

**CAYMAN NATIONAL PENSION FUND**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2019**

**CAYMAN NATIONAL PENSION FUND**

**FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2019**

**CONTENTS**

	<i>Page</i>
Independent Auditors' Report	1 - 3
Statement of Net Assets Available to Participants for Benefits	4
Statement of Comprehensive Income	5
Statement of Changes in Net Assets Available to Participants for Benefits	6
Statement of Cash Flows	7
Notes to Financial Statements	8 - 24



Ernst & Young Ltd.  
62 Forum Lane  
Camana Bay  
P.O. Box 510  
Grand Cayman KY1-1106  
CAYMAN ISLANDS

Main tel: +1 345 949 8444  
Fax: +1 345 949 8529  
ey.com

## Independent Auditors' Report

The Trustees of the  
Cayman National Pension Fund

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Cayman National Pension Fund (the "Plan") which comprise the statement of net assets available to participants for benefits as at September 30, 2019, and the statement of comprehensive income, statement of changes in net assets available to participants for benefits and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Plan as at September 30, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### 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 *Auditors' responsibilities for the audit of the financial statements* section of our report. We are independent of the Plan in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Other Matter

The financial statements of the Plan for the year ended September 30, 2018 were audited by another auditor who expressed an unmodified opinion on those statements on February 25, 2019.

## **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 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.

## **Auditors' Responsibilities for the Audit of the Financial Statements**

This report is made solely to the Trustees. Our audit work has been undertaken so that we might state to the those charged with governance those matters we are required to state to them in an auditors' 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 Trustees and those charged with governance, for our audit work, for this report, or for the opinions we have formed.

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 auditors' 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 skepticism 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 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 auditors' 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 auditors' 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.

*Ernst & Young Ltd.*

May 29, 2020

**CAYMAN NATIONAL PENSION FUND**

**STATEMENT OF NET ASSETS AVAILABLE TO PARTICIPANTS FOR BENEFITS**

**AS AT SEPTEMBER 30, 2019**

(Expressed in Cayman Islands dollars)

	<u>September 30,</u>	
	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Cash and cash equivalents (Notes 3 and 9)	683,097	467,351
Due from broker (Note 9)	3,519,639	486,731
Financial assets at fair value through profit or loss (Notes 4 and 12)	64,006,148	63,720,486
Loans and receivables (Note 5)	1,290,896	1,855,304
Interest receivable	135,096	124,644
Dividend receivables	88,650	82,354
Other receivables	<u>530</u>	<u>91</u>
 Total assets	 <u>69,724,056</u>	 <u>66,736,961</u>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses (Note 6)	162,839	156,093
Prepaid contributions	422,453	487,582
Redemptions payable	<u>241,552</u>	<u>202,365</u>
 Liabilities (excluding net assets available to participants for benefits)	 <u>826,844</u>	 <u>846,040</u>
 <b>Net assets available to participants for benefits (Note 8)</b>	 <u><u>\$68,897,212</u></u>	 <u><u>\$65,890,921</u></u>
 Net asset value per unit (Note 8)		
 Participating Units		
\$65,046,079 / 24,571,237.30 units (2018: \$63,284,287 / 24,253,324.28 units)	\$ <u>2.647</u>	\$ <u>2.609</u>
 RSA Side Pocket Units		
\$3,851,133 / 3,596,340.42 units (2018: \$2,606,634 / 2,478,611.39 units)	\$ <u>1.071</u>	\$ <u>1.052</u>

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

Susan Levy-Elliott	Ileana Bodden
May 29, 2020	May 29, 2020

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

Phil Jackson	Stuart Dack
May 29, 2020	May 29, 2020

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

**CAYMAN NATIONAL PENSION FUND**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**YEAR ENDED SEPTEMBER 30, 2019**

(Expressed in Cayman Islands dollars)

