CIMA
ANNUAL REPORT 2013

CAYMAN ISLANDS MONETARY AUTHORITY

The Cayman Islands Monetary Authority Annual Report was prepared by the
Cayman Islands Monetary Authority

Unless otherwise stated, the currency noted in this publication is expressed in Cayman Islands dollars
(CI$1=US$1.20)

Where referenced in this publication:
$1 trillion = $1,000,000,000,000
$1 billion = $1,000,000,000

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CIMA's Mission

"As the primary financial services regulator our mission is to enhance the economic wealth and reputation of the Cayman Islands by fostering a thriving and growing, competitive, and internationally recognised financial services industry through appropriate, responsive, cost-effective and efficient supervision and a stable currency."

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MANAGING DIRECTOR'S STATEMENT

The period under review was one characterised by global economy uncertainty, as the tentative recovery following the financial and economic crisis has given way to new concerns about stability in leading economies such as the United States and Europe.

These are key markets for the financial services industry of the Cayman Islands, which is the primary contributor to the country's economy. The Cayman Islands Monetary Authority (CIMA) continued to play a crucial role in the supervision and regulation of the industry.

INDUSTRY ACTIVITY

Banking Supervision

As at June 2013, the jurisdiction ranked fourth internationally, based on the value of cross-border liabilities booked from the Cayman Islands ($1.487 trillion). It was ranked as sixth in terms of cross-border assets booked ($1.503 trillion).

Although moderate in relation to the position at June 2012, the recent numbers have posted the first increase since 2009. The cross-border assets and liabilities of Cayman Islands banks had been declining steadily since June 2008 through June 2012.

Fiduciary Services

The Cayman Islands remained a leading domicile for the provision of Trust services in the period under review, with 389 such companies operating in the jurisdiction at 30 June, 2013. The jurisdiction also continued to perform well in the corporate/company management sector. This sector has recorded steady growth, and the 108 companies and company managers actively operating in Cayman at the end of the financial year represented an 11.34% increase over the previous year's figures.

Insurance

Significant revisions to the Insurance Law were introduced during the 2012-13 financial year. These changes affect the solvency and reporting requirements for holders of Class B, C and D insurance licences.

In 2012, Cayman saw the highest number of captive applications since the hard market of 2004, and 2013 continued to show growth for the jurisdiction. Fifty-six licences were issued in 2013, compared to 26 the previous financial year.

There was growth in the number of reinsurance companies with a physical presence in Cayman. Southport Re (Cayman) Ltd. migrated under the new Insurance Law, 2010 from a Class B Captive to join Greenlight Re as a Class D open market reinsurer.

The Cayman Islands recorded its strongest growth since 2007 in 2012, with GDP growth estimated at 1.6%. This is according to the Annual Economic Report published by the Economic and Statistics Office. The country's domestic insurance industry responded positively to the local economic recovery, surpassing the CI$400 million premium mark for the first time.

Investments and Securities

The Cayman Islands is the premier domicile for funds, continuing to surpass other fund domiciles. New fund authorisations declined since the credit crisis debacle of 2008, however, the country's funds industry remains healthy, with total funds as of 30 June 2013 at 11,209.

This increase in new authorisations during 2012 and 2013 was attributed to the registration of master funds as a direct result of The Mutual Funds (Amendment) Law, 2011.

INTERNATIONAL STANDARDS

The Authority also partnered with its international counterparts and other agencies in the effort to increase the level of information exchange on tax and other financial matters.
In January 2013, the Authority began an industry consultation on corporate governance proposals, including an updated Statement of Guidance on Corporate Governance. At the same time, CIMA also commissioned Ernst & Young to conduct a Hedge Fund Corporate Governance survey, aimed at providing industry the opportunity to communicate to the Authority its views on the current Corporate Governance standards.

The Financial Action Task Force (FATF) issued a Methodology for assessing compliance with the new 40 Recommendations on Combating Money Laundering and the Financing of Terrorism and Proliferation, in February 2013. The Authority is reviewing the Methodology in order to identify how its regulatory and supervisory framework can be further strengthened in relation to these international standards.

With regard to banking, efforts were focused on the implementation of Pillar II of the Basel II framework. An internal framework and methodology was developed in the first and second quarter of the 2012-13 financial year to support the review process under the Internal Capital Adequacy Assessment Process ("ICAAP") filing. Under ICAAP, supervisors are required to evaluate how well banks are assessing their capital needs relative to their risks and to intervene, where appropriate.

On 22 May 2013, the European Securities Markets Authority approved co-operation agreements between EU Securities regulators (and authorities from Croatia, Iceland, Liechtenstein and Norway) and the Cayman Islands, as well as 33 of their other global counterparts. This important agreement enabled the continued marketing of Cayman Islands funds in Europe, with the advent of a unified regulatory regime for alternative investment fund managers and funds within the European Union from July 2013.

ORGANISATIONAL EFFECTIVENESS

During the past year, greater emphasis was placed on the hiring of experienced, mature, well-qualified candidates already having industry experience; in addition to university graduates.

The Human Resources Division, in conjunction with the Information Systems Division, is working to streamline CIMA's mail receipting system. It is intended to improve efficiency and accuracy beginning in the coming year, especially during peak periods when CIMA receives a substantial amount of year-end payments from licensees.

Information Systems has undertaken a number of measures to improve operational efficiency, among them a more cost-efficient Voice-Over Internet-Protocol PBX telephone system, several network security enhancements made to existing systems, and data monitoring systems to assist with the Risk Management initiative.

For fiscal year 2012-13, the Authority collected $101.656 million in fees from regulated entities on behalf of the Government. This is an increase over the $79.563 million for the prior year. Net income for the 2012-13 financial year was $587,000, up from the previous year's total of $114,000.

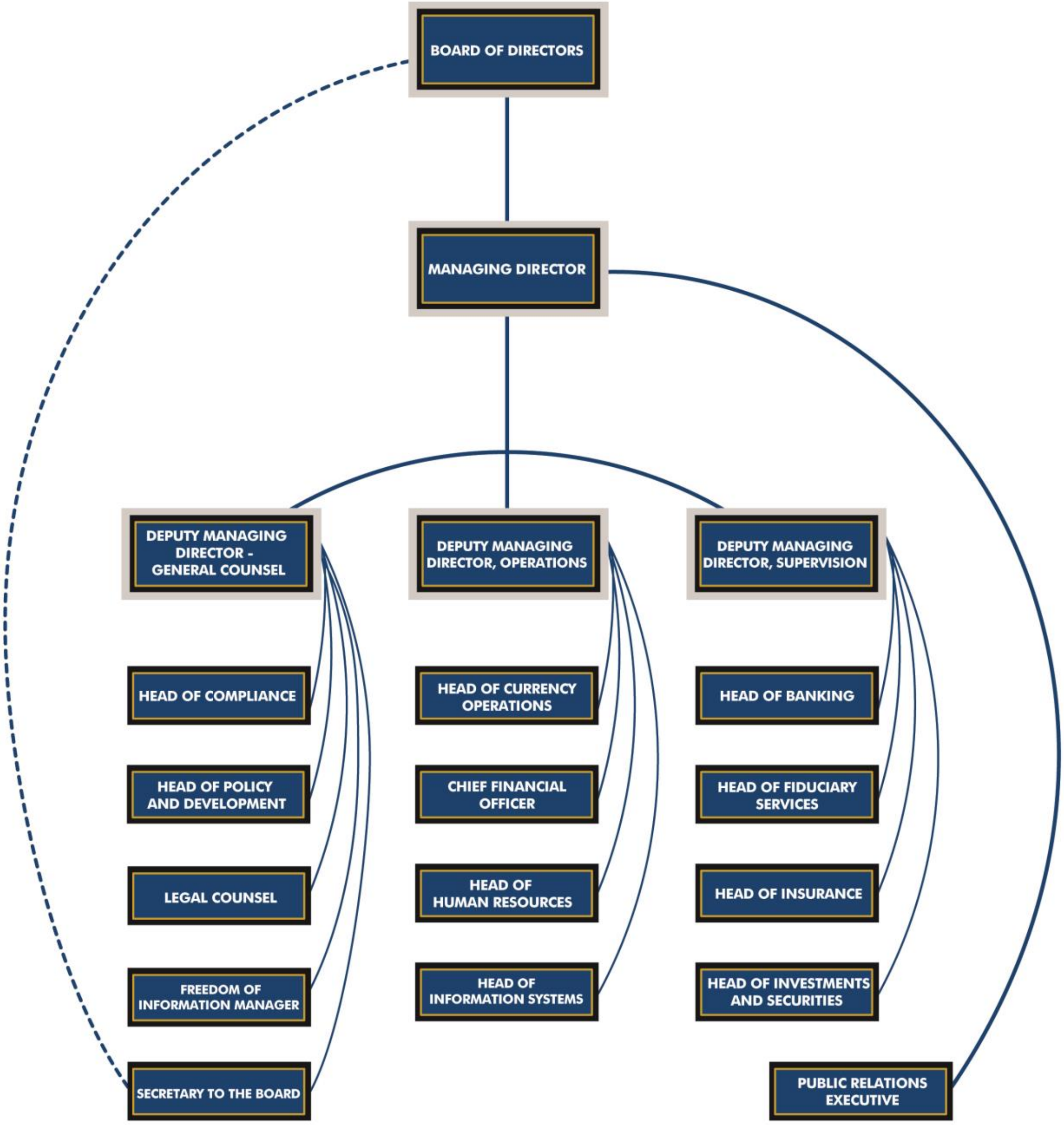
At 30 June 2013, currency in circulation (excluding numismatic coins) totalled $87.2 million.

These achievements could not have been possible without the wise counsel of the Board of Directors and the commitment and dedication of the staff of the Authority. For this, I express my appreciation once again.

Cindy Scotland

ORGANISATIONAL CHART

AS AT 30 JUNE 2013



BOARD OF DIRECTORS

As at 30 June 2013

At 30 June 2013, the Board of Directors of the Cayman Islands Monetary Authority comprised seven members:

Mr. George McCarthy, OBE, JP, Chairman
Mr. Linburgh Martin, Deputy Chairman
Mrs. Cindy Scotland, Managing Director
Mr. Harry Chisholm, Director
Ms. Sara Collins, Director
Professor William Gilmore, Overseas Director
Mr. Raul Nicholson-Coe, Director

Seated L-R: Deputy Chairman, Linburgh Martin; Managing Director, Cindy Scotland; Chairman, George McCarthy, OBE, JP Standing L-R: Director, Raul Nicholson-Coe; Director, Sara Collins; Director, Harry Chisholm; Overseas Director, Professor William Gilmore.

SENIOR OFFICERS

As at 30 June 2013

Managing Director
Cindy Scotland

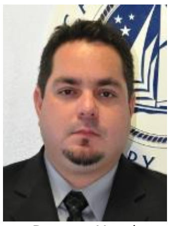
Deputy
Managing Director
General Counsel
Langston Sibblies, QC

Deputy
Managing Director
Operations
Patrick Bodden

SUPERVISORY DIVISIONS

Banking Supervision

Head
Reina Ebanks



Deputy Head
Kenton Tibbetts

Fiduciary Services

Head
Rohan Bromfield

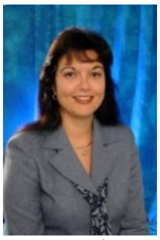
Deputy Head
Leticia Frederick

Insurance Supervision

Head
Gordon Rowell

Deputy Head
Pedro Reis

Investments & Securities



Head
Yolanda McCoy

Deputy Head
Heather Smith

Deputy Head
Gloria Glidden

NON-SUPERVISORY DIVISIONS

Compliance

Head
RJ Berry

Deputy Head
Audrey Roe

Policy & Development

Head
Mitchell Scott

Deputy Head
Francis Arana

Legal

Deputy General Counsel
Andre Mon Désir

Legal Counsel
Gail Goring Johnson

Legal Counsel
Angelina Partridge

OPERATIONS

Currency Operations

Head
Deborah Ebanks

Deputy Head
Shan Whittaker

Finance

Chief Financial Officer
Gilda Moxam-Murray

Human Resources

Head
Deborah Musson

Deputy Head
Tara Abdul-Jabbar

Information Services

Head
Chuck Thompson

Deputy Head
Scott MacLaren

MANAGING DIRECTOR’S OFFICE

Public Relations Executive
Sharon Marshall, Ph.D.

INDUSTRY OVERVIEW

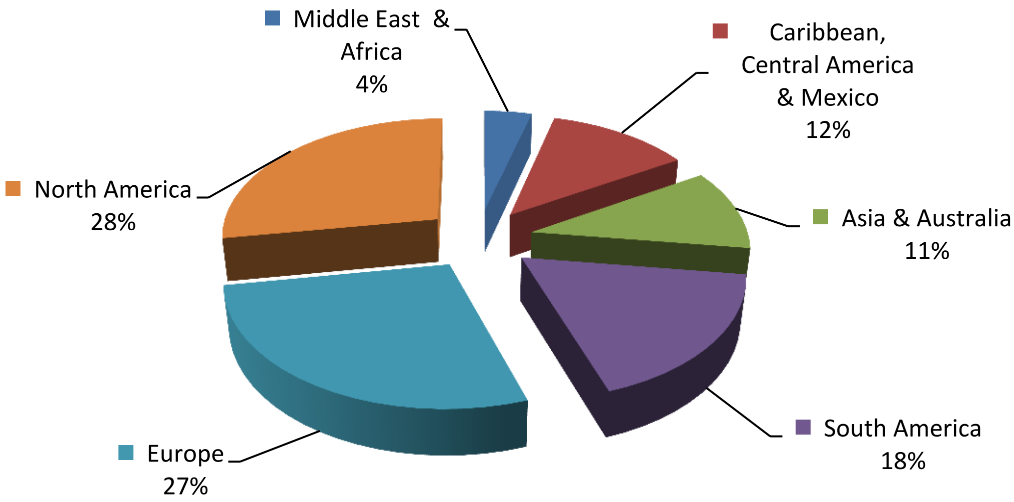
BANKING AND RELATED SERVICES

BANKING

The Sector

The majority of Cayman Islands-licensed banks are branches or subsidiaries of established international financial institutions conducting business in international markets. The largest concentrations of banks are from North America, Europe, and South America, as shown in Figure 1. The jurisdiction remains among the top ten banking centres globally, based on the value of assets and liabilities booked through banks licensed in this jurisdiction.

Figure 1: Region of Origin of Cayman-licensed Banks, June 2013



CIMA, through its Banking Supervision Division, regulates and supervises all banking entities operating in and from within the Cayman Islands, along with those trust entities that have a banking licence[1]. There are two licence categories: A and B, with the latter having a sub-category: Restricted.

The category A banking licence allows holders to operate both in the domestic and international market. The category B licence permits international banking business and limited domestic activity as set out in section 6(6) of the Banks and Trust Companies Law (2009 Revision). Category B banks are generally used as financial intermediaries to raise funds in the international market in order to provide capital for the financing of cross-border investments by their parent banks or other companies within their group.

The domestic segment comprises banks that provide both retail and non-retail services to Cayman Islands residents. Retail services offered to the general public include instalment loans, residential mortgages, equity credit loans, credit card services, deposit services, and individual retirement accounts. All retail banks require a category A licence. Other banks that also hold category A licences generally do so in order to offer principal office/authorised agent services to category B banks that do not have a physical presence in the Cayman Islands, and to provide investment banking services.

[1] See "Fiduciary Services", beginning on page 17, for further information on trust services.

There were 221 institutions holding banking licences in the jurisdiction at 30 June 2013. These comprised seven retail category A banks, eight non-retail category A banks and 206 category B banks. The sole category B restricted licensee cancelled its licence on 29 September 2011. Of the 221 licensees, 142 were branches, primarily from the US and Brazil; 61 were subsidiaries, and 18 were banks privately owned or affiliated to another bank within their group.

Banking Activity

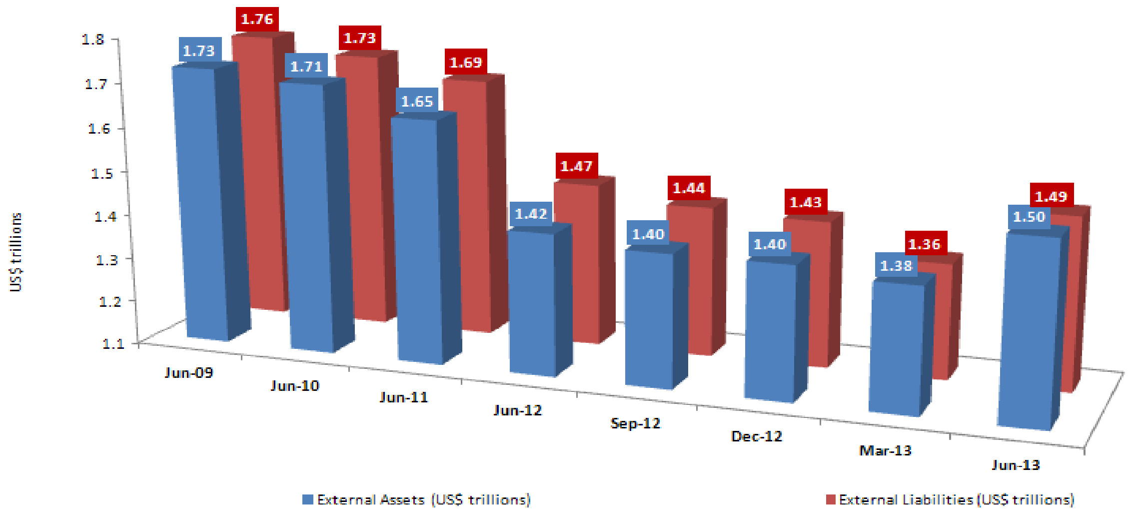
Total international assets and liabilities (cross-border positions in domestic and foreign currency and domestic positions in foreign currency) as at June 2013 stood at $1.533 trillion and $1.581 trillion, respectively, with cross-border and domestic assets of $1.503 trillion and $30 billion and liabilities of $1.524 trillion and $57 billion.

Cross-border Assets and Liabilities in Domestic and Foreign Currency 2011-2012

As at June 2013, the jurisdiction ranked fourth internationally based on the value of cross-border liabilities booked from the Cayman Islands - $1.487 trillion (June 2012: $1.441 trillion[2]) - and sixth in terms of cross-border assets booked - $1.503 trillion (June 2012: $1.429 trillion)[3].

Of the $1.487 trillion in cross-border liabilities at June 2013, $1.396 trillion (June 2012: $1.365 trillion) represent cross-border deposit liabilities of which 57% or $796 billion (June 2012: 60.4% or $824 billion) represent inter-bank bookings between onshore banks and their Cayman Islands branches or subsidiaries. This $1.396 trillion in deposits was used to provide $1.246 trillion and $36 billion of cross-border loans to Developed Countries[4] and Latin America and the Caribbean, respectively, highlighting the role of the Cayman Islands as a financial intermediary providing capital for cross-border investments.

Figure 2: Total Value of Cross-border Assets and Liabilities of Cayman Islands Bank Licensees, 2009-2013



The Cayman Islands banks' cross-border assets and liabilities were declining steadily since June 2008 through June 2012 (see Figure 2). The recent numbers have posted the first increase since 2009, though moderate in relation to the position at June 2012. The decreases were most likely influenced by the tumult in international credit markets, contraction of global economic growth and a reduction in the

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[2] Excluding US$31 billion in own issues of debt securities, which are reported without counterparty country breakdown and cannot be considered to be strictly cross-border as per recent changes to the reporting methodology by BIS.

[3] Source: Bank for International Settlements (BIS): http://www.bis.org/statistics/bankstats.htm. Report titled *2A In all currencies vis-à-vis all sectors*

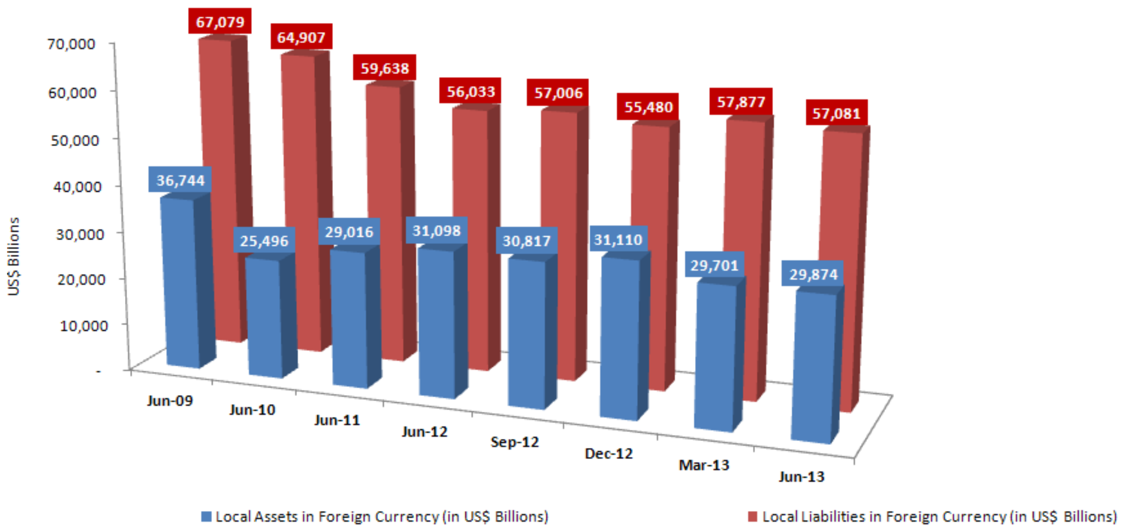
[4] Developed Countries: North America, Developed Europe and Other Developed Countries. Source: BIS

number of licensed banks stemming from the 2007-08 financial crisis. The most recent numbers are consistent with the general consensus that the global economy has been steadily improving.

