

ANNUAL REPORT

1 JULY 2008 – 30 JUNE 2009

The Cayman Islands Monetary Authority Year in Review 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)



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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

Regulating in challenging times

The unfolding global financial crisis and the responses of markets, governments, regulators and standard setters had their distinct effects on the Cayman Islands during the 2008-09 fiscal year. Developments leading into, and during, the period meant it was not 'business as usual' for the Cayman Islands Monetary Authority. In carrying out our regulatory, monetary, cooperative and advisory functions we acted on several fronts to ensure we continued to meet our obligations, particularly those of promoting and maintaining a sound financial system in the Cayman Islands, and enhancing market confidence, consumer protection and the Islands' reputation as an international financial centre.

Assessment, adjustment and coordinated action

In the wake of the financial crisis, calls by political leaders, international standard setters and regulatory bodies for enhanced regulation and cooperation to prevent future melt-downs were not unexpected. CIMA's mission has always been to ensure that Cayman is regulated in accordance with international best practices that are relevant to the nature of business conducted in and from this jurisdiction. Thus, in addition to our ongoing review of the regulatory framework we administer, the implementation of adjustments to meet standards that had recently been changed, and assistance to regulatory organisations to maintain or enhance supervisory standards, we spent much time during the year assessing the new resolutions, recommendations and legislative proposals that addressed areas falling within CIMA's scope of responsibility.

Our work in these areas resulted in our execution of several regulatory measures and initiatives. For example, after reviewing our home-host relationship with overseas regulators of institutions which have significant financial business in the Cayman Islands, we developed and issued a policy on consolidated supervision that outlines CIMA's approach to ensuring effective supervision on a group-wide basis where CIMA is host or home supervisor for entities that are internationally active. We increased our involvement in supervisory colleges, participating during the year in a number of meetings of international banking regulators of individual banking institutions that have a presence in Cayman.

During the year, we fine-tuned and published regulatory policies on: licensing banks, approval of major acquisitions or investments by banks, and approval of applications for audit exemptions for regulated funds, and we issued measures on risk management and market conduct for insurance licensees.

Contributing to international standard-setting

Following our longstanding and intensive negotiations with the International Organization of Securities Commissions (IOSCO), and the signing of its multilateral memorandum of understanding (MMoU) concerning consultation, cooperation and the exchange of information on securities matters, we were granted membership in June 2009. At the same time, we continued to contribute to the work of other regulatory organisations of which we were already members. These included the Caribbean Financial Action Task Force, which we assisted by serving as financial examiner in the mutual evaluation of St Kitts and Nevis' anti-money laundering and counter terrorist financing regime in October 2008. We continued on several validation teams, and as lead validator in one instance, assessing applications from International Association of

Insurance Supervisors (IAIS) member jurisdictions wishing to sign up to the organisation's MMoU. We also continued reviewing the international standards for insurance supervision, the Insurance Core Principles (ICPs), as a member of the IAIS ICPs Task Force. This was in addition to facilitating the International Monetary Fund's March 2009 update assessment of the regulation and supervision of financial services in Cayman, participating in the UK Government-commissioned independent review of British offshore financial centres by Michael Foot, and executing new memoranda of understanding for information exchange and assistance with two overseas and one local regulatory authority.

Heightened vigilance - safe-guarding financial stability

On the supervisory front, the extraordinary circumstances prevailing internationally during the fiscal year caused us to significantly heighten our vigilance over licensees as well as forced us to deal with an increased number of entities in distress. As part of our immediate actions to ensure we were aware of, and could mitigate any potential local shocks arising from the collapse of international banking and other institutions, we implemented the requirement for retail bank licensees to report certain financial details to CIMA on a weekly basis, in addition to their regular quarterly reporting requirements. Throughout the period both retail and non-retail bank licensees remained solvent.

Two external insurance companies operating in the domestic market and having a common ownership experienced increasing difficulties during year as a result of the financial problems of their parent company. This necessitated increasingly stringent enforcement action by CIMA, culminating in one licensee being placed into controllership and the other being ordered to cease issuing new policies (the later was also subsequently placed into controllership). These were among nine formal enforcement actions, all involving insurance companies and registered funds, which we took during the fiscal year.

Reduction as well as growth in authorisations

Among the businesses regulated and supervised by CIMA, the turmoil in international financial markets during 2008-09 was reflected most clearly in reductions in the numbers of registered and administered funds, and fund administrators, which fell two percent and seven percent, respectively, from June 2008. The number of banks declined as well, by six percent. As a result, government revenue from fees that CIMA collects from regulated entities on behalf of the government fell by \$1.1 million to \$62.3 million for fiscal year 2008-09 (2008-09: \$63.4 million).

Nevertheless, there were several areas in which the authorisation of new entities surpassed cancellations, resulting in net increases in authorisation numbers over 2007-08 figures. At 30 June 2009 there were 17 percent more licensed securities investment business (SIB) entities, 13 percent more registered SIB entities and two percent more captive insurance companies than at June 2008. Trust and company manager licenses grew by two percent and five percent, respectively, and, following the creation in the prior year of a new regulatory category to allow registration rather than licensing for trusts meeting the definition of private trusts and controlled subsidiaries, 18 such entities registered.

It is a reflection of the continued demand for the quality of services offered by this jurisdiction that at the end of the fiscal year it remained among the top-ranking financial centres internationally, based on the number of regulated funds and captive insurance companies domiciled here; the number of trust licensees and the total value of assets and liabilities booked through Cayman Islands banks.

Protecting the currency reserves

Currency management was another area in which we exercised increased vigilance. In line with the instructions of CIMA's Board of Directors in the prior year, we continued to reduce the volume of mortgage-backed securities (MBS) in our currency reserve investment portfolio as MBS in the portfolio reached maturity. By 30 June 2009 the total value of the

currency reserve assets was CI\$100.5 million. Although this was an increase over the 30 June 2008 value of \$99.8m, growth during 2008-09 was retarded by depressed interest rates. The value of the currency reserve assets at 30 June represented 120 percent of currency in circulation (30 June 2008: 126.5 percent).

Enhancing CIMA's operational efficiency

In 2008-09, we continued our efforts to enhance CIMA's operational efficiency. Steps included implementing improvements to the electronic reporting system for funds, and continuing groundwork for automating manual processes for licence/registration applications and other submissions. Further work was also carried out on the development of the Monetary Authority Regulatory System (MARS) that will, on completion, replace the supervisory and regulatory functions of the current licensee/registrant database. Initiatives in the human resources area included the completion of a comprehensive job evaluation exercise and the adoption of new job classification and compensation policy. We also streamlined our staff training and development programme by launching a Learning Centre and bringing most of our training programmes in-house. This effectively decreased our training expenditure while increasing the number of employees benefitting from training.

Preparing for continued challenge

The global financial crisis placed heightened pressure on CIMA, and the jurisdiction as a whole, during 2008-09. I expect the ongoing spin-off effects will continue to increase the day-to-day demands on CIMA, while challenging us, and the jurisdiction, to operate more strategically going forward. I am therefore grateful for the continued dedication of our staff, and the support of our board of directors and the government, which enabled, and will enable, us to carry out our mission of "fostering a thriving, growing, competitive and internationally recognised financial services industry through appropriate, responsive, cost-effective and efficient supervision and a stable currency."

Cindy Scotland

DIRECTORS & SENIOR OFFICERS

AS AT 30 JUNE 2009



Seated from left: **Managing Director:** Cindy Scotland
Chairman: Carlyle McLaughlin, Jr.
Director: Adriannie Webb, JP

Standing from left: **Deputy Chairman:** Joel Walton, JP
Director: Harry Chisholm, MBE, JP
Director: Richard Harris, FCA
Director: Christopher Rose, PhD
Director: Bryan Bothwell, MBE
Director: Warren Coats, PhD
Director: Professor William Gilmore

Directors and senior officers' biographies are available on the CIMA website at:
www.cimonwy.com.ky in the section About CIMA/Structure and Governance/Directors & Management.



MANAGING DIRECTOR
Cindy Scotland



DEPUTY MANAGING DIRECTOR - GENERAL COUNSEL
Langston Sibbles



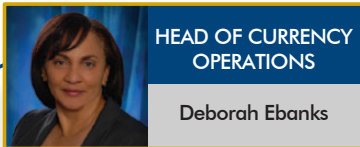
DEPUTY MANAGING DIRECTOR, OPERATIONS
Vacant



DEPUTY MANAGING DIRECTOR, REGULATORY
Howard Blacker



HEAD OF COMPLIANCE
RJ Berry



HEAD OF CURRENCY OPERATIONS
Deborah Ebanks



HEAD OF BANKING
Reina Ebanks



DEPUTY HEAD OF COMPLIANCE
Audrey Roe



DEPUTY HEAD OF CURRENCY OPERATIONS
Shan Whittaker



DEPUTY HEAD OF BANKING
Tricia Thompson



HEAD OF POLICY AND DEVELOPMENT
Mitchell Scott



CHIEF FINANCIAL OFFICER
Gilda Moxam-Murray



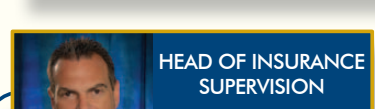
HEAD OF FIDUCIARY SERVICES
Rohan Bromfield



DEPUTY HEAD OF POLICY AND DEVELOPMENT
Francis Arana



HEAD OF HUMAN RESOURCES
Judy Miller



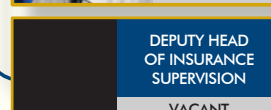
HEAD OF INSURANCE SUPERVISION
Gordon Rowell



LEGAL COUNSEL
Sandra Edun-Watler



HEAD OF INFORMATION TECHNOLOGY
VACANT



DEPUTY HEAD OF INSURANCE SUPERVISION
VACANT



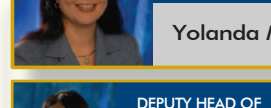
LEGAL COUNSEL
Gail Johnson-Goring



HEAD OF INVESTMENTS AND SECURITIES
Yolanda McCoy



LEGAL COUNSEL & FREEDOM OF INFORMATION MANAGER
Arnold Todd



DEPUTY HEAD OF INVESTMENT AND SECURITIES
Heather Smith



PUBLIC RELATIONS EXECUTIVE
Joan Scott



INTERNATIONAL AFFAIRS UNIT SPECIALIST
VACANT

INDUSTRY OVERVIEW

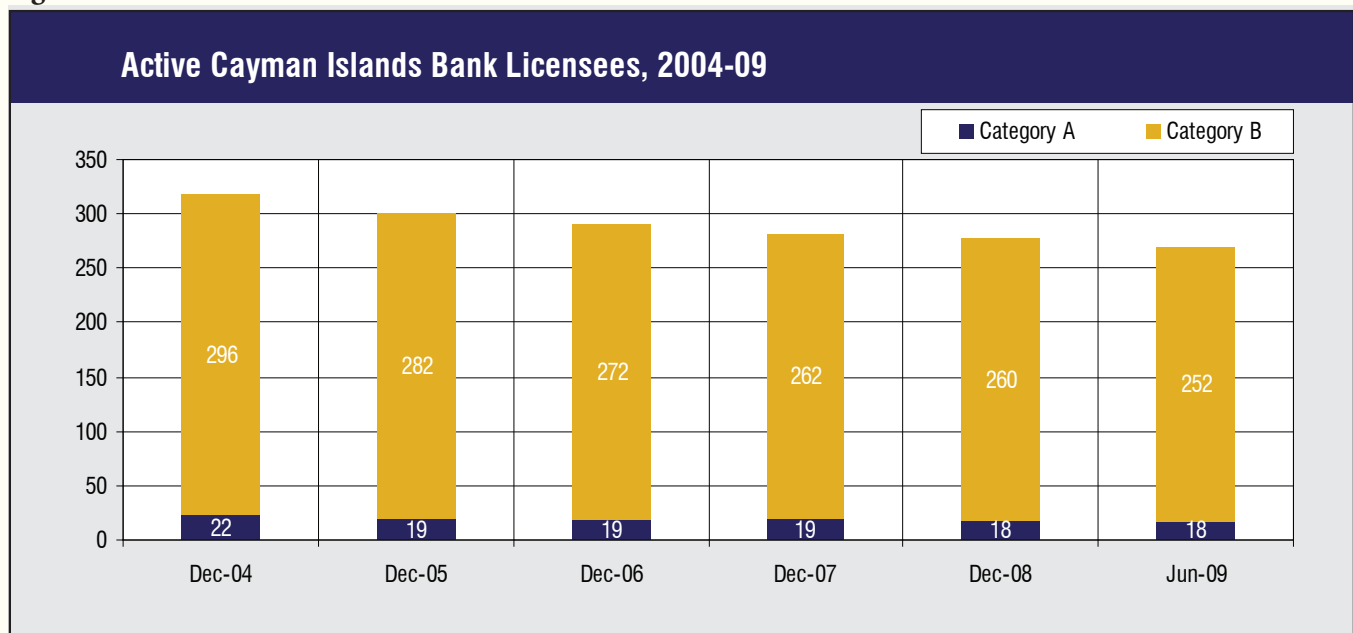
The Cayman Islands economy and world financial markets have continued to benefit from the operation of the financial services industry regulated by the Monetary Authority. Licensing activity and other industry developments are reviewed in the following section.

BANKING & RELATED SERVICES

BANKING Industry Trends

During the 2008-09 fiscal year the Cayman Islands maintained its prominence as an international banking centre, moving up in the rankings to the fourth largest in the world with regards to total liabilities and holding steady at sixth with respect to total assets. The Cayman Islands was not immune to the crisis in international financial markets, and the continued restructuring, consolidation and rationalisation of banking group activities worldwide. There was a six percent decline in the number of Cayman-licensed banks for the 2008-09 fiscal year and a small decline in total assets and total liabilities.

Figure 1:



There were 270 institutions holding banking licences in the jurisdiction at 30 June 2009. These comprised seven retail category A banks, 11 non-retail category A banks and 252 category B banks¹.

Table 1: Bank Licensing Activity 2008-2009, with June '07 and June '08 Comparisons

Licence Type	Active as at 30 June 2007	Active as at 30 June 2008	Terminated 1 July 2008 - 30 June 2009	Issued 1 July 2008 - 30 June 2009	Active as at 30 June 2009
Category A Bank & Trust	20	19	1	0	18
Category B Bank & Trust	262	260	16	7	251
Cat B Bank & Trust (Restricted)	1	1	1	1	1
Total	283	280	18	8	270

¹ The Category A banking and trust licence allows holders to operate both in the international and domestic market. The Category B licence permits international banking business and limited domestic activity.