	Year ended September 30,	
	2019	2018
<b>Revenue</b>		
Interest income	653,018	543,098
Amortization of premium	(116,115)	(128,696)
Dividend income	831,582	808,243
Net realised gains on investments	745,290	21,214
Net realised gains/ (losses) on foreign currency transactions	-	230
Net change in unrealised appreciation on investments	<u>126,709</u>	<u>5,474,365</u>
Total revenue	<u>2,240,484</u>	<u>6,718,454</u>
<b>Expenses</b>		
Administrator fees (Note 7)	375,110	362,166
Audit fees	36,193	33,779
Government fees	67,440	63,000
Trustee fees	2,250	2,250
Sundry	<u>16,405</u>	<u>20,422</u>
Total expenses	<u>497,398</u>	<u>481,617</u>
Withholding tax on dividends	<u>219,423</u>	<u>201,963</u>
<b>Net increase in net assets available to participants for benefits/net comprehensive income</b>	<u>\$ 1,523,663</u>	<u>\$ 6,034,874</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, 2019**

(Expressed in Cayman Islands dollars)

	Year ended September 30,	
	<u>2019</u>	<u>2018</u>
<b>Net increase in net assets available to participants for benefits/net comprehensive income</b>	<u>1,523,663</u>	<u>6,034,874</u>
<b>Contributions and transfers in</b>		
Employers - contributions and transfers in	2,183,108	2,004,354
Employees - contributions and transfers in	<u>2,497,510</u>	<u>2,267,959</u>
Total contributions and transfers in	<u>4,680,618</u>	<u>4,272,313</u>
Benefits paid to holders of units and transfers out	<u>(3,197,990)</u>	<u>(3,844,346)</u>
<b>Net increase in net assets available to participants for benefits</b>	3,006,291	6,462,841
<b>Net assets available to participants for benefits, beginning of year</b>	<u>65,890,921</u>	<u>59,428,081</u>
<b>Net assets available to participants for benefits, end of year</b>	\$ <u>68,897,212</u>	\$ <u>65,890,921</u>

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



**CAYMAN NATIONAL PENSION FUND**

**STATEMENT OF CASH FLOWS**

**YEAR ENDED SEPTEMBER 30, 2019**

(Expressed in Cayman Islands dollars)

	Year ended <u>September 30,</u>	
	<u>2019</u>	<u>2018</u>
<b>Cash flows from operating activities</b>		
Net increase in net assets available to participants for benefits/net comprehensive income	1,523,663	6,034,874
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	116,115	128,696
Net realised gains on financial assets and liabilities at fair value	(745,290)	(21,214)
Net change in unrealised appreciation of financial assets and liabilities at fair value through profit and loss	(126,709)	(5,474,365)
(Increase)/Decrease in due from broker	(3,032,908)	66,561
(Increase)/Decrease in loans and receivables	564,408	(91,086)
Increase in interest receivable	(10,452)	(46,153)
Increase in dividend receivable	(6,296)	(3,573)
(Increase)/ Decrease in other receivables	(439)	(91)
Increase in accounts payable and accrued expenses	<u>6,746</u>	<u>9,947</u>
Net cash provided by operating activities	<u>(1,711,162)</u>	<u>603,597</u>
<b>Cash flows from investing activities</b>		
Purchase of investments	(7,192,683)	(9,921,472)
Proceeds from sale of investments	<u>7,662,905</u>	<u>7,815,234</u>
Net cash used in investing activities	<u>470,222</u>	<u>(2,106,238)</u>
<b>Cash flows from financing activities</b>		
Employer contributions	2,149,322	2,060,708
Employee contributions	2,466,167	2,325,923
Benefits paid to participants and transfers out	<u>(3,158,803)</u>	<u>(3,834,319)</u>
Net cash provided by financing activities	<u>1,456,686</u>	<u>552,312</u>
<b>Net decrease in cash and cash equivalents</b>	215,746	(950,330)
<b>Cash and cash equivalents, beginning of year</b>	<u>467,351</u>	<u>1,417,681</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 683,097</u>	<u>\$ 467,351</u>
<b>Supplementary information on cash flows from operating activities</b>		
Interest received	<u>\$ 669,913</u>	<u>\$ 460,555</u>
Dividends received (gross)	<u>\$ 825,286</u>	<u>\$ 804,670</u>
Withholding tax paid	<u>\$ (219,423)</u>	<u>\$ (201,963)</u>

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

## CAYMAN NATIONAL PENSION FUND

### NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

(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, 2019, 46.40% (2018: 47.07%) of the membership comprised employees of the Cayman National Group of Companies. Other members include unitholders located in the Cayman Islands.