Domestic[5] Assets and Liabilities in Foreign Currency 2012-2013

In addition to the June 2013 $1.49 trillion in cross-border liabilities booked from the Cayman Islands by Cayman-licensed banks, there was $57 billion foreign currency liabilities booked in the domestic economy (see Figure 3).

Figure 3: Domestic Assets and Liabilities of Cayman-licensed Banks, 2009-2013



Activity in the Domestic Segment

The domestic market continued to be serviced by seven retail banks: Butterfield Bank (Cayman) Limited, Cayman National Bank Ltd., Fidelity Bank (Cayman) Limited, FirstCaribbean International Bank (Cayman) Limited, HSBC Bank (Cayman) Limited, RBC Royal Bank (Cayman) Limited, and Scotiabank & Trust (Cayman) Ltd. Six are subsidiaries of international banking groups and the seventh is owned by a financial group headquartered in the Cayman Islands.

Table 1 shows total assets, deposits and loans for the seven retail banks on an unconsolidated basis. This includes their operations with their own branches and entities outside of the Cayman Islands and transactions with other non-resident entities. As at June 2013, the sector's Total Assets and Total Deposits reflected an increase over the prior year of $1.2 billion (8.82%) and US$1.3 billion (11.02%) respectively.

Table 1: Solo Retail Bank Figures 2009 – 2013 (in $US)

Year	Total Assets	Total Loans	*o/w Resident Loans*	Total Deposits	*o/w Resident Deposits*
Jun-09	$13.3 billion	$6.6 billion	*$3.60 billion*	$11.5 billion	*$6.78 billion*
Jun-10	$13.0 billion	$6.5 billion	*$3.48 billion*	$11.4 billion	*$7.28 billion*
Jun-11	$17.5 billion	$7.5 billion	*$3.57 billion*	$15.9 billion	*$6.42 billion*
Jun-12	$13.6 billion	$7.6 billion	*$3.69 billion*	$11.8 billion	*$6.25 billion*
Jun-13	$14.8 billion	$8.4 billion	*$3.58 billion*	$13.1 billion	*$6.26 billion*

[5] Domestic refers to positions booked by Category 'A' and 'B' banks against entities licensed in the Cayman Islands (and considered resident) and resident households.

Domestic Credit

Credit from the retail banks to the domestic market (i.e., resident loans) decreased by $0.11 billion to $3.58 billion as at June 2013, as compared to $3.69 billion as at June 2012. Credit contraction was evident in lending to Public Sector Entities, Households and Other Financial Corporations, driven mainly by a decline in central government loans and loans to businesses. (Refer to Table 2). It should be noted that while lending to Households is down compared to 2012, it remains well above 2011 numbers.

Table 2: Sectoral Distribution of Credit to the Domestic Market

Sector	Jun-11	Jun-12	Jun-13
Total Resident Loans *of which:*	**$3.57 billion**	**$3.69 billion**	**$3.58 billion**
Public Sector ***of which:***	**$0.48 billion**	**$0.45 billion**	**$0.42 billion**
Central Government	*$0.37*	*$0.34*	*$0.34*
Public Sector Entities	*$0.11*	*$0.11*	*$0.08*
Private Sector ***of which:***	**$3.09 billion**	**$3.24 billion**	**$3.16 billion**
Commercial Private Sector	*$1.09 billion*	*$0.95 billion*	*$0.95 billion*
Households	*$1.98 billion*	*$2.24 billion*	*$2.17 billion*
Other Financial Corporations	*$0.02 billion*	*$0.05 billion*	*$0.04 billion*

Financial Soundness of the Domestic Sector

When averaging the data, the financial position of the domestic retail banks is moderately healthy with hints of deterioration as at 30 June 2013. The declines that Cayman's retail banks have experienced have been marginal, considering the high level of exposure to the residential real estate sector and increase in unemployment. The impact of the economic downturn in the domestic economy is notable in the increase in banks' non-performing loans (NPLs).

The profitability of Cayman's retails banks has been returning slowly since 2010. Higher net interest margins are improving profitability measures. High capitalisation and ample liquidity indicate that the domestic banking system is stable. The Authority continues to monitor these banks, despite the improvement in liquidity, to ensure that the jurisdiction is not compromised.

Capital Adequacy - The capital adequacy ratio for the seven locally incorporated retail banks was an average of 21% as at June 2013, and has remained in excess of 20% for the previous five years. This is well in excess of the 8% minimum requirement set by the Basel Committee on Banking Supervision and the 10% set by Cayman's Banks and Trust Companies Law (2009 Revision).

Asset Quality - The ratio of nonperforming loans (net of provisions) to capital has remained at over 10% over the last four periods. Asset deterioration is driven by loan delinquency in four main sectors, mainly, *residential mortgages – households*, *commercial mortgages*, *retail lending/consumer loans – households*, and *non-financial corporations – industrial and commercial private sector.* This is due to general weakness in overall economy caused by a dip in population which would contribute to higher unemployment.

Non-performing loans ("NPL") range from 1.1% to 11.6% with an average of 3.4% for the retail banking sector. NPLs to gross loans has been on an increasing trend since 2008. It remains above the pre-crisis range of 1% - 2%, b and is within an acceptable range compared to other jurisdictions in the Caribbean which are seeing their NPLs hit the high teens. The upward trend in Cayman's NPLs also mirrors the increase in unemployment from 4% to 6.2% over the 2008 to 2012 period, as published in the Compendium of Statistics - 2012.

Earnings and Profitability - Cayman retail banks' profitability contracted significantly over the two-year period from 2008 to 2010, reflecting lower interest income and higher operating costs. Since 2012, banks are showing signs of fairly stable profits balanced by a significantly improving interest margin to gross income measure, but offset by increasing non-interest expenses. In the last two years, non-interest expenses has jumped to around to 57% after being stable at 50%. Return on Assets (ROA) and Return on Equity (ROE) have remained steady at 0.70% and approximately 6.5%.

Liquidity - Liquidity has declined for Cayman's retail banks in aggregate - from 48.1% at end-2011 to 28.3% at June 2013. This is considered healthy.

Table 3 provides a picture of the retail banks' financial soundness as at the end of their financial years 2008 through 2012, and at the end of their second quarter 2013.

Table 3: Financial Soundness Indicators for Cayman Islands Retail Banks - Solo Basis (in percentages)

Indicator	2008 Year end	2009 Year end	2010 Year end	2011 Year end	2012 Year end	2013 Year end
Capital adequacy						
Regulatory capital to Risk-Weighted Assets	20.4	20.6	22.9	21.5	20.6	21.1%
Capital to Assets	8.4	9.0	10.1	10.9	11.4	11.6%
Asset quality						
Nonperforming loans (net of provisions) to Capital	8.4	9.8	10.4	11.7	12.3	10.0%
Nonperforming Loans to Total Gross Loans	1.9	2.3	2.4	2.7	3.5	3.4%
Earnings and profitability						
Return on equity (net income to average capital [equity	15.7	7.4	4.9	5.7	6.8	6.5%
Return on assets (net income to average total assets)	1.3	0.7	0.5	0.5	0.7	0.7%
Interest margin to gross income	33.8	41.8	48.2	66.7	76.4	76.2%
Non-interest expenses to gross income	28.3	42.2	51.3	50.2	57.0	57.7%
Liquidity						
Liquid assets to total assets (liquid asset ratio)	41.2	38.8	36.2	48.1	32.2	28.3%

Authorisation Activity

Banks continue to consolidate and restructure in search of cost efficiencies, and improvements in operational risk management and governance. This is reflected in a steady decline in the number of bank licences issued over the last five years (see Figure 4). The 221 licences held as at June 2013 represent a 5.96% decline from the 235 held as at June 2012. Table 4 shows bank licensing and termination activity for the fiscal year 2012 to 2013.

Figure 4: Number of Bank Licences, by Category, Fiscal Year-end 2009-2013

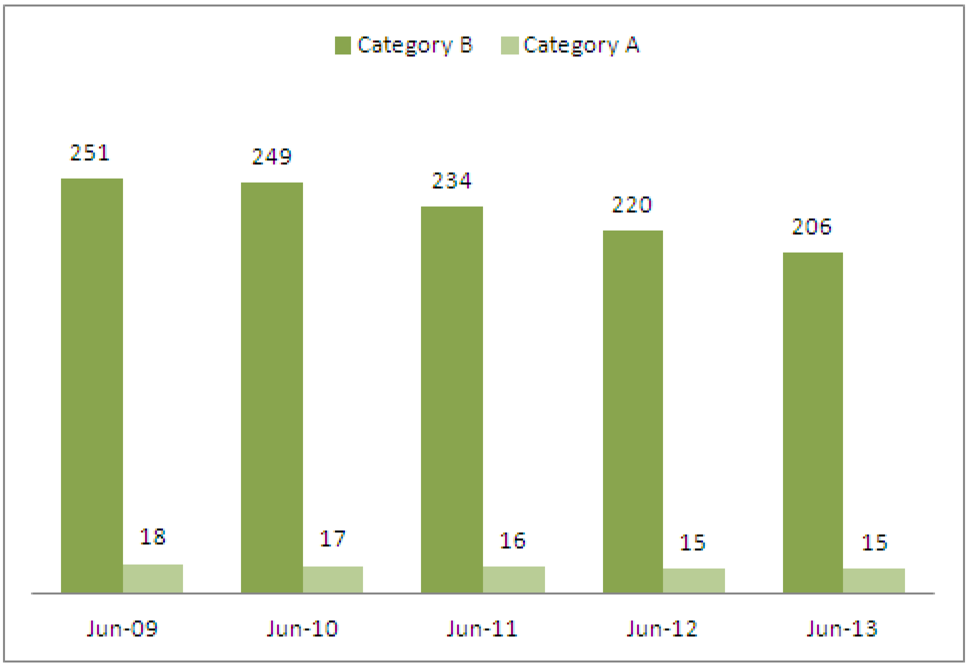


Table 4: Bank Licensing Activity, 2012-2013

Licence Type	Active as at 30 June 2012	Terminated 1 July 2012 - 30 June 2013	Issued 1 July 2012 – 30 June 2013	Active as at 30 June 2013
Category A	15	0	0	15
Category B	220	16	2	206
Total	**235**	**16**	**2**	**221**

Jurisdictional Comparisons

As illustrated in Table 5, changes in the number of banks licensed in the listed jurisdictions were relatively static. Cayman had the sole decline of 5.96%, while Panama and Luxembourg posted modest increases. Cayman had its third highest fiscal-year decrease over the five years. In relation to a base year of 2008, Cayman has lost 57 licensed entities (20.5%). Within the group of losing jurisdictions, Bahamas posted the second highest decline in licensed entities (15%), followed by Jersey, Switzerland and Luxembourg (10.6%, 9.2% and 6.6%, respectively). Singapore, Hong Kong and Panama posted increases of 8.8%, 2.3% and 2.2%, respectively. Nonetheless, Cayman continues to maintain its position of being the jurisdiction with the second largest number of banks.

Table 5: Bank Licence Numbers - Selected Jurisdictions, 2009-2013 Fiscal Year-end (Positive change percentages are decreases in nominal values)

Jurisdiction	2008	change	2009	change	2010	change	2011	change	2012	change	2013	Ranking
Cayman	278	4.32%	266	6.02%	250	5.60%	236	0.42%	235	5.96%	221	2
Bahamas	127	6.30%	119	5.04%	113	2.65%	110	1.82%	108	0.00%	108	6
Panama	90	14.44%	77	-20.78%	93	2.15%	91	0.00%	91	-1.10%	92	7
Jersey	47	0.00%	47	4.26%	45	11.11%	40	-5.00%	42	0.00%	42	8
Luxembourg	152	1.97%	149	1.34%	147	2.72%	143	1.40%	141	-0.71%	142	4
Switzerland	327	0.61%	325	1.54%	320	2.50%	312	4.81%	297	0.00%	297	1
Hong Kong	172	0.58%	171	2.34%	167	-2.99%	172	-2.33%	176	0.00%	176	3
Singapore	113	-0.88%	114	-5.26%	120	0.00%	120	-2.50%	123	0.00%	123	5

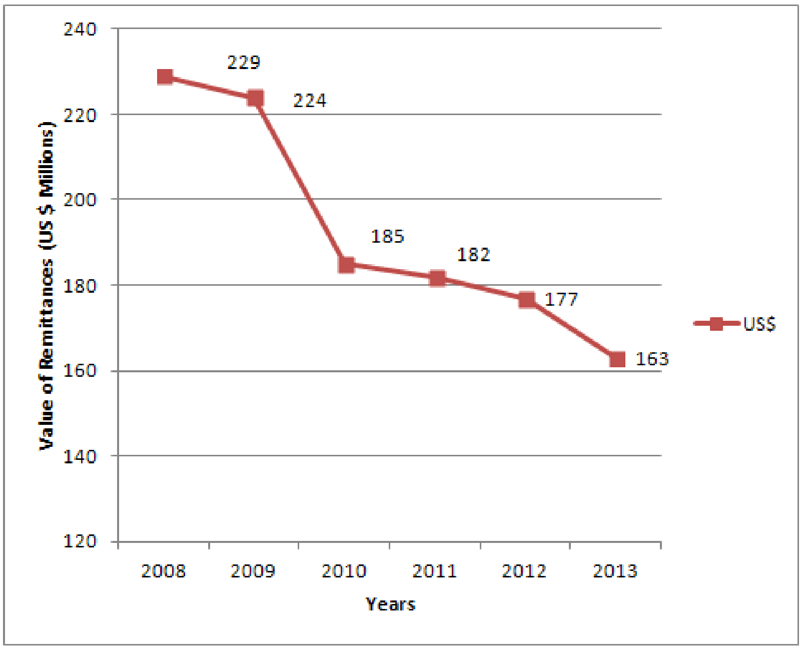
*Statistics from respective authority/central bank website.
**2012: Panama did not publish a report for this period. Numbers from prior period were utilized.
***2013: As at the time of this report, Switzerland and Hong Kong had not yet published their information. Numbers from the prior period were utilized.

MONEY SERVICES, COOPERATIVES AND BUILDING SOCIETIES

Money services businesses cater primarily to the domestic market and must be licensed by CIMA. The number of these licences in effect decreased to six as at June 2013, compared to the eight money service businesses at June 2011. Two of the six licenses outstanding are expected to be cancelled within 2014.

Remittances sent from the Cayman Islands to other jurisdictions through these entities for year 2013 fell to $134 million, from $177 million in 2012. The remittance numbers have been trending downwards since 2008. The decline can most likely be attributed to the economic slowdown, in particular the construction industry[6], following the 2007-8 financial crisis.

Figure 5: Total Remittance Outflows, June 2008 to June 2013



Jamaica remained the largest recipient of remittances from the Cayman Islands in 2012, with 66.7% (June 2012: 65%) of the US$163 million going to that country (see Figure 6). Remittances coming into

[6] *A large majority of the Cayman workforce are expatriates. Their presence is particularly evident in the Construction industry.*

the Cayman Islands through money service providers totalled $4.9 million (June 2012: $1.8 million). Twenty-one per cent of this amount was from Jamaica (see Figure 7).

Figure 6: Proportion of total Remittance Outflows to various countries, fiscal year June 2013

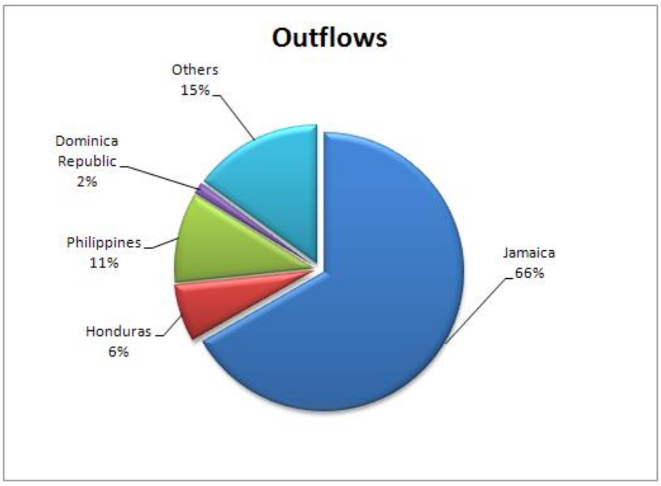
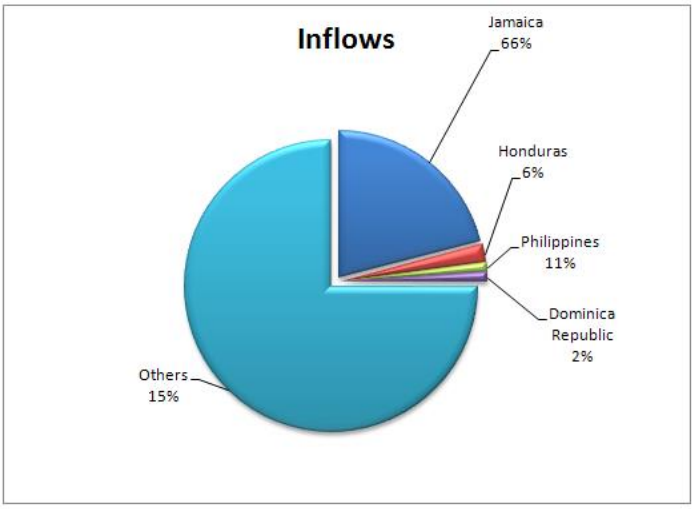


Figure 7: Proportion of Total Remittance Inflows from Various Countries, Fiscal Year June 2013



Cooperative societies carrying on credit union business, building societies and development banks are not required to be licensed but must be registered by CIMA. The number of cooperative credit unions (2), building societies (1) and development banks (1) supervised by the Banking Division as at June 2013 remained at four.

FIDUCIARY SERVICES

TRUSTS

The Sector

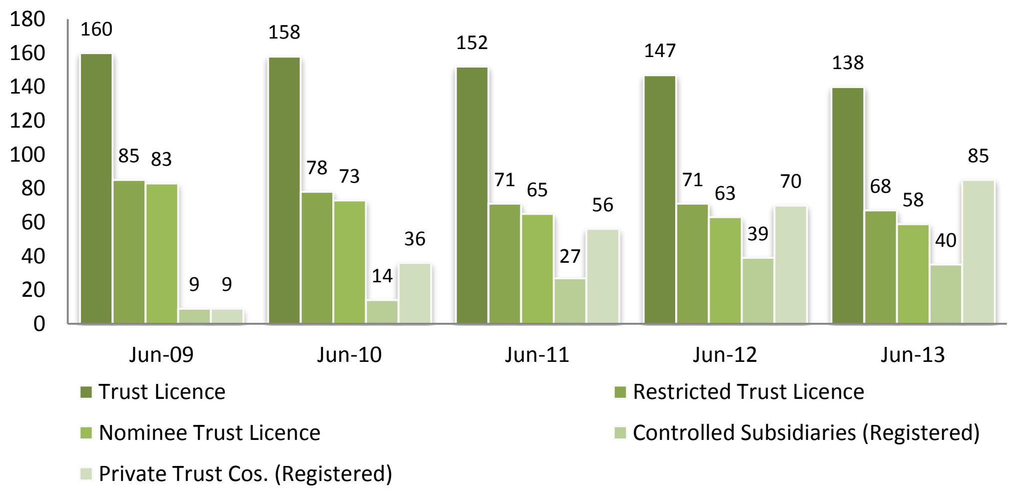
Corporate trust business carried out in and from the Cayman Islands is regulated pursuant to the Banks and Trust Companies Law (2013 Revision) (BTCL), and the Private Trust Companies Regulations (2013 Revision) (PTCR). The BTCL defines trust business as "the business of acting as trustee, executor or administrator", and no company is allowed to carry on such business unless it is licensed or registered by the CIMA. CIMA's Fiduciary Services Division has regulatory and supervisory responsibility for trust companies that do not have a banking licence. Those that have a banking licence are regulated and supervised by the Banking Division.

There are three licence categories and two registration categories for trust business. These are:

- Trust – the licensee is authorised to carry on the business of acting as trustee, executor or administrator;
- Restricted Trust – the licensee is authorised to undertake trust business only for persons listed in any undertaking accompanying the application for the licence;
- Nominee (Trust) – the licensee is authorised to act solely as the nominee of a trust licensee, being the wholly-owned subsidiary of that licensee;
- Controlled Subsidiary **-** the registrant is authorised to provide trust services including the issuing of debt instruments or any other trust business connected with the trust business of its parent that holds a trust licence, and
- Private Trust Company **-** the registrant is authorised to provide trust services to "connected persons" as defined in section 2(2) of the PTCR.

The Cayman Islands has been a top international location for the provision of trust services and remains so, with 389 companies providing these services in and from the jurisdiction as at 30 June 2013. Figure 8 shows the breakdown of trust companies by authorisation type at fiscal year-end, 2009 to 2013.