The June 2009 figure showed 10 fewer banks than the 280 being regulated as at 30 June 2008, representing a four percent decline. Cancellation of the Category A licence was due to the group's decision to relocate its operations to another region. The cancellation of the Category B licenses was due to mergers or inactivity. In addition, there were five cancellations of nominee companies as a result of their parents' cancellations.

Among the 270 banks under regulation at 30 June 2009, there are 176 branches, primarily from the US and Brazil; 75 subsidiaries; 12 privately owned banks, and seven that were affiliated to another bank within the group (see Figure 3). In total, 54 nominee trust licences were held by bank licensees.

The jurisdiction continues to attract top tier banking groups from around the world, including from Europe and North America, hosting branches or subsidiaries of over 40 of the world's top 50 banks as ranked by total assets (see Figure 3).

Figure 2:

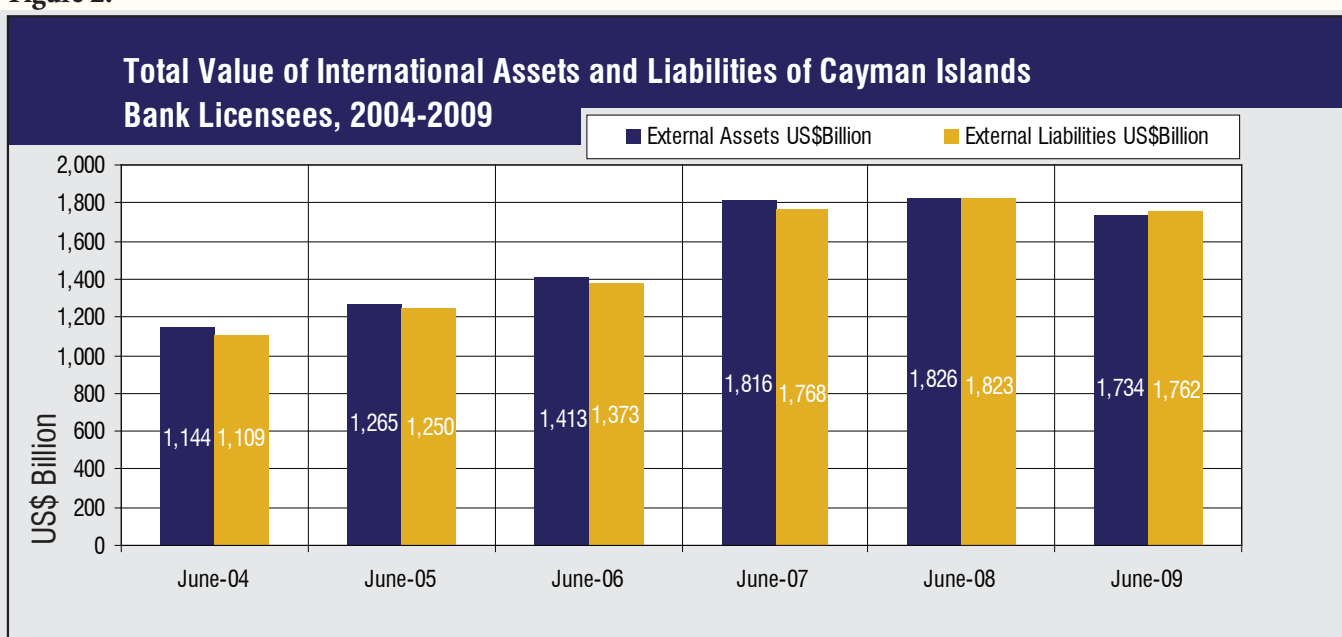
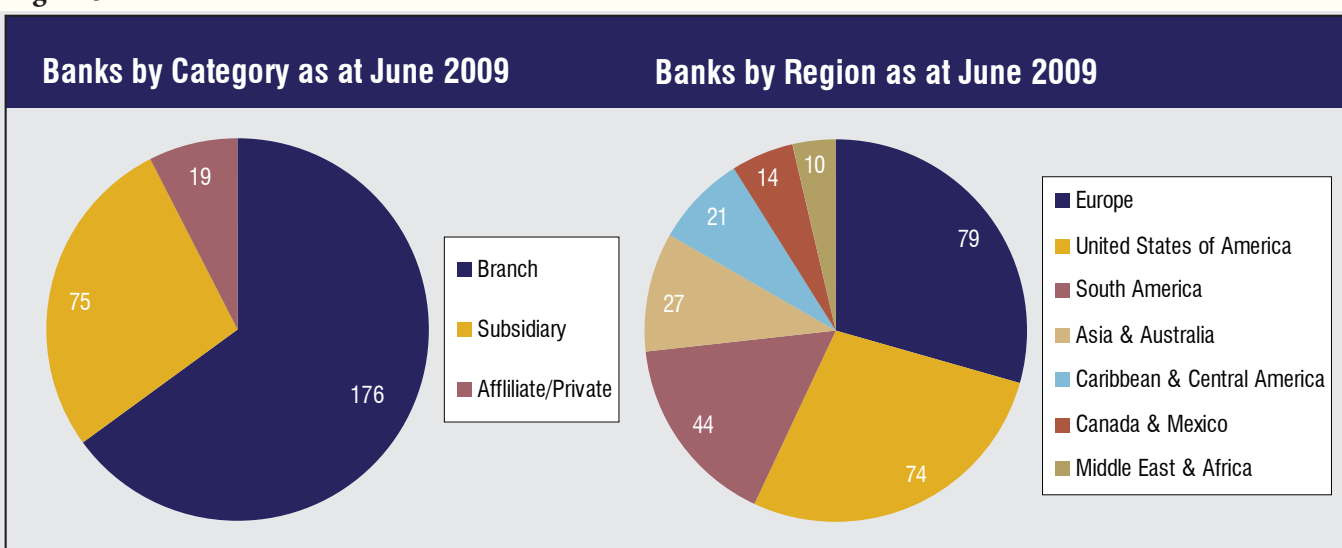


Figure 3:



International assets booked through banks in the Cayman Islands stood at US\$1.73 trillion² at 30 June 2009, as compared to US\$1.83 trillion at June 2008 and US\$1.82 trillion at June 2007. Liabilities also fell slightly to US\$1.76 trillion, down from US\$1.82 trillion as at June 2008 and US\$1.77 trillion as at June 2007.

The Domestic Market

The domestic market continued to be serviced by seven retail banks: Butterfield Bank (Cayman) Limited, Cayman National Bank, Fidelity Bank (Cayman) Limited, FirstCaribbean International Bank (Cayman) Limited, Royal Bank of Canada, Scotiabank & Trust (Cayman) Ltd., and HSBC Financial Services (Cayman) Limited (which began retail operations in January 2009). Four are subsidiaries of international banking groups, one is a branch of an international banking group, and the other is owned by a financial group headquartered in the Cayman Islands.

The risk adjusted capital adequacy ratio for the six locally incorporated retail banks that have a capital adequacy requirement was an average of 22 percent at June 2009. This is well in excess of the eight percent minimum requirement set by the Basel Committee on Banking Supervision and the 10 percent set by the Banking and Trust Companies Law (2009 Revision). Individual capital adequacy ratios ranged from 13.8 to 39.6 percent. Table 2 shows aggregate deposit, loan and total asset figures for the seven retail banks.

Table 2: Aggregate Retail Bank Figures, 2008 & 2009 (in \$US)

Year	Total Assets	Total Loans	Total Deposits
June 2008	\$ 12.6 billion	\$ 5.5 billion	\$11.1 billion
June 2009	\$ 13.3 billion	\$ 6.6 billion	\$11.5 billion

Impact of International Financial Crisis

Since late 2008, the seven retail domestic banks have been required to report to the Authority specific information on a weekly basis in addition to their regular quarterly reporting. This allows for increased monitoring of the financial standing of these banks, in particular the liquidity position, asset quality and capital position of these banks. In addition, the Authority continued to monitor exposures to significant events such as the subprime crisis as well as the Madoff fraud and the alleged Stanford fraud. Responses to date indicate licensees have no overall substantial exposures and most remain well-capitalised. The Authority continues to monitor the possible impact of the international financial crisis on the Cayman Islands banking sector.

Jurisdictional Comparisons

As illustrated in Table 3, by 2008 the number of banks licensed in most of the listed jurisdictions had fallen below the numbers reported in 2004. The only exceptions were Switzerland, which increased by 66, and Panama, which increased by three.

² \$1 trillion = \$1,000,000,000,000

Table 3: Bank Licence Numbers in Selected Jurisdictions, 2004-2008

Jurisdiction	2004	% Change ('05 v '04)	2005	% Change ('06 v '05)	2006	% Change ('07 v '06)	2007	% Change ('07 v '08)	2008
Cayman	318	↓ 5%	301	↓ 3%	291	↓ 3%	281	↓ 1%	278
Bahamas	162	↓ 2%	158	↓ 13%	137	↑ 3%	141*	↓ 1.4%	139
Hong Kong	208	↓ 3%	202	-	202	↓ 1%	200	-	200
Jersey	51	↓ 2%	50	↓ 1%	45	↑ 7%	48*	↓ 2.1%	47
Luxembourg	165	↓ 5%	157	↓ 3%	155	↑ 1%	157**	↓ 3.2%	152
Panama	73	0%	73	↑ 8%	79	-	79	-	79
Singapore	N/A	-	158	↓ 1%	157	↑ 3%	162	↑ 1.9%	165
Switzerland	338	↑ 1%	342	↓ 1%	336	↑ 1%	337	↑ 19.9%	404

*Figures as at Sept 07.

**Figure as at Nov 07.

MONEY SERVICES CO-OPERATIVES & BUILDING SOCIETIES

Money Services Businesses

Money services businesses, cooperative societies and building societies cater primarily to the domestic market.

The number of licences in effect for money services business in the Cayman Islands held steady at seven during the year. Overseas remittances through these entities for 2008 grew to an estimated US\$229 million, from some US\$211 million for the previous year. Table 4 shows the amount of overseas remittances over the last five years. It is estimated that over 67% of overseas remittances were sent to Jamaica in 2008.

**Table 4: Overseas Remittances,
Calendar Year 2004 to 2008**

Year	Total Overseas Remittances (In US\$ Millions)
2004	105
2005	207
2006	211
2007	211
2008	229

Credit Unions, Building Societies & Development

Cooperative societies, building societies and development banks are not required to be licensed. However cooperative societies carrying on credit union business must be registered by CIMA, along with building societies and development banks, in order for CIMA to supervise these entities, as required by the Cooperative Societies Law (2001 Revision), Building Societies Law (2001 Revision), and Development Bank Law (2004 Revision), respectively.

The number of cooperative credit unions, building societies and development banks also remained stable, at two, one and one, respectively.

FIDUCIARY SERVICES

Industry Trends

The Cayman Islands remains a top international location for the provision of trust services and holds its own among locations from which corporate /company management services are provided (see Tables 6 and 7 for jurisdictional comparisons).

At 30 June 2009 there were 261 institutions holding trust³, company manager⁴ and corporate service provider⁵ licences/registrations, an 11 percent increase over the 236 authorised entities as at 30 June 2008.

Table 5: Trust & Company Management Licensing Activity 2008-2009, with June '07 and June '08 Comparisons

Authorisation Type	Active as at 30 June 2007	Active as at 30 June 2008	Terminated 1 July 2008 –30 June 2009	Issued 1 July 2008 –30 June 2009	Active as at 30 June 2009
Trust Company – Restricted (Licensed)	86	85	7	7	85
Trust Company – Unrestricted (Licensed)	51	52	3	3	53*
Nominee Trust (Licensed)	20	20	2	0	22*
Controlled Subsidiaries (Registered)	-	-	0	9	9
Private Trust Companies (Registered)	-	-	0	9	9
Company Manager (Licensed)	72	73	1	5	77
Corporate Service Provider (Licensed)	7	6	0	0	6
Total	236	236	13	33	261

* One trust licence (unrestricted) and four nominee licences were transferred from the Banking Division

Trusts

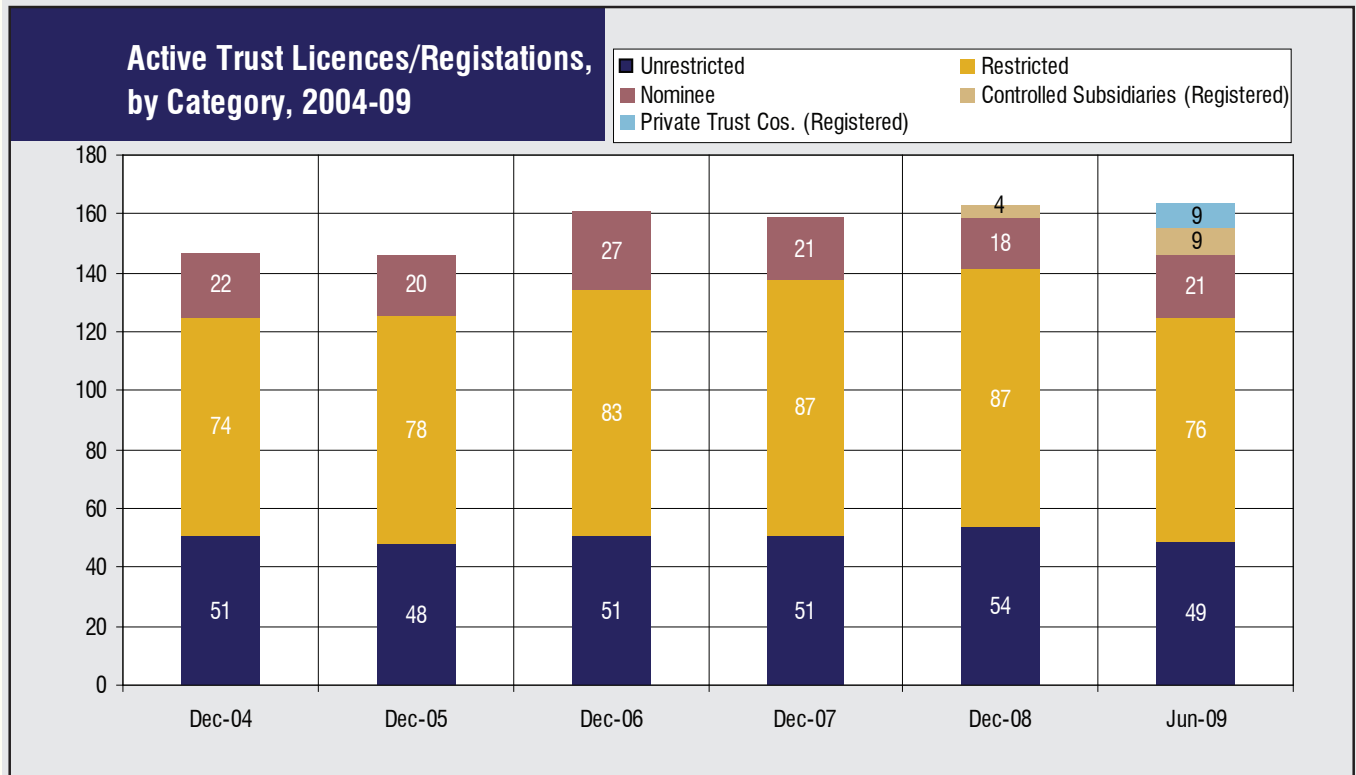
CIMA's Fiduciary Services Division administers licences for those entities that hold trust licences only while the Banking Supervision Division administers licenses for those entities that hold both banking and trust licences.