Cayman National Corporation Limited (the "Corporation" or "CNC") was incorporated on October 4, 1976 and operates subject to the provisions of the Companies Law of the Cayman Islands. The principal place of business for the Corporation is 200 Elgin Avenue, George Town, Grand Cayman.

The Corporation is a holding company for CNT and the Administrator. As announced on August 6, 2018, the Corporation received an unsolicited proposal from Republic Bank Trinidad & Tobago (Barbados) Limited ("RBTTBL") to acquire a minimum of 51% and up to 74.99% of the ordinary shares of the Corporation by way of a tender offer to Cayman National shareholders. RBTTBL was and is a subsidiary of Republic Financial Holdings Limited ("RFHL"), whose shares are publicly listed, and trade on the Trinidad and Tobago Stock Exchange.

As announced on September 12, 2018, RBTTBL offered a price of US\$6.25 per Cayman National share, which represented a premium of US\$3.25 per Cayman National share as compared to the closing price of US\$3.00 per Cayman National share on 3 August 2018 (being the last trading date before the date of the announcement of the receipt of the unsolicited proposal).

Following all regulatory approvals and all conditions to the offer being met, as announced on March 13, 2019, RBTTBL acquired 31,755,842 CNC shares, being 74.989% of the total issued share capital. As a result of this acquisition, there were no other holders of CNC shares holding in aggregate more than 5% of the total issued share capital.

The shares of the Corporation are still listed and trade on the Cayman Islands Stock Exchange.

**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.

**CAYMAN NATIONAL PENSION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2019**

(Expressed in Cayman Islands dollars)

**1. Description of the Plan (continued)**

**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.

**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 \$652,216 (2018: \$301,136) 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.

**CAYMAN NATIONAL PENSION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2019**

(Expressed in Cayman Islands dollars)

**2. Significant accounting policies (continued)**

**Standards and amendments to existing standards effective October 1, 2018:** 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 1 January 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.

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.

The Plan has not applied hedge accounting under IAS 39 nor will it apply hedge accounting under IFRS 9.

Upon adoption of IFRS 9 the Plan's investment portfolio continued to be classified as fair value through profit or loss. Other financial assets which are held for collection have continued to be measured at amortised cost with no material impact expected from application of the expected credit loss impairment model due to the short-term nature and/or credit quality of the financial assets. As permitted by the transitional provisions of IFRS 9, the Fund elected not to restate comparative figures. The adoption of IFRS 9 did not have a material impact on the Fund's financial statements and therefore there was no adjustment made to opening retained earnings at October 1, 2018.

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Fund's financial assets and financial liabilities as of October 1, 2018.

<b>October 1, 2018</b>	<b>IAS 39 classification</b>	<b>IAS 39 measurement</b>	<b>IFRS 9 classification</b>	<b>IFRS 9 measurement</b>
<b>Financial assets</b>				
Equity instruments	Held for trading at FVPL	46,449,243	FVPL	46,449,243
Debt instruments	Held for trading at FVPL	17,271,243	FVPL	17,271,243
Due from broker balances	Loans and receivables	486,731	Amortised cost	486,731
Cash and cash equivalents	Loans and receivables	467,351	Amortised cost	467,351
Trade and other receivables	Loans and receivables	2,062,393	Amortised cost	2,062,393
<b>Financial liabilities</b>				
Trade and other payables	Other financial liabilities	846,040	Amortised cost	846,040

In addition to the above, a number of new standards, amendments to standards and interpretations are effective for annual periods beginning after October 1, 2019 and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Plan.

