENERGY ETF	167,498	115,103	0.19%
4,043	VANGUARD SMALL-CAP GROWTH ETF	418,647	514,270	0.86%
		<u>22,744,967</u>	<u>40,226,807</u>	<u>66.88%</u>

CAYMAN NATIONAL PENSION FUND

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(Expressed in Cayman Islands dollars)

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

The following investments were held by the Plan at September 30, 2017 (continued):

Fixed Income Securities

<u>Par Value</u>	<u>Security</u>	<u>Interest</u>	<u>Maturity</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Percentage of total assets</u>
200,000	AETNA INC	1.50%	11/15/2017	166,704	166,648	0.28%
500,000	AMERICAN EXPRESS CR	2.13%	7/27/2018	419,162	418,375	0.70%
350,000	ANHEUSER-BUSCH INBEV	2.57%	2/1/2021	300,777	302,473	0.50%
500,000	APPLE INC	1.90%	2/7/2020	418,147	417,925	0.69%
500,000	AT&T INC	2.38%	11/27/2018	419,695	419,233	0.70%
500,000	BAIDU INC	2.25%	11/28/2017	417,043	417,058	0.69%
500,000	BANK OF AMERICA CORP	7.63%	6/1/2019	456,472	454,313	0.76%
500,000	BARCLAYS PLC	2.75%	11/8/2019	419,394	421,183	0.70%
250,000	BANK OF NOVA SCOTIA	1.38%	12/18/2017	207,210	208,327	0.35%
250,000	CATERPILLAR FIN	1.25%	11/6/2017	208,362	208,292	0.35%
500,000	CATERPILLAR FIN SER	1.81%	1/10/2020	420,493	419,754	0.70%
500,000	CELGENE CORP	2.30%	8/15/2018	419,207	418,900	0.70%
500,000	CSX CORP	3.70%	10/30/2020	435,068	434,213	0.72%
500,000	DOW CHEMICAL CO	4.25%	11/15/2020	443,593	440,275	0.73%
200,000	EATON CORP	1.50%	11/2/2017	166,694	166,653	0.28%
250,000	GENERAL ELECTRIC	1.60%	11/20/2017	208,414	208,404	0.35%
500,000	GOLDMAN SACHS	2.52%	9/15/2020	421,080	424,467	0.71%
500,000	HARLEY DAVIDSON FIN	2.40%	9/15/2019	423,102	418,083	0.69%
400,000	HSBC USA INC	2.81%	11/14/2023	333,870	333,270	0.55%
500,000	ING BANK INV	2.28%	8/17/2020	420,840	422,988	0.70%
150,000	INTEL CORP	1.35%	12/15/2017	124,999	124,999	0.21%
500,000	INTEL CORP	1.39%	5/11/2020	418,063	416,808	0.69%
250,000	JP MORGAN CHASE	3.00%	10/29/2020	212,677	212,046	0.35%
500,000	JP MORGAN CHASE	1.94%	1/28/2019	419,570	419,171	0.70%
500,000	KELLOGGS CO	4.15%	11/15/2019	430,904	434,696	0.72%
500,000	MACQUARIE BK	2.43%	7/29/2020	421,472	423,788	0.70%
500,000	MCDONALDS CORP	2.75%	12/9/2020	426,498	424,813	0.71%
500,000	MICROFOFT CORP	1.85%	2/6/2020	417,492	418,038	0.69%
500,000	MONDELEZ INT. HLDGS	1.92%	10/28/2019	419,269	418,425	0.70%
500,000	ORACLE CORP	5.75%	4/15/2018	425,802	425,996	0.71%
470,000	PROVINCE OF NEW BRUNSWICK	2.75%	6/15/2018	395,441	395,070	0.66%
250,000	PROVINCE OF ONTARIO	1.20%	2/14/2018	208,316	208,160	0.35%
250,000	PROVINCE OF ONTARIO	1.10%	10/25/2017	206,958	208,304	0.35%
250,000	ROYAL BANK OF CANADA	1.56%	10/18/2018	208,446	208,113	0.35%
500,000	ROYAL BANK OF CANADA	1.81%	4/30/2018	416,791	415,625	0.69%
250,000	ROYAL BANK OF CANADA	2.00%	9/30/2020	208,652	211,958	0.35%
500,000	SHELL INT FIN	4.30%	9/22/2019	431,550	437,071	0.73%