3 Comprises three licence categories: Trust – a licence that allows the holder to carry on the business of acting as trustee, executor or administrator; Trust (Restricted) – allows the holder to undertake trust business only for persons listed in any undertaking accompanying the application for the licence; Nominee Trust – a licence granted for the holder to act solely as the nominee of a trust licensee, being the wholly-owned subsidiary of that licensee.

4 A Company Manager 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.

5 Corporate Service Provider 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).

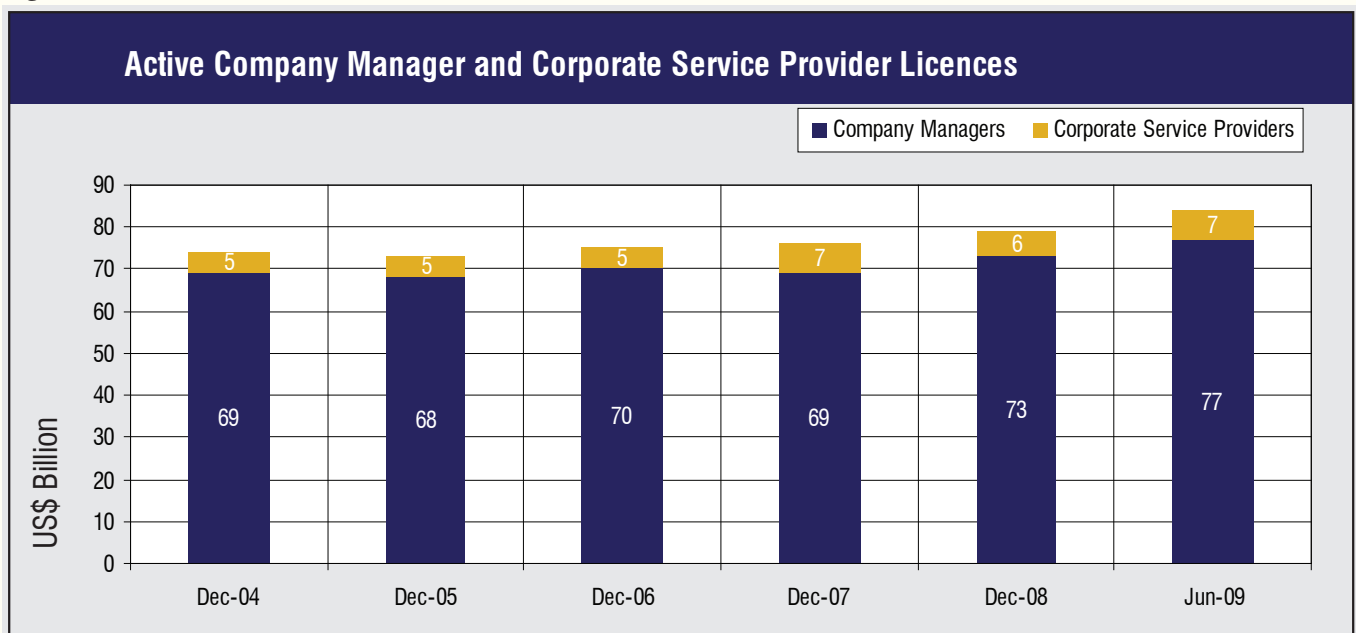
Figure 4:



There were 160 active trust licences supervised by the Fiduciary Services Division as at 30 June 2009, a net increase of three over the 157 licences active at 30 June 2008. Twelve licences were cancelled and 10 new licences were issued. The overall net increase in licences resulted from the transfer from the Banking Supervision Division of one restricted trust company licence and the four nominee trusts licences held by that licensee, the holder having surrendered its banking licence.

There was no net growth in the number of restricted trust licences. The absence of growth in this category, which had been largely used to establish private trust companies in the past, may be partially attributable to the registration of nine private trust

Figure 5:



companies under the Banks and Trust Companies Law (2007 Revision) The Private Trust Companies Regulations, 2008. The regulations, gazetted in September 2008, were created specifically for the purpose of establishing private trust companies (see page 34, “Regulatory Developments – Fiduciary”).

Nine trust entities registered as controlled subsidiaries during the fiscal year, following the implementation of amendments to the Banks and Trust Companies Law (see page 34).

Companies Management

CIMA saw an increase in applications for company management licences from applicants wishing to provide independent director services, a trend that continued on from the previous year.

Effects of the Global Financial Crisis

To date, CIMA has found no evidence of a critically detrimental impact from the current global credit crisis on the majority of licensed trust companies and corporate services providers. It has been anticipated that institutions that have fee schemes that are affected by the performance of securities may see some decline in their revenue.

The first part of 2009 showed a downward trending in the formation of exempt companies. A downward trending in exempt company registrations is strongly suggestive of a contraction in new business, and thus revenues, for the corporate services industry. While not pronounced at this point, over a protracted period of time such a trend may result in smaller service providers having to withdraw from the industry.

Jurisdictional Comparisons

Tables 6 and 7 show the number of active trust and corporate services licences for calendar years 2004 to 2008 in the Cayman Islands and in other international financial centres for which figures are available.

Table 6: Trust Licence Numbers in Selected Jurisdictions, 2004-2008

Jurisdiction	2004	% Change ('05 v '04)	2005	% Change ('06 v '05)	2006	% Change ('07 v '06)	2007	% Change ('08 v '07)	2008
Cayman*	354	↓ 1%	352	↓ 3%	344	↓ 2%	339	↓ 2%	336
BVI	236	↓ 11%	212	↓ 6%	201	↑ 1%	203	↑ 5%	213
Bahamas	197	↓ 3%	191	↓ 1%	190	↑ 3%	196	↑ 3%	271
Bermuda	N/A	-	33	-	33	-	33	-	213
Gibraltar**	80	↑ 3%	82	↑ 6%	87	↓ 1%	86	↓ 16%	72
Guernsey**	201	↓ 1%	199	↑ 3%	205	↑ 3%	209	↑ 3%	200+
Isle of Man	N/A	-	18	↑ 428%	95	↑ 33%	127	-	-
Jersey**	190	↓ 4%	184	↑ 5%	193	↓ 5%	184	↓ 5%	152
Panama	15	↓ 7%	14 (Jun)	-	N/A	-	56	↑ 8%	60
Turks and Caicos	19	↑ 5%	20	0%	20	↓ 5%	19	0%	19

Note Figures provided are reported by the jurisdictions' regulator.

N/A Figures not available

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

Cayman's trust figures comprise trust companies that also hold a Banking Licence and are thus supervised by the Banking Division, as well as licences and registrations supervised by the Fiduciary Services Division.

Table 7: Company Services Licence Numbers in Selected Jurisdictions, 2004-2008

Jurisdiction	2004	% Change ('05 v '04)	2005	% Change ('06 v '05)	2006	% Change ('07 v '06)	2007	% Change ('08 v '07)	2008
Cayman	74	↓1%	73	↑3%	75	↑1%	76	↑8%	79
BVI	19	↑5%	20	0%	20	↓10%	18	↓11%	20
Gibraltar*	80	↑3%	82	↑6%	87	↓1%	86	↑7%	72
Guernsey	201	↓1%	199	↑3%	205	↑3%	209	-	200+
Isle of Man	N/A	-	176	↓2%	173	↑6%	184	↓0.5%	183
Jersey*	190	↓4%	184	↑5%	193	↓5%	184	-	-
Turks and Caicos	34	↑8%	37	↑5%	39	↑5%	41	↑2%	42

Note Figures provided are reported by the jurisdictions' regulator.

N/A Figures not available

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

INSURANCE

Industry Trends

The insurance industry in the Cayman Islands has two distinct sectors. The domestic market comprises insurance companies (both locally incorporated and branches of foreign companies) and intermediaries (brokers and agents). The international market, better known as the captive market, comprises captive insurance companies and insurance managers.

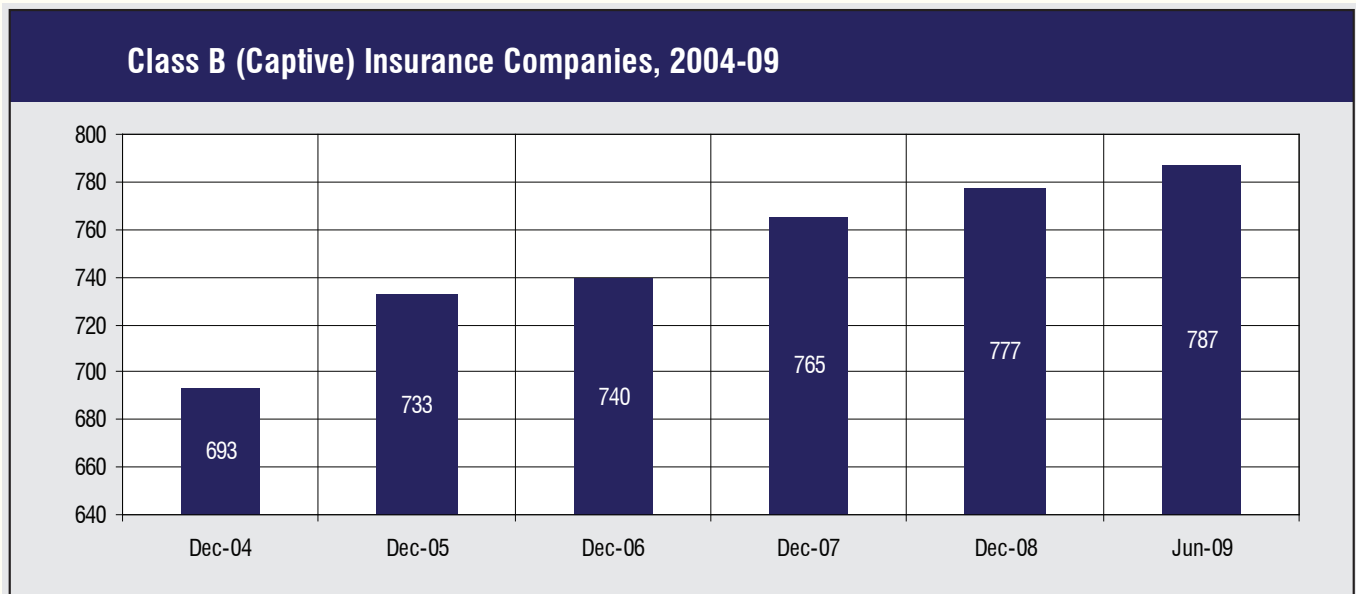
The International segment dominates the industry, in terms of the number of licensees and the premium income.

The Cayman Islands remains the domicile of choice for health care organisations in the USA, with 44 percent of the captives covering healthcare risks, and is the leading healthcare captive domicile in the world. Other types of coverage provided by Cayman captives include: general, auto and product liability, and life and annuity.

Domestic insurers also provide various types of coverage to local policyholders with property, health and life being the top three categories, accounting for approximately 80 percent of the total premium.

At 30 June 2009 there were 955 insurance licensees under regulation, an overall increase of nine from 30 June 2008. Of these, 787 were class B⁶ (captive) licensees. Licensing activity during the financial year fell within the expected range for all categories⁷ other than agents, where considerable growth was evidenced (see page 21, “Domestic”).

Figure 6:



6 Insurance companies operate within the Cayman Islands as Class A Insurers (writing domestic business) or Class B Insurers (writing non-domestic business only and commonly known as captive insurance companies).

7 In addition to Class A and B insurers licences, licences are granted in the following categories: Insurance Manager – defined in section 2 of the Insurance Law (2008 Revision) as “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,” and 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).