The significant accounting policies of the Plan, which have been consistently applied to all years presented (unless otherwise stated), are as follows:

**CAYMAN NATIONAL PENSION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2019**

(Expressed in Cayman Islands dollars)

**2. Significant accounting policies (continued)**

**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.

**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.

**CAYMAN NATIONAL PENSION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2019**

(Expressed in Cayman Islands dollars)

**2. Significant accounting policies (continued)**

**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, 2019 and 2018 comprise the following:

	<u>2019</u>	<u>2018</u>
Current accounts (Note 9)	<u>683,097</u>	<u>467,351</u>
	\$ <u>683,097</u>	\$ <u>467,351</u>

**CAYMAN NATIONAL PENSION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2019**

(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, 2019:

**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	92,945	0.13%
5,000	BERKSHIRE HATHAWAY INC CL B	369,482	866,750	1.24%
119,573	CARIBBEAN UTILITIES CO	1,088,744	1,644,129	2.36%
24,369	CAYMAN NATIONAL CORP	58,550	76,153	0.11%
44,779	CAYMAN NATIONAL SECURITIES MUTUAL FUND SPC-INTERNATIONAL EQUITY	344,242	328,610	0.47%
352,260	CAYMAN NATIONAL SECURITIES MUTUAL FUND SPC-US BOND	2,971,601	3,060,556	4.39%
30,990	CAYMAN NATIONAL SECURITIES MUTUAL FUND SPC-USEQUITY	435,361	461,782	0.66%
6,335	CHINA FUND INC	134,618	102,469	0.15%
14,988	GLOBAL X MSCI NORWAY ETF	167,552	145,134	0.21%
21,165	INVESTCO INDIA	370,980	427,180	0.61%
9,776	ISHARES FTSE/XINHUA CHINA 25	349,511	324,237	0.47%
8,769	ISHARES MSCI AUSTRALIA INDEX FUND	167,517	162,592	0.23%
6,900	ISHARES MSCI BRAZIL FREE INDEX	356,137	242,248	0.35%
14,294	ISHARES MSCI CANADA INDEX FUND	333,479	344,247	0.49%
7,000	ISHARES MSCI EMERGING MARKETS	260,132	238,408	0.34%
6,455	ISHARES MSCI GERMANY	167,534	144,753	0.21%
4,900	ISHARES MSCI JAPAN INDEX FUND	167,554	231,688	0.33%
15,352	ISHARES MSCI SWITZERLAND	334,814	482,309	0.69%
1,500	ISHARES TR DJ US FINANCIAL	135,513	170,538	0.24%
16,495	ISHARES TR MSCI EAFE INDEX	877,984	896,366	1.29%
6,743	ISHARES TR RUSSELL 2000	376,284	850,405	1.22%
17,325	MIDCAP SPDR TR UNIT SER 1	1,303,394	5,088,786	7.30%
7,200	MSINDIA INVEST FUND	182,529	113,700	0.16%
23,814	NASDAQ 100 TR POWERSHARES QQQ NAS	1,149,783	3,746,934	5.37%
37,964	SPDR DOW JONES INDUSTRIAL AVG ETF TRUST	3,375,952	8,515,958	12.21%
67,566	SPDR TR UNIT SER 1	7,213,778	16,709,636	23.97%
2,849	TEMPLETON DRAGON FUND	46,483	42,521	0.06%
11,648	UTILITIES SELECT SECTOR SPDR FUND	418,791	628,410	0.90%
1,476	VANGUARD ENERGY ETF	167,498	95,965	0.14%
4,043	VANGUARD SMALL-CAP GROWTH ETF	418,645	613,322	0.88%
		<u>23,882,127</u>	<u>46,848,731</u>	<u>67.18%</u>