Figure 8: Number of Trust Licences by Category,2009-2013



Licensed trust companies in Cayman provide trust services. These services include traditional discretionary family trusts, wherein families use the trust structure to manage and structure their wealth and effect succession and estate planning. Some trusts are set up to allow professionals to efficiently manage significant wealth to benefit families, charities, and other persons or causes for numerous generations.

Assets settled in trust are usually held in an underlying company and the trust (through the trustee) holds the shares in that company. These structures are established to be compliant with the laws, regulations and rules of all applicable jurisdictions whilst affording the client the comfort and the peace of mind that the settled assets are safe and will be managed in accordance with the agreed terms of the trust deed.

Private trust companies are those companies established for the sole purpose of engaging in trust business for assets settled by connected persons meeting very specific criteria (mainly familial relationship). This type of arrangement is often used in planning and managing the wealth of high net worth families.

Trusts and trust companies are also used in capital markets and structured finance arrangements, usually by large institutional clients such as institutional asset managers, large investment banks and wealth management etc. These institutions see the benefit of structuring in Cayman because the jurisdiction is creditor friendly. The jurisdiction has innovative legislation that is beneficial to the efficiency of transactions and Cayman vehicles are well reputed, recognised and respected worldwide.

Authorisation Activity

Table 6 shows trust company authorisation activity for the fiscal year. Overall, the sector remained fairly stable in 2012-13.

Table 6: Trust Authorisation Activity, 2012-2013

Authorisation Type	Active as at 30 June 2012	Terminated 1 July 2012–30 June 2013	Issued 1 July 2012 –30 June 2013	Active as at 30 June 2013
Trust Company (Licensed)	146	11	*3	138
Trust Company – Restricted (Licensed)	71	2	*2	68
Nominee Trust (Licensed)	63	5	*3	58
Controlled Subsidiaries (Registered)	39	5	6	40
Private Trust Companies (Registered)	70	2	16	85
Total	389	25	30	389

Prior to the enactment of legislation in 2008 for the registration of private trust companies, the restricted trust category had been largely used to establish private trust companies. The net decline in restricted trust companies since 2008 (see Figure 8) is mainly attributable to licence holders choosing to surrender their licences in order to register as private trust companies. There were a total of 85 private trust companies as at June 2013, with 6 being registered during the fiscal year. It is anticipated that this upward movement in registration will continue.

Jurisdictional Comparisons

Table 7 shows the number of licensed trust entities for calendar years 2008 to 2012 in the Cayman Islands and in other international financial centres for which figures are available.

As illustrated, with respect to the number of licensees, the Cayman Islands has maintained its position relative to the other listed international trust services locations. The declines in Cayman's trust licences since 2008 partially reflect the movement of licensees to the new registration categories.

Table 7: Number of Licensed Trusts - Selected Jurisdictions, 2008-2012 Calendar Year-end

Jurisdiction	2008	change	2009	change	2010	change	2011	change	2012
Cayman*	332	↓5%	315	↓7%	293	↓14.3%	251	↓6.8	234
BVI	213	↑1.88%	217	↑1.84%	221	↓14.9	188		
Bahamas	220	0%	220	↑4.55%	230	↑18.67	273	↓4.8	260
Bermuda	213	↓84.97%	32	↓3.12%	31	↑3.2	32	↓6.3	30
Gibraltar**	72	↓6.94%	67	↑10.4	74	↓2.7	72	↓6.9	67
Guernsey**	205	3.90%	197	↑1.01%	199				151
Isle of Man	120	↑9.16%	131	↓0.76	130	↓2.3	127	↑0.8	128
Jersey**	175	↑5.14%	184						
Panama	56	↑7.14%	60	↑3.33%	64	7.8	69	↑2.9	71
Turks & Caicos	19	0%	19	↓5.26%	18	↓22.2%	14	↓14.3	12
Singapore	36	↑2.77	37	↑29.73	48	↑4.2	50	↑2.0	51

Note: Figures for other jurisdictions have been collected from the relevant websites and overseas contacts.

* Cayman's figures do not include registered private trust companies and registered controlled subsidiaries that are wholly owned subsidiaries of licensed trust companies. These were introduced as authorisation categories in 2008. (Note that the figures for 2008 and 2009 that were published in the CIMA Annual Report 2009-10 inadvertently included registered private trust companies and registered controlled subsidiaries.)

** Figures for Gibraltar, Guernsey and Jersey include both trust and company businesses licensed, inclusive of affiliation members.

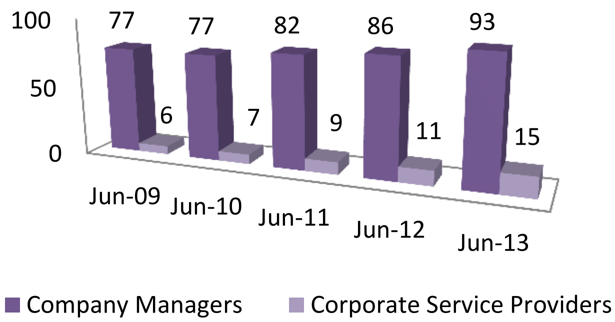
N/A: Figures not available

CORPORATE SERVICES

The Sector

The Cayman Islands holds its own among locations from which corporate/company management services are provided (see Table 8 for jurisdictional comparisons) and the sector has seen steady growth over the last several years (see Figure 9), with 108 such companies active at 30 June 2013.

Figure 9: Number of Company Manager and Corporate Service Provider Licences, 2009-2013



The services, provided mainly to institutions, include: company incorporation – forming a company and having it duly constituted; registered office – providing a statutory address and a place where process can be served; directorship – providing qualified directors to sit on the board of a Cayman company; and nominee shareholder – acting as shareholder on a client's behalf. Corporate services are used in conjunction with the majority of the trust structures established in the jurisdiction.

All providers of corporate services are required to be licensed by CIMA, and the Authority's Fiduciary Services Division has regulatory/supervisory responsibility for these licensees.

Two licence categories are provided: a companies management licence allows the holder to provide company management services as listed in section 3(1) of the Companies Management Law (2003 Revision) or any other corporate services as may be prescribed under that section. A corporate services licence allows the holder to provide only the corporate services specified in section 3(1)(a) through (e) of the Companies Management Law (2003 Revision). Licensed trust companies are also authorised to provide corporate services.

Authorisation Activity

Table 8 shows authorisation activity for company managers and corporate service providers for 2012-2013. The 108 licences in effect at 30 June 2013 represent an increase of 11.34% over June 2012.

Table 8: Companies Management Authorisation Activity, 2012-2013

Authorisation Type	**Active as at 30 June 2012**	**Terminated 1 July 2012 –30 June 2013**	**Issued 1 July 2012 –30 June 2013**	**Active as at 30 June 2013**
Company Manager (Licensed)	86	2	9	93
Corporate Service Provider (Licensed)	11	0	4	15
Total	**97**	**2**	13	**108**

Jurisdictional Comparisons

Table 9 shows the number of active corporate services licences for calendar years 2008 to 2012 in the Cayman Islands and in other international financial centres for which figures are available.

Table 9: Corporate Services Licence Numbers - Selected Jurisdictions, 2008-2012 Calendar Year-end

Jurisdiction	2008	change	2009	change	2010	change	2011	change	2012
Cayman	80	*↑5%*	84	0%	84	↑9.5%	92	↑9.7%	98
BVI	20	*↑0%*	20	↑5%	21	↓14.3%	18		
Gibraltar	72	*↓6.94%*	67	↑10.4	74	↓2.7%	72	↓6.9	67
Guernsey	205	*↓1.5%*	197	↓3.55%	199				
Isle of Man	185	*↑12.97%*	209	↓3.82%	201	↓10.9%	179		
Jersey	175	*↑5.14%*	184						
Turks & Caicos	42	*↑2.38%*	43	*↓27.90%*	31	↓3.2%	30	↓26.7	22

Note: Figures provided have been collected from the relevant websites and overseas contacts.

N/A: Figures not available

* Jersey, Gibraltar and Guernsey's figures include both trust and company businesses licensed, inclusive of affiliation members.

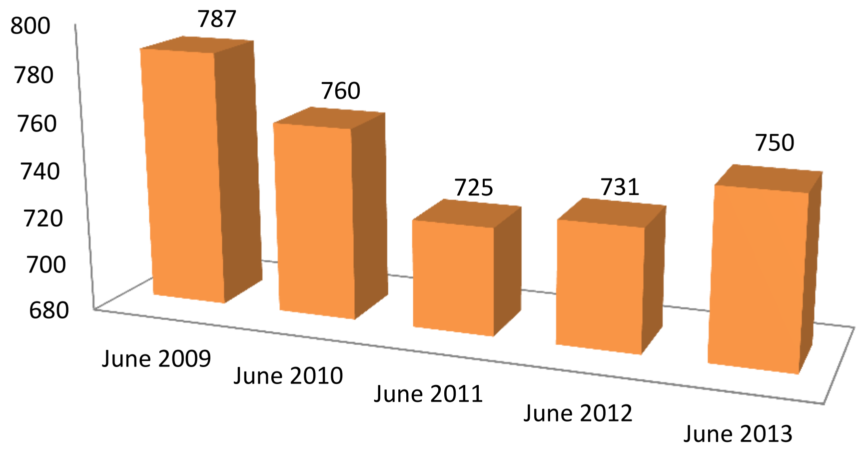
INSURANCE

1. The Sector

The insurance industry in the Cayman Islands has two distinct sectors: the domestic market, which provides insurance of local risks by locally incorporated or registered insurers, and the international market, which provides insurance of foreign risks by insurers from within the Cayman Islands. CIMA, through its Insurance Supervision Division, regulates and supervises all insurance entities operating in and from the Cayman Islands. The Authority provides four classes of licence for insurance companies: Class A for domestic insurers, Class B for international insurers, Class C for fully funded vehicles e.g. insurance linked securities and Class D for commercial reinsurers. Class C and D have been included during the current fiscal year with the enactment of the Insurance Law, 2010. CIMA also regulates insurance managers, brokers and agents[7].

1.1. The International (Captive) Segment

Figure 10: Number of Cayman Islands International (Class B, C, D) Insurance Licences, 2009-2013



The industry is dominated by the international segment, comprised primarily of captive insurance companies[8] and their service providers (hence the popular reference to this segment as the 'captive' market). The size of this market is evidenced by the number of insurance companies: 750 at 30 June 2013 (see Figure 10); the premiums generated: US$13.5 billion total at 30 June 2013, and the assets held: US$82.7 billion total at 30 June 2013 (Figure 11).

With these figures, the segment also claims a major share of the global insurance market. Worldwide, the Cayman Islands is the second largest domicile for captive insurance companies. Moreover, with 34% of Cayman's captives covering healthcare risks (see Figure 12), the jurisdiction is the number one domicile for healthcare captives.

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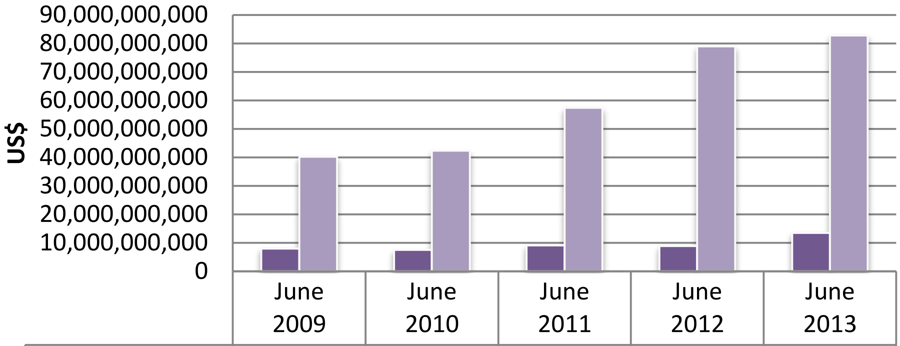
[7] Insurance Manager – "a company operating in and from within the [Cayman] Islands which provides insurance expertise to and for insurers and which has in its bona fide employment a person who" fits the criteria outlined in section 2; Insurance Agent - "a person (not being an insurer) who solicits directly, or through representatives, advertising or other means, domestic business on behalf of not more than one insurer"; Insurance Broker - "a person (not being an insurer) who negotiates directly or through representatives or other means, contracts of insurance or of reinsurance on behalf of more than one insurer, or for placement with insurers or reinsurers" (Insurance Law (2008 Revision) s.2).

[8] The International Association of Insurance Supervisors has defined a captive insurer as "an insurance or reinsurance entity created and owned, directly or indirectly, by one or more industrial, commercial or financial entities, other than an insurance or reinsurance group entity, the purpose of which is to provide insurance or reinsurance cover for risks of the entity or entities to which it belongs, or for entities connected to those entities and only a small part if any of its risk exposure is related to providing insurance or reinsurance to other parties." http://www.iaisweb.org/index.cfm?pageID=47&vSearchLetter=c##

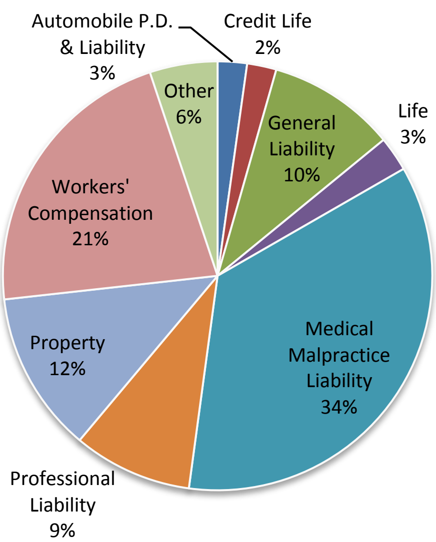
Other types of coverage provided by Cayman captives include: general and professional liability, workers' compensation, property, auto and product liability, and life and annuity.

Figure 11: Total Premiums & Assets of Cayman Islands Class B Insurance Licensees, Fiscal Year-end 2009-2013



	June 2009	June 2010	June 2011	June 2012	June 2013
Total Premiums	7,986,587	7,496,373	9,065,474	8,883,201	13,508,01
Total Assets	40,218,96	42,275,66	57,405,63	78,901,05	82,771,10

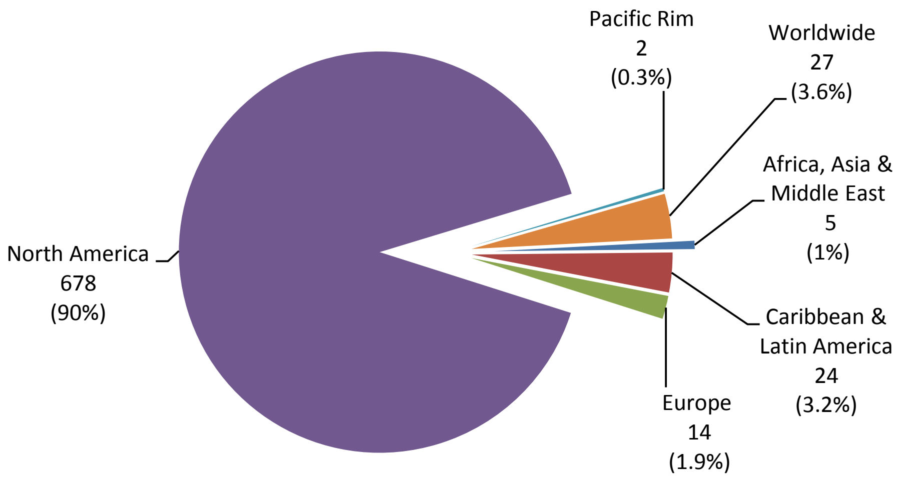
Figure 12: Cayman-Domiciled International Insurance Companies by Type of Coverage, 30 June 2013



While the vast majority of companies in the international segment of Cayman's insurance industry are self-insured captives of one type or another, a small number are engaged in commercial operations, providing insurance or reinsurance coverage to non-related entities. Along with insurance companies, the international segment comprises insurance managers. The international insurers originate mainly from North America, with the next largest geographical source being the Caribbean and Latin America, collectively (see Figure 13).

The captive industry in Cayman began in the mid-1970s with the medical malpractice insurance crisis in the United States, and was formalized with the introduction of the Insurance Law in 1979. Unable to obtain commercial insurance, healthcare organisations began to form captives in Cayman to provide for their risk management needs. As a result, Cayman has developed particular expertise in this area.

Figure 13: Cayman-Domiciled International Insurance Companies by Location of Risks Covered, 30 June 2013



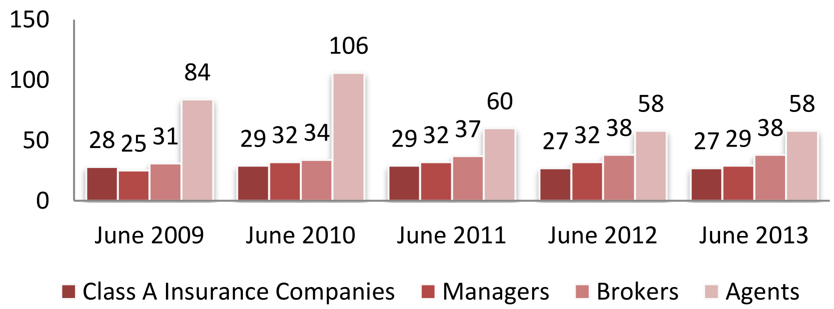
Over the years, corporations have made increasingly extensive use of captives as part of their overall risk management function, reducing the premium they pay for commercial coverage by insuring a portion of their risk through a captive insurance programme. In addition to expanded coverage availability and flexibility, and better risk management, reasons for the formation of captives include cost reduction and stabilisation, improved cash-flow, and access to the reinsurance market which otherwise is unavailable if self-funding retained risk. (The reinsurance market generally provides better rates and conditions than the direct market.)

More recently, Alternative Financing Vehicles (e.g. insurance-linked securitization contracts) have been formed to allow reinsurers access to capital markets for catastrophe cover. Segregated Portfolio Companies (SPCs), also called Protected Cell Companies that typically provide captive products for smaller organisations, are also a significant part of the market.

During the 2012-13 fiscal year, significant revisions to the Insurance Law were introduced, affecting the solvency and reporting requirements for Class B, C and D insurance licences. These changes to the law came into effect on 1 November 2012, but due to the transitional arrangements introduced by Law, licensees have until 30 April 2014 to do the needful to bring themselves into full compliance with the Law.

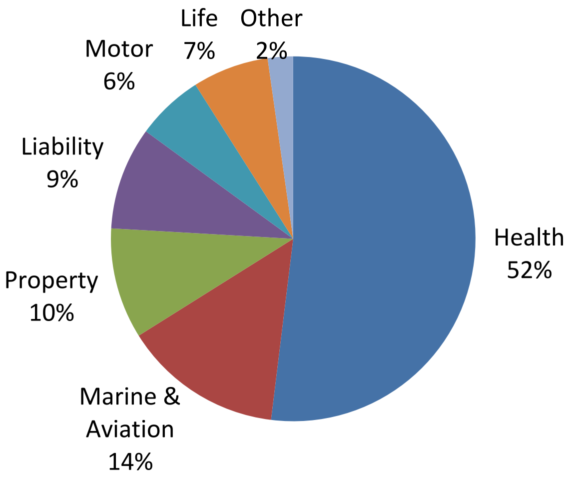
1.2 The Domestic Segment

Figure 14: Number of Cayman Islands Domestic Insurance Licences, by Category, Fiscal Year-end 2009-2013



The domestic market comprises insurance companies (both locally incorporated and branches of foreign companies) and intermediaries (brokers and agents). Business is written directly, or through the brokers and agents. Domestic insurers provide a range of coverage to local policyholders, with health; marine and property being the top three categories, accounting for approximately 76% of premiums earned by the sector for calendar year 2012 (see Figure 15).

Figure 15: Coverage Provided by Class A Insurers, Measured by Net Earned Premiums, 2012 Calendar Year



2. Industry Activity

At 30 June 2013, there were 906 insurance licensees under regulation (June 2012: 886). Of these, 709 were class B, 39 were class C, 2 were class D, 27 were class A, 29 were insurance managers, 40 were brokers and 60 were agents.

Table 10: Insurance Licensing Activity 2012-2013

Licence Type	Active as at 30 June 2012	Terminated 1 July 2012 - 30 June 2013	Issued 1 July 2012 - 30 June 2013	Active as at 30 June 2013
Class A	27	0	0	27*
Class B, C, D	731	37	56	750
Insurance Managers	32	4	1	29
Brokers	38	0	2	40
Agents	58	9	11	60
TOTAL	**886**	**50**	**70**	**906**

* *Revised*

** *The number of Class A insurance companies writing business at 30 June 2013 was 23 as Class A insurer Motor and General Insurance Company Limited was under controllership, Dyoll Insurance Company Limited has liquidators appointed, and Reliastar Life Insurance Company of New York and Occidental Life Insurance Company of North Carolina were in run-off.*

2.1. Captives

There was an increase in the number of licences issued during 2012-2013 (56), compared to 2011-12 (36). In particular, 2012 was a year of tremendous growth for the Cayman Islands, with 53 licences granted. To put this in perspective, in 2012 Cayman received the highest number of captive applications since the hard market of 2004. 2013 continues to show growth for the Cayman Islands, with a combined total of 24 licences granted during the first two quarters of 2013, compared to the 20 licences granted during the same period in 2012. This is a very good indicator of the recovery in the captive insurance sector and in the licensing numbers, following the effects of the US subprime crisis on captives.