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494,000	SHERWIN WILLIAMS CO	1.35%	12/15/2017	411,857	411,440	0.68%
130,000	THE WALT DISNEY CO	1.10%	12/1/2017	108,333	108,302	0.18%
500,000	TORONTO DOMINION BANK	1.72%	1/18/2019	418,366	417,858	0.69%
500,000	TORONTO DOMINION BANK	2.63%	9/10/2018	420,613	420,421	0.70%
336,000	UNITED STATES TREASURY BILL	1.00%	8/15/2018	280,130	279,202	0.46%
450,000	VODAFONE GROUP PLC	1.50%	2/19/2018	375,448	374,775	0.62%
250,000	VOLKSWAGEN GROUP FLT	1.76%	11/20/2017	207,788	208,410	0.35%
500,000	WAL-MART STORES	1.13%	4/11/2018	417,119	416,088	0.69%
500,000	WELLS FARGO & CO	2.66%	3/4/2021	428,080	428,328	0.71%
	Fixed income securities			15,985,961	15,988,739	26.59%
	Accrued interest on fixed income securities			95,733	95,733	0.16%
	Total fixed income securities (including accrued interest)			16,081,694	16,084,470	26.75%
	Total financial assets at fair value through profit or loss			38,826,662	56,311,279	93.63%
	Loans and receivables			1,778,796	1,778,796	2.96%
	Total investments			40,605,458	58,090,075	96.59%
	Cash and other assets				2,049,754	3.41%
	Total assets				60,139,829	100.00%

CAYMAN NATIONAL PENSION FUND

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2018

(Expressed in Cayman Islands dollars)

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

The Plan's investments are administered by CNT. During the year ended September 30, 2018, the portfolio provided an annual rate of return of 10.54% (2017: 12.54%) for participating units and 0.06% for RSA side pocket units (2017: 2.84%) (see Note 8). The annual rate of return is calculated by dividing the increase in net asset value per unit by the NAV per unit at the beginning of the year.

The following summarises the Plan's holdings in equities and mutual funds that are non-exchange traded, excluding interest in money market funds:

	September 30, 2018		September 30, 2017	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Equities/Mutual Funds	3,821,257	3,394,106	3,032,501	2,741,673

Because of the inherent uncertainty of valuation with such securities, these fair values do not necessarily represent amounts that might be ultimately realized, and the differences could be material. The risk attributable to these investments is increased because of their illiquidity and volatility.

Nil (2017: one) of the London & Capital ("L&C") real estate funds held by the Plan at September 30, 2018 and 2017 all had suspended redemptions. The suspension date of the London and Capital German Real Estate Fund (EURO) was February 27, 2008 (current Fund held), and the London and Capital UK Public Sector Real Estate Fund (GBP) and London and Capital UK Real Estate Fund (USD) both were suspended on October 27, 2007. During 2016 all the holdings that were held in these accounts were migrated to an individual Master Fund for each of these funds. London and Capital German Real Estate Fund remained suspended at the date these financial statements were approved for issuance.

Included in non-exchange traded securities is BIAS Equities Fund, SPC ("BIAS"). BIAS is listed on the Cayman Islands Stock Exchange and was incorporated as a Cayman Islands exempted company and registered as a segregated portfolio company under the Companies Law of the Cayman Islands. A redemption gate limit of 5% or \$100,000 may be imposed in any redemption period. In addition no sales are permitted within the first 90 days from initial purchase and a redemption fee of 2% will be assessed on redemptions within 12 months after date of purchase and 1% on redemption beyond 12 months.

5. Loans and receivables

Loans and receivables as at September 30, 2018 and 2017 comprise the following:

	September 30, 2018		September 30, 2017	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Deposits with CNB	<u>1,869,882</u>	<u>1,869,882</u>	<u>1,778,796</u>	<u>1,778,796</u>
Total	<u>\$1,869,882</u>	<u>\$1,869,882</u>	<u>\$1,778,796</u>	<u>\$1,778,796</u>

Yields range from 0.98% to 2.25% (2017: 0.70% to 1.35 %) and the maturities are within one year (2017: three months).