**CAYMAN NATIONAL PENSION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2019**

(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, 2019 (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 IN BEV	3.51%	02/01/2021	846,294	844,283	1.21%
1,000,000	APPLE INC	1.90%	02/07/2020	832,693	833,575	1.20%
1,000,000	AT&T INC	3.00%	02/15/2022	821,550	849,525	1.22%
1,000,000	AUST & NZ BANKING	2.55%	11/23/2021	821,790	841,267	1.21%
500,000	BARCLAYS PLC	2.75%	11/08/2019	416,802	416,833	0.60%
500,000	CATERPILLAR FIN SER	2.85%	01/10/2020	417,147	417,100	0.60%
900,000	CAYMAN ISLANDS GOVT	5.95%	11/24/2019	753,301	757,875	1.09%
1,000,000	CSX CORP	3.70%	10/30/2020	844,391	845,000	1.21%
1,000,000	GOLDMAN SACHS	3.32%	09/15/2020	838,408	839,958	1.20%
400,000	HSBC USA INC	3.68%	11/14/2023	333,713	335,997	0.48%
1,000,000	ING BANK INV	3.09%	08/17/2020	837,499	839,100	1.20%
1,000,000	INTEL CORP	2.26%	05/11/2020	834,257	833,617	1.20%
250,000	JP MORGAN CHASE	3.00%	10/29/2020	209,887	211,140	0.30%
500,000	MACQUARIE BK	3.38%	07/29/2020	418,138	420,046	0.60%
1,000,000	MCDONALD'S CORP	2.75%	12/09/2020	839,649	840,183	1.21%
1,000,000	MICROSOFT CORP	1.85%	02/06/2020	832,801	833,133	1.19%
500,000	MONDELEZ INT HLDGS	2.87%	10/28/2019	416,762	417,017	0.60%
1,000,000	MORGAN STANLEY	3.68%	10/24/2023	853,122	849,083	1.22%
1,000,000	NATIONAL AUSTRALIA BANK	3.23%	01/10/2022	842,711	842,517	1.21%
1,000,000	RABOBANK UA	4.63%	12/01/2023	854,198	896,325	1.29%
250,000	ROYAL BANK OF CANADA	2.60%	09/30/2020	208,443	208,750	0.30%
500,000	UNITED STATES TREASURY BILL	1.50%	10/31/2019	416,395	416,536	0.60%
500,000	UNITED STATES TREASURY BILL	2.00%	01/31/2020	416,312	416,862	0.60%
500,000	UNITED STATES TREASURY BILL	2.38%	04/30/2020	417,292	417,920	0.60%
1,000,000	VOLKSWAGEN GR AMERICA	4.25%	11/23/2023	869,993	888,392	1.27%
1,000,000	WELLS FARGO & CO	3.47%	03/04/2021	844,778	845,383	1.21%
	Fixed income securities			17,038,326	17,157,417	24.61%
	Accrued interest on fixed income securities			126,961	126,961	0.18%
	Equities/mutual funds			23,882,127	46,848,731	67.19%
	Loans and receivables			1,290,896	1,290,896	1.85%
	Accrued interest on loans and receivables			8,135	8,135	0.01%
	Cash and other assets				4,291,916	6.16%
	Total assets				<u>69,724,056</u>	<u>100.00%</u>



**CAYMAN NATIONAL PENSION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2019**

(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:

**Equities/Mutual Funds**

<u>Units</u>	<u>Security</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Percentage of total assets</u>
16,025	ABERDEENEMEGMRKS	137,685	91,610	0.14%
5,000	BERKSHIRE HATHAWAY INC CL B	369,482	892,125	1.34%
13,542	BIASEQUITIESFUND	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 MARKETS	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 AVGETF 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 SECTOR 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	418,644	631,108	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, 2019**

(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 IN BEV	3.60%	02/01/2021	855,529	854,458	1.28%
1,000,000	APPLE INC	1.90%	02/07/2020	830,891	823,417	1.23%
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	1.21%
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	1.26%
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	1.27%
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	1.26%
1,000,000	INTEL CORP	2.42%	05/11/2020	835,728	833,700	1.25%
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	KELLOGG 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	MCDONALD'S CORP	2.75%	12/09/2020	844,886	828,133	1.24%
1,000,000	MICROSOFT CORP	1.85%	02/06/2020	831,295	823,117	1.23%
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	1.26%
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	1.27%
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	852,428	852,813	1.28%
	Fixed income securities			17,364,328	17,271,243	25.88%
	Accrued interest on fixed income securities			110,066	110,066	0.16%
	Equities/mutual funds			23,397,399	46,449,243	69.60%
	Loans and receivables			1,855,304	1,855,304	2.78%
	Accrued interest on loans and receivables			14,578	14,578	0.02%
	Cash and other assets				1,036,527	1.55%
	Total assets				66,736,961	100.00%