There was a slight increase in the number of licences cancelled during 2012-13 (37) compared to 2011-12 (30), but a decrease when compared to 2010-11 (68). The higher number of cancellations in 2010-11 was mostly reflective of CIMA's review and 'cleaning out' of a number of licences that had been surrendered in prior years but not removed from the system. In addition, the cancellations included SPVs that completed their one-year policy cycle.

Despite the general soft global insurance marketplace, there was continued demand in 2012-13 for the use of captives, primarily in the areas of medical malpractice liability (the primary class of business for 34% of class B licences at 30 June 2013), workers compensation (21% of licences) and property coverage (12%).

The most popular region of origin of Cayman captives continues to be North America, which accounted for 90% of captives at fiscal year-end (see Figure 13). This was followed by Latin America and the Caribbean: 3.2%. With 1.9% of companies covering risk in Europe, that region became the third largest risk location, overtaking Africa, Asia and the Middle East which accounted for 1%, Pacific Rim: 0.3%, and the rest of the world accounted for a combined 3.6%.

Table 11: International Insurance Company Statistics by Company Category and Licence Class, 30 June 2013

Category	Total Licences To date	%	Total Premiums	Net Income	Net Worth	Total Assets
Commercial Insurer	39	5.21%	2,496,018,091	2,795,815,051	1,884,353,982	22,752,555,396
Group Captive	124	16.56%	1,625,052,375	253,328,035	2,478,879,704	5,089,631,433
Pure Captive	412	55.01%	7,751,857,175	302,932,449	9,323,638,808	42,096,988,582
Reinsurance Companies	2	0.27%	840,348,606	66,299,141	77,646,122	5,685,244,647
Segregated Portfolio Company	134	17.76%	498,953,349	87,396,445	565,344,239	3,506,240,774
Special Purpose Vehicle	39	5.21%	295,781,961	-5,333,705	-9,201,006	3,640,447,319
Totals:	**750**	**100.00%**	**13,508,011,557**	**3,500,437,416**	**14,320,661,849**	**82,771,108,151**

Among the 750 international insurance companies were 134 segregated portfolio companies under the Companies Law, with a total of 657 segregated portfolios operating within them. Open market insurers accounted for 5% of total international insurance companies active at 30 June 2013.

Jurisdictional Comparisons - Captives

As shown in Table 12, between 2010 and 2012 most of the jurisdictions for which figures are available experienced very small variations/declines in licences, evidence of the extremely soft commercial insurance markets. Nevertheless, the Cayman Islands' continued prominence as a captive domicile is evidenced.

Table 12: Captive Insurance Licence Numbers - Selected Jurisdictions, 2009-2012-Calendar Year-end

Jurisdiction	2009	Change	2010[δδ]	Change	2011[δδδ]	Change	2012
Cayman	780	↓5%	738	-	739	-	741
Barbados	N/A	-	242	-	N/A	↑8%	261
Bermuda	885	↓5%	845	↑2%	862	↓1%	855
BVI	285	↓23%	219	↓21%	174	-	N/A
Guernsey	355	↓6%	333	↑3%	343	-	N/A
Hawaii	N/A	-	168	↑2%	172	-	N/A
S. Carolina	147	↑9%	160	↓4%	153	-	N/A
Vermont	560	↑3%	576	↑2%	590	-	593

* 2006 –

Source: *Business Insurance,* 12 March 2007 edition
** 2006 was the first year Bermuda released data specifically for captives as a licence class. Prior figures reflected the combined position for all licence classes.
*** *Business Insurance* estimate
δ 2007 – Source: jurisdictions' websites or regulators
δδ 2010 – Source: *Captive Review* March 2011: 2011 Survey – Top Leading Captive Domiciles.
δδδ 2011 – Source: *Captive Review* May 2012: 2012 Survey – Top Leading Captive Domiciles.
N/A Data not available

2.2 Domestic Activity

In 2012, the Cayman Islands economy posted its strongest growth since 2007 with the GDP growing at an estimated 1.6% from the previous year. According to the Annual Economic Report published by the Economic and Statistics Office of the Cayman Islands, expansion in economic activity was strongest in the services sector, including insurance. The Cayman Islands domestic insurance industry responded positively to the local economic recovery, achieving a significant milestone by surpassing the CI$400 million premium mark for the first time. Based on the review of the preliminary data collected, the industry is expected to end the year 2013 with total gross written premium ("GWP") of about CI$402 million, which would be a 6% growth over last year. The industry is also expected to outperform the previous year's net income of CI$110 million approximately by the same percentage as the GWP growth.

The number of Class A licences at the end of the 2012-13 fiscal year remained at 27, however with only 23 companies actively selling insurance. One insurer was under controllership, another had liquidators appointed, and two were in run-off, as detailed in Table 10 above. The Class A market was comprised of 8 locally incorporated companies and 19 branch/agency operations of foreign companies.

During the 2012-13 fiscal year, significant revisions to the Insurance Law were introduced, especially with regard to the solvency and reporting requirements of Class A insurers. As referred for the International (captive) segment, these changes to the law came into effect 1 November 2012, but due to the transitional arrangements introduced by the law, licensees have until 30 April 2014 to bring themselves into full compliance with the law. CIMA is working with Class A insurers to evaluate their capital position under the new requirements, which are aimed at further strengthening the financial stability of the domestic insurance market. There could be consolidation across the domestic insurance industry in the 2013-14 fiscal year, with Class A insurers with smaller books of business deciding to leave the market. However, it is expected that the industry will eventually stabilize with fewer, but financially stronger, insurers with long-term business strategies remaining in the market.

Table 13: Domestic Insurance Company Statistics by Primary Class of Business as at 31 December 2012 (CI$ 000')

Domestic Insurance Companies - Unaudited Statistics By Primary Class of Business for the period 1 January 2012 - 31 December 2012	**Property**	**Motor**	**Health**	**Liability**	**Marine & Aviation**	**Other**	**Life**	**Grand Total**
Direct premiums	113,553	23,817	171,865	28,089	39,339	7,053	0	383,716
	0	0	0	0	0	0	18,776	18,776
Assumed premiums	0	0	0	0	0	0	0	0
Ceded premiums	-85,775	-7,112	-27,638	-2,555	-103	-814	0	-123,997
Unearned premium adjustment	-521	-139	0	-229	60	-1	0	-830
TOTAL UNDERWRITING INCOME	**27,257**	**16,566**	**144,227**	**25,305**	**39,296**	**6,238**	**18,776**	**277,665**
Net loss and loss adjustment expenses paid	775	8,299	108,765	2,799	2,959	14	0	123,611
	0	0	0	0	0	0	6,827	6,827
Change in reported outstanding claims	-858	218	-363	916	-720	-15	0	-822
	0	0	0	0	0	0	6,185	6,185
Change in IBNR	-15	158	5,337	-4	2	0	0	5,478
Incurred Loss Sub Total	-98	8,675	113,739	3,711	2,241	-1		128,267
Acquisition and General Expenses	-425	3,768	19,694	1,151	126	125	8,240	32,679
TOTAL UNDERWRITING EXPENSES	**-523**	**12,443**	**133,433**	**4,862**	**2,367**	**124**	**21,252**	**173,958**
TOTAL UNDERWRITING INCOME (LOSS)	**27,780**	**4,123**	**10,794**	**20,443**	**36,929**	**6,114**	**-2,476**	**103,707**
Net Investment Income	n/a	n/a	n/a	n/a	n/a	n/a	n/a	19,060
Other Revenue/(Expenses)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-6,178
TOTAL INCOME (LOSS)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	**116,589**

INVESTMENTS AND SECURITIES

FUNDS AND FUND ADMINISTRATORS

The Sector

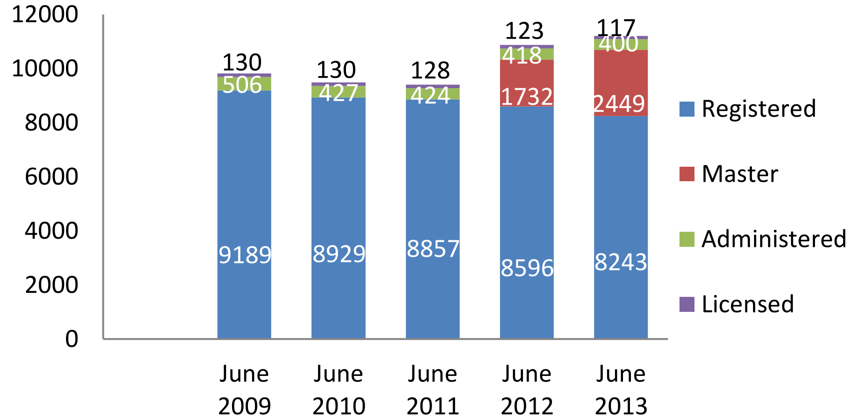
The regulatory framework that governs the alternative investment industry in the Cayman Islands was enacted in 1993, some twenty years ago. Today, the Cayman Islands is the premier domiciliation of choice for funds. The jurisdiction also continues to surpass other fund domiciles (Table 13). Despite the decline in new fund authorisations since the credit crisis debacle in 2008, the funds industry remains healthy, with total funds as of 30 June 2013 at 11,209, compared to 9,990 at 30 June 2012, 9,409 at 30 June 2011 and 10,037 in mid-2008. The increase of new fund authorisations is predominantly attributable to the registration of master funds as a direct result of The Mutual Funds (Amendment) Law, 2011, (MFL) gazetted on 22 December 2011, and The Mutual Funds (Amendment) Law, 2012 gazetted on 10 January 2013.

Before the new amendments, master funds benefitted from an exemption from registration, if they had no more than 15 investors. Following the new legislation on the registration of hedge funds, 2,449 master funds have been registered at 30 June 2013. (See Figure 16)

The MFL makes provision for three categories of regulated funds: licensed, administered and registered, and charges the Cayman Islands Monetary Authority with responsibility for their regulation and ongoing supervision. Licensed funds, commonly known as retail or public funds, are governed by a more prescriptive regime than registered funds because they are open to the public. All operators and promoters are vetted, offering documents must outline certain required information, calculation of net assets must be clearly defined and transparent, and assets must be segregated in accordance with governing rules.

Although Cayman Islands legislation refers to 'mutual funds', the vast majority of the funds regulated in the jurisdiction fall within the loose definition of a 'hedge fund' and are regulated as registered funds. A registered fund must either have a CI$80,000 minimum subscription, or have its equity interest listed on a recognised (CIMA-approved) stock exchange; or a master fund and the minimum aggregate equity interest purchasable by a prospective investor in the master fund is CI$80,000 (or its equivalent in any other currency); or the equity interests of the master fund are listed on a stock exchange (including an over-the-counter market) specified by the Authority by notice in the Gazette. The great majority of investors are professional investors and/or institutions. Most of these funds have a US$1,000,000 minimum subscription level, and they are usually distributed as a private placement, all of which further reinforce their non-public status. According to the Authority's 2011 Investment Statistical Digest, of the 6,917 regulated funds that filed a 2011 FAR with CIMA, 44% required a minimum initial investment of US$1,000,000 or greater (see Figure 18).

Figure 16: Number of Cayman Regulated Funds, by Category, Fiscal Year-end 2009-2013

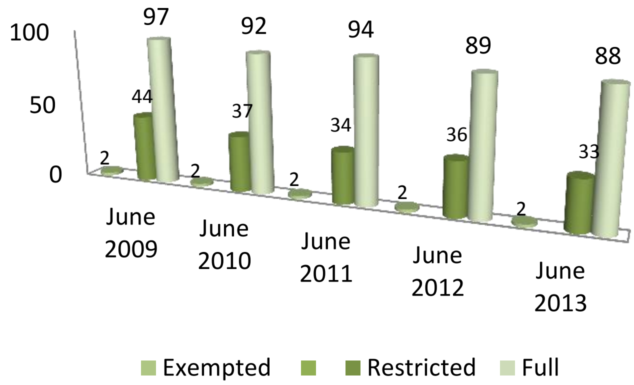


To be authorised as such, an administered fund must have a licensed mutual fund administrator in Cayman acting as its principal office. The MFL imposes several duties on the mutual fund administrator, including the responsibility to satisfy itself about the proper business conduct of the fund, and to report to CIMA if it knows or suspects that the fund is unable to meet its obligations as they fall due, or if the fund is carrying on business in contravention of a law or in a manner prejudicial to investors or creditors.

Mutual fund administrators must themselves be authorised by CIMA to carry out mutual fund administration. This is defined as the provision of any of the following services for a fund: management (including control of the fund's assets), administration, providing a principal office in the Cayman Islands, or providing an operator (i.e., the director, trustee or general partner) to the fund.

Two categories of mutual fund administrator licence[9] exist: full, which allows the holder to provide administration to an unlimited number of funds, and restricted, which allows administration of no more than 10 funds. See Figure 17, Mutual Fund Administrators by Category, 2009-2013.

Figure 17: Number of Mutual Fund Administrators, by Category, 2009-2013



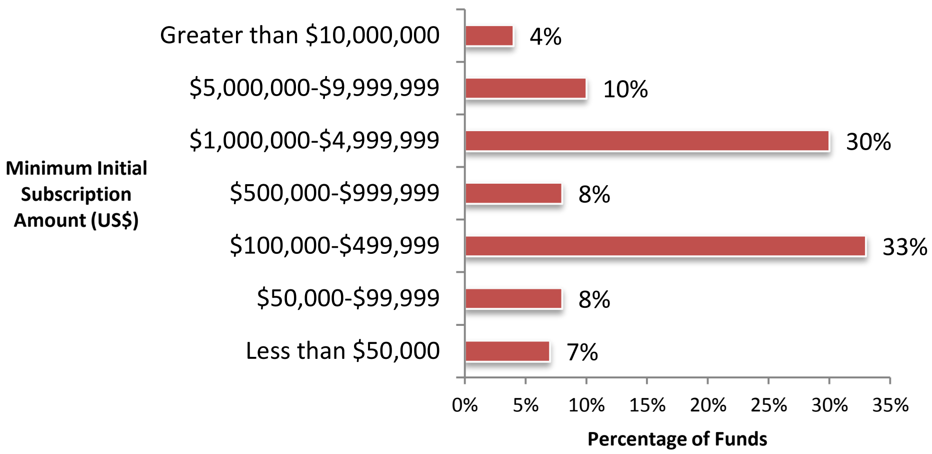
While aggregate financial and other statistical information covering all regulated funds is not currently available, one can get an indication of the size and profile of the industry from statistics that CIMA collated from 6,917 regulated funds that had a financial year end in 2011 and that submitted the required Fund Annual Return form via CIMA's electronic reporting system.[10] These 6,917 funds had total assets of US$2.4 trillion combined and net assets of US$1.7 trillion. The 2011 Investment Statistical Digest records a significant decline in hedge funds profitability, as reflected in the decrease in total net income from US$170 billion to US$14 billion in 2011. Even though the total net income is not as robust as the 2010 figures, it nevertheless represents a positive return for the industry. In addition, overall ending net assets increased by 4% from US$1.728 trillion to US$1.798 trillion. Cayman was the primary location from which fund administration services (registrar and transfer (R&T) service was provided for these funds, with New York again being the primary location of the investment managers to these funds[11].

In addition to the factors that facilitate financial services generally from the Cayman Islands, investors and their fund promoters/sponsors primarily form hedge funds in the Cayman Islands in order to benefit from its tax neutral platform, which allows investors from multiple jurisdictions to avoid excessive layers of foreign taxation in addition to their home country tax. This tax neutrality provides a level playing field for all investors, natural persons or institutional, within the complex parameters of existing tax and securities laws that apply to the investors, the management team

[9] A third authorisation category, exempted, which previously existed, has been discontinued. However, administrators already authorised in this category remain.
[10] See CIMA's *Investments Statistical Digest 2011* available on CIMA's website at www.cimoney.com.ky
[11] As determined by the proportion of the Cayman funds' aggregate net assets for which those service providers were responsible.

and the business or investment activities in their multiple home jurisdictions. It does not mean that investors avoid paying taxes. This tax neutrality provides a level playing field for all investors, natural persons or institutional, within the complex parameters of existing tax and securities laws that apply to the investors, the management team and the business or investment activities in their multiple home jurisdictions - it does not mean that investors avoid paying taxes. The fact that the MFL does not impose restrictions on investment strategies, limits on leveraging, mandate resident directors or the physical presence of funds service providers in the Cayman Islands, as well as the fact that there is a distinction between the regulation of public funds and that of non-public funds, are other reasons for the growth of the Cayman Islands as a funds domicile.

Figure 18: Minimum Initial Investment Required by Cayman-Regulated Funds Filing a Fund Annual Return for 2011



Authorisation Activity

Funds - Fiscal year to date, 1,635 regulated entities were authorised and 1,206 regulated entities were terminated, compared to 2,704 and 1,177 respectively during the same period in 2012. The total number of regulated funds as at 30 June 2013 was 11,209 (comprising 8,243 registered funds, 2,449 master funds, 400 administered funds and 117 licensed funds) compared to 10,871 comprising (8,598 registered funds, 1,732 master funds, 418 administered funds and 123 licensed funds) for the same period in 2012. During 2012 and 2013, the increase in new authorisations was attributed to the registration of master funds as a direct result of The Mutual Funds (Amendment) Law, 2011.

Administrators - The number of licensed fund administrators decreased during the fiscal year from 125 to 123. There were three new mutual fund administrators' licence applications approved and five licences cancelled during the fiscal year. The trend to downsize through merger and acquisitions, as well as move operations to cheaper jurisdictions such as India and Canada continues. As of 30 June 2013, the total number of licensed fund administrators comprised of 2 Exempted, 88 Full and 33 Restricted, as compared to 2 Exempted, 89 Full and 34 Restricted as at 30 June 2012.

Jurisdictional Comparisons - Funds

Table 14 shows the number of active funds for calendar years 2008 to 2012 in Cayman and other financial jurisdictions for which figures are available. As the figures demonstrate, the number of Cayman-authorised funds remains consistently in excess of the other jurisdictions. To date, Cayman remains the leader in fund domiciliation. The decline in fund numbers across jurisdictions between 2008 and 2012 largely reflects the impact of the US recession and the continued instability in the global financial markets.

Table 14: Regulated Fund Numbers - Selected Jurisdictions, 2008-2012 Calendar Year-end

Jurisdiction	% change ('08 v '07)	2008	% change ('09 v '08)	2009	% change ('10 v '09)	2010	% change ('11 v '10)	2011	% change ('12 v '11)	2012
Bahamas	↑11%	867	↓ 9%	788	↓4%	753	↓5%	713	N/A	N/A
Bermuda	↓11%	1,133	↓16%	1,309	↓10%	1,181	↓11.8%	772	↓1%	762
BVI	↑8%	2,942	↓1%	2,923	↑1%	2,951	↓12.3%	2,627	↓11.8%	2,318
Dublin	↑1.5%	975	↓1.4%	961	↑6.3%	1,022	↑9.7	1,121	↑3.3	1,158
Jersey	↑ 12%	1,472	↓12%	1,294	↑2%	1,324	↑3%	1,392	↓0.3%	1,388
Cayman	↑ 5%	9,870	↓4%	9,524	↓1%	9,438	↓1.9%	9,258	↑17.1%	10,846

* Restatement of number due to enhancements made by Regulator.

SECURITIES INVESTMENT BUSINESS

The Sector

Securities investment business activities carried out in and from the Cayman Islands include: dealing in securities, arranging deals, investments management and provision of investment advice. The Securities Investment Business Law (SIBL) provides for the regulation of persons engaged in these activities in or from the Cayman Islands, including market makers, broker-dealers, securities arrangers, securities advisors and securities managers. Such persons must be licensed by CIMA unless they meet the criteria to be excluded from the licensing requirement, in which case they must be registered as 'excluded persons'.

Since 2003, when the SIBL regime commenced, the excluded persons category has accounted for the vast majority of SIBL authorisations (see Figure 19). Most of the entities in this category conduct securities investment business exclusively for institutions or sophisticated investors. The majority of the licensees are Category A Banks, or affiliates thereof, that maintain securities investment business licences in order to provide securities investment services to their customers.

Figure 19: Number of Regulated Securities Investment Business Entities, 2009-2013

Authorisation Activity

The securities investment business continues to grow modestly. Two new licence applications were approved in the fiscal year. As of 30 June 2013, there were 34 licensed Securities Investment Business holders and 2,064 SIBL Excluded Persons, compared to 32 and 2,035 respectively during the same period 2012.

ORGANISATIONAL DEVELOPMENTS

NATURE AND SCOPE OF ACTIVITIES

FUNCTIONS

CIMA has four principal functions.