CAYMAN NATIONAL PENSION FUND

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6. Accounts payable and accrued expenses

Accounts payable and accrued expenses as at September 30, 2018 and 2017 comprised the following:

	<u>2018</u>	<u>September 30,</u> <u>2017</u>
Administration, accounting and secretarial fees	94,077	84,602
Audit	35,000	35,000
Custody	3,125	3,125
Other	<u>24,701</u>	<u>23,419</u>
Total accounts payable	\$ <u>156,903</u>	\$ <u>146,146</u>

7. Administration and brokerage fees

In accordance with the terms of the Trust Deed, the Administrator will perform certain management, financial, accounting, administrative and other services on behalf of the Plan. The Administrator shall receive an annual fee, calculated as 2% of annual contributions plus 0.45% of net assets, calculated monthly. At September 30, 2018, the administrator fees payable were \$94,077 (2017: \$84,602).

Cayman National Securities Ltd (the "Investment Advisor") acts as the Investment Advisor to the Plan, broker and custodian of the Plan's assets and charges brokerage fees and custody fees on security transactions. Such fees are at commercial rates. No fees are paid for investment advisory services.

8. Units outstanding

Units of the Plan are issued or redeemed on the first business day of each month at a price based on the underlying net asset value of the Plan at the opening of business on that date, and subject to the provisions of the Trust Deed. Transactions in participating and RSA side pocket units for the years ended September 30, 2018 and 2017 are summarised as follows:

<u>Participating Units</u>	<u>2018</u>	<u>2017</u>
Outstanding units, at beginning of year	24,426,031.36	23,941,530.53
Issued during the year (contributions and transfers from other plans)	1,735,683.92	1,944,628.78
Redeemed during the year (benefit payments and transfers to other plans)	(1,432,357.11)	(902,274.19)
Transfer to RSA side pocket	(476,033.89)	(557,853.76)
Outstanding units, at end of year	<u>24,253,324.28</u>	<u>24,426,031.36</u>
<u>RSA Side Pocket Units</u>	<u>2018</u>	<u>2017</u>
Outstanding units, at beginning of year	2,112,245.98	1,153,299.09
Transfer from participating units	661,683.35	1,190,903.65
Redeemed during the year (benefit payments and transfers to other plans)	<u>(295,317.94)</u>	<u>(231,956.76)</u>
Outstanding units, at end of year	<u>2,478,611.39</u>	<u>2,112,245.98</u>

CAYMAN NATIONAL PENSION FUND

NOTES TO FINANCIAL STATEMENTS

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8. Units outstanding (continued)

In accordance with the objectives outlined in Note 1 and the risk management policies in Note 11, the Plan endeavours to invest the subscriptions received from units outstanding into appropriate investments while maintaining sufficient liquidity to meet redemptions, such liquidity being augmented by disposal of traded securities where necessary.

On August 1, 2015, the Plan created the RSA side pocket for the purposes of establishing an RSA for retiring pensioners within the structure of the Plan and, within that side pocket, to manage a simple, fixed income based investment portfolio specifically for the benefit of retirees seeking to establish an RSA.

The model portfolio for the RSA side pocket is to invest solely in the Cayman National Securities Mutual Funds Segregated Portfolios with the following allocation:

Cayman National Securities US Bond Fund Segregated Portfolio	80%
Cayman National Securities US Equity Fund Segregated Portfolio	11%
Cayman National Securities International Equity Fund Segregated Portfolio	9%

The gains and losses from such investments will be allocated solely to the RSA side pocket units, which will not be subject to any other income or expenses of the Plan.

9. Related party balances and transactions

As at September 30, 2018 and 2017, the Investment Advisor provided brokerage and custody services on behalf of the Plan. As at September 30, 2018 and 2017 the majority of the Plan's investments and due from broker balances were held by the Investment Advisor on behalf of the Plan. Custody fees of \$12,500 (2017: \$12,500) are included within sundry expenses.

As at September 30, 2018 and 2017, all of the Plan's cash and fixed deposits have been placed with Cayman National Bank Ltd. ("CNB").