Figure 7:

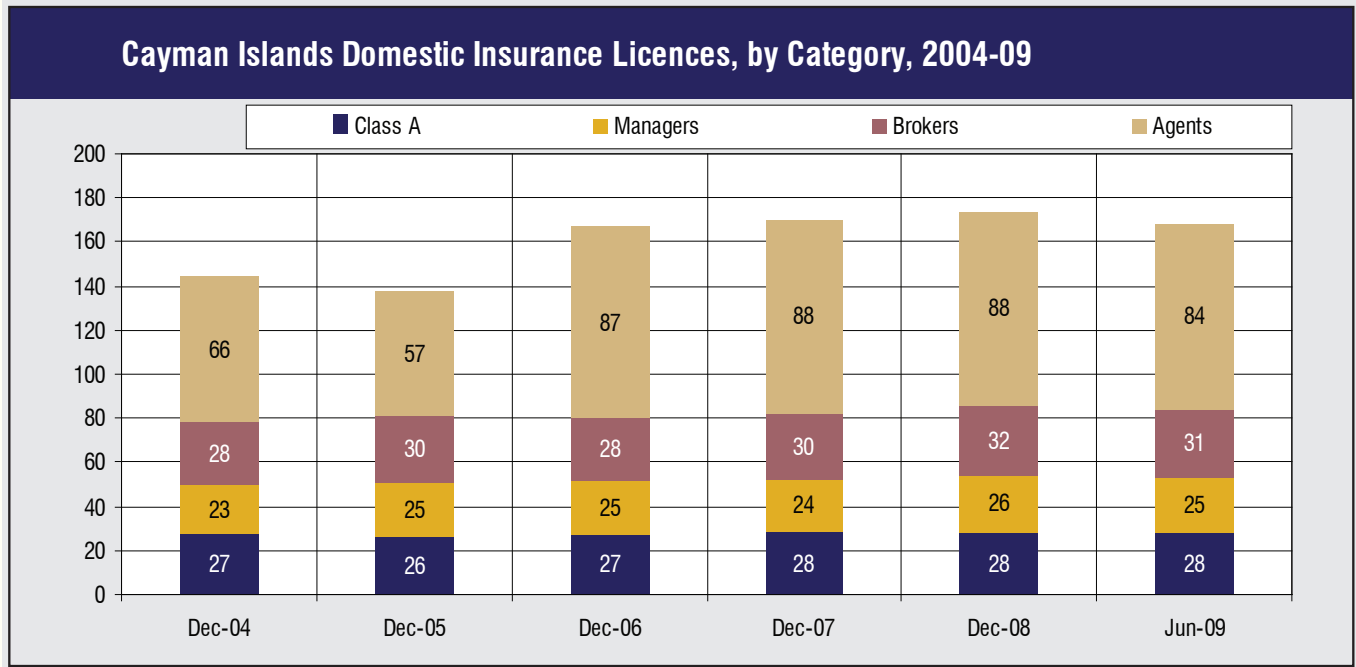


Table 8: Insurance Licensing Activity 2008-09, with June '07 and June '08 Comparisons

Licence Type	Active as at 30 June 2007	Active as at 30 June 2008	Terminated 1 Jul 2008 - 30 June 2009	Issued 1 July 2008 - 30 June 2009	Active as at 30 June 2009
Class A	28	28	0	0	28
Class B	752	772	20	35	787
Insurance Managers	25	25	1	1	25
Brokers	29	30	1	2	31
Agents	89	91	15	8	84
TOTAL	923	946	37	46	955

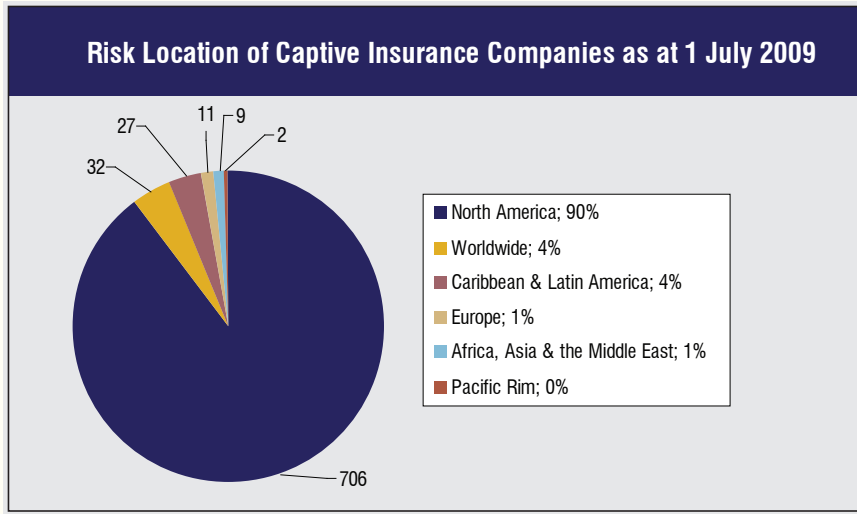
Captives

The market continued to show a high level of activity in 2008-09, with 35 new captive licences issued and 20 cancelled.

The most popular region of origin of Cayman captives at fiscal year-end was North America, from which 89.71 percent of captives originate. This was followed by Latin America and the Caribbean: 3.43 percent; Africa, Asia and the Middle East: 1.14 percent; Europe: 1.40 percent; Pacific Rim: 0.25 percent, and the rest of the world: 4.07 percent (see Figure 8).

Among the 787 captives were 128 segregated portfolio companies under the Companies Law (2008 Revision), with a total of 517 segregated portfolios operating within them.

Figure 8:



Domestic

The number of class A licences at the end of the fiscal year remained at 28, with none having been issued or cancelled. Domestic insurance companies recorded a combined net earned premium of \$184.00 million for the calendar year ending 31 December 2007, with combined net income of \$60.9 million for the same period. Further details are available on the CIMA website.

The 12 agent licences issued during the fiscal year reflect additions to the sales force of eight companies (class A and broker licensees) and demonstrate the increased interest by those companies involved in the sale of life insurance in having a dynamic and growing sales force.

Table 9: Captive Insurance Company Statistics by Company Category and Licence Class as at 1 July 2009

Category	Companies		Total Premiums	Net Income	Net Worth	Total Assets
	Number	%				
Alternative Financing Vehicle	49	6	425,573,728	175,782,734	98,148,995	6,479,589,212
Association	57	7	556,244,539	31,937,149	616,367,139	2,021,726,977
Group Captive	74	9	1,080,046,245	85,005,339	1,541,210,943	3,009,783,083
Open Market Insurer	30	4	410,255,197	(99,365,630)	1,227,977,667	4,708,457,688
Pure Captive	446	57	5,013,130,295	851,243,043	5,783,157,857	19,042,257,981
Rent-A-Captive	2	0	981,182	3,744,229	23,576,648	39,484,636
Segregated Portfolio Company	129	16	500,356,501	84,905,152	536,286,565	4,917,666,094
TOTALS:	787	100	7,986,587,687	1,133,252,016	9,826,725,814	40,218,965,671
Licence Class	Companies		Total Premiums	Net Income	Net Worth	Total Assets
	Number	%				
Restricted	82	10	849,653,490	457,364,419	889,363,377	9,261,596,216
Unrestricted	705	90	7,136,934,197	675,887,597	8,937,362,437	30,957,369,455
TOTALS:	787	100	7,986,587,687	1,133,252,016	9,826,725,814	40,218,965,671

Jurisdictional Comparisons

Table 10 shows the number of captive insurance licences for calendar years 2004 to 2008 in the Cayman Islands and in other jurisdictions for which figures are available. The figures illustrate the Cayman Islands' continued prominence as a captive domicile.

Table 10: Captive Insurance Licence Numbers in Selected Jurisdictions, 2004-2008

Jurisdiction	2004	% Change ('05 v '04)	2005	% Change ('06 v '05)	2006*	% Change ('06 v '05)	2007 ^o	% Change ('08 v '07)	2008
Cayman	693	↑ 5%	733	↑ 1%	740	↑ 3%	765	↑ 2%	777
Barbados	N/A	-	242	↓ 3%	235	↓ 5%	223	↑ 3%	229
Bermuda	1266	↑ 1%	1281		989 **	↓ 4%	958	↑ 0.2%	960
BVI	346	↑ 10%	381		383 ***	↑ 1%	390	↓ 15%	332
Guernsey	379	↓ 1.8%	372	↑ 2%	381	↓ 5%	367	↑ 1%	370
Hawaii	N/A		158	↑ 1%	160	↑ 1%	163	↑ 1%	165
S. Carolina	99	↑ 11%	110	↑ 33%	146	↑ 31%	191	↓ 15%	163
Vermont	524	↑ 3%	542	↑ 4%	563	↑ 1%	567	↑ 2%	557

* 2006 - Source: BusinessInsurance, 12 March 2007 edition

** 2006 was the first year Bermuda released data specifically for captives as a licence class. Previously, the figure used was the combined position for all licence classes.

*** BusinessInsurance estimate

^o 2007 – Source: jurisdictions' website or regulators

N/A – Data not available

INVESTMENTS & SECURITIES

Industry Trends

The continued turmoil in the international financial marketplace during the 2008-09 fiscal year had its direct impact on the Cayman Islands funds industry, with a net two percent decline in the overall number of investment funds under regulation.

However the decreases were not as dramatic or overly-alarming as was anticipated given the magnitude of the global crisis. While the most notable areas impacted were fund authorisations and terminations, the numbers of funds under authorisation at 30 June 2009 remained impressive, considering the poor performance of many funds, their liquidity deficiencies, counterparty exposure and the Madoff debacle facing the industry during the year. Moreover, in the securities investment business sector, the numbers of licensees at June 2009 represented a net increase of 17 percent over June 2008 and the number of entities in the excluded person category increased by 13 percent.

Table 11: Numbers of Fund and Securities Active as at June 2009, with June '07 and June '08 Comparisons

Authorisation Type	Active as at 30 June 2007	Active as at 30 June 2008*	Active as at 30 June 2009*
Funds			
Registered	8300	9378	9189
Administered	560	534	506
Licensed	112	125	130
Total Funds	8,972	10,037	9,825
Mutual Fund Administrators			
Full	93	99	97
Restricted	55	51	44
Exempted	5	4	2
Total Administrators	153	154	143
Securities Investment Business			
Securities - Excluded Persons	1,457	2,008	2,270
Securities (Full and Restricted Licenses)	23	24	28

Authorisation and Termination

The number of new registrations/licences processed and approved by CIMA for the fiscal year ending June 30 2009, was 1,226. Fund terminations totalled 1,359. For the same period, four new fund administrators were approved and seven terminated. Three new securities investment business licensees, 376 new excluded person registrations and two new local audit sign-off applications were also approved.

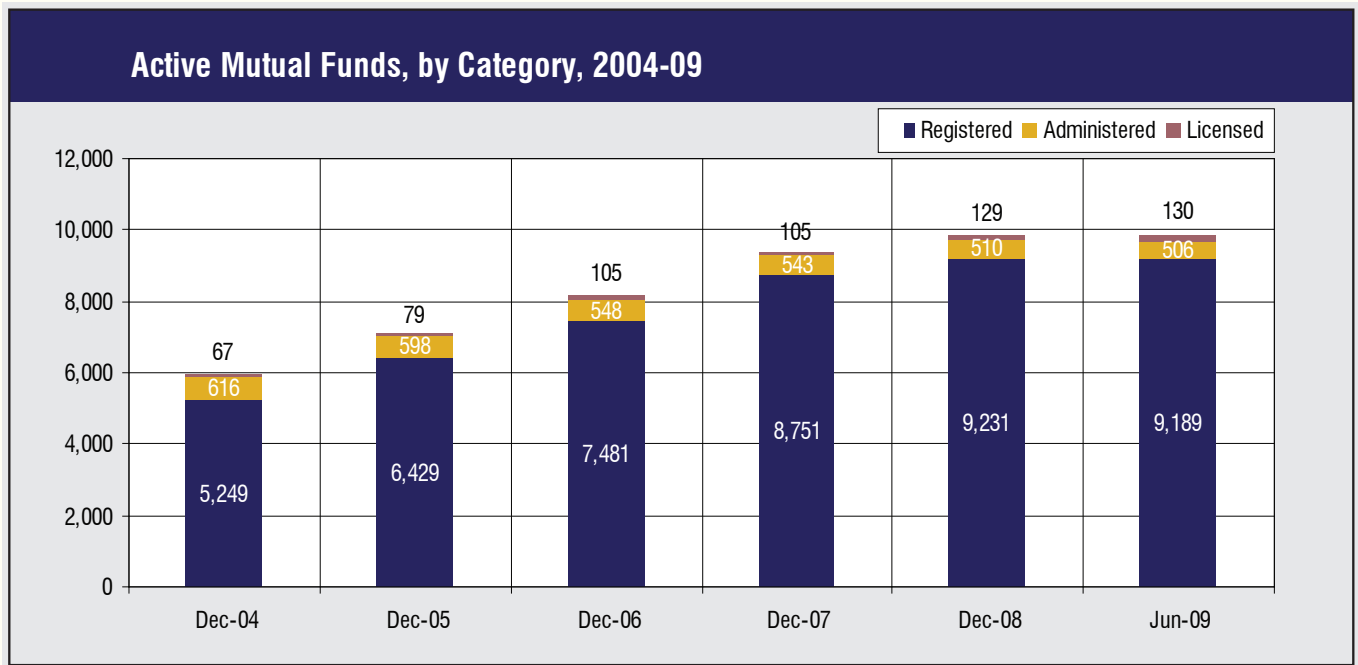
Funds

The effects of the international economic crisis were most marked in the registered funds category. Globally, hedge funds were faced during the fiscal year with significant increases in redemption requests and many struggled to meet liquidity needs. Some were forced to sell assets at distressed prices, leading to a fall

* Numbers of funds in the columns 'Active as at 30 June 2008' and 'Active as at 30 June 2009' are those captured on CIMA's database at 15 July 2008 and 15 July 2009, respectively, and are subject to change due to subsequent processing of authorisation/termination applications received near the end of the respective reporting periods.

in net asset value and triggering further redemptions. Funds employed a number of techniques to control liquidity, including suspension of redemptions and restructuring.