1. **Monetary** - the issue and redemption of the Cayman currency and notes and the management of currency reserves.
2. **Regulatory** - the regulation and supervision of financial services, the monitoring of compliance with money laundering regulations, the issuance of a regulatory handbook on policies and procedures and the issuance of rules, and statements of principle and guidance.
3. **Cooperative** - the provision of assistance to overseas regulatory authorities, including the execution of memoranda of understanding to assist with consolidated supervision.
4. **Advisory** – the provision of advice to the Government on monetary, regulatory and cooperative matters, and, in particular, to advise Government whether the Authority's regulatory functions and cooperative functions are consistent with functions discharged by an overseas regulatory authority, and whether the regulatory laws are consistent with the laws and regulations of foreign jurisdictions. The scope of CIMA's advisory role also extends to representing the interests of the Cayman Islands at international forums and advising Government on the recommendations of those organisations.

OBLIGATIONS

The primary obligations of the Monetary Authority in carrying out the above functions are to:

- act in the best economic interests of the Cayman Islands;
- promote and maintain a sound financial system in the Cayman Islands;
- use its resources in the most efficient and economic way;
- have regard to generally accepted principles of good corporate governance;
- endeavour to promote and enhance market confidence, consumer protection and the reputation of the Cayman Islands as a financial centre;
- reduce the possibility for the use of financial services business for money laundering or other crime;
- recognise the international character of financial services/markets and the need to be competitive for consumers and suppliers while complying with appropriate and relevant international standards;
- recognise the principle that a burden or restriction that is imposed should be proportionate to its expected benefits;
- recognise the desirability of facilitating innovation in financial services business, and
- be transparent and fair.

STRATEGIC GOALS

CIMA is in the final year of a three-year strategic plan approved by the Authority's Board of Directors. In summary, the strategic priorities are:

1. to further **modernise regulation and enhance supervision** in order to ensure that Cayman keeps on par with the evolving international regulatory standards and best practices that are relevant to our business;

2. to **intensify CIMA's international cooperation and involvement** so as to: ensure that the Authority does its part in maintaining the safety and sound regulation of the international financial system; enable Cayman to continue to contribute to the development of international rules and standards that affect this jurisdiction, and to enhance the jurisdiction's reputation;

3. to facilitate the Government and private sector's efforts to **further develop the Cayman Islands as an international financial centre**, and

4. to **increase CIMA's effectiveness and cost-efficiency**.

EXECUTION OF MONETARY FUNCTIONS

CURRENCY MANAGEMENT

The Monetary Authority, through its Currency Operations Division, is the sole issuing authority for Cayman Islands currency. The division is responsible for the issue, re-issue, and withdrawal of Cayman Islands currency notes and coins against the United States dollar, dealing with the local retail banks: Butterfield Bank (Cayman) Limited, Cayman National Bank Ltd., Fidelity Bank (Cayman) Limited, CIBC FirstCaribbean International Bank (Cayman) Limited, HSBC Bank (Cayman) Limited, RBC Royal Bank (Cayman) Limited, and Scotiabank & Trust (Cayman) Ltd. The division also administers the sale and redemption of numismatic coins to and from local and overseas collectors.

Currency Reserve Management

Cayman Islands currency is issued on demand only against United States currency at the rate of one Cayman Islands dollar per 1.20 US dollars. It is repurchased on demand with US dollars at the same rate.

The currency in circulation is backed by the currency reserve assets in accordance with section 32 of the Monetary Authority Law. As at 30 June 2013, CI$97.930m (2012: $99.417m) representing 112.27 per cent (2012: 12.09 per cent) of total demand liabilities (i.e., currency in circulation).

Full details on the currency reserve assets, including specifics on the performance of the investments and cash and cash equivalent deposits that comprise the currency reserve assets, can be found at Note 4 of the Notes to the Annual Financial Statements (page 56 and following).

Issue and Redemption of Currency

Currency in Circulation - At 30 June 2013, currency in circulation (excluding numismatic coins) stood at $77.2 million in notes and $10 million in coins, totalling $87.2 million. This represents a 1.7% decrease from the 30 June 2012 figure of $88.7 million. Table 15 shows currency in circulation at fiscal and calendar year-end from 2009 to 2013. Figure 20 shows currency in circulation by month from 2009 to 2013.

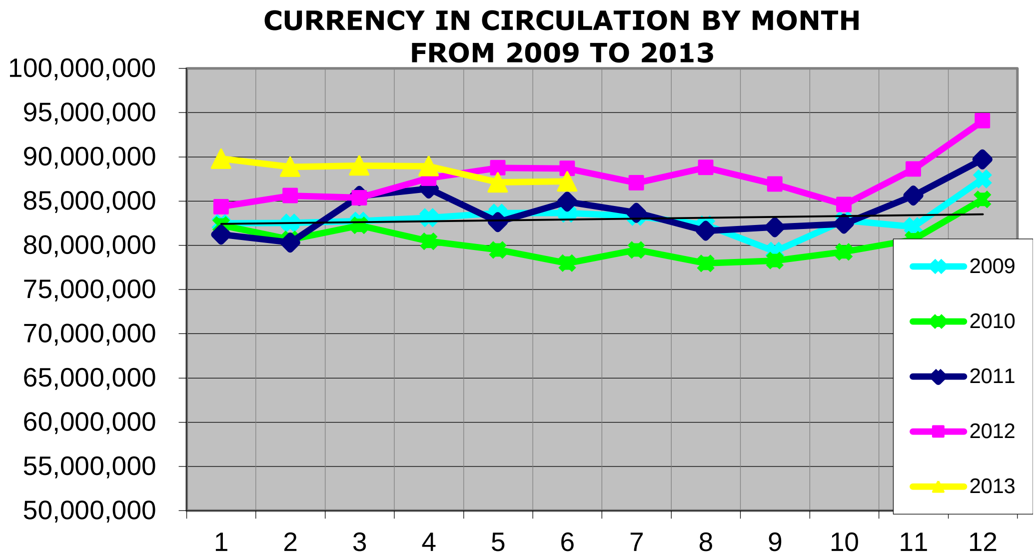
Table 15: Currency in Circulation at Fiscal and Calendar Year-end, 2009-2013 (in CI$m)

DATE	2009	2010	2011	2012	2013
30 June	83.6	78	84.9	88.7	87.2
31 December	87.5	85.2	89.7	94.0	

New Currency – The Currency Division continues to put into circulation the D series banknotes featuring innovative security measures, which were launched in April 2011, with the $10 banknotes introduced in September 2012. The $100 banknote is the only denomination which remains to be put into circulation.

CIMA and the Royal Cayman Islands Police Service (RCIPS) Financial Crime Unit continue to work with the industry and business community with "Know Your Money" sessions. A video produced by Government Information Services "Spotlight Segment " during the 2011 launch has been updated and is now featured on the CIMA website under Currency. The public is being encouraged to use this video as a training tool for their cash-handling employees.

Figure 20: Cayman Islands Currency in Circulation by Month: 2009-2013



Counterfeit Detection

A total of 24 forged banknotes was detected and withdrawn from circulation in 2012-13, compared to 46 detected and withdrawn in the prior fiscal year.

Table 16 shows the number of forged banknotes, by denomination, which were withdrawn from circulation in each of the six-month periods between 1 July 2009 and 30 June 2013.

Table 16: Counterfeit Cayman Islands Currency Notes Recovered, July 2009-June 2013

	Jul - Dec 2009	Jan - Jun 2010	Jul - Dec 2010	Jan - Jun 2011	Jul - Dec 2011	Jan - Jun 2012	Jul - Dec 2012	Jan - Jun 2013
$100	8	2	5	8	7	0	0	4
$50	1	1	0	10	5	1	1	2
$25	0	10	0	19	23	1	4	7
$10	2	0	0	72	7	2	2	4
$5	0	0	0	0	0	0	0	0
$1	0	0	0	0	0	0	0	0
Total No. of Notes	**11**	**13**	**5**	**109**	**42**	**4**	**7**	**17**
Total Dollar Value	**$870**	**$500**	**$500**	**$2,495**	**$1,595**	**$95**	**$170**	**$715**

Numismatic Coin Programme

CIMA added two more coins to the Authority's numismatic coin programme during the 2012-2013 fiscal year. The first coin was issued in January 2013 to commemorate the 10th Anniversary of National Heroes Day. This is a $5 silver coin which was designed by a young creative Caymanian graphic artist attached to Government Information Services, which was very fitting given that the 2013 National Heroes Day celebrations was under the theme "Youth Services".

The second coin was issued in the Royal Mint 24 Commonwealth Coin Collection to celebrate the historic event of Queen Elizabeth II's Diamond Jubilee. The theme of this $5 silver coin is "The Queen's Golden Jubilee" and features the image of the Jubilee Beacon as well as the phrase "A Celebration that Binds Us Together as a Nation" – an excerpt from the Queen's Golden Jubilee speech in 2002. This coin went on sale on 2 June 2013, just in time for the 60th Anniversary of the Queen's Coronation on 2 June 1953.

EXECUTION OF REGULATORY FUNCTIONS

THE REGULATORY REGIME

Framework

The framework for the Monetary Authority's regulation and supervision of financial services is made up of a number of elements. These include the applicable laws and regulations passed by the Government of the Cayman Islands; rules and statements of principle and of guidance issued by the Authority; and policies and procedures detailed in the *Regulatory Handbook* and other manuals.

Regulation and supervision are carried out in accordance with internationally accepted standards where these exist and are appropriate for the jurisdiction. The domestic laws and international standards under which the Cayman Islands Monetary Authority and regulated sectors operated as at 30 June 2013 are shown in Table 17.

Copies of all rules, statements of guidance and policies and procedures issued by the Authority are available on the CIMA website. No regulatory measures were issued during the year under review.

Table 17: The Cayman Islands Monetary Authority Regulatory Framework (as at 30 June 2013)

Sector/ Entity type	**CI Law**	**International Standards / Memberships**
All	• Monetary Authority Law (2011 Revision), and amendment • Proceeds of Crime Law (2008) • Money Laundering Regulations (2010 Revision), and amendment • Terrorism Law (2011 Revision) • Public Management and Finance Law (2012 Revision), amendment and regulations • Companies Law (2012 Revision), and amendments	**Standards:** • Financial Action Task Force Forty Recommendations on Money Laundering and Financing of Terrorism & Proliferation **Memberships:** • Caribbean Financial Action Task Force (CFATF) • Regional Consultative Group for the Americas (Financial Stability Board)
Banks, trusts, money services businesses, credit unions, building societies, corporate services providers, company managers	• Banks and Trust Companies Law (2009 Revision), and amendments • Private Trust Companies Regulations, 2008), and amendment • Money Services Law (2010 Revision), and regulations • Cooperative Societies Law (2001 Revision), and regulations • Building Societies Law (2010 Revision) • Development Bank Law (2004 Revision)	**Standards:** • Basel Core Principles for Effective Banking Supervision12 • Trust and Company Service Providers Working Group Statement of Best Practice produced by the Offshore Group of Banking Supervisors[13] **Memberships:** • Group of International Financial Centre Supervisors (formerly Offshore Group of Banking Supervisors) • Caribbean Group of Banking

[12] As promulgated by the Basel Committee on Banking Supervision

[13] The working group comprised representatives of various offshore financial centres, the FATF, IMF and OECD as well as representatives of four G7 countries. The Statement was disseminated to the fiduciary sector via the Society of Trust and Estate Practitioners (STEP) and the Company Managers Association, and was accepted locally.

	• Companies Management Law (2003 Revision), and regulations	Supervisors • Association of Supervisors of Banks of the Americas
Insurance companies, managers, brokers, agents	• Insurance Law, 2010, amendments and regulations	**Standards:** • International Association of Insurance Supervisors (IAIS) Core Principles of Insurance Regulation[14] **Memberships:** • IAIS • Offshore Group of Insurance Supervisors15
Mutual funds, fund administrators, securities investment businesses (market makers, broker-dealers, securities arrangers, securities advisors and securities managers)	• Mutual Funds Law (2012 Revision), amendment and regulations • Securities Investment Business Law (SIBL) (2011 Revision), amendment and regulations	**Standards:** • International Organization of Securities Commissions (IOSCO) • Offshore Group of Collective Investment Schemes Supervisors (OGCISS) **Memberships:** • Offshore Group of Collective Investment Schemes Supervisors (OGCISS) • IOSCO

Regulation and Supervision

The Banking Supervision, Fiduciary Services, Insurance, and Investments and Securities divisions (collectively referred to as the supervisory divisions) are responsible for processing, and making recommendations on applications for licences and other relevant authorisations for the provision of those financial services falling within their sectors. They are also responsible for the on-going supervision of licensees/registrants, and make recommendations for enhancements to the supervisory regime where appropriate.

Supervision of licensees is carried out off-site and on-site. Off-site supervision is continuous, involving the analysis of quarterly prudential returns and annual audited statements, supplemented with prudential meetings. On-site supervision involves limited scope and full-scope inspections both in the Cayman Islands and overseas. The objectives of the inspection process are to understand the licensee's business activities and operating environment, to detect problems of compliance with the relevant laws and/or regulations, and to gather information on matters identified as requiring policy considerations.

REGULATORY DEVELOPMENTS

Rules, Guidelines and Policies

The Policy and Development Division is responsible for the continuous development of the financial services regulatory framework within the Cayman Islands in accordance with international standards. Its cross-functional role supports and advises the Authority's senior management, four

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[14] Issued by the International Association of Insurance Supervisors (www.iaisweb.org). The Cayman Islands is a charter member of this association.

[15] www.ogis.net

supervisory divisions (Banking, Insurance, Investments & Securities and Fiduciary) and the Compliance Division.

The division's development and advisory role entails research of international developments and initiatives; analysis of the impact on the local financial services industry; formulation of appropriate options for consideration by the Authority and providing policy advice to the Authority, including during the industry consultation process. In addition, the division assists in the provision of responses, of both a statistical and non-statistical nature, on the financial sector to various international and domestic organisations.

No regulatory measures were issued during the year under review.

Other Regulatory Developments

Insurance Law, 2010

The Insurance Law, 2010, which was passed by the Legislative Assembly in September 2010, came into effect on 1 November 2012. Four new regulations relating to the new Insurance Law also came into effect during the 2012-2013 fiscal year: Insurance (Applications and Fees) Regulations, 2012; Insurance (Capital and Solvency) (Class A Insurers) Regulations, 2012; Insurance (Capital and Solvency) (Class B, C and D Insurers) Regulations, 2012; and the Insurance (Reporting) Regulations, 2013. The new Insurance Law and Regulations substantially change the regulatory framework for licensees under the Insurance Law. The new framework includes a reorganisation of license classes, new capital requirements, as well as new application and annual reporting forms. Current licensees must advise the Authority of their new license class within 18 months of the coming into force of the Law. Licensees will need to be fully compliant with the new Law and Regulations by 30 April 2014.

Alternative Investment Fund Managers Directive (AIFMD)

In November 2010, the European Parliament passed the AIFMD, which introduced a unified regulatory regime for alternative investment fund managers and funds within the European Union from July 2013. In July 2012, the Authority launched an AIFMD working group composed of representatives from the private sector, Cayman Islands Government and the Authority to discuss the parties' concerns with the AIFMD and the regulatory enhancements needed to allow the Cayman Islands financial services sector to meet the requirements of the AIFMD. The Working Group drafted a report that summarised the Working Group's deliberations and recommended actions. The report of the Working Group was approved by the Authority's Board of Directors in November 2012.

In addition, throughout the 2012-2013 fiscal year, the Authority was in discussions with the European Securities and Markets Authority regarding the signing of a cooperation arrangement with securities regulators in European Union jurisdictions before the coming into force of the AIFMD on 22 July 2013.

On 22 May 2013, the European Securities Markets Authority (ESMA) approved co-operation agreements between EU Securities regulators (and authorities from Croatia, Iceland, Liechtenstein and Norway) and 34 of their global counterparts, including the Cayman Islands. On 4 July 2013, confirmation was received from ESMA that 22 EU member states had signed the bi-lateral Memorandum of Understanding with the Cayman Islands.

Securities Investment Business Law

The AIFMD Working Group launched by the Authority in July 2012 was also tasked with considering various amendments to the Securities Investment Business Law proposed by the Authority. As certain aspects of the AIFMD can impact the current Securities Investment Business Law, the Securities Investment Business Law working group ran jointly with the AIFMD working group.

Basel II Implementation

CIMA completed the first part of its implementation of the Basel II framework in the Cayman Islands on 1 January 2011, when Pillar 1 became effective. The Basel II framework applies to both categories "A" and "B" banks that are locally incorporated in the Cayman Islands.

During the year under review, CIMA's efforts were focussed on the implementation of Pillar II of the Basel II framework in the following key areas:

Supervisory Review Process

In anticipation of the Internal Capital Adequacy Assessment Process ("ICAAP") filing, an internal framework and methodology was developed in the first and second quarter of the 2012-13 financial year to support the review process. Supervisors are expected to evaluate how well banks are assessing their capital needs relative to their risks and to intervene, where appropriate. This interaction is intended to foster an active dialogue between banks and supervisors such that, when deficiencies are identified, prompt and decisive action can be taken to reduce risk or restore capital.

Internal Capital Adequacy Assessment Process ("ICAAP")

On 1 April 2013, the filing of ICAAP documents became effective for banks with a financial year-end of 31 December. All other banks filed within four months of their respective fiscal year end.

Bank Holding Companies

In 2011, the Authority had recommended to the Cayman Islands Government that changes be made to the Banks and Trust Companies Law that would allow the Authority to exercise greater oversight of bank holding companies and to supervise Cayman-based banking groups. These proposed changes were aimed at aligning the Authority's supervisory regime with the Basel II capital requirements. Throughout fiscal year 2012-2013, the Authority worked with Government's Legislative Drafting Department to finalise draft revisions proposed for the Banks and Trust Companies Law. These revisions are expected to be sent to Cabinet in the 2013-2014 financial year.

Anti-Money Laundering

The much anticipated Methodology for assessing compliance with the new 40 Recommendations on Combating Money Laundering and the Financing of Terrorism and Proliferation were issued by the Financial Action Task Force (FATF) in February 2013. The Methodology will allow countries to better understand what framework needs to be in place to meet the Recommendations and what assessors will ultimately look for when critiquing regimes. The Authority is actively reviewing the Methodology in an effort to identify how its regulatory and supervisory framework can be further strengthened to further align itself with the 40 Recommendations, in anticipation of a wider national AML/CFT risk assessment to be conducted in accordance with the new FATF Recommendation 1.

Corporate Governance

In January 2013, an industry consultation commenced outlining corporate governance proposals, including an updated Statement of Guidance on Corporate Governance. Concurrent to the consultation, the Authority commissioned Ernst & Young to conduct a Hedge Fund Corporate Governance survey. This survey aimed to provide industry the opportunity to communicate to the Authority its views on the current Corporate Governance standards, and whether further refinement was needed. There was an overwhelming response to the survey, with the results issued on 28 June 2013. The Authority reviewed the feedback received from industry as it prepared a formal response to the consultation.

COMPLIANCE AND ENFORCEMENT

As part of its regulatory functions, the Authority conducts due diligence on persons who have applied to act as directors, shareholders, managers, officers and controllers of licensed entities; investigates serious breaches of the regulations, and where necessary, takes enforcement action.

Due Diligence

In carrying out due diligence, the Authority follows its *Regulatory Policy – Assessing Fitness and Propriety*[16]. The Compliance Division, which is tasked with conducting due diligence on applicants that the regulatory divisions refer to it, received 226 such applications during the 2012-2013 fiscal year. This compares to 230 during 2011-12. The breakdown of the applications for 2012-13 and 2011-12, by division, is shown in Table 18.

Table 18: Due Diligence Applications Referred to the Compliance Division, 2012-13 with 2011-12 Comparison

	Banking	Fiduciary	Insurance	Investments	Total
Applications as at 30 June 2012:	99	95	3	33	230
Applications as at 30 June 2013:	77	97	10	42	226

Enforcement

CIMA's *Enforcement Manual*[17] describes the policies, procedures and tools for the exercise of its enforcement powers in the event of non-compliance with the regulatory laws. The manual includes a ladder of compliance detailing the steps the Authority will follow in the event of non-compliance. Where appropriate, CIMA will work with the licensee or registrant in an attempt to resolve regulatory issues prior to taking formal enforcement action. The Compliance Division and the Legal Division are responsible for the exercise of enforcement action, under the authorisation of CIMA's Board of Directors.

The Authority initiated 44 formal enforcement actions during 2012-13 (compared to 16 during 2011-12). Table 19: lists the formal enforcement actions initiated[18].