As at September 30, 2018, the Plan held 145,716 (2017:145,716) shares of Cayman National Corporation Ltd. with a market value of \$667,865 (2017: \$333,933).

The Plan's Board of Trustees include three members who are also directors within the Cayman National Group of Companies.

On September 14, 2018, the Board of Cayman National Corporation Ltd. ("Cayman National") received an unsolicited proposal by Republic Bank Trinidad and Tobago (Barbados) Limited ("Republic") to acquire a minimum of 51% and up to 74.99% of the issued shares of Cayman National by way of a tender offer ("Partial Offer") to Cayman National shareholders. The consummation of the Partial Offer remains subject to certain other conditions including, without limitation, receipt of necessary government and regulatory approvals.

10. Expense ratio

Total expenses, excluding withholding taxes on dividends, as a percentage of the average net assets available to participants for benefits, were 0.76% for the year ended September 30, 2018 (2017: 0.79%).

CAYMAN NATIONAL PENSION FUND

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11. Financial risk management

The Plan's activities expose it to a variety of financial risks: market risk (including price risk, currency risk and interest rate risk), credit risk and liquidity risk. The Plan's overall risk management programme which includes an Investment Advisory Committee which meets on a set quarterly schedule and also regular inter-quarterly meetings, focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Plan's financial performance.

a) Market Risk:

i) Price risk:

The Plan invests in financial instruments, taking positions in traded and over-the-counter mutual funds and other structured finance instruments, to take advantage of long-term capital appreciation and periodic income in the form of interest and dividends payments-in the equity and bond markets.

All securities investments present a risk of loss of capital. The Investment Advisor and managed account advisors moderate this risk through a careful selection of securities and other financial instruments, within specified limits, following the principles of diversification and the efficient market hypothesis. The Plan's overall market positions are monitored on a daily basis by the Investment Advisor.

The Plan's equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Cayman National Pension Fund Investment Advisory Committee provides the Plan with investment recommendations that are consistent with the Plan's objectives. The Plan's market price risk is managed through diversification of the investment portfolio ratios by exposures. The overall market exposures as at September 30, 2018 and 2017 are presented in Note 4.

At September 30, 2018 and 2017 the Plan's market risk is affected by three main components: changes in actual market prices, interest rate and foreign currency movements. The beta coefficient ("Beta"), in investment management, measures how the expected return of a stock or portfolio is correlated to the return of the financial market as a whole.

The Beta for the equity portion of the Plan has been calculated at 0.95 to the S&P 500 (2017: 0.95). Thus if the index rises 10% the equity portion of the Plan's portfolio will rise 9.5% (2017: 9.5%) before fees and expenses. Conversely if the index declines 10% the equity portion of the Plans portfolio will decline 9.5% (2017: 9.5%). The impact of these changes on the Plan's equity investments at September 30, 2018 would have been a rise or decline in fair value of approximately \$4.4 million (2017: \$4.3 million), excluding the effect of Plan expenses.

The sensitivity analysis presented above is based upon the portfolio composition as at September 30, 2018. The composition of the Plan's investment portfolio is expected to change over time. Accordingly, the sensitivity analysis prepared is not indicative of future performance of the Plan.

ii) Interest rate risk:

The Plan's fixed rate bond holdings are subject to market risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash and cash equivalents are invested at short-term market interest rates.

The Plan's exposure to interest rate risk consists primarily of fixed income securities. None of the Plan's liabilities are sensitive to interest rate changes. None of the fixed income securities held by the Plan have interest rate repricing dates that are different from the maturity dates (see summary under 'Liquidity Risk'). The Plan also holds floating rate notes that reset quarterly or annually.

CAYMAN NATIONAL PENSION FUND

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11. Financial risk management (continued)

a) Market Risk (continued):

ii) Interest rate risk (continued):

On the fixed income portion of the Plan's investment portfolio the appropriate measure to use is the Modified Duration which attributes the bonds' sensitivity to movements in interest rates. The Modified Duration on the bond portfolio is 0.68 (2017: 0.85). Therefore, if interest rates increase by 100 bps the fair value of the bond portfolio will decline (due to the inverse relationship between yield and price) by 0.68% (2017: 0.85%). Conversely should interest rates decline by 100bps the fair value of the bond portfolio will increase by 0.85% (2017: 0.85%). The impact of these changes on the Plan's fixed income investments at September 30, 2018 would have been a rise or decline in fair value of approximately \$140,980 (2017: \$163,084), excluding the effect of the Plan's expenses.