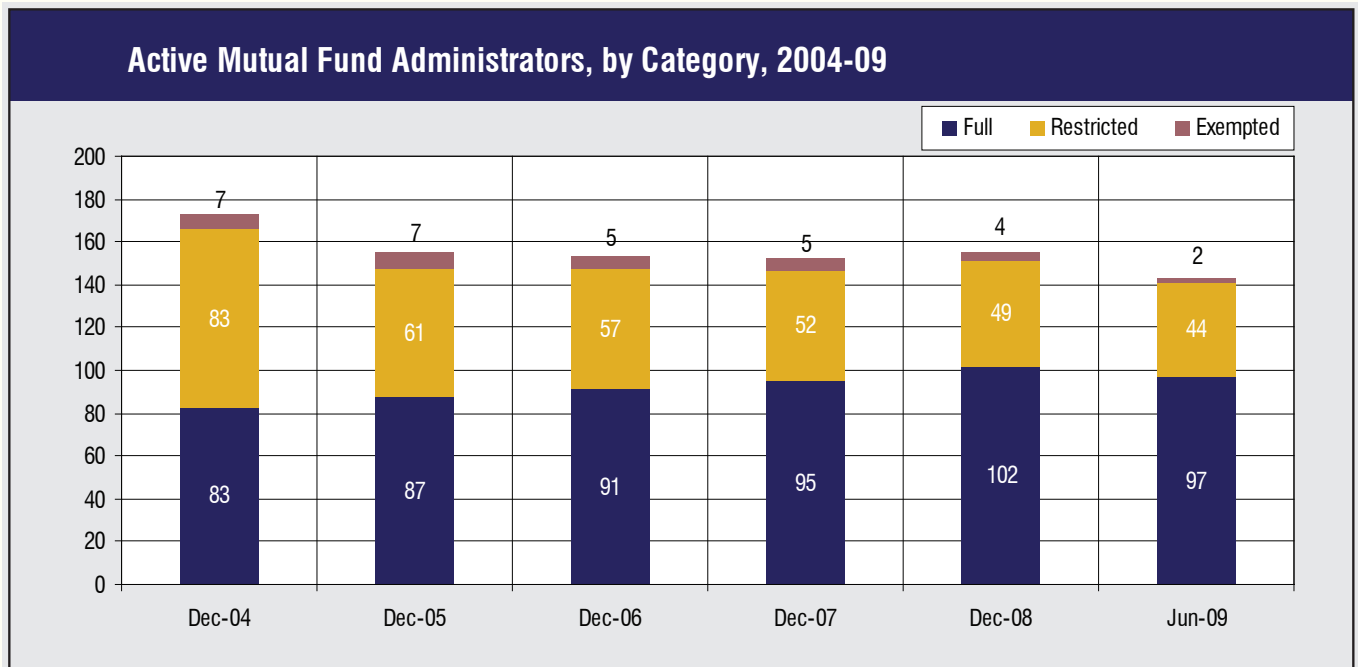
Figure 9:



Administrators

The most notable change in administrator licence numbers was in respect of the restricted administrator category, where licence numbers have been declining steadily. The primary reason for this reduction is that many of these former licence holders opted to register as Excluded Persons under the Securities Investment Business Law (SIBL) by virtue of the fact that they provide investment management services and/or advisory services exclusively for sophisticated persons. Some entities also opted to be licensed as full administrators so as not to be restricted in the number of funds for which they can provide administration services.

Figure 10:



Securities Investment Business

The number of securities investment business entities registered as Excluded Persons rose by some 262 during the fiscal year. The majority of SIBL Excluded Persons are licensed banks.

Jurisdictional Comparisons

Table 12: Fund Numbers in Selected Jurisdictions, 2004-2008

Jurisdiction	2004	% Change ('05 v '04)	2005	% Change ('06 v '05)	2006	% Change ('07 v '06)	2007	% Change ('08 v '07)	2008
Cayman	5932	↑ 20%	7106	↑ 14%	8134	↑ 16%	9413	↑ 5%	9870
Bahamas	838	↓ 15%	709	↑ 2%	723	↑ 8%	782	↑ 11%	867
Bermuda	1149	↑ 3%	1182	↑ 10%	1302	↓ 2%	1276	↓ 18%	1133
BVI	2138	↑ 11%	2372	↑ 8%	2571	↑ 6%	2731	↑ 8%	2941
Dublin	987	↓ 2%	964	↓ 2%	941	N/A	N/A	N/A	N/A
Jersey	833	↑ 16%	965	↑ 20%	1157	↑ 13%	1311	↑ 12%	1472

Table 12 shows the number of active funds for calendar years 2004 to 2008 in the Cayman Islands and in other international financial centres for which figures are available. As the figures demonstrate, the number of Cayman Islands-authorized funds is far in excess of the other jurisdictions and Cayman continues to remain the undisputed leader in fund domiciliation.

ORGANISATIONAL DEVELOPMENTS

The Cayman Islands Monetary Authority is a corporate body, wholly owned by the Cayman Islands Government and established to perform specified functions. CIMA's functions and strategic goals, and the major developments related to these areas are outlined in the following section.

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, 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 interest of the Cayman Islands at international forums and advising Government on the recommendations of those organizations.

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;
- be transparent and fair.

STRATEGIC GOALS

1. To maintain a high-quality and effective regulatory environment to attract users and providers of financial services
2. To operate the Monetary Authority in the most efficient way possible
3. To preserve the value and integrity of the Cayman Islands’ currency
4. To raise the profile in order to increase understanding of the Monetary Authority both locally and internationally

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: Fidelity Bank, FirstCaribbean International Bank, Butterfield Bank International (Cayman) Ltd., Cayman National Bank, Scotiabank, the Royal Bank of Canada and HSBC. The division also administers the sale and redemption of numismatic coins to and from local and overseas collectors.

Currency Reserve

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.

At 30 June 2009, the value of currency reserve assets was CI\$100.5 million, unaudited, representing 120 percent of currency in circulation. By comparison, at 30 June 2008, total currency reserve assets stood at \$99.8 million representing 126.5 percent of 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 3 of the Notes to the Annual Financial Statements (pages 59-61).

Issue and Redemption of Currency

Currency in Circulation - At 30 June 2009, currency in circulation (excluding numismatic coins) stood at \$74.6 million in notes and \$8.9 million in coins, totalling \$83.5 million. This represents a six percent increase over the 30 June 2008 figure of \$78.9 million. Table 13 shows currency in circulation at fiscal and calendar year-end from 2004 to 2009. Figure 11 shows currency in circulation by month from 2005-2009.

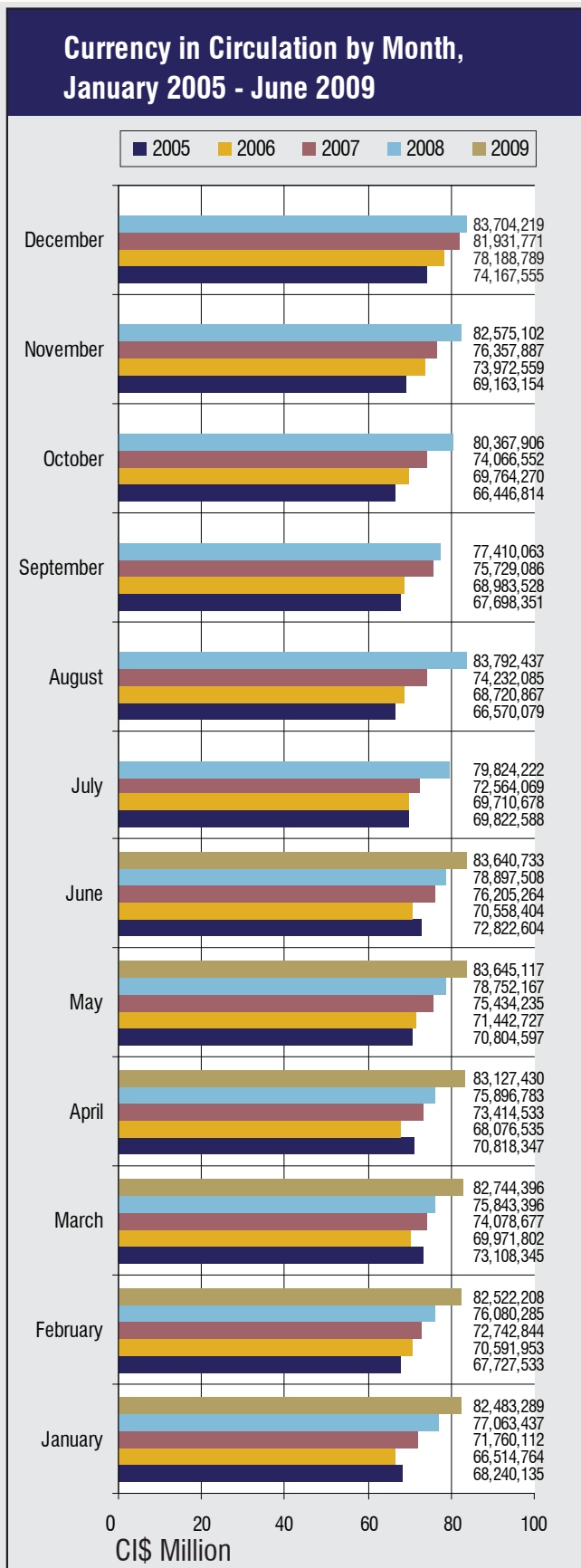
Table 13: Currency in Circulation at Fiscal and Calendar Year-end, 2004-09 (in CI\$m)

DATE	2004	2005	2006	2007	2008	2009
30 June	54.8	72.8	70.5	76.2	78.9	83.5
31 December	74	74.2	78.2	81.9	83.6	

Total notes withdrawn from circulation and destroyed in the 2008-09 financial year equalled \$28.5 million compared to \$21.0 million in the previous year.

New Currency – Work continued on the development of a new series of banknotes, which will incorporate new designs and additional safety features. The notes are being designed by De la Rue Currency, the UK company that produces the

Figure 11:



Cayman Islands banknotes. The new series is expected to be issued in 2010.

Arrangements were made to replenish the stock of circulating coins, beginning with the one-cent coin in the beginning of 2008. The other coin denominations were minted during the last half of calendar year 2008.

The Authority also commissioned a special numismatic coin issue in commemoration of the Cayman Islands Constitution 2009, to be unveiled in November 2009 with the coming into effect of the new Constitution. The issue comprises a gold \$10 coin and a silver \$5.

Counterfeit Detection

There was an overall decrease in the number of counterfeits detected and withdrawn from circulation in 2008-09, compared to the prior fiscal year. Table 14 below shows the numbers of counterfeit banknotes, by denomination, that were withdrawn from circulation from 2006 to 30 June 2009.

Table 14: Recovered Counterfeit Banknotes as at 30 June 2009

Denomination	2006	2007	2008	As at 30 June 2009
\$100	33	14	62	12
\$50	6	12	14	0
\$25	-	29	9	2
\$10	-	2	16	3
\$5	-	1	0	0
\$1	-	1	0	0
Total No. of Notes	39	59	101	17
Total Dollar Value	\$3,600	\$2,751	\$7,285	\$1,280

The Authority believes that educating the public on the security features of the banknotes is the best means of combating the counterfeit problem. As such CIMA continues to cooperate with the Royal Cayman Islands Police Service (RCIPS), the banking sector and other entities in the crackdown on counterfeiting.

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 2009 are shown in Table 15.

Copies of all rules, statements of guidance and policies and procedures issued by the Authority are available on the CIMA website. The prudential measures issued during the 2008-09 fiscal year are listed in Table 16.

Table 15: Framework Under Which the Cayman Islands Monetary Authority Operates

Sector/ Entity type	CI Law	International Standards / Memberships
All	<ul style="list-style-type: none"> • Monetary Authority Law (2008 Revision) • Proceeds of Crime Law (2008 Revision) • Money Laundering Regulations (2009) • Terrorism Law, 2009 • Public Management and Finance Law (2005 Revision) • Companies Law (2009 Revision), and amendment 	<p>Standards:</p> <ul style="list-style-type: none"> • Financial Action Task Force Forty Recommendations on Money Laundering and Nine Special Recommendations on Terrorist Financing <p>Memberships:</p> <ul style="list-style-type: none"> • Caribbean Financial Action Task Force (CFATF)
Banks, trusts, money services businesses, credit unions, building societies, corporate services providers, company managers	<ul style="list-style-type: none"> • Banks and Trust Companies Law (2007 Revision) • Money Services Law (2003 Revision), and regulations • Cooperative Societies Law (2001 Revision), and regulations • Building Societies Law (2001 Revision) • Development Bank Law (2004 Revision) • Companies Management Law (2003 Revision), and regulations 	<p>Standards:</p> <ul style="list-style-type: none"> • Basel Core Principles for Effective Banking Supervision⁸ • Offshore Group of Banking Supervisors (OGBS) Trust and Company Service Providers Working Group Statement of Best Practice produced by the of the Offshore Group of Banking Supervisors¹⁰ <p>Memberships:</p> <ul style="list-style-type: none"> • OGBS • Caribbean Group of Banking Supervisors • Association of Supervisors of Banks of the Americas.

8 As promulgated by the Basel Committee on Banking Supervision

9 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.

Insurance companies, managers, brokers, agents	<ul style="list-style-type: none"> • Insurance Law (2008 Revision) 	Standards: <ul style="list-style-type: none"> • International Association of Insurance Supervisors (IAIS) Core Principles of Insurance Regulation¹¹ Memberships: <ul style="list-style-type: none"> • IAIS • Offshore Group of Insurance Supervisors¹²
Mutual funds, fund administrators, securities investment businesses (market makers, broker-dealers, securities arrangers, securities advisors and securities managers)	<ul style="list-style-type: none"> • Mutual Funds Law (2007 Revision) • Securities Investment Business Law (2004 Revision) 	Standards: <ul style="list-style-type: none"> • International Organization of securities Commissions (IOSCO) - Applied to SIBL licensees • Offshore Group of Collective Investment Schemes Supervisors (OGCISS) Memberships: <ul style="list-style-type: none"> • 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 ongoing 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 spearheads the development, documentation and issuing of guidance for the financial industry. The division is responsible for researching industry and regulatory topics, for drafting policy and for co-ordinating the development of instruments applicable to, and for the benefit of, financial services providers. It works in conjunction with the supervisory divisions, the Compliance Division and in consultation with industry.

The Authority issued two rules, one statement of guidance (SOG), and four regulatory policies during the year under review. These measures are listed in Table 16 and can be viewed in their entirety on the CIMA website¹⁰. An update to the Regulatory Handbook - Volume 1¹¹ was issued in March 2009.

¹⁰ Rules and SOGs can be viewed at: <http://www.cimoney.com.ky/section/regulatoryframework/sub/default.aspx?section=RSGP&id=785>. Policies and procedures can be viewed in the Regulatory Framework/ Regulatory Handbook section of the website at: <http://www.cimoney.com.ky/section/regulatoryframework/sub/default.aspx?section=PD&id=71>

¹¹ See link to Regulatory Handbook at note 13 above.