Table 19: Formal Enforcement Actions, 2012-2013

Name of Entity	Type of Authorisation Held	Enforcement Action	Effective Date
Capital Growth Global Fund Ltd.	Registered Fund	Registration Cancelled	Sep 11, 2012
Olympic Gold Fund	Registered Fund	Registration Cancelled	Sep 11, 2012
Korea International Investment Fund Ltd. (IV)	Registered Fund	Registration Cancelled	Sep 11, 2012
Chronos Offshore Fund, Inc.	Registered Fund	Registration Cancelled	Sep 11, 2012
Lattanzio International, Ltd.	Registered Fund	Registration Cancelled	Sep 11, 2012
Name of Entity	Type of Authorisation Held	Enforcement Action	Effective Date
AG Intercontinental Fund Ltd.	Registered Fund	Registration Cancelled	Sep 11, 2012
Cirrus Multi-Market Fund I	Registered Fund	Registration Cancelled	Oct 17, 2012
Burhany Sphinx, Ltd.	Registered Fund	Registration Cancelled	Oct 17, 2012
Capitalshare Fund	Administered Fund	Registration Cancelled	Oct 17, 2012
John Thomas Bridge and Opportunity Fund International	Registered Fund	Registration Cancelled	Oct 17, 2012

[16] Regulatory Policy – Assessing Fitness and Propriety: Appendix E3 (page 66) of the Regulatory Handbook Appendices. Address: http://www.cimoney.com.ky/WorkArea/DownloadAsset.aspx?id=3825. Also see information on Fitness and Propriety at page 28 of the Regulatory Handbook - Volume 1 March 2011. Address: http://www.cimoney.com.ky/WorkArea/linkit.aspx?LinkIdentifier=id&ItemID=3714
[17] The Enforcement Manual:Address: http://www.cimoney.com.ky/WorkArea/linkit.aspx?LinkIdentifier=id&ItemID=672
[18] See the Regulatory and Enforcement Notices section of CIMA's website. Address: http://www.cimoney.com.ky/enforcement/notices.aspx?id=164

Meritos Global Fund Limited	Registered Fund	Registration Cancelled	Oct 17, 2012
Proactive (PA) Capital Management	Registered Fund	Registration Cancelled	Oct 17, 2012
The Oracle Global Value Fund Limited	Licenced Fund	Licence Cancelled	Oct 17, 2012
Monkton Insurance Services Ltd.	Insurance Manager	Licence Revoked	Nov 7, 2012
Atlantis Capital Fund Limited	Registered Fund	Registration Cancelled	Dec 4, 2012
GTF Umbrella Fund (C.I.) Ltd	Registered Fund	Registration Cancelled	Dec 4, 2012
Antioch Fund Ltd.	Registered Fund	Registration Cancelled	Dec 4, 2012
Ananda Opportunistic Equity Fund, Ltd.	Registered Fund	Registration Cancelled	Dec 4, 2012
Global Zip Fund, Ltd.	Registered Fund	Registration Cancelled	Dec 4, 2012
Ananda Market Neutral Fund, Ltd.	Registered Fund	Registration Cancelled	Dec 4, 2012
Tensor Fund, Ltd.	Registered Fund	Registration Cancelled	Dec 4, 2012
USH Multi-Markets Managed Fund SPC	Registered Fund	Registration Cancelled	Dec 4, 2012
Gazelle Partners Fund	Registered Fund	Registration Cancelled	Dec 4, 2012
Georgetown Global Fund	Registered Fund	Registration Cancelled	Dec 4, 2012
Amber Islands Development Fund	Registered Fund	Registration Cancelled	Dec 4, 2012
Keydata International Fund SPC	Registered Fund	Controllers Appointed	Dec 5, 2012
Bastion Life Insurance SPC Limited	Class B Insurer	Licence Revoked	Dec 10, 2012
Gemstone Fund	Registered Fund	Registration Cancelled	Jan 22, 2013
Accord Fund, Ltd.	Registered Fund	Registration Cancelled	Jan 22, 2013
Caldera Fund	Registered Fund	Registration Cancelled	Jan 22, 2013
Maximus Alternative Investment Fund, Limited	Administered Fund	Registration Cancelled	Jan 22, 2013
New J&A Fund SPC	Registered Fund	Registration Cancelled	Jan 22, 2013
HSBC Mexico S.A.	Banking Class B	Licence Revoked	Feb 27, 2013
The Cubex Investment Fund, Ltd.	Registered Fund	Controllers Appointed	Mar 7, 2013
Concord Millennium Fund	Administered Mutual Fund	Registration Cancelled	Apr 16, 2013
Concord Special Situations Fund	Administered Mutual Fund	Registration Cancelled	Apr 16, 2013
Concord Fund of Funds	Administered Mutual Fund	Registration Cancelled	Apr 16, 2013
Wilken U.S.A. Select Fund	Registered Fund	Registration Cancelled	Apr 16, 2013
Name of Entity	**Type of Authorisation Held**	**Enforcement Action**	**Effective Date**
AAA Venture Fund SPC Limited	Registered Fund	Controllers Appointed	May 13, 2013
Claremont Europe Fund	Registered Fund	Registration Cancelled	Jun 25, 2013
McLean Alternative Enhanced Fund Limited	Registered Fund	Registration Cancelled	Jun 25, 2013
McLean Market Neutral Fund Limited	Registered Fund	Registration Cancelled	Jun 25, 2013

*Note: Two entities are not publicly available for disclosure.

Litigation:

There was no litigation with regards to enforcement actions during the 2012-13 fiscal period.

Other Compliance-related Matters

Among its duties, the Compliance Division is also tasked with investigating persons or entities that appear to be conducting regulated business without the proper authorisation from the Authority.

In addition, in keeping with its mandate to protect the jurisdiction from individuals or entities seeking to reap illegal benefit by false association with the Cayman Islands, the Compliance Division continued updating a list of websites which give Cayman addresses for various businesses which are not registered or licensed in the Cayman Islands.[19]

EXECUTION OF COOPERATIVE AND ADVISORY FUNCTIONS

CROSS-BORDER COOPERATION

The Monetary Authority Law (MAL) lists the provision of assistance to overseas regulatory authorities as one of the principal functions of the Authority. Such international cooperation takes place through the exchange of information, as provided for in the MAL and facilitated through memoranda of understanding (MOUs) and other agreements, as well as through the Authority's active participation in international forums.

Memoranda of Understanding

While not a prerequisite for the provision of assistance, MOUs and similar agreements establish a framework for mutual assistance and cooperation by CIMA and the regulatory body with which the MOU is signed. The agreements specify when consultation should take place and the type of supervisory and enforcement information that may be exchanged. In this way, they enhance the existing working relationships between the authorities. Copies of the Authority's current MOUs and cooperation agreements are available on the CIMA website.[20]

During this period, two bi-lateral MOUs were concluded. These are listed in Table 20.

Table 20: International Information Exchange and Cooperation Agreements Concluded, 2012-2013

Agreement	Effective Date
Office of Superintendent of Financial Institutions - Memorandum of Understanding	27 March 2013
U.S. Federal Deposit Insurance Corporation - Memorandum of Understanding	21 Jan 2013

Assistance to Overseas Regulatory Authorities

An ongoing activity for the Legal Division is advising on, and coordinating responses to, requests for assistance from overseas regulatory authorities (ORAs). The division works closely with other CIMA

[19] The complete list can be viewed in the Enforcement/ Information and Alerts section of the website: Address: http://www.cimoney.com.ky/enforcement/info_alerts.aspx?id=168 .

[20] International agreements: http://www.cimoney.com.ky/ext_coop_assess/international_cooperation_agreements.aspx?id=184&ekmensel=e2f22c9a_18_108_184_1. Local agreements: http://www.cimoney.com.ky/ext_coop_assess/domestic_cooperations_agreements.aspx?id=178&ekmensel=e2f22c9a_18_110_178_1

divisions, particularly Compliance, to ensure that requests are handled in a timely and efficient manner, and that they conform to the requirements of the MAL. The *Procedure - Dealing with Requests for Assistance from an Overseas Regulatory Authority (ORA)*[21] sets out the Authority's approach in dealing with these requests. The process includes reviewing and assessing the requests and drafting directions to persons who have information that will assist the ORA in performing its functions.

The Compliance Division assists primarily on those requests on which the Authority will be required to issue a direction to obtain the information sought. The division is currently responsible for assessing the request, preparing the direction and serving it on the relevant party, as well as reviewing the information provided by the party to assess whether the party complied with the requirements of the direction, and providing the information to the requesting ORA.

The Authority handled a total of 175 requests for assistance from ORAs during the 2012-13 financial year, compared to 119 requests during 2011-12, and 142 during 2010-11.

International Initiatives Involving CIMA

Caribbean Financial Action Task Force/Financial Action Task Force (CFATF/FATF)

The Deputy Head of the Policy & Development Division was part of the mutual evaluation team that presented the Sint Maarten Mutual Evaluation Report during XXXVI CFATF Plenary held in the British Virgin Islands in November of 2012. He also demitted the post of co-chair of the CFATF Working Group on FATF Issues (WGFI), after having served in that capacity for two years.

Foreign Account Tax Compliance Act (FATCA)

The Cayman Islands Government (the "Government") established a FATCA Task Force to evaluate the suitability of a government-to-government reporting arrangement with the US. The FATCA Task Force is comprised of representatives from the Office of the Financial Secretary, the Attorney General's Chambers, Ministry of Finance (Financial Services), CIMA and the Tax Information Authority.

The Government announced on 15 March 2013 that they were committed to signing the Model I Intergovernmental Agreement with the U.S. and also noted as part of the same announcement that they would be entering into a similar agreement with UK government.

International Association of Insurance Supervisors (IAIS)

a. IAIS International Captive Standards Review Subcommittee

This new IAIS working group met in Washington D.C. on 7 November 2012 to discuss some of the key areas such as Corporate Governance (ICP 7), Internal Controls (ICP 8), ERM (ICP 16) and Solvency (ICP 17). To assist this group, the Head of Insurance wrote a presentation on the history of captives, risks and regulation and how to construct a feasibility study. This presentation, given by CIMA's Chief Actuary at the meeting, received many accolades for its content and has now been used as a benchmark for standards development. It can be found on the IAIS website at www.iaisweb.org.

b. IAIS MMoU - Ukraine

In December 2012, the Head of Insurance was contacted by the IAIS to request special assistance in a matter dealing with an MMoU for the Ukraine.

c. IAIS Solvency and Actuarial Committee

At the special request of the N.A.I.C., who chairs the IAIS Solvency and Actuarial Subcommittee, the IAIS requested permission from CIMA to create an additional seat on the subcommittee to allow

[21] Procedure- Dealing with Requests for Assistance from an Overseas Regulatory Authority: Appendix D1 (page 32) of the Regulatory Handbook Appendices. Address: http://www.cimoney.com.ky/WorkArea/DownloadAsset.aspx?id=3825.

the Chief Actuary to join as a special member due to his extensive actuarial knowledge in the field of regulation.

International Banking Regulatory Groups

CIMA is an active member of the Caribbean Group of Bank Supervisors (CGBS) and a member of the CGBS' Basel II Implementation Working Group. During the last quarter of 2013, the Head of Banking Supervision and Chief Analyst attended a CGBS Annual Meeting presenting on Regional Systemically Important Banks.

LOCAL COOPERATION

Money Laundering Reporting

The Head of Compliance is the Monetary Authority's Money Laundering Reporting Officer (MLRO) under the Proceeds of Crime Law, 2008. Any suspicion of money laundering identified by CIMA's staff in conducting their supervisory activities is reported to the MLRO, who has the responsibility to report to the Financial Reporting Authority (FRA) in conformance with the Money Laundering Regulations (2010 Revision).

The MLRO filed 5 suspicious activity reports (SARs) with the Financial Reporting Authority (FRA) during 2012-13, compared to 4 filed during 2011-12. The FRA made 28 onward disclosures during 2012-13 to the Authority pursuant to the MOU between the FRA and CIMA. This compares to 29 made by the FRA during 2011-12. CIMA assesses all onward disclosures to determine if further investigation and regulatory action are required.

ADVISORY ACTIVITY

The Monetary Authority Law requires CIMA to advise the Government on monetary, regulatory and cooperative matters. This includes providing advice as to whether CIMA's regulatory and co-operative functions are consistent with those discharged by overseas regulators; whether the regulatory laws are consistent with the legislation of other countries and territories; and advising on the recommendations of international organisations.

This law also requires CIMA to consult with the local private sector on the proposed issuance or amendment of rules or statements of principle or guidance concerning the conduct of licensees and their officers and employees; statements of guidance concerning the requirements of the money laundering regulations; and rules or statements of principle or guidance to reduce the risk of financial services business being used for money laundering or other criminal purposes.

Through its involvement with overseas regulatory authorities, participation in local and international forums, and interaction and consultation with local and overseas market participants, CIMA is able to stay abreast of developments relevant to the local financial services sector, and the concerns of the industry, and to advise the Government based on the information gathered. CIMA also carries out its own research and assessment, including cost benefit analyses of all new regulatory measures it proposes, and makes recommendations to the Government accordingly. Advice to the Government is provided through meetings, participation in various Government groups and through written reports and submissions, including financial sector legislative proposals (draft bills and regulations) and Cabinet papers.

The measures implemented or in development during 2012-13 are covered in the Regulatory Developments section of this report, beginning on page 38.

Assistance on TIEA and OECD Matters

As part of its advisory and cooperative mandate, CIMA representatives on the Tax Information Exchange Agreements (TIEA) also participate, along with their Government counterparts, on the Organisation for Economic Cooperation and Development's (OECD) Global Forum on Transparency and Exchange of Information Steering Group and Peer Review Group. Cayman is a member of both groups.

Peer Review

The Financial Services Secretariat has been considering what legislative amendments, if any, are required to bolster the Cayman Islands' AML/CFT legislative framework in regard to Private Trust Companies (PTCs).

In January of this year, the Private Trust Companies (Amendment) Regulations, 2013 were passed. In particular, this amendment requires that beneficial information be maintained at the registered office of the private trust company and for a fine of $5,000 to be imposed for non-compliance to sections 3(2) and 4(2) of the regulations.

OPERATIONAL SUPPORT AND ADMINISTRATION

HUMAN RESOURCE MANAGEMENT & DEVELOPMENT

Human Resources Division

The HR Division is one of the strategic partners of the organisation through its ambit of Operations. This is carried out through the five main services of: 1) Employee Services (which includes employee relations, compensation & contract administration, benefit plan administration, attendance, and liaison with the Government's Immigration and the National Workforce Development Agency); 2) Recruitment; 3) Learning and Development (performance management & reward and management development); 4) Mail, Courier and Reception, and 5) Facilities/Security (covering all facility-related issues, parking, security, conferences and special event planning). By taking a systems approach to strategy, the HR Division proactively establishes its operational plans and actions by keeping in tune with the known needs of the Authority in conjunction with seeking the best ways by which to fulfil the expectations of the Board and Executive Management.

Recruitment and Staffing

This past year, greater emphasis was placed on the hiring of experienced, mature, well-qualified candidates already having industry experience; in addition to university graduates.

The Authority's staff complement typically remained stable throughout the year with its 'melting pot' of individuals totalling 153 at 30 June 2012 and 168 at 30 June 2013, with 88% being Caymanian. The turnover rate for 2012-13 was 10.08%, and 11.91% for 2011-12.

Figure 21: Staff Complement by Country, 30 June 2013

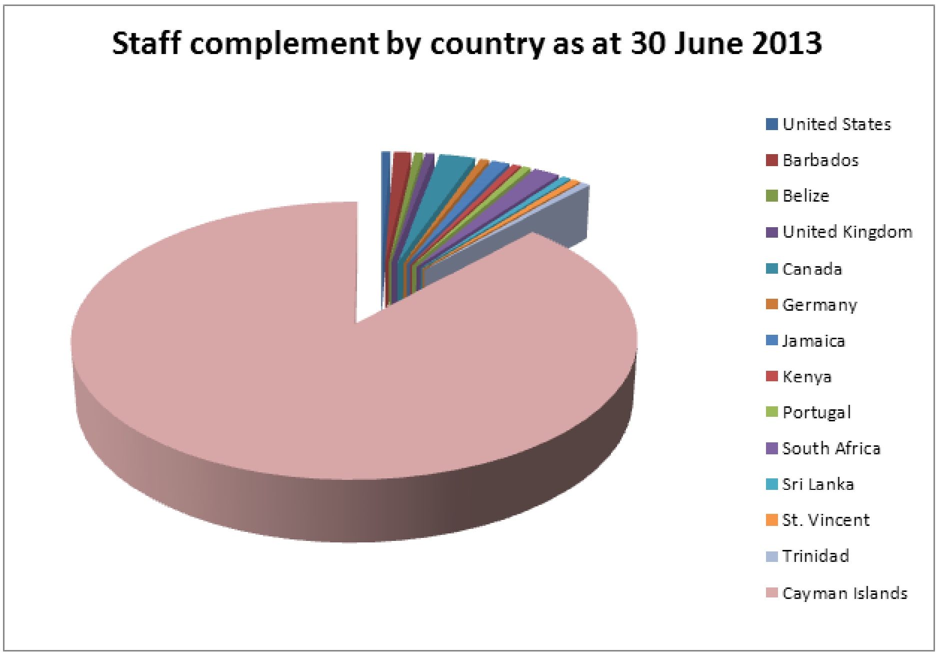

Table 21: Staff Numbers by Division as at 30 June 2013, with June 2012 Comparisons

Division	Actual staff numbers at 30 June 2012	**Actual staff numbers at 30 June 2013**
Banking	20	24
Compliance	12	13
Currency Operations	7	7
Fiduciary Services	10	9
Insurance	19	19
Investments and Securities	33	39
Legal	8	9
Managing Director's Office	6	8
Finance, Information Systems and Human Resources (Operations)	26	28
Policy & Development	12	12
TOTAL	**153**	**168**

Employee Services

It has been one year since CIMA implemented the HR document management portal known as SharePoint. This has improved the efficiency of the HR Division. Employees are now able to access HR policies, leave record and payroll information electronically from the web-based portal called MySite. Eventually they will be able to view their own personnel files through the same portal and have control over access to certain other HR related information.

The Human Resources Division reviewed and revised its annual performance appraisal process with a view to facilitating a more shared and objective approach between appraiser and appraisee. The new system encourages employees to initiate the review process by recounting their performance against goals and objectives and special/additional projects undertaken for the past 12 months. The manager/supervisor then incorporates his/her observations of performance that then leads to a final meeting and discussion of overall performance before a grade is assigned. This year was also the first year that interim reviews were made mandatory and it provided the appraiser and appraisee the opportunity to assess status of and progress of performance to objectives, as well as an avenue to provide feedback to employees.

The Human Resources Division, in conjunction with the Information Systems Division, is working to streamline CIMA's mail receipting system in the coming year. It is intended to improve efficiency and accuracy, especially during peak periods when CIMA receives a substantial amount of year-end payments from licensees. As a result, information will be submitted from Human Resources and Finance to their respective divisions allowing the Analyst in charge of the portfolio to commence the work flow that much more quickly.

Learning and Development

The importance of strengthening the existing staff complement remains paramount with CIMA's dedication to continuing to maintain and to build on a robust and proactive risk-focused supervisory regime.

Upward mobility has been facilitated by the implementation of development plans across the organisation but more so within the regulatory divisions. Not only have these plans served to communicate expectations but they have also assisted staff members to take better shared ownership of their progression within a division and they have enabled succession planning for the organisation. As a consequence of exemplary performance results, a total of 16 staff members were promoted during the period, as listed below.

Table 22: Staff Promotions during 2012-2013

Staff	New Position	Division
Christine Ross	Chief Analyst	Insurance Supervision
Ebony Carey	Analyst	Banking Supervision
Tara Campbell	Chief Analyst	Compliance
Eric Webster	Chief Human Resources Officer	Human Resources
Angeline Manderson	Human Resource Assistant	Human Resources
Ariel Tatum	Chief Analyst	Banking Supervision
Clive Scotland	Senior Systems Engineer	Information Systems
Dana Rankine	Chief Analyst	Banking Supervision
Deandro Dracket	Analyst	Insurance Supervision
Jonelle Ebanks	Junior Analyst	Fiduciary Services
Kara Smith	Senior Analyst	Banking Supervision
Melissa Cummings	Analyst	Banking Supervision
Rachel van der Bol	Senior Analyst	Banking Supervision
Samantha Williams	Analyst	Insurance Supervision
Vashti Bodden	Senior Analyst	Banking Supervision
Charlene LeBlanc	Senior Business Analyst	Information Systems

The Human Resources Division further enhanced its internal training strategy with the launch of a series of risk-based regulatory workshops designed by the Policy & Development Division. The sessions are facilitated by various CIMA regulatory employees of all levels with a focus on specific technical areas of supervision. Workshops enabled knowledge transfer, built on effective presentation skills and the provision of up-to-date information to colleagues. Employees share the knowledge that has been gained from various fora and are also responsible for updating and maintaining this knowledge for successive workshops. The hiring of a Chief Actuary further enhanced the training programme in the areas of insurance, re-insurance, enterprise risk management, financial risk management and hedge funds.

Middle Management at the senior and chief levels attended a twelve-month modular workshop on all aspects of successful leadership designed specifically to the environment of CIMA. During the workshops, each module was based on a Tell-Show-Do model of concepts, techniques and strategies practised by leading world-wide organisations. The design also incorporated applications of "positive psychology"; a psychology geared to increasing individual productivity and work satisfaction. Self-assessments were conducted to aid in increasing self-awareness that played a significant role in turning management weaknesses into strengths and management strengths into organisational success. Pre-work and post-work between sessions were included to ensure the transfer to the job of newly-acquired skills and knowledge. The course was also open to analysts who were identified as being capable of advancing in the near future. The modules were facilitated by the Professional Management Training Academy.

Table 23: Learning and Development Programme Statistics, 2012-2013

Course Type	Total Held	Total Attendance
Internal Courses – External Presenters	16	295
Internal Courses – Leader Led	16	686
Internal Web Seminar Courses	36	352
External Local Events	17	220

Regional regulatory conferences and training – the Head of the Banking Supervision and the Chief Analyst attended a Caribbean Group of Bank Supervisors Annual Meeting, presenting on Regional Systemically Important Banks. In addition, a Chief Analyst and a Senior Analyst presented on issues of Regulatory Oversight to the local money service businesses.