In accordance with the Plan's policy, the Investment Advisor monitors the Plan's overall interest sensitivity on a regular basis.

iii) Currency risk:

The Plan's functional and reporting currency is Cayman Islands dollars, which is fixed to the U.S. dollar at the rate of US\$1 = CI\$0.83. The Plan may invest in securities and hold cash balances at its brokers that are denominated in currencies other than the C.I. dollar or the U.S. dollar. Consequently, the Plan may be exposed to risks that the exchange rate of the C.I. dollar or the U.S. dollar relative to other currencies may change in a manner which has an adverse effect on the reported value of that portion of the Plan's assets which are denominated in currencies other than the U.S. dollar.

Substantially all of the Plan's assets and liabilities are US dollar denominated, accordingly, the Plan's exposure to foreign currency is insignificant.

b) Credit risk:

Financial assets which potentially expose the Plan to concentrations of credit risk are cash and cash equivalents, fixed deposits, bonds and accrued interest. Investments in fixed deposits and bonds expose the Plan to the risk that an issuer will default on the payment of interest, principal or both. The Plan's cash and cash equivalents are placed with CNB. At September 30, 2018 and 2017, the majority of the cash at bank, cash equivalents and fixed deposits were placed with CNB. CNB is unrated however management views this as a stable financial institution. CNB is also a related party. Management does not anticipate any losses as a result of this concentration.

An analysis of the Plan's investments is provided in Note 4 to these financial statements. The Plan's investments in fixed income securities comprise a diversified portfolio. At year end rated securities held were all rated BBB (2017: BBB) or better by Standard & Poors or equivalent credit rating agency. The average credit rating for the Plan's fixed income securities is A+ (2017: A).

The Plan seeks to mitigate exposure to credit risk by adhering to investment guidelines which specify the types, maturities and concentrations of investments in which the Plan can invest. Prior to entering into investments, management evaluates the creditworthiness of the respective counterparties and subsequently monitors the performance of the financial assets and developments in current credit worthiness of the counterparties. The Trustees considers the Plans exposure to credit risk is mitigated as the Plan only enters into transactions with counterparties of high credit quality.

Securities transactions undertaken by the Trustees are cleared through and held in custody by one custodian that is affiliated with several Trustees. The Plan's cash and fixed deposits are held by one bank that affiliated with several Trustees.

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11. Financial risk management (continued)

c) Liquidity risk:

The Plan is exposed to monthly cash redemptions of units outstanding. It therefore invests the majority of its assets in investments that are traded in an active market and can be readily disposed of. It invests only a limited proportion of its assets in investments not actively traded on a stock exchange.

The Plan's listed securities are considered readily realisable, as they are listed on the major international exchanges, or actively traded in the over-the-counter markets. The maturity dates of the fixed income securities at market value are:

	<u>2018</u>	<u>2017</u>
Within one year	4,390,562	6,209,450
Between one and five years	12,543,347	9,446,019
Between five and ten years	<u>337,333</u>	<u>333,270</u>
Total	<u>17,271,243</u>	<u>15,988,739</u>

Actual maturities could differ from contractual maturities because the counterparty may have the right to prepay obligations with or without prepayment penalties.

As discussed in Note 4, none (2017: one) L&C real estate funds have suspended NAV pricing and redemptions as a result of illiquidity in the underlying real estate holdings which are located in Great Britain and Europe. These funds are leveraged, which increases the impact that a change in value of underlying assets has upon an investee. At September 30, 2018, the fair value of all L&C securities held, as determined by management, was \$nil (2017: \$2,648) and the cost was \$nil (2017: \$3,084).

The fair value of these L&C investments represent approximately 0.00% (2017: 0.00%) of the Plan's net assets. Given the highly liquid nature of the remainder of the Plan coupled with historically low redemptions in the Plan, management does not consider this to pose a material risk relating to liquidity.