Table 16: List of Regulatory Measures Issued in 2008-2009

When Issued	Type of Standard	Title	Description
All Licensees			
March 2009	Regulatory Policy	Regulatory Policy Consolidated Supervision	This policy outlines that where the Authority acts as home or host supervisor with respect to licensees, that licensees and all affiliated entities in a group structure are subject to effective consolidated supervision.
Banking			
Oct 2008	Regulatory Policy	Regulatory Policy Licensing Banks	Sets out the Authority's criteria on licensing banks pursuant to Section 6 of the Banks and Trust Companies Law. The Policy outlines what is required on application and guides the applicant to the required information and documents. If further explain the classification of home and host regulated banks.
Nov 2008	Regulatory Policy	Regulatory Policy Major Acquisition or Investments by Banks	Sets out the manner in which the Authority will exercise its powers of approval pursuant to section 14(2) of the Banks and Trust Companies Law (2007 Revision).
Insurance			
March 2009	Rule	Rule Market Conduct – Class A Insurers, Agents and Brokers	Sets out criteria that all licensed insurers must follow to ensure best practice in conducting business with customers.
March 2009	Rule	Rule Risk Management for Insurers	Sets out criteria which all licensed insurers must follow to ensure robust risk based framework is maintained in order to mitigate core risks facing the insurer.
March 2009	SOG	Statement of Guidance Market Conduct – Class A Insurers, Agents and Brokers	To provide guidance on the requirement imposed on licensees by the Rule on Market Conduct. To provide a standard of best practice to insurance licensees in conducting business with customers.
Investments & Securities			
August 2008	Regulatory Policy	Regulatory Policy Exemption from Audit Requirement for a Regulated Mutual Fund	To set out conditions where the Authority may exempt a regulated mutual fund from the annual audit requirement

OTHER REGULATORY DEVELOPMENTS

Authority-Wide

Responding to the International Financial Crisis

CIMA spent considerable time during the fiscal year closely monitoring the global financial crisis and assessing the potential impact on the Cayman Islands, and took a number of actions both in response to the unfolding situation and in anticipation of further developments.

With the US sub-prime mortgage sector crash leading to the collapse of several major banking institutions world-wide, CIMA instituted a requirement for Cayman-licensed retail banks to report more frequently and provide additional specified information for the Authority to monitor their health. All bank licensees, and entities supervised by the Investments and Securities Division were asked to report on exposures to the Madoff fraud and, subsequently, the alleged Stanford fraud (see the Industry Overview section beginning on page 10). CIMA also hosted meetings with industry representatives to be informed on industry impacts and responses, to inform on CIMA's actions and to exchange perspectives on the way forward.

After reviewing a number of reports by international standard setting organisations and government bodies that assessed causes of the crisis and recommended actions to prevent similar future occurrences, CIMA undertook a review of local regulatory standards to assess whether any adjustments were needed. Particular attention was paid to factors seen as critical to the functioning of financial institutions and which had been identified as areas of focus by international standard setters, including liquidity, risk management, valuation, transparency, failure resolution and supervisory practices. These reviews continued throughout the year as other reports, publications and resolutions were issued by the international community.

These actions resulted in CIMA making a number of recommendations that were incorporated into measures implemented during the period (see Table 16 above) or which were under consideration at the end of the year. The Authority also further increased joint initiatives with overseas regulators to enhance cross-border supervision (see, for example, Banking - Supervisory Colleges below). In addition, CIMA had to deal with an increase in problem entities, and was forced to take formal enforcement action against a number of entities that were unable to meet compliance requirements (see page 36, "Enforcement").

Banking

Basel II

During the period, CIMA continued the process towards implementing the new Basel II¹² framework in the Cayman Islands, with implementation expected to be effective from 1 January 2011. The first phase of the programme requires Cayman-incorporated banks to put in place the standardised approaches under Pillar 1, with a staged implementation of Pillars 2 and 3 between 2010 and 2012. Further consideration will be given to the more advanced approaches thereafter.

Work during the 2008-09 fiscal year entailed: policy and guideline development on market risk, credit risk, and operational risks; development of a new supervisory review structure; industry consultation; development of business requirements and validation rules for new reporting forms; and training.

¹² Basel II is a new set of standards for establishing minimum capital requirements for banking organizations. It was developed by the Basel Committee on Banking Supervision, a group of central banks and bank supervisory authorities in the G10 (Group of 10 Industrialised Countries). Basel II takes into account innovations in banking markets, risk management and banks' internal processes since the first capital framework, commonly known as Basel I or the Basel Concordat, was introduced in 1988. Basel II is a more risk-sensitive approach to capital regulation. It is being implemented in G10 countries and a number of non-Basel member jurisdictions are also implementing Basel II as a requirement for banks operating in their jurisdiction.

Supervisory Colleges

Periodically, international banking regulators meet to discuss the operations, and risk posed by banks with an international presence. The purpose is to share a holistic perspective of the institution and to co-ordinate a global supervisory approach that leverages on common experiences to address the most significant concerns.

CIMA participated in a number of supervisory colleges during the 2008-09 fiscal year covering a total of six banks. The colleges included one hosted by the Caribbean Group of Banking Supervisors during their annual conference held in May 2009. This college covered four banking entities licensed in Cayman and throughout the Caribbean. There were two colleges held in September 2009; one hosted by the Office of the Superintendent of Financial Institutions in Canada (OSFI) which covered one bank and another hosted by the Bundesanstalt für Finanzdienstleistungsaufsicht in Germany (BaFin) which covered one bank.

Fiduciary

New Authorisation Categories

Changes in the Banks and Trust Companies Law, which came into effect just prior to, and in the first quarter of, 2008-09, created two new classes of trust entities that are not required to be licensed by CIMA but are instead required to be registered.

Controlled Subsidiaries: The Banks and Trust Companies Law was amended in 2007 and again in 2008 to allow for the establishment of controlled subsidiaries. A controlled subsidiary is an entity that has been registered with the Authority as being established as a wholly owned subsidiary of a licensed trust company and is deemed to not require a Trust Licence for the purpose of carrying on the business of issuing debt instruments or carrying on trust business connected with the trust business of its parent.

Private Trust Companies Regime: The Banks and Trust Companies Law (2007 Revision) the Private Trust Companies Regulations, 2008, was gazetted in September 2008. These regulations created a new regime for companies that the regulations define as private trust companies. Private Trust Companies are locally incorporated companies that engage in trust business in respect of “connected persons” only. (A connected person has a familial or other defined relationship.)

Amendment to Biannual Reporting Form

The Fiduciary Services Division, in conjunction with the Policy and Banking Supervision divisions, continued to progress revisions to the biannual reporting form during the year. The form, a revision of the existing biannual form for licensees under the Companies Management Law, is intended to extend to trust companies licensed under the Banks and Trust Companies Law, including those that hold bank licences. It seeks to capture statistical and regulatory information thought necessary to enhance the regulation of trust and corporate services licensees. Consideration is now being given to the collection of data from the form electronically.

Revisions to the form had been first drafted in the previous year. That draft underwent pre-consultation via a sample of members of the trust and companies management industries and was revised in light of comments received. At the end of the fiscal year the new draft was still under CIMA's consideration.

Insurance

Amendments to the Insurance Law

In June 2008, The Insurance Law (2008 Revision) was gazetted, consolidating the Insurance Law (2007 Revision) and the Insurance (Amendment) Law, 2007. The law is currently being updated, primarily as a result of recommendations made by the International Monetary Fund following the organisation's March 2009 review of the jurisdiction. The updated law is expected to be passed during the 2009-10 fiscal year.

Investments and Securities

E-Reporting

The electronic submission of funds' audited accounts along with the Funds Annual Return (FAR) continued in its second year. The Investments and Securities Division's E-Reporting/FAR Enhancement Team continued to identify improvements to the FAR form in order to increase the amount of valuable information that can be collected from each fund and compiled to show statistical trends and concentrations within the data, such as fund market segment demographics and locations from which assets are physically being managed and administered.

In addition, a team began examining ways in which the E-reporting platform can be expanded to facilitate increased automation of other work processes to improve the overall efficiency of the division.

Using data gathered from the FARs, the Investments and Securities Division created the second edition of the Investments Statistical Digest, which provides aggregate statistics on the financial position, structure, investment strategies, subscription activity, fund administration and investment management services of Cayman Islands-regulated funds. For the first time, the Digest included comparative tables that captured the changes that occurred from 2006 to 2007, highlighting certain trends occurring within the hedge fund industry. The digest was released in May.

Data Enhancement Initiative

Among the issues considered during CIMA's review of regulatory standards across all sectors following the onset of the international financial crisis, were the concerns of international leaders, standard setters and investors regarding disclosure, transparency and their role in mitigating any systemic risks hedge funds pose to the global financial markets. The Authority began to look in 2008 at how Cayman could deepen transparency in the hedge funds industry without compromising the jurisdiction's competitiveness. One initiative under consideration at the end of the fiscal year was the expansion of information accessible from CIMA's database to include name and addresses of funds' service providers (Registered Office, Fund Administrator, Investment Manager, Custodian, Auditors and Directors). In keeping with CIMA procedure, industry consultation and cost-benefit analysis will be undertaken before a final recommendation is put forward on this issue.

Securities Investment Business Law (SIBL) Working Group

In February 2009, the Authority formed an internal working group to review the regulatory framework governing the securities investment business sector in the Cayman Islands and to make recommendations to CIMA's management and Board of Directors on necessary changes to enhance the securities investment business regime. The internal working group comprises of the Head, Deputy Head and a Chief Analyst from the Investments and Securities Division, the General Counsel or in his absence a Legal representative, the Head of Policy and Development and the Head of Compliance.

The working group is taking into account existing and proposed international standards along with any recommendations made by the International Monetary Fund following its assessment of the jurisdiction in March 2009. Any recommendation for changes in the current

Securities Investment Business Law will be subject to the broader consultation process mandated by the Monetary Authority Law with final approval for amendments being made by the Cabinet. The ultimate goal of the Group will be the enhancement of the Securities and Investments Business regime in the Cayman Islands.

COMPLIANCE & 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 is guided by its Guidelines - Fitness and Propriety¹³ and Procedure – Assessing Fitness and Propriety¹⁴. The Compliance Division, which is tasked with conducting due diligence on applicants that the regulatory divisions refer to it, received 264 such applications during the 2008-09 fiscal year. This compares to 170 during 2007-08 and 211 during 2006-07. The breakdown of the applications for 2008-09, by division, is shown in Table 17.

Table 17: Due Diligence Applications Referred to the Compliance Division for 2008-09, with 2007-08 comparison

	Banking	Fiduciary	Insurance	Investments	Other	Total
Applications as at 30 June 2009:	47	147	5	65	0	264
Applications as at 30 June 2008:	16	102	7	45	0	170

ENFORCEMENT

CIMA’s Enforcement Manual¹⁵ 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 the exercise of enforcement action.

The Authority took nine formal enforcement actions during 2008-09, the same number as in 2007-08 and two more than in 2006-07. Four of the enforcement actions taken in 2008-09 were on behalf of the Insurance Division, and the other five on behalf of the Investments & Securities Division (ISD). The actions comprised three revocations/cancellations for ISD, three Appointment of Controllers (two for ISD, one for Insurance), and three Cease and Desist orders on behalf of the Insurance Division. Table 18 lists the formal enforcement actions taken by CIMA’s Compliance Division for 2008-2009.

13 Available online at: http://www.cimoney.com.ky/uploadedFiles/Regulatory_Framework/Policy_and_Development/Policies,_Guidelines_and_Procedures/General/GuidelinesFitnessAndPropriety.pdf

14 Available online at: http://www.cimoney.com.ky/uploadedFiles/Regulatory_Framework/Policy_and_Development/Regulatory_Handbook/RH_Appendices%20I%20%2015Mar2006%20EC%20.pdf

15 Available online at: http://www.cimoney.com.ky/uploadedFiles/Regulatory_Framework/Policy_and_Development/Regulatory_Handbook/EnforcementManualJune%2006.pdf

Table 18: Formal Enforcement Actions Taken by CIMA's Compliance Division for 2008-2009:

Name of Entity	Enforcement Action Taken	Effective Date	Type of Authorisation Held
Ft Japan Small Equity Fund	Registration Cancelled	September 12, 2008	Registered Fund
Proteus Capital Corp	Registration Cancelled	February 18, 2009	Registered Fund
MAK Global Fund, Ltd.	Registration Cancelled	February 18, 2009	Registered Fund
Colonial life Insurance Company (Trinidad) Limited trading as CLICO (Cayman) Ltd.	Cease and Desist from issuing New Policies with Investment Features	March 2, 2009	Class A External Insurer Licence
Colonial life Insurance Company (Trinidad) Limited trading as CLICO (Cayman) Ltd	Cease and Desist from issuing insurance policies of any kind	April 8, 2009	Class A External Insurer Licence
Sextant Strategic Global Water Fund Offshore Ltd.	Controllers Appointed	May 15, 2009	Registered Fund
Sextant Strategic Hybrid2Hedge Resource Fund Offshore Ltd.	Controllers Appointed	May 15, 2009	Registered Fund
Colonial life Insurance Company (Trinidad) Limited trading as CLICO (Cayman) Ltd	Controllers Appointed	May 15, 2009	Class A External Insurer Licence
British American Insurance Company Limited	Cease and Desist from issuing insurance policies of any kind	June 29, 2009	Class A External Insurer Licence

Litigation

The Legal Division conducts enforcement and cooperative action involving litigation, with the Compliance Division's assistance. During the 2008-09 fiscal year, the following legal actions were taken:

- CLICO (Cayman) Ltd – The Authority placed CLICO (Cayman) Ltd. in controllership on 15th May 2009. The Grand Court of the Cayman Islands recognised the controllership upon the application of the controllers on 4th June 2009.
- Sextant Strategic Global Water Fund Offshore Ltd. - CIMA appointed controllers over Sextant Strategic Global Water Fund Ltd. on 15th May 2009. The Grand Court of the Cayman Islands recognised the appointed upon application by the controllers on 16th June 2009.
- Sextant Strategic Hybrid2Hedge Resource Fund Offshore Ltd - CIMA appointed controllers over Sextant Strategic Global Water Fund Ltd. on 15th May 2009. The Grand Court of the Cayman Islands recognised the appointed upon application by the controllers on 16th June 2009.

Other Compliance-Related Matters

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 has continued updating a list of websites which give Cayman addresses for various businesses which are not registered or licensed in the Cayman Islands.¹⁶ 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

¹⁶ The complete list can be viewed via the following link: [Websites With Cayman Addresses Not Registered Nor Licensed in the Cayman Islands](#)

EXECUTION OF COOPERATIVE & ADVISORY FUNCTIONS

CROSS-BORDER COOPERATION

The Monetary Authority Law (2008 Revision) (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), as well as through the Authority's active participation in international forums.