**CAYMAN NATIONAL PENSION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2019**

(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, 2019, the portfolio provided an annual rate of return of 1.47% (2018: 10.54%) for participating units and 1.79% for RSA side pocket units (2018: 0.06%) (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 exchange traded, excluding interest in money market funds:

	September 30, 2019		September 30, 2018	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Equities/Mutual Funds	3,850,948	3,751,204	3,821,257	3,394,106

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.

There are no non-exchange traded securities in 2019. Included in non-exchange traded securities in 2018 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, 2019 and 2018 comprise the following:

	September 30, 2019		September 30, 2018	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Fixed Term Deposits with CNB	1,290,896	1,290,896	1,855,304	1,855,304
Interest receivable	<u>8,135</u>	<u>8,135</u>	<u>14,578</u>	<u>14,578</u>
Total	<u>\$ 1,299,031</u>	<u>\$ 1,299,031</u>	<u>\$ 1,869,882</u>	<u>\$ 1,869,882</u>

Yields range from 1.67% to 2.25% (2018: 0.98% to 2.25 %) and the maturities are within one year (2018: one year).

**CAYMAN NATIONAL PENSION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2019**

(Expressed in Cayman Islands dollars)

**6. Accounts payable and accrued expenses**

Accounts payable and accrued expenses as at September 30, 2019 and 2018 comprised the following:

	<u>2019</u>	<u>2018</u>
Administration, accounting and secretarial fees	126,059	94,077
Audit	35,917	35,000
Custody	3,125	3,125
Other	(2,262)	24,701
Total accounts payable	<u>162,839</u>	<u>156,903</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, 2019, the administrator fees payable were \$126,059 (2018: \$94,077).

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, 2019 and 2018 are summarised as follows:

<u>Participating Units</u>	<u>2019</u>	<u>2018</u>
Outstanding units, at beginning of year	24,253,324.28	24,426,031.36
Issued during the year (contributions and transfers from other plans)	1,841,334.00	1,735,683.92
Redeemed during the year (benefit payments and transfers to other plans)	(938,346.70)	(1,432,357.11)
Transfer to RSA side pocket	(585,074.28)	(476,033.89)
Outstanding units, at end of year	<u>24,571,237.3</u>	<u>24,253,324.28</u>
<u>RSA Side Pocket Units</u>	<u>2019</u>	<u>2018</u>
Outstanding units, at beginning of year	2,478,611.39	2,112,245.98
Transfer from participating units	1,712,594.48	661,683.35
Redeemed during the year (benefit payments and transfers to other plans)	<u>(594,865.45)</u>	<u>(295,317.94)</u>
Outstanding units, at end of year	<u>3,596,340.42</u>	<u>2,478,611.39</u>

**CAYMAN NATIONAL PENSION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2019**

(Expressed in Cayman Islands dollars)

**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:

		<u>Units</u>	<u>Fair Value</u>
Cayman National Securities US Bond Fund Segregated Portfolio	80%	352,260	3,060,556
Cayman National Securities US Equity Fund Segregated Portfolio	11%	30,990	461,782
Cayman National Securities International Equity Fund Segregated Portfolio	9%	44,779	328,610

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, 2019 and 2018, the Investment Advisor provided brokerage and custody services on behalf of the Plan. As at September 30, 2019 and 2018 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 (2018: \$12,500) are included within sundry expenses.

As at September 30, 2019 and 2018, all of the Plan's cash and fixed deposits have been placed with Cayman National Bank Ltd. ("CNB").

As at September 30, 2019, the Plan held 24,369 (2018:145,716 ) shares of Cayman National Corporation Ltd. with a market value of \$76,153 (2018: \$667,865 ).