With the exception of participant benefits, all liabilities of the Plan are due within one year (at the amounts recorded on the balance sheet). In accordance with the Plan's policy, the Investment Advisor monitors the Plan's liquidity position on a regular basis.

12. Fair value disclosures

IFRS 13 this requires the management 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:

Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Plan has the ability to access at the measurement date;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active;

Level 3: Inputs that are unobservable.

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12. Fair value disclosures (continued)

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

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

The following table analyses within the fair value hierarchy the Plan’s financial assets and liabilities (by class) measured at fair value at September 30, 2018:

<u>Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total balance</u>
Financial assets held for trading:				
– Equity securities	42,627,986	-	-	42,627,986
– Investments in other funds	-	3,821,257	-	3,821,257
– Debt securities	-	<u>17,381,309</u>	-	<u>17,381,309</u>
Total assets	<u>\$42,627,986</u>	<u>\$ 21,202,566</u>	<u>\$ -</u>	<u>\$63,830,552</u>

The following table analyses within the fair value hierarchy the Plan’s financial assets and liabilities (by class) measured at fair value at September 30, 2017:

<u>Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total balance</u>
Financial assets held for trading:				
– Equity securities	37,194,306	-	-	37,194,306
– Investments in other funds	-	3,029,853	2,648	3,032,501
– Debt securities	-	<u>16,084,472</u>	-	<u>16,084,472</u>
Total assets	<u>\$37,194,306</u>	<u>\$19,114,325</u>	<u>\$ 2,648</u>	<u>\$56,311,279</u>

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities and funds, most exchange traded derivatives, many US government treasury bills and certain non-US sovereign obligations. Management does not adjust the quoted price for these instruments.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include, most investment-grade corporate bonds, investments in other funds (excluding ETF’s) where redemption is not restricted, certain non-US sovereign obligations, thinly traded listed equities and some over-the-counter derivatives.

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12. Fair value disclosures (continued)

As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information. Level 2 investments include fixed income securities, and mutual funds (excluding exchange traded funds).

Investments classified within level 3 have significant unobservable inputs, as they trade infrequently or not at all and are subject to transfer restrictions. Valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

The following table presents the movement in level 3 instruments (investments in other funds) for the year ended September 30, 2018 by class of financial instrument:

	<u>Equity securities</u>	<u>Total</u>
Opening balance	2,648	2,648
Purchases	-	-
Sales	(8,053)	(8,053)
Transfers into level 3	-	-
Transfers out of level 3	-	-
Gains and losses recognized in profit and loss	<u>5,405</u>	<u>5,405</u>
Closing balance	<u><u>-</u></u>	<u><u>-</u></u>
Change in unrealised gains or losses for Level 3 assets held at year end and included in other net changes in fair value on financial assets and financial liabilities at fair value through profit and loss	<u><u>-</u></u>	<u><u>-</u></u>

The following table presents the movement in level 3 instruments (investments in other funds) for the year ended September 30, 2017 by class of financial instrument:

	<u>Equity securities</u>	<u>Total</u>
Opening balance	5,456	5,456
Purchases	-	-
Sales	(2,414)	(2,414)
Transfers into level 3	-	-
Transfers out of level 3	-	-
Gains and losses recognized in profit and loss	<u>(394)</u>	<u>(394)</u>
Closing balance	<u><u>2,648</u></u>	<u><u>2,648</u></u>
Change in unrealised gains or losses for Level 3 assets held at year end and included in other net changes in fair value on financial assets and financial liabilities at fair value through profit and loss	<u><u>(359)</u></u>	<u><u>(359)</u></u>

13. Subsequent events

From October 1, 2018 to February 25, 2019, the Plan received contributions of \$1,238,269 and paid redemptions of \$422,191.

CAYMAN NATIONAL PENSION FUND

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13. Subsequent events (continued)

As at October 30, 2018, Republic has received acceptances in excess of 74.99% of Cayman National ordinary shares. The Partial Offer, as discussed in Note 9, was set to expire at 5.00pm (Cayman Islands Time) on October 22, 2018, however this has subsequently been extended to March 1, 2019.