The Deputy Head of the Investments and Securities Division attended the Council of Securities Regulators (COSRA), Caribbean Group of Securities Regulators (CGSR) meeting in May 2013.

Other conferences and events – the Deputy Head of the Investments and Securities Division and an Analyst participated in the International Institute for Securities Market and Development Seminar from 15 April to 25 April 2013 in Washington DC, USA.

Student presentations – In November, 2012 HR staff held sessions with John Gray High school students to facilitate their career preparations and to inform them about CIMA. HR staff also participated in Reading Day at the Lighthouse School.

Staff Community Involvement
Among the Authority's community assistance initiatives was the use of proceeds from events such as dress-down days. Charitable organisations and individuals with special medical needs were the beneficiaries. Recipients included Feed Our Future, the Lions Club of Cayman's annual Delano Hislop Journey for Life Run/Walk and the Cayman Islands Cadets, as well as a young man suffering from Keratoconus who required treatment overseas.

INFORMATION SERVICES

The goal of the Information Systems (IS) Division is to facilitate CIMA's business practices in a secure and resilient manner, utilising information and communications technology.

System uptime and service goals for the 2012-2013 year again exceeded the Industry Standards and were above the 99.8% realm. The division continued to provide high availability, security, and reliability of information technology systems and services during 2012-2013. Overall primetime availability averaged across all systems was an astonishing 99.857% and 99.949% on a 24-hour basis. This is comfortably ahead of the industry benchmark for small to medium businesses.

Major Initiatives During 2012-2013

Disaster Recovery – Our tests for business continuity were completed prior to the annual hurricane season and proved very successful. All systems seem to be well balanced and performing satisfactorily.

CIMAConnect – Enhancements are continually being made to this product as we strive to automate more requests from Industry in order to improve turnaround time on licensee applications.

VoIP PBX telephone system – The Authority now uses a more cost-efficient Voice-Over Internet-Protocol PBX telephone system which takes advantage of the lower costs available. International calls are far less expensive utilizing these routes compared to the normal public service telephone networks. This system has delivered direct results by reducing CIMA telephone costs.

Network Security – Security continues to be a primary focus of the Division with several enhancements made to existing systems for threat management and the inclusion of additional tiers of firewall protection. Additional layers of email, network and web security have been added, with work continuing in this area.

Business Intelligence – A series of SQL cubes have been designed and developed for our divisional analysts to monitor their respective data. As time goes on and more data is captured the data patterns will be more visible and the analysts will become more comfortable with the tool. This will help with the Risk Management initiative.

COMMUNICATION AND PUBLIC RELATIONS

The Public Relations (PR) Unit, a part of the Managing Director's Office, provides communications support to, and on behalf of, CIMA in order to help the Authority execute its functions and enhance relationships with stakeholders. These efforts are augmented by the activities of CIMA's management, the Human Resources Division and other divisions, as well as through staff-led initiatives.

Events
FSB RCGA Meeting – In May 2013, CIMA hosted the Fourth Meeting of the Regional Consultative Group for the Americas (RCGA) of the Financial Stability Board (FSB). The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability.

The PR Unit was an active partner with the HR Division in disseminating information about the RCGA meeting and the FSB to internal and external audiences.

Participants from throughout the Americas were updated on the FSB's policy priorities and work plan. An area of focus in the discussion on regulatory reforms was the FSB Key Attributes of Effective Resolution Regimes for Financial Institutions. This included the methodology being developed by the FSB for assessing the consistency of national resolution regimes with the Key Attributes, which will guide jurisdictions in their implementation. Members also discussed effective ways of sharing information for resolution purposes, and shared experiences in the region in implementing the reforms to the global over-the-counter derivatives market agreed in the G20.

The Cayman Islands is represented on the FSB's RCGA by CIMA's Managing Director and the Honourable Financial Secretary.

Gender training – In June 2013*, in conjunction with the HR Division,* the PR Unit helped to organize and host a formal training session for its entire staff on the Gender Equality Law, 2011, in a bid to become an outstanding Gender Equal workplace.

External Publications and Media Liaison
CIMA's work, regulatory developments in Cayman, perspectives regarding international regulatory changes, and financial industry developments were all communicated to a wide cross-section of local and international audiences through articles that PR staff prepared on behalf of, and in conjunction with, members of senior management. Among the internationally-circulated publications that commissioned and published articles from CIMA were: Euromoney Yearbooks' *Global Banking and Financial Policy Review* and Cayman Funds 2013.

The unit also provided data that contributed to the rankings in The Banker Magazine's *International Financial Centres Survey 2012* (published in July 2012), and Captive Review magazine's *2012 Top 20 Captive Domicile Survey* (published in July 2012). Data was also provided for Captive Review's *Cell Company Handbook*, and information on CIMA was updated in international financial and regulatory directories, including the Centre for Latin American Monetary Studies listings, the Central Banking Directory, EuropaWorld Yearbook, the Tax Directory, Health Care Captive Insurance and the Bankers Almanac.

In response to media queries, PR staff researched and provided information to journalists representing several local and international news outlets.

CIMA Publications

The Investments and Securities Division and the PR Unit collaborated on the production of the sixth edition of the *Investments Statistical Digest*, and the PR Unit continued to produce and disseminate news releases and notices; the quarterly issues of CIMA's newsletter, *The Navigator*, and the Authority's annual report, all covering CIMA developments and activities.

Communication Support for new CIMA Services and Products

The PR Unit worked with the Currency Division to disseminate a news release on the issue of a new numismatic coin commemorating the 10th Anniversary of Heroes Day in January 2013.

In May 2013, the unit also assisted with the announcement of a second Diamond Jubilee Coin in the Royal Mint's Commonwealth 24 Coin Collection, which marked the 60th anniversary of the Coronation of Her Royal Majesty Queen Elizabeth II.

Direct Public Information and Assistance

The PR Unit provided information and other assistance on a regular basis to interested members of the public, Cayman government agencies, and persons in industry who contact the Authority. The unit maintained CIMA's website, which remains a primary source of public information on the Authority.

Internal Support

In addition, PR staff monitored, collected, and disseminated internally, relevant external information (especially media coverage) on market, regulatory and political developments taking place locally and internationally.

FREEDOM OF INFORMATION INITIATIVE

The Freedom of Information (FOI) Law, came into effect across the Cayman Islands Public Service in January 2009, giving members of the public a general right of access to government records, with some exemptions and exclusions that are specified in the law. Because of the nature of CIMA's work, the FOI Law (in section 3(1)(c)) specifically excludes the release of records and information protected by section 50 of the Monetary Authority Law (2010 Revision).

Between July 2012 and June 2013, six FOI requests were received and processed. Full access was granted to two of the requests. Partial access was granted to one of the requests because part of that request was excluded under various sections of the FOI Law. Two requests were denied under section 3(1)(c) of the FOI Law, and one request was granted in full after an Internal Review by the Authority's Managing Director.

FINANCIAL CONTROL

Finance Division

The Finance Division has responsibility for all financial matters relating to budget, fee collection, payroll, and accounts payable, and is responsible for preparation of CIMA's financial statements and the

Purchase & Ownership Agreements between the Cabinet and the Authority. The division's objectives are essentially created by the financial requirements of CIMA and its stakeholders and the resources available to it.

Coercive Revenue Collection

The Authority collected $101.656m in fees from regulated entities on behalf of the Cayman Islands Government for the 2012-13 financial year, compared to $79.563m for the prior year. This increase in collections was mainly attributed to the new revenue measures implemented by the Government in 2012-13.

The Authority's Income

The Authority depends on the sale of its outputs to the Cabinet of the Government of the Cayman Islands, as its main source of income to meet its obligations. The outputs delivered in 2012-13, for a total of $14.865m were:

- The Regulation of the Cayman Islands Currency
- The Collection of Fees on behalf of the Cayman Islands Government
- The Regulation of the Financial Services Industry
- Assistance to Overseas Regulatory Authorities
- Policy Advice & Ministerial Services

CIMA's other sources of income are from the CIMA Transaction Fees $3.012m, Investments $445k and commission and the sale of numismatic items $375k.

Net Income

The Authority's net income for the 2012-13 financial year was $587k (2011-12: $114k), which was allocated to CIMA's Capital Expenditures Reserves.

Details of CIMA's financial position for the year ending 30 June 2013 can be seen in the Audited Financial Statements that follow.

ANNUAL FINANCIAL STATEMENTS

For Year Ending 30 June 2013

CAYMAN ISLANDS
MONETARY AUTHORITY

Statement of Responsibility
For Financial Statements
30 June 2013

These financial statements have been prepared by the Cayman Islands Monetary Authority in accordance with the provisions of the *Public Management and Finance Law* (2012 Revision).

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the *Public Management and Finance Law* (2012 Revision).

As Chairman and Managing Director we are responsible for establishing; and have established and maintain a system of internal controls designed to provide reasonable assurance that the transactions recorded in the financial statements are authorised by law, and properly record the financial transactions of the Cayman Islands Monetary Authority.

As Chairman and Managing Director we are responsible for the preparation of the Cayman Islands Monetary Authority financial statements and for the judgements made in them.

The financial statements fairly present the financial position, financial performance and cash flows of the Cayman Islands Monetary Authority for the financial year ended 30 June 2013.

To the best of our knowledge we represent that these financial statements:

(a) Completely and reliably reflect the financial transactions of Cayman Islands Monetary Authority for the year ended 30 June 2013;

(b) fairly reflect the financial position as at 30th June 2013 and performance for the Year ended 30th June 2013;

(c) comply with International Public Sector Accounting Standards as set out by International Public Sector Accounting Standards Board under the responsibility of the International Federation of Accountants. Where guidance is not available, the financial statements comply with International Financial Reporting Standards under the responsibility of the International Accounting Standards Board.

The Office of the Auditor General conducts an independent audit and expresses an opinion on the accompanying financial statements. The Office of the Auditor General has been provided access to all the information necessary to conduct an audit in accordance with International Standards of Auditing.

George McCarthy	Cindy Scotland
Chairman	*Managing Director*
Cayman Islands Monetary Authority	Cayman Islands Monetary Authority
Date: 31 October 2013	Date: 31 October 2013

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CAYMAN ISLANDS

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AUDITOR GENERAL'S REPORT

To the Board of Directors of the Cayman Islands Monetary Authority

I have audited the accompanying financial statements of the Cayman Islands Monetary Authority , which comprise the statement of financial position as at 30 June 2013 and the statement of comprehensive income, statement of changes in reserves and contributed capital and cash flows statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 8 to 20 in accordance with the provisions of Section 60(1)(a) of the *Public Management and Finance Law (2012 Revision).*

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

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

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Cayman Islands Monetary Authority as at 30 June 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Alastair Swarbrick, MA (Hons), CPFA
Auditor General

31 October 2013
Cayman Islands

CAYMAN ISLANDS MONETARY AUTHORITY
STATEMENT OF FINANCIAL POSITION
At 30 June 2013
(in Cayman Islands Dollars)

	Note	2013 $000	2012 $000
ASSETS			
Currency Reserve Assets			
Current Assets			
Call Deposits	4b	4,618	3,738
Short-Term Investments	4a	51,252	70,420
Fixed Deposits	4b	1,541	1,535
Interest Receivable, Deposits		87	56
Stocks	7	2,253	2,889
Non-Current Assets			
Long-Term Investments	4a	38,179	20,779
Total Currency Reserve Assets		97,930	99,417
Operating Assets			
Current Assets			
Current and Call Deposits	4b	7,914	8,138
Accounts Receivable	5	4,116	2,927
Other Receivables and Prepayments		142	143
Non-Current Assets			
Fixed Assets	6	1,502	1,960
Total Operating Assets		13,674	13,168
TOTAL ASSETS		111,604	112,585
LIABILITIES, RESERVES and CONTRIBUTED CAPITAL			
Liabilities			
Demand Liabilities, Currency in Circulation	8a	87,229	88,696
Defined Asset Pension Liability	9	159	96
Other Liabilities and Payables	8b	853	1,017
Total Liabilities		88,241	89,809
Reserves			
General Reserve		17,451	17,218
Currency Issue Reserve		375	375
Capital Expenditures Reserve		2,906	2,509
Operational Expenditures Reserve		303	346
Total Reserves		21,035	20,448
Contributed Capital		2,328	2,328
TOTAL LIABILITIES, RESERVES and CONTRIBUTED CAPITAL		111,604	112,585

Approved on 31 October 2013

Scotland

Cindy Scotland
Managing Director
Cayman Islands Monetary Authority

Moxam-Murray

Gilda Moxam-Murray
Chief Financial Officer
Cayman Islands Monetary Authority

CAYMAN ISLANDS MONETARY AUTHORITY
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2013
(in Cayman Islands Dollars)

	Note	2013 $000	2012 $000
INCOME			
Services Provided to The Cayman Islands Government	11a	14,865	17,350
CIMA Transactional Fees		3,012	-
Investment Income		445	587
Commission Income		375	473
TOTAL INCOME		**18,697**	**18,410**
EXPENSES			
Salaries and Benefits		11,828	11,425
Other Operational Expenses	11d, 12	2,237	2,499
Accomodation	10	891	916
Pension Expenses	9	884	963
Depreciation	6	648	670
Utilities		472	441
Professional Fees		354	307
Official Travel		307	294
Loss on Numismatic Items		301	190
Training and Conferences		188	591
TOTAL EXPENSES		**18,110**	**18,296**
TOTAL NET INCOME FOR THE YEAR		**587**	**114**

The accompanying notes form an integral part of these financial statements

CAYMAN ISLANDS MONETARY AUTHORITY
STATEMENT OF CHANGES IN RESERVES AND CONTRIBUTED CAPITAL
For the year ended 30 June 2013
(in Cayman Islands Dollars)

	2013					2012				
	General Reserve $000	Currency Issue Reserve $000	Capital Expenditures Reserve $000	Operational Expenditures Reserve $000	Contributed Capital $000	General Reserve $000	Currency Issue Reserve $000	Capital Expenditures Reserve $000	Operational Expenditures Reserve $000	Contributed Capital $000
BALANCE AT 01 JULY 2012	17,218	375	2,509	346	2,328	16,743	375	2,818	398	2,328
Transfers in :										
From Net Income			587					114		
From Capital Expenditures Reserve	190					423				
From Operational Expenditures Reserve	43					52				
Transfers out :										
To Capital Expenditures Reserve										
Currency Inventory Issued										
Fixed Assets Purchased			(190)					(423)		
Operational Expenses				(43)					(52)	
BALANCE AT 30 JUNE 2013	**17,451**	**375**	**2,906**	**303**	**2,328**	**17,218**	**375**	**2,509**	**346**	**2,328**

The accompanying notes form an integral part of these financial statements

CAYMAN ISLANDS MONETARY AUTHORITY
STATEMENT OF CASH FLOWS
For the year ended 30 June 2013
(in Cayman Islands Dollars)

	2013	2012
	$000	$000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income for the year	587	114
Adjustments for:		
Depreciation	648	670
Loss on Defined Benefits Assets	63	144
Loss on Disposal of Fixed Assets	-	1
Decrease / (Increase) in Investments	1,768	(3,298)
(Increase) in Interest Receivable - Currency Reserve Assets	(31)	(26)
(Increase) in Accounts Receivable	(1,189)	(2,729)
Decrease /(Increase) in Other Receivables and Prepayments	1	(21)
(Decrease) / Increase in Other Liabilities and Payables	(164)	300
Decrease in Stocks	636	397
(Decrease) / Increase in Demand Liabilities	(1,467)	3,775
NET CASH PROVIDED BY OPERATING ACTIVITIES	852	(673)
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of Fixed Assets	(190)	(423)
NET CASH USED BY INVESTING ACTIVITIES	(190)	(423)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contribution Paid to CI Government	-	(425)
NET CASH USED IN FINANCING ACTIVITIES		(425)
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	662	(1,521)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	13,411	14,932
CASH AND CASH EQUIVALENTS, END OF THE YEAR	14,073	13,411

The accompanying notes form an integral part of these financial statements

1. Organisation and Objectives

The Cayman Islands Monetary Authority (the "Authority") was established under the *Monetary Authority Law, 1996* on 1 January 1997. Under the *Monetary Authority Law (2011 Revision) (the "Law (2011 revision)")*, the primary functions of the Authority are: -

To issue and redeem currency notes and coins and to manage the Currency Reserve
To regulate and supervise the financial services business
To provide assistance to overseas regulatory authorities, and
To advise the Cayman Islands Government on regulatory matters.

As at 30 June 2013 the Authority has 168 employees (2012: 153). The Authority is located in Elizabethan Square, George Town, Grand Cayman, Cayman Islands.

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.

a) *Basis of preparation.* The financial statements of the Authority are prepared in accordance with International Financial Reporting Standards ("IFRS"), on the accrual basis under historical cost convention.

b) *Foreign currency.* The reporting currency is Cayman Islands Dollars. Foreign currency transactions are recorded at the exchange rates prevailing on the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income. Assets and liabilities are translated at the exchange rate in effect at the date of these financial statements

c) *Use of Estimates.* The preparation of financial statements, in conformity with IFRS, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

d) *Financial Instruments.*

Classification
A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset, exchange financial instruments under conditions that are potentially favourable or an equity instrument of another enterprise. Financial assets comprise cash and cash equivalents, long and short-term investments, accounts and interest receivable, and other receivables and prepayments.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable. Financial liabilities comprise accounts payable and accrued expenses.

Recognition.
The Authority recognises financial instruments on its balance sheet on the date it becomes a party to the contractual provisions of the instrument.

Significant Accounting Policies (continued)
Financial Instruments (continued)

Measurement.
Financial instruments are measured initially at cost, which is the fair value of the consideration given or received.

The financial assets classified as cash and cash equivalents, accounts and interest receivable, and other receivables and prepayments are carried at historical cost, which is considered to approximate to fair value due to the short-term or immediate nature of these instruments.

Short-term investments are valued, on a monthly basis at their amortised cost. Long term investments are valued at quoted market value. Unrealised gains or losses are recorded in the Statement of Comprehensive Income.

The Authority's financial liabilities are carried at historical cost, which is the fair value of the consideration expected to be paid in the future for goods and services received whether or not billed to the Authority, due to their short-term maturities.

e) *Cash and Cash Equivalents.* For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of current and call deposits and fixed deposits maturing within three months from the date of acquisition.

f) *Stock of Notes and Coins for Circulation*. The stock of unissued currency notes is stated at cost. Only the cost of notes issued into circulation is expensed, on a "first in first out" basis. All associated cost such as shipping, handling and insurance are expensed immediately.

g) *Stocks of Numismatic Items.* Stocks consist of gold and silver bullion arising from the melt-down of numismatic coins (the gold and silver bullion content of the following categories of numismatic coins: coins for resale, museum items and coins awaiting melt-down). Bullion stocks are stated at year-end market values for gold and silver bullion and unrealised gain/loss are recorded in the Statement of Comprehensive Income.

h) *Numismatic Coins in Circulation.* The total nominal value of numismatic coins outstanding as at 30 June 2013 is $14,501k (2012: $14,502k). No liability for redeeming numismatic coins is recognised in the financial statements, since the amount of redemption cannot be reasonably estimated and the probability of material redemption is remote. Redemption costs and sales proceeds are recorded in the Statement of Comprehensive Income as incurred.

i) *Fixed Assets.* Fixed Assets are stated at historical cost less accumulated depreciation. Additions or improvements to assets during the year, which significantly add to the value of, or extend the useful life of such assets, are capitalised as part of the cost. Depreciation is calculated on the straight-line method of 20% per annum for Furniture & Fixtures, Leasehold Improvements, Motor Vehicle and Office Equipment (with the exception of the DRC Equipment calculated at 33.33%); and 25% to 33.33% per annum for Computer Hardware and Software.

j) *Employee Benefits.*
Pension Plans. The Authority makes pension contributions for its eligible employees to the Public Service Pensions Fund, which is administered by the Public Service Pensions Board. The Fund has both a defined benefit and a defined contribution element. There are a small number of employees who participate in other private plans, which are all defined contribution schemes.

Under defined contribution plans, the Authority pays fixed contributions and has no obligation to pay further contributions if the fund does not have sufficient assets to pay employee benefits relating to employee service in the current and prior periods. The Authority recognises contributions to a defined contribution plan when an employee has rendered services in exchange for those contributions.

Significant Accounting Policies (continued)
Employee Benefits (continued).

A defined benefit plan is one that defines an amount of benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation. The asset or liability in respect of defined benefit plans is the difference between the present value of the defined benefit obligation at the Statement of Financial Position date and the fair value of plan assets, adjusted for unrecognised actuarial gains/losses and past service cost. Where a pension asset arises, the amount recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in future contributions to the plan. The pension costs are assessed using the Projected Unit Credit Method. Under this method the cost of providing pensions is charged in the Statement of Comprehensive Income so as to spread the regular cost over the service lives of employees in accordance with advice of the actuary, (who is due to carry out a full valuation of the plans every year). The pension obligation is measured at the present value of the estimated future cash outflows using discount estimated rates based on market yields on high quality corporate bonds at the time of the accounting date which have terms to maturity approximating the terms of the related liability.