Memoranda of Understanding

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.¹⁷

During 2008-09, CIMA added two bilateral MOUs and one multi-lateral MOU to the growing list of formal information-exchange and cooperation agreements with overseas regulators to facilitate cross-border financial services supervision. Table 19 shows the agreements and their effective date:

Table 19: International Information Exchange and Cooperation Agreements Concluded in 2008-09

Title	Effective Date
International Organization of Securities Commissions Multilateral MOU Concerning Consultation, Cooperation and the Exchange of Information	24 March 2009
MOU with the Securities Commission of Brazil (Comissão de Valores Mobiliários (CVM))	26 February 2009
MOU with the Malta Financial Services Authority	18 February 2009

Meanwhile, the Legal Division continued negotiations with the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Markets and Financial Organisations; the US Federal banking agencies comprising of the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Office of Thrift Supervision and the Federal Deposit Insurance Corporation; the National Banking and Securities Commission of Mexico and the Financial Services Commission of Turks and Caicos.

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 divisions, particularly Compliance,

17 <http://www.cimoney.com.ky/section/regulatoryframework/default.aspx?id=150>

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)¹⁸ 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.

Requests for assistance handled by the Compliance Division in 2008-09 were in connection with investigations into allegations of suspected insider trading, market manipulation, violation of anti-fraud provisions, misrepresentation of fund performance and other violations of securities laws.

The Legal Division directly handles requests that are more routine in nature. These include obtaining information to allow the ORA to carry out its day to day functions of approval of licences, approval of persons subject to regulation and registration of applicants.

The Authority received and dealt with a total of 113 requests for assistance from ORAs during 2008-09, compared to 163 requests during 2007-08 and 156 during the 2006-07 financial year.

International Initiatives Involving CIMA

International Organization Of Securities Commissions (IOSCO) Membership - CIMA's highly anticipated acceptance to the International Organization of Securities Commissions (IOSCO) was obtained on 10 June 2009 at the meeting of the Presidents' Committee during IOSCO's 34th Annual Conference in Tel Aviv, Israel. CIMA was formally admitted as an ordinary (i.e., full) member of the group, the principal global standard setting body for the regulation of securities markets.

International Monetary Fund (IMF) Jurisdictional Assessment – During the year, the Authority facilitated the IMF assessment of the supervision and regulation of the Cayman Islands financial sector, and hosted the on-site component of the assessment from 2-13 March 2009. The review was an update on the 2003 IMF assessment of the Cayman Islands, which was published in 2005. However, it did not include a separate review of Cayman's anti-money laundering regime as this had been done by the Caribbean Action Task Force (CFATF) in 2007 and the summary of that report would be included as part of the IMF's report. The IMF report was expected to be available during the 2009-10 fiscal year.

At the end of the IMF's March visit the team and CIMA conducted a joint workshop for CIMA, other regulatory personnel and industry representatives on the topic "How to conduct stress testing."

Independent Review of British Offshore Financial Centres (the "Foot Review") – Members of CIMA's senior management met with Mr. Michael Foot and his assistant as part of the Foot Review on 17 March 2009. This review was focused on issues of financial supervision and transparency, financial crisis management and resolution arrangements, international cooperation and taxation in relation to financial stability, sustainability and future competitiveness.

¹⁸ On the CIMA website: http://www.cimoney.com.ky/pages/aboutus/RHA_Revised_ORA_Procedures.pdf

Overseas Territories Regulators Group – Working Group on Hedge Fund Regulations in context of IOSCO Principles. CIMA held the chairmanship of this group from November 2007 to February 2009. During the fiscal year, legal representatives from CIMA, the Bermuda Monetary Authority and the BVI Financial Services Commission continued work on developing avenues of cooperation to support business continuity among the group's member jurisdictions (including consideration of the legislative and other arrangements needed to facilitate this). This work was ongoing at the end of the fiscal year.

Participation in CFATF – One of CIMA's chief policy analysts participated as the financial examiner on the CFATF team of assessors that carried out the Mutual Evaluation Assessment of St Kitts and Nevis' anti-money laundering and counter terrorism financing regime in October 2008. This followed CIMA's participation in the CFATF mutual evaluation of the British Virgin Islands in February of 2008. The final reports for the British Virgin Islands, St. Lucia and St. Kitts and Nevis were finalised at the November 2008 Plenary held in St. Kitts.

Offshore Group of Insurance Supervisors and International Association of Insurance Supervisors (OGIS, IAIS) - CIMA continued its involvement as a member of the IAIS's task force reviewing the Insurance Core Principles (which are the international standards for insurance supervision), and continued on several teams validating applications from IAIS member jurisdictions wishing to sign up to the organisation's multilateral memorandum of understanding.

The Authority hosted the OGIS/IAIS workshop for captive insurance supervisors from 15-18 September 2008. The workshop was organised and funded by OGIS and IAIS with additional funding from the Caribbean Regional Technical Assistance Centre (CARTAC) and was for OGIS and IAIS members and observers. Thirty-one delegates from 17 jurisdictions attended, predominantly from the Caribbean, and Samoa and Vanuatu.

The workshop covered the requirements of the Insurance Core Principles (ICPs), including corporate governance, internal controls and risk assessment and management; the role of directors of the insurer and, for captives, their insurance manager; the regulatory risks that arise when insurers and insurance managers outsource key functions; and management of insurance and investment activities.

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 (2003 Revision).

The MLRO filed 11 suspicious activity reports (SARs) with the Financial Reporting Authority (FRA) during 2008-09, compared to six filed during 2007-08, and six filed during 2006-07. The FRA made 25 onward disclosures to the Authority pursuant to the MOU between the FRA and CIMA. This compares to eight made by the FRA during 2007-08. CIMA assesses all onward disclosures to determine if further investigation and regulatory action is required.

Local Memoranda of Understanding

One local agreement was brought into effect during the 2008-09 fiscal year: a Memorandum of Understanding with the Cayman Islands Stock Exchange on 12 February 2009.

ADVISORY ACTIVITY

The Monetary Authority Law (2008 Revision) 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 written reports and submissions, including financial sector legislative proposals (draft bills and regulations) and Cabinet papers/notes/briefings to the Financial Secretary and the Cabinet as well as through meetings with the Financial Secretary and the Cabinet.

The measures implemented or in development during 2008-09 are covered in the Regulatory Developments section of this report, beginning on page 31.

OPERATIONAL SUPPORT & ADMINISTRATION

HUMAN RESOURCE MANAGEMENT & DEVELOPMENT

Following a revision of its role and responsibilities during the previous year, the Human Resources Division reorganised itself in October 2008 into five functional areas: 1) Employee Services (which includes employee relations, contract administration, benefit plan administration, attendance, Immigration/Department of Employee Relations, etc.); 2) Recruitment and Selection; 3) Learning and Development; 4) Mail, Courier and Reception, and 5) Facilities/Security (covering all facility-related issues, parking, security and special event planning). There is one functional area left to create and that is Employee Wellness/Occupational Health and Safety.

The changes were designed to enhance service, improve practices and to facilitate a change in organisational culture and structure to support the Authority's quest to achieve its mission.

Staffing and Recruitment

The Authority's staff complement rose from 122 at 30 June 2008 to 139 at 30 June 2009. Senior management recruits during the year were the new Head of Currency Deborah Ebanks, Head of Insurance Gordon Rowell & the Deputy Managing Director – Supervisory Howard Blacker. Table 20 shows the breakdown of staff by division.

Table 20: Staff numbers by division at 30 June 2009, with June 2008 Comparison

Division	Actual staff numbers at 30 June 2008	Actual staff numbers at 30 June 2009
Banking	21	22
Compliance	8	9
Currency Operations	5	7
Fiduciary Services	8	9
Insurance	14	18
Investments and Securities	25	31
Legal	7	7
Managing Director's Office	4	6
Operations (Accounts, Information Systems & Human Resources)	23	23
Policy & Development	7	7
TOTAL	122	139

Following the creation of the recruitment unit, the recruitment process was revised and the new process standardised across the Authority. A policy documenting the procedures was in draft form at the end of the fiscal year.

Six staff members were promoted during the period:

Staff	Division	New Position
Danna Ebanks	Currency	Senior Currency Officer
Ruwan Jayasekara	Insurance	Chief Analyst- Insurance
Bobette Bodden	Legal	Paralegal
Rayford Britton	Banking	Chief Analyst- Banking
Tammy Nixon	Insurance	Junior Analyst - Insurance
Francis Arana	Policy & Development	Deputy Head - Policy & Development

Job Classification and Compensation

The Authority adopted a new job classification and compensation policy in June 2009 following completion of a job evaluation exercise begun in early 2008. The project had encompassed an examination of CIMA's structure and compensation scheme to determine their effectiveness and efficiency; an evaluation of all jobs within the organisation according to criteria, including skills sets required and the relative value of the jobs; market pricing of those jobs, and review of the salary structure.

Based on the outcome of the job evaluation and a market comparison of salaries, the salaries for some posts were rebalanced. The policy requires a formal comparison every two years and allows for more flexibility in the employee advancement process. It is anticipated to enhance the organisation's retention of staff.

Training

During the first half of the financial year, the HR Division developed an in house training programme to provide more specific training to more employees for less money. The programme was launched in April 2009 when CIMA acquired and outfitted space for its new Learning Centre. The Learning and Development unit offers a variety of courses led by CIMA staff members with specialised knowledge, as well as by international instructors who provide regulatory-specific training to teams of employees.

Having on-site training has decreased considerably the time away from work since employees do not have to travel overseas for training. In addition, the costs of flights, accommodation and registration have been reduced and/or eliminated. A total of 248 staff members attended the courses between the launching of the Learning Centre and the end of the fiscal year. Five web seminars were held during that time with a total of 47 attendees.

Accommodation

During 2008-09, CIMA was able to lease an additional 1,979 square feet of office space, bringing total square footage to 25,574. The additional office space was provided for the Insurance Division, the Basel II project office, and for the Learning Centre.

INFORMATION SYSTEMS

The major information and communications technology initiatives during 2008-09 are outlined below.

IT Governance Framework

Work continued on implementing the internationally-accepted COBIT information technology governance framework. Following approval of the COBIT Vision and Implementation Roadmap in the prior fiscal year, the IT Governance Group was created in August 2009. The group comprises 10 members representing a cross section of divisions. It was mandated to develop and manage the IT strategic and tactical plan, set and manage IT policies and standards, prioritise IT initiatives based on corporate strategy, monitor performance, manage risks, and serve as a secondary escalation point for unresolved IT issues/requests.

Monetary Authority Regulatory System (MARS)

Working within the COBIT governance framework, the MARS working group was initiated during the year to facilitate the development and implementation of MARS. It is planned that MARS will replace the supervisory and regulatory functions of the current CIISMA licensee/registrator database system as the main reference and storage point for entity information at the Monetary Authority. The goals of the project are to develop a system that has flexibility to meet changing business needs and regulations; promote data integrity, security, ownership and auditability, and enable ease of integration. Work was ongoing at the end of the year.

E-Reporting and Further Automation

The Information Systems Unit implemented additional enhancements to the electronic-reporting system for funds (see page 35, "Investments and Securities – E-Reporting"). Near the end of the year an action team comprising representatives from the Information Systems Unit, Investments and Securities Division and Legal Division was created to expedite the automation of manual processes undertaken in the Investments and Securities Division. Such automation, viewed as the next phase of e-reporting, is to enhance efficiency in the processing of the large numbers of applications and other submissions that the division handles. The team was tasked with identifying an automation system that would also be suitable for use by other divisions in CIMA.

Basel II Implementation Project

Work continued on the Basel II implementation project under the guidance of the Banking Division. Two members of the Information Systems Unit participated in the internal Basel II training being given to Banking staff to allow for the IT requirements to be more efficiently addressed. The IS unit assisted in the scoping and estimation of work and in the creation of tenders for the technology requirements of the Basel II implementation.

Other Projects

Other projects undertaken by the Information Systems Unit during the 2008-09 fiscal year included the installation

of equipment for the Learning Centre; the engagement of a second local telecommunications provider to augment the Authority's existing telephone service; upgrading/replacement of staff desktop computer equipment and software and purchase of additional business equipment including photocopiers and scanners.

PUBLIC RELATIONS

The Public Relations unit, a part of the Managing Director's Office, continued to provide communications support to, and on behalf of, CIMA in order to help the Authority execute its functions and enhance relationships with stakeholders.

Among its work during the year, the unit produced and disseminated some 34 news releases and notices; the quarterly issues of CIMA's newsletter, *The Navigator*, which is distributed to over 300 local and overseas recipients; the 2007-08 CIMA Year in Review; and quarterly and other reports to the Portfolio of Finance and Economics.

The unit assisted the Investments and Securities Division in the production and release of the second edition of the *Investments Statistical Digest*, and updated CIMA information in several external publications. Assistance was also provided to assisted senior CIMA officials in the preparation of articles at the request of external publishers and in the preparation of speeches/presentations to local and overseas conferences, meetings and other functions. The major presentations delivered by CIMA officials, as well as the releases and publications mentioned are available in the "Media Centre" and "Publications" sections of CIMA's website (www.cimoney.com.ky).

The unit also facilitated some 17 media interviews between CIMA officials and local and overseas reporters, and the provision of information and other assistance on a daily basis to members of the public, Cayman government agencies, and media representatives. In addition, PR staff monitored, collected, and disseminated to directors, management and staff, relevant external information (especially media coverage) on market, regulatory and political developments taking place locally and internationally.

The unit maintained CIMA's existing public website, coordinating with the Information Systems and other divisions, and continued work on the development a new website. In recognition of the importance of the website as one of the main tools for providing access to CIMA information, the new site has been designed to be more client-focussed, easier to navigate and to give greater prominence to some of the previously underemphasised aspects of CIMA's work.

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 Law (in section 3(1)(c)) specifically excludes the release of records and information protected by section 50 of the Monetary Authority Law (2008 Revision).

CIMA handles FOI requests through its Legal Division. Between January and June 2009, 20 FOI requests were received and processed. Full access was granted for four of the requests, one request was granted partial access, information for

three requests was already in the public domain, no records were found for one request, 10 requests were either excluded or exempted, and one request was withdrawn.

FINANCIAL CONTROL

The Finance Division has responsibility for all financial matters relating to budget, annual licence 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 unit's objectives are essentially created by the financial requirements of the organisation and its stakeholders and the resources available to it.

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 008-09 for a total of \$14 million were:

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

The division collected approximately \$62.3 million in fees from regulated entities on behalf of the Government for the 2008-09 fiscal year, compared to \$63.4m for the prior year.

A surplus of CI\$1,185,903 for the 2007-08 financial year was paid over to the Government.

Details of CIMA's financial position for the year ending 30 June 2009 can be seen in the Audited Financial Statements that follow.

ANNUAL FINANCIAL STATEMENTS

CAYMAN ISLANDS MONETARY AUTHORITY
30 JUNE 2009

Cayman Islands Monetary Authority
Financial Statements
30 June 2009

STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements have been prepared by the **Cayman Islands Monetary Authority** in accordance with the provisions of the Public Management and Finance Law, (2005 Revision). The financial statements comply with generally accepted accounting principles as defined in International Public Sector Accounting Standards and International Financial Reporting Standards.

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, (2005 Revision).

To the best of my knowledge the statements are:

- (a) complete and reliable;
- (b) fairly reflect the financial position as at 30 June 2009 and performance for the financial year ended 30 June 2009; and
- (c) comply with generally accepted accounting practice.



Joel Walton
Former Deputy Chairman
Cayman Islands Monetary Authority

Date: 14 December 2009



Cindy Scotland
Managing Director
Cayman Islands Monetary Authority

Date: 14 December 2009



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Auditor General's Report

To the Shareholder and Board of Directors of the Cayman Islands Monetary Authority

I have audited the accompanying financial statements of the Cayman Islands Monetary Authority ("the Authority") which comprise the statement of financial position as of 30 June 2009 and the related statements of comprehensive income, changes in reserves and capital and cash flows for the year then ended as set out on pages 3 to 21 and in accordance with the Section 52 (3) of the Public Management and Finance Law (2005 Revision).

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair representation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriated accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor General's Responsibility and Basis of Opinion

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon 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.

As disclosed in Note 10 of the financial statements, pension contributions for eligible employees of the Authority are paid to the Public Services Pension Fund which is administered by the Public Service Pensions Board. Prior to 1 January 2000, the scheme underlying the Fund was a defined benefit scheme. With effect from 1 January 2000, the Fund has both a defined benefit and a defined contribution element. In March 2005, the Honourable Financial Secretary of the Cayman Islands instructed the Authority to recognize its own portion of the past service pension liability from the date of incorporation. The Authority, however, is not able to quantify the asset as at 30 June 2009 as an actuarial valuation has not been completed for this date. As a result, I was unable to determine if the amount of \$485,000 that the Authority has established as a past service pension asset in these financial statements is fairly stated

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

Opinion

In my opinion, except for the possible effects of the adjustments necessary for recording the past service pension asset, these financial statements present fairly, in all material respects, the financial position of the Cayman Islands Monetary Authority as at 30 June 2009 and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Monetary Authority Law (2008 Revision).



Dan Duguay MBA, FCGA
Auditor General

14 December 2009

CAYMAN ISLANDS MONETARY AUTHORITY

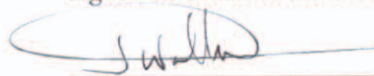
STATEMENT OF FINANCIAL POSITION

30 June 2009 (Expressed in Cayman Islands Dollars)

The accompanying notes are an integral part of these financial statements

	NOTE	2009	2008
		\$	\$
ASSETS			
Currency Reserve Assets			
<i>Current Assets</i>			
Call Deposits	3b	4,510,998	3,086,014
Short-Term Investments	3a	90,610,234	82,417,627
Fixed Deposits	3b	1,527,664	1,495,132
Interest Receivable, Deposits		4,910	104,257
Stocks	7	1,711,815	2,021,876
<i>Non-Current Assets</i>			
Long-Term Investments	3a	2,080,226	10,692,227
Total Currency Reserve Assets		100,445,847	99,817,133
Operating Assets			
<i>Current Assets</i>			
Current and Call Deposits	3b	10,633,777	9,769,830
Accounts Receivable	5	2,148,521	263,371
Interest Receivable		73	3,033
Other Receivables and Prepayments		317,663	148,983
<i>Non-Current Assets</i>			
Fixed Assets	6	1,032,291	941,942
Retirement Benefit Assets	10	485,000	422,000
Total Operating Assets		14,617,325	11,549,159
TOTAL ASSETS		115,063,172	111,366,292
LIABILITIES, RESERVES AND CAPITAL			
Liabilities			
Demand Liabilities, Currency in Circulation	8a	83,640,733	78,897,508
Payable to The Cayman Islands Government		-	1,185,903
Other Liabilities and Payables	8b	1,028,575	1,198,528
Total Liabilities		84,669,308	81,281,939
Reserves And Capital			
Reserves			
General Reserve	9a, 13	13,896,001	13,056,514
Currency Issue Reserve	9b	435,107	435,107
Capital Expenditures Reserve	9d	5,304,584	5,664,712
Operational Expenditures Reserve	9d	758,172	1,000,000
Total Reserves		20,393,864	20,156,333
Contributed Capital	9c, 13	10,000,000	9,928,020
Total Reserves and Capital		30,393,864	30,084,353
TOTAL LIABILITIES, RESERVES and CAPITAL		115,063,172	111,366,292

Signed on behalf of the Board on 14 December 2009



Joel Walton
Former Deputy Chairman
Cayman Islands Monetary Authority



Cindy Scotland
Managing Director
Cayman Islands Monetary Authority

CAYMAN ISLANDS MONETARY AUTHORITY

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2009

(Expressed in Cayman Islands Dollars)

The accompanying notes are an integral part of these financial statements

	NOTE	2009	2008
		\$	\$
INCOME			
Services Provided to The Cayman Islands Government	12a	14,000,000	13,918,135
Investment Income		1,191,836	4,510,530
Commission Income		568,806	582,636
Numismatic Income	2h	17,710	323,371
Other Income		506	346
TOTAL INCOME		15,778,858	19,335,018
OPERATING EXPENSES			
Salaries and Other Benefits		8,710,113	7,934,244
General and Administrative	12d	2,737,607	2,170,648
Lease Rental	11	844,535	634,635
Pension Contributions	10	676,184	691,903
Professional Fees		661,608	339,167
Depreciation	6	504,429	482,982
Staff Training and Recruitment		340,952	384,562
Loss on Numismatic Items	2h	198,989	-
Official Travel		194,499	175,872
Conferences and Seminars		183,571	254,714
Directors Fees	12b	156,583	225,000
Management and Custody Fees	3a	148,452	147,661
Realised Loss on Investments		108,884	303,891
Loss on Disposal of Fixed Assets		2,941	-
TOTAL OPERATING EXPENSES		15,469,347	13,745,279
NET INCOME		309,511	5,589,739
ALLOCATION OF NET INCOME			
Net Income for the year		309,511	5,589,739
Transfer to General Reserve		-	(403,836)
Transfer to Contributed Capital		(71,980)	-
Transfer to Capital Expenditures Reserve		(237,531)	(3,000,000)
Transfer to Operational Expenditures Reserve		-	(1,000,000)
Payable to the Cayman Islands Government		-	(1,185,903)
		-	-

CAYMAN ISLANDS MONETARY AUTHORITY

STATEMENT OF CHANGES IN RESERVES AND CAPITAL

At 30 June 2009

(in Cayman Islands Dollars)

The accompanying notes are an integral part of these financial statements

	2009					2008				
	General Reserve	Currency Issue Reserve	Capital Expenditures Reserve	Operational Expenditures Reserve	Contributed Capital	General Reserve	Currency Issue Reserve	Capital Expenditures Reserve	Operational Expenditures Reserve	Contributed Capital
Balance At 01 July	13,056,514	435,107	5,664,712	1,000,000	9,928,020	11,430,790	435,107	2,833,718	0	10,944,902
Transfers in :										
From Net Income			237,531		71,980	403,836		3,000,000	1,000,000	
From Contributed Capital						1,016,882				
From Capital Expenditures Reserve	597,659					169,006				
From Operational Expenditure Reserve	241,828									
Change in Retirement Benefits Assets						36,000				
Transfers out:										
To General Reserve										(1,016,882)
Cost of Fixed Assets Purchased			(597,659)					(169,006)		
Cost of Operational Expenses				(241,828)						
Balance at 30 June	13,896,001	435,107	5,304,584	758,172	10,000,000	13,056,514	435,107	5,664,712	1,000,000	9,928,020
15% of Demand Liabilities	12,546,110					11,834,626				

CAYMAN ISLANDS MONETARY AUTHORITY

STATEMENT OF CASH FLOWS

For the year ended 30 June 2009

(in Cayman Islands Dollars)

The accompanying notes are an integral part of these financial statements

	2009	2008
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income for the year	309,511	5,589,739
Adjustments to reconcile Net Income to Net Cash Provided By Operating Activities:		
Depreciation	504,429	482,982
Loss on disposal of Fixed Assets	2,941	-
(Gain) on Defined Benefits Assets	(63,000)	-
	753,881	6,072,721
Net change in Working Capital		
Decrease in Investments	419,394	4,842,620
Decrease in Interest Receivable - Currency Reserve Assets	99,347	184,889
Decrease/(Increase) in Interest Receivable - Operating Assets	2,959	(3,033)
(Increase)/Decrease Accounts Receivable	(1,885,150)	3,698,761
Increase in Other Receivables and Prepayments	(168,680)	(66,961)
Increase in Other Liabilities and Payables	(169,952)	(104,315)
Decrease/(Increase) in Stocks	310,061	(258,182)
Cash (used by)/generated from Operations	(638,140)	14,366,500
Increase in Demand Liabilities	4,743,225	2,692,244
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,105,085	17,058,744
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of Fixed Assets	(597,659)	(169,006)
Net proceeds on disposal of Fixed Assets	(60)	-
NET CASH USED BY INVESTING ACTIVITIES	(597,719)	(169,006)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contribution paid to The Cayman Islands Government	(1,185,903)	(6,782,067)
NET CASH USED IN FINANCING ACTIVITIES	(1,185,903)	(6,782,067)
INCREASE IN CASH AND CASH EQUIVALENTS	2,321,463	10,107,671
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	14,350,976	4,243,305
CASH AND CASH EQUIVALENTS, END OF THE YEAR	16,672,439	14,350,976

CAYMAN ISLANDS MONETARY AUTHORITY

STATEMENT OF COMMITMENTS AND CONTINGENT LIABILITIES

For the year ended 30 June 2009

(in Cayman Islands Dollars)

The accompanying notes are an integral part of these financial statements

TYPE	One year or Less \$	One Year to Five Years \$	Over Five Years \$	Total \$
CAPITAL COMMITMENTS				
Land & Buildings	-	-	-	-
Other Fixed Assets	1,897,595	156,030	-	2,053,625
Other Commitments	-	-	-	-
TOTAL CAPITAL COMMITMENTS	1,897,595	156,030	-	2,053,625
OPERATING COMMITMENTS				
Non-cancellable accommodation leases	942,922	686,192	-	1,629,114
Other non-cancellable leases - Business	303,079	669,047	-	972,126
Non-cancellable supply of goods and services	-	-	-	-
Other operating commitments	25,000	50,000	-	75,000
TOTAL OPERATING COMMITMENTS	1,271,001	1,405,239	-	2,676,240
TOTAL COMMITMENTS	3,168,596	1,561,269	-	4,729,865

CAYMAN ISLANDS MONETARY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2009

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 (2008 Revision) (the “Law (2008 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 2009 the Authority has 139 employees (2008: 122). 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) Early Adoption of IAS 1 (Revised) International Accounting Standard (IAS) 1 (Revised), Presentation of Financial Statements and IAS 1 (Amendment) Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009). IAS now requires recognised income and expenses to be presented in a single statement (a Statement of Comprehensive Income) separately from owner changes in equity. The balance sheet will be referred to as the ‘Statement of Financial Position’ and the cash flow statement is referred to as the ‘Statement of Cash Flows’. The Authority made a decision to implement early adoption of IAS 1 (Revised) and the changes are reflected in the 30 June 2009 Financial Statements.
- b) Basis of preparation. The Financial Statements of the Authority are prepared on the accrual basis under historical cost convention and are in accordance with International Financial Reporting Standards (“IFRS”). The reporting currency is Cayman Islands Dollars.
- c) Investments. 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.
- d) Foreign currency. 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 Statement of Financial Position date.

- e) Revenue recognition. The Authority depends on the services it provides to the Cabinet of the Government of the Cayman Islands, as its main source of income to meet its obligations. 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.
- f) Fixed Assets. Fixed Assets are stated at historical cost less accumulated depreciation. 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 Bank Note Sorting Machine calculated at 15% and DRC Equipment calculated at 33.33%); and 25% to 33.33% per annum for Computer Hardware and Software.
- g) 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. (See also note 7).
- h) 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.
- i) Numismatic Coins in Circulation. The total nominal value of numismatic coins outstanding as at 30 June 2009 is \$14,546,997 (2008: \$14,579,618). 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.
- j) Cash and Cash Equivalents. For the purposes of the Statement Cash Flows, cash and cash equivalents consist of current and call deposits and fixed deposits maturing within 90 days from the date of acquisition. (See also Note 3 b).
- k) 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.

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 salary and other benefits expense in the Statement of Comprehensive Income as incurred. (See also note 10).

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 2009 is \$223,954 (2008: \$230,019) and is included in the other liabilities and payables.

- l) Accounts Receivable. The receivables are stated at original invoice amount less provision for doubtful debts. (See also note 5).
- m) Accounts Payable. The payables are stated at historical cost.
- n) 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 if 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.

3. **Currency Reserve Assets**

Sections 32(8) of the Law (2008 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 also 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 also Note 9a.)

Under the Law (2008 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 2009, the value of Currency Reserve Assets was \$100,445,847 (2008: \$99,817,133) representing 120% (2008: 126.51%) of total demand liabilities. The value of external assets equated to 115.36% (2008: 121.85%) while the value of local assets as at 30 June 2009 equated to 4.73% (2008: 4.67%) 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 (2008 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.

Long-term Investments. US Treasury Note stated at market value, with an interest rate of 1.375% and a maturity date of 15/05/2012.

	2009	2008
Range of Maturities:	\$	\$
1 – 5 Years	2,080,226	2,179,176
6 – 10 Years	-	8,513,051
	\$2,080,226	\$10,692,227

Short-term