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

The Administrator is Cayman National Fund Services Ltd.

The RSA side pocket invests in the Cayman National Securities Mutual Fund SPC. Refer to Note 8 for further details.

**10. Expense ratio**

Total expenses, excluding withholding taxes on dividends, as a percentage of the average monthly net assets available to participants for benefits, were 0.76% for the year ended September 30, 2019 (2018: 0.76%).

**CAYMAN NATIONAL PENSION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2019**

(Expressed in Cayman Islands dollars)

**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, 2019 and 2018 are presented in Note 4.

At September 30, 2019 and 2018 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 0.89 to the S&P 500 (2018: 0.95). Thus if the index rises 10% the equity portion of the Plan's portfolio will rise 8.9% (2018: 9.5%) before fees and expenses. Conversely if the index declines 10% the equity portion of the Plans portfolio will decline 8.9% (2018: 9.5%). The impact of these changes on the Plan's equity investments at September 30, 2019 would have been a rise or decline in fair value of approximately \$4.2 million (2018: \$4.4 million), excluding the effect of Plan expenses.

The sensitivity analysis presented above is based upon the portfolio composition as at September 30, 2019. 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**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2019**

(Expressed in Cayman Islands dollars)

**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 0.74 (2018: 0.68). 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 0.74% (2018: 0.68%). Conversely should interest rates decline by 100bps the fair value of the bond portfolio will increase by 0.74% (2018: 0.68%). The impact of these changes on the Plan's fixed income investments at September 30, 2019 would have been a rise or decline in fair value of approximately \$126,084 (2018: \$140,980), 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, 2019 and 2018, 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 (2018: BBB) or better by Standard & Poors or equivalent credit rating agency. The average credit rating for the Plan's fixed income securities is A- (2018: 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.

**CAYMAN NATIONAL PENSION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2019**

(Expressed in Cayman Islands dollars)

**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>2019</u>	<u>2018</u>
Within one year	8,068,322	4,390,563
Between one and five years	9,089,095	12,543,347
Between five and ten years	<u>-</u>	<u>337,333</u>
Total	<u>17,157,417</u>	<u>17,271,243</u>

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

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 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.

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, 2019:



**CAYMAN NATIONAL PENSION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2019**

(Expressed in Cayman Islands dollars)

**12. Fair value disclosures (continued)**

<b><u>Assets</u></b>	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>	<b><u>Total balance</u></b>
Financial assets held for trading:				
– Equity securities	42,997,783	-	-	42,997,783
– Investments in other funds	-	3,850,948	-	3,850,948
– Debt securities	-	<u>17,284,378</u>	-	<u>17,284,378</u>
<b>Total assets</b>	<b><u>\$42,997,783</u></b>	<b><u>\$ 21,135,326</u></b>	<b><u>\$ -</u></b>	<b><u>\$64,133,109</u></b>

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:

<b><u>Assets</u></b>	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>	<b><u>Total balance</u></b>
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>
<b>Total assets</b>	<b><u>\$42,627,986</u></b>	<b><u>\$21,202,566</u></b>	<b><u>\$ -</u></b>	<b><u>\$63,830,552</u></b>

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.

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.

**CAYMAN NATIONAL PENSION FUND**

**NOTES TO FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2019**

(Expressed in Cayman Islands dollars)

**12. Fair value disclosures (continued)**

There was no movement in level 3 instruments (investments in other funds) for the year ended September 30, 2019.

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:

	<b><u>Equity securities</u></b>	<b><u>Total</u></b>
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>
<b>Closing balance</b>	<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>

**13. Subsequent events**

From October 1, 2019 to May 29, 2020, the Plan received contributions of \$2,781,124 and paid redemptions of \$1,627,748.

The Trustees acknowledge the current outbreak of COVID-19 which is causing economic disruption in most countries and is actively monitoring developments closely. Given the nature of the outbreak and the on-going developments, there is a high degree of uncertainty and it is not possible at this time to predict the extent and nature of the overall future impact on the Plan.