Obligations for contributions to defined contribution and defined benefits pension plans are recognized as pension expense in the Statement of Comprehensive Income as incurred.

Other Benefits. Other employee benefits include maternity leave, sick leave, vacation days and performance awards. Vacation days accumulate and vest and therefore a liability is accrued each year. The accrued vacation liability as at 30 June 2013 is $135k (2012: $105k) and is included in the other liabilities and payables.

k) Allocation of profits. Under Section 9 and 10 of the *Law (2011 revision)*, the net profits of the Authority, after provision for all expenditure and reserves, shall be allocated such that the Currency Reserve Assets represent at least 100% of Demand Liabilities and the General Reserve represents at least 15% of Demand Liabilities. Any surplus not allocated in accordance with the above shall be transferred to the General Revenue of the Cayman Islands Government.

l) General Reserve. The Authority maintains a General Reserve in accordance with Section 8 of the Law (2011 revision), to provide additional funding if necessary for Demand Liabilities and obligations arising from other business of the Authority. In accordance with section 8 of the *Law (2011 revision)* the General Reserve shall represent at least 15% of Demand Liabilities. As at 30 June 2013, the General Reserve was $17,451k (2012: $17,218k) equating to 20.01% (2012: 19.41%) of Demand Liabilities.

m) Currency Issue Reserve. The Currency Issue Reserve was adjusted as the stock of notes printed prior to 2003 was all issued into circulation. The Currency Issue Reserve will then remain at $375k.

n) Capital and Operational Expenditures Reserves. Under Section 9 of the *Law (2011 revision)*, the net profits of the Authority for any financial year shall include, but shall not be limited to, the income from the investments of the Authority, and the profit from the sales of investments belonging to the Authority, and shall be determined by the Authority after meeting or providing for all expenditure for that year and making such provisions for contingencies and the establishment of such additional reserves as it may consider desirable. The Capital Expenditures Reserve has been established for the implementation and acquisition of key capital projects such E-Reporting, Document Management and various other IT Projects. The Operational Expenditures Reserve will fund the operating costs associated with these key projects.

Significant Accounting Policies (continued)

o) *Contributed Capital.* The authorised capital of the Authority is $100 million; with The Cayman Islands Government being the sole subscriber. In 1998, the Government made a commitment to increase the Contributed Capital of the Authority to a minimum of $10 million by yearly transfers of approximately $0.5 million from Operating Surplus.

In December 2009, Section 7 (5) of the Monetary Authority Law (2008 Revision) was amended by the Monetary Authority (Amendment Law, 2009), to allow Cabinet to vary the amount of paid-up capital held by the Authority, and where the capital is reduced any excess shall be transferred by the Authority to the Government. In June 2011 the Cayman Islands Government withdrew $8.25 million. Contributed Capital as at 30 June 2013 was $2.328 million (2012: $2.328 million).

p) *Revenue recognition.* The Authority's main source of income is derived from the services it provides to the Government of the Cayman Islands. Commencing in 2012-13, Output funding to CIMA was reduced; this reduction was supplemented by reclassifying as Entity revenue, CIMA Transactional Fees charged for administrative services provided by the Authority to the Financial Services Industry. In addition, the Authority's other sources of income are generated from its investments, bank balances, and other currency transactions. The Authority recognises revenue in the period in which it is earned.

q) *Leases*. Those in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the Statement of Comprehensive Income on as straight line basis over the period of the lease.

2.1 Changes in Accounting Standards/IFRS

Standards issued but not yet effective up to the date of issuance of the Authority's financial statements are listed below. This listing of standards and interpretations issued are those that the Authority reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Authority intends to adopt these standards when they become effective.

i. IAS 19 - Employee Benefits (Amendment) (effective for periods beginning on or after January 1, 2013) - The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Authority is currently assessing the full impact of the amendments.

ii. IFRS 9 – Financial instruments (effective for periods beginning January 1, 2013) – addresses classification and measurement of financial instruments and replaces portions of IAS 39. Financial instruments can only be measured at amortized cost or fair value. Equity securities can only be recorded at fair value. An entity can record unrealized and realized gains or losses in other comprehensive income on an instrument by instrument basis and the election to do so is at initial recognition and this election is irrevocable. Dividend income on these equity securities can be recorded in profit and loss. Debt securities can only be recorded at amortized cost if the objective is to hold financial assets for the collection of contractual cash flows and the contractual cash flows represent solely payments of principal and interest, otherwise debt securities must be carried at fair value.

iii. An entity can still designate a financial instrument at fair value through profit and loss – however, this is an irrevocable election and the entity has to be consistent with this basis from year to year. The Authority currently does not have any equity or debt securities; however, an assessment will have to be made prior to the issuance of the standard in 2013, where applicable.

3. Financial Risk Management

a) *Credit risk.* Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to pay for its obligation (IFRS 7). The Authority manages credit risk by adhering to the Authority's investment guidelines for its Currency Reserves Assets which establishes counterparty concentration limits and minimum standards that each counter party must attain. The Authority's current, call, and fixed deposits are placed with high credit quality institutions. Credit risk with respect to long and short-term investments, accounts and interest receivable, and other receivables and prepayments is limited as the Authority only transacts business with counterparties it believes to be reputable and capable of performing their contractual obligations.

b) *Liquidity risk.* Liquidity risk is the risk that an entity will have difficulties in meeting its financial obligations (IFRS 7). Liquidity risk is managed on a basis which generally requires the Authority to hold assets of appropriate quantity and quality to meet all its obligations as they fall due. The Authority's investment guidelines for its Currency Reserves Assets are, in order: security, liquidity and income. Accordingly, the Authority believes that it is not exposed to any significant level of liquidity risk.

c) *Market risk.* Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks (IFRS 7). The ranges of interest rates and maturity dates are presented in Note 4. The carrying amount of call accounts, fixed deposit accounts, interest receivable and other liabilities approximated their fair value due to the short-term maturities of these assets and liabilities. The fair value of investments is presented in Note 4. The fair values of other assets and liabilities are not materially different from the carrying amounts. Readily available markets, enables the determination of fair values.

4. Currency Reserve Assets

Sections 32(8) of the *Law (2011 revision)* mandates the preservation of Currency Reserve Assets, separately from all other assets of the Authority. These assets are to be used to fund the Authority's currency redemption obligations. (See Note 8.) They shall not be used to satisfy liabilities arising from any other business of the Authority. After all Demand Liabilities are extinguished, any surplus Currency Reserve Assets would form, in part, the assets of the General Reserve. (See Note 2 *l.)*

Under the *Law (2011 revision)*, sections 32(2) and 32(6) respectively, the Currency Reserve Assets consist of external assets (not less in value than an amount equivalent to ninety percent of Demand Liabilities) and local assets (not to exceed ten percent of Demand Liabilities).

As at 30 June 2013, the value of Currency Reserve Assets was $97,930k (2012:$99,417k) representing 112.27% (2012: 112.09%) of total Demand Liabilities. The value of external assets equated to 105.66% (2012: 105.41%) while the value of local assets as at 30 June 2013 equated to 6.61% (2012: 6.68%) of Demand Liabilities.

Currency Reserve Assets comprise the following:

a) *Investments.* The principal investment objectives of the Authority are security, liquidity and income. The investment portfolio is managed by independent fund managers in accordance with investment guidelines established by the Board of Directors of the Cayman Islands Monetary Authority, in accordance with the *Law (2011 Revision)*. Management fees are calculated based on the market value of the portfolio and are payable quarterly in arrears. Either party may terminate the agreement with thirty days notice.

Currency Reserve Assets (continued)
Investments (continued)

Long-term Investments. US Treasury Notes, AAA Corporate Bond and U.S. Government Sponsored Enterprise ("GSE") stated at market value, with interest rates ranging from 0.38% to 2.625% and maturity dates between 31 July 2014 and 20 October 2042.

Included in long-investments are eight securities totalling $14,603k (2012: seven totalling $8,653k) with maturity dates over ten years. These securities are of the class for which the average life shall be used in place of maturity, under the investment guidelines. These securities are not intended to be held until maturity, and as such would be classified under IFRS 7 as 'available-for-sale'.

	2013	2012
Range of maturities	$000	$000
1-5 years	23,576	12,126
6-10 Years	-	-
Over 10 Years	14,603	8,653
	38,179	20,779

Short-term Investments. US Treasury Bills, AAA Corporate Bonds and US Treasury Notes with maturity dates ranging between 15 August 2013 and 28 April 2014, and the Federal Reserve Repurchase Agreement with a maturity date 01 July 2013.

	2013	2012
	$000	$000
US Treasury Bills	16,248	29,412
Federal Reserve Repurchase Agreement at 0.01 %	24,333	25,500
US Treasury Notes	8,615	14,257
AAA Corporate Bonds	2,056	1,251
Total Short-term Investments	51,252	70,420

The US Treasury Bills are measured at amortised cost. All other investments are measured at fair value; designated as such upon initial recognition.

Currency Reserve Assets (continued)

b) *Cash and Cash Equivalents.* The Authority maintains current, call and fixed term deposits with domestic and foreign banks; the fixed deposit account has a maturity date of three months. Under the *Law (2011 revision)*, domestic deposits (as part of the Currency Reserve Assets) cannot exceed 10% of Demand Liabilities. As at 30 June 2013, domestic deposits represent 5.02% (2012: 4.77%) of Demand Liabilities.

	Holding Currency	2013 $000	2012 $000
i) Operating Assets			
Current	KYD	(255)	(526)
Savings	KYD	7,422	8,035
Savings	USD	742	628
CI Cash on Hand	KYD	5	1
Current and Call Deposits		7,914	8,138

	Holding Currency	2013 $000	2012 $000
ii) Currency Reserve Assets			
Domestic Deposits			
Savings	GBP	8	8
Savings	KYD	1,483	1,421
Savings	USD	1,350	1,267
Foreign Deposits			
Federal Reserve Bank	USD	256	259
Investment Portfolio	USD	1,521	783
Total Call Deposits - Currency Reserve		4,618	3,738
Domestic - Fixed Deposits	USD	1,541	1,535
Total Cash and Cash Equivalent		14,073	13,411

Interest was earned on domestic call accounts at a rate of 0.01% during the year ended 30 June 2013 (2012: 0.01%). The domestic fixed deposit earned interest at rates ranging between 0.2755% to 0.4520% during the year ended 30 June 2013 (2012: 0.1200% to 0.4658%).

The Federal Reserve call account balance is non-interest bearing; however, the excess balances are invested daily in a repurchase agreement.

Interest is calculated on the average daily balance of the foreign investment call account. During the year ended 30 June 2013 no interest was earned (2012: $0).

5. Accounts Receivable

	2013	2012
	$000	$000
Trade Receivables, C.I. Government	4,116	2,892
Other Receivables	25	55
Provision for doubtful accounts	(25)	(20)
Accounts Receivable, net	4,116	2,927

Aged profile of Trade Receivables

	2013	2012
Period Outstanding Days	$000	$000
1-30	1,613	1,446
31-60	1,454	1,446
61-90	0	0
91-120	220	0
>120	829	0
	4,116	2,892

There was $10K in bad debt expense included in the statement of comprehensive income. $5k was recovered during the year in relation to 2 individuals, 1 operating debt from an earlier period; full provision had been made.

6. Fixed Assets

	Furniture & Fixtures	Leasehold Improvement	Computer Equipment	Office Equipment	WIP	Motor Vehicle	Total
Original Cost	$000	$000	$000	$000	$000	$000	$000
Balance as at 30/06/12	719	881	3,761	673	80	23	6,137
Additions	4		145	18	23		190
Transfer to asset register							
Disposals		(10)	(15)				(25)
Balance as at 30/06/13	723	871	3,891	691	103	23	6,302
Accumulated Depreciation							
Balance as at 30/06/12	698	881	2,145	433		20	4,177
Depreciation for the year	4		580	61		3	648
Relieved on disposals		(10)	(15)				(25)
Balance as at 30/06/13	702	871	2,710	494	-	23	4,800
Net Book Value as at 30/06/13	21	-	1,181	197	103	-	1,502
Net Book Value as at 30/06/12	21	-	1,616	240	80	3	1,960

7. Stocks

	2013	2012
	$000	$000
External		
Bullion from the melt-down of coins	550	773
Coins awaiting melt-down	49	64
Coins for resale	204	269
Museum items	70	91
	873	1,197
Local		
Inventory of unissued currency notes and coins	1,380	1,692
Total Stocks	2,253	2,889

The inventory of unissued currency notes and coins are stated at cost of production. All associated cost such as shipping, handling and insurance are expensed immediately. The Bullion stocks are stated at year-end market values for gold and silver bullion.

8. Liabilities

a) *Demand Liabilities*. Demand Liabilities represents the value of currency notes and coins in circulation. These liabilities are fully funded by the Currency Reserve Assets.

Total Demand Liabilities comprise:

	2013	2012
	$000	$000
Currency notes in circulation	77,250	79,015
Currency coins in circulation	9,979	9,681
Total Demand Liabilities	87,229	88,696

b) *Other Liabilities.*

	2013	2012
	$000	$000
Annual Leave accrual	136	105
Other accruals	679	739
Accounts Payable	38	173
	853	1,017

As at 30 June 2013, Other Liabilities included unsettled investment management and custody fees of $19k (2012:$24k).

9. Public Service Pension Plan

Pension contributions for eligible employees of the Authority are paid to the Public Service Pensions Fund (the "Fund"). The Fund is administered by the Public Service Pensions Board ("the Pensions Board") and is operated as a multi-employer plan. Prior to 1 January 2000 the Fund operated as a defined benefit plan. With effect from 1 January 2000 the Fund had both a defined benefit and a defined contribution element, with participants joining after 1 January 2000 becoming members of the defined contribution element only.

Using the projected Unit Credit method of measuring costs and obligations, the actuarial assessment for the Authority assessed the minimum normal annual contribution to be 13 % in his 'Actuarial Valuation as of January 1, 2005 for the purposes of establishing required contribution rates towards the Public Service Pensions Fund'. This rate included a 1% for the cost of all of the benefits that are provided over and above those related to the participant's total account balance. The Authority pays this 1% for all employees. In addition, for some employees in the defined benefit plan, the Authority pays both the employer and employee contributions.

The Plans are funded at rates of: -

	2013	2012
	%	%
Defined Contribution Plans		
Employee	6	6
Employer	7	7
Defined Benefit Plans		
Employee	6	6
Employer	7	7

The Actuary to the Pensions Board has valued the Fund as at 30 June 2012. The defined contribution part of the Fund is not subject to actuarial valuation due to the nature of the benefits provided therein.

The total amount recognised as a pension expense for the year ended 30 June 2013 was $821k (2012: $819k). The actual amount of pension expense relating to the defined benefits for staff should also include the effect of any changes in the actuarial determined liability. Management is unable to determine the impact on the recorded expense for the year ended 30 June 2013, as the Actuary has not provided this information. Pension expense is the expense under IAS 19, inclusive of Company Service Cost, amortisations and net Interest. Company Service represents the pension cost to the Authority associated with the financial year benefit accruals and is net of participant contributions.

The actuarial position is as follows:

	2013	2012	2011	2010	2009
	$000	$000	$000	$000	$000
Net Present Value of Funded Obligation	(6,894)	(6,250)	(5,283)	(4,902)	(4,120)
Fair Value of Plan Assets	6,289	5,548	5,054	3,919	3,501
Funded Status	(605)	(702)	(229)	(983)	(619)
Unrecognised Actuarial Loss	446	672	283	1,306	1,143
Net (Liability)/Asset	(159)	(30)	54	323	524

The amount of the defined benefit liability as at 30 June 2013 is as per the Actuary's projected funded status report.

Public Service Pensions Plan (continued)

Pension Expense for fiscal year ending	30 June 2012	30 June 2011
	$000	$000
Company Service Cost	263	284
Interest Cost	289	270
Expected Return on Assets (net)	(308)	(241)
Recognition of Net Loss		63
Total Pension Expense	244	376

Reconciliation of Defined Benefit Asset/(Liability)	30 June 2012	30 June 2011
	$000	$000
Previous Year Defined Benefit Asset	54	323
Net Pension Expense for Fiscal Year	(244)	(376)
Employer Contributions	160	107
Defined Benefit Asset	(30)	54

Change in Defined Benefit Obligation over year ending	30 June 2012	30 June 2011
	$000	$000
Defined Benefit Obligation at end of Prior Year	5,283	4,902
Company Service Cost	263	284
Interest Cost	289	270
Plan Participant Contributions	105	98
Net Acturial Loss/(Gain)	347	(271)
Transfers between other particpating Entities	(37)	-
Defined Benefit Obligation at End of Year	6,250	5,283

Change in Plan Assets over year ending	30 June 2012	30 June 2011
	$000	$000
Fair Value of Plan Assets as at End of Prior Year	5,054	3,919
Employer Contributions	160	107
Plan Participant Contributions	105	98
Transfers between other participating entities	(37)	-
Expected Return on Assets net of expense	308	241
Asset Gain	(42)	689
Fair Value of Plan Assets as at End of Year	5,548	5,054

Change in Unrecognised Net Actuarial Loss/(Gain)	30 June 2012	30 June 2011
	$000	$000
Unrecognised Net Actuarial Loss	283	1,306
Amortisation (Cost) For Year	-	(63)
Liability Loss/(Gain)	347	(271)
Asset Loss/(Gain)	42	(689)
Unrecognised Net Actuarial Gain	672	283

Public Service Pensions Plan (continued)

Allocation of Assets

The Distribution of the Plan Assets, as at 30 June 2012 and 2011, based on the share of the total Fund allocated to the Authority was as follows: -

	30 June 2012	30 June 2011
	%	%
Equity Investments	64	61
Bond Investments	32	32
Property	3	3
Cash/Other	1	4
Total	100	100

Actuarial Assumptions

The principal Actuarial Assumptions used to Determine Benefit Obligations at 30 June 2012 and 2011 are as follows:

	30 June 2012	30 June 2011
	%	%
Discount Rate	5.50	5.50
Expected Long-Term Return on Plan Assets	6.00	6.00
Rate of Salary Increase	3.50	3.50
Rate of Price Inflation	2.50	2.50
Rate of Pension Increases	2.50	2.50

The economic assumptions used to determine Net Periodic Benefit Cost for the year ending 30 June 2012 and 2011 are as follows:

	30 June 2012	30 June 2011
	%	%
Discount Rate	5.25	5.50
Expected Long-Term Return on Plan Assets	7.00	6.00
Rate of Salary Increase	3.50	4.00
Rate of Price Inflation	2.50	2.50
Rate of Pension Increases	2.50	2.50

Other Assumptions:

Mortality – Standard U.S. mortality rates
Retirement Age – attainment of age 57 and at least 10 years of service
Asset Valuation –Fair (Market) Value

10. Commitments

Operating Commitments.

Business Continuity Leases
As a part of its Business Continuity Plan the Authority has 2 lease agreements.

i. An agreement with the Disaster Recovery Centre (Cayman Islands) Limited effective 1 July 2011 for a period of three years at a monthly cost of US$17k.
ii. An agreement with the Brac Informatics Centre effective 1 April 2009 at a monthly cost of CI$12k to 30 September 2013, amended to $9.840k to 31 March 2014
iii. An agreement with the Brac Informatics Centre effective 1 April 2014 at a monthly cost of CI$4.9k for a five year period.
iv. An agreement with the Disaster Recovery Centre (Cayman Islands) Limited effective 1 September 2013 for a period of five years at a monthly cost of US$3.3k to US$6.3k.

	2013	2012
	$000	$000
Business Continuity Leases	315	547
	315	547

11. Related Party Transactions

a) Services Provided to the Cayman Islands Government. The Authority acts as the Government's custodian of the Cayman Islands currency as well as collector of license and other fees (these fees do not form a part of the Authority's revenue) and the regulator and supervisor of the financial services business.

The Authority's main source of revenue is from the services provided to the Cayman Islands Government, which is used to cover the Authority's recurrent expenditure. Commencing in the year ended 30 June 2007 the Authority's capital expenditure was funded from the Capital Expenditures Reserve, which was created from an allocation of the surplus for the year ended 30 June 2006; previously capital expenditure was funded by means of a Government grant. At the end each financial year the Authority contributes to the Government the net operating surplus after fulfilling Reserve requirements.

b) Directors. The Board of Directors of the Authority is appointed by the Governor in Cabinet, and consisted of the Managing Director ("MD") and six directors as of 30 June 2013. The fees of $144k (2011-12: $144k) relates to payments made to the directors only.

c) Key Management Personnel. For the purposes of IAS 24 disclosure the MD is included in the number and cost of the Senior Management Team. The total number of personnel of the Senior Management Team was 15 in 2012-13 (2011-12: 14) and salaries & other short term benefits expensed in 2012-13 was $2,133k (2011-12: $2,055k).

d) Services Provided by Government Entities. The Authority obtained various goods and services from other Government departments/entities of the Cayman Islands Government, at prevailing market prices on an arm's length basis, during 2012-13 in the amount of $505k (2011-12: $691k).

12. Other Operating Expenses

	2013	2012
	$000	$000
Maintenance and software licences	632	658
Currency Stock issues	328	373
Business Continuity	340	340
Directors Fees	144	144
Management and Custody Fees	48	50
Realised loss on investments	184	407
Other expenses	561	527
Total	2,237	2,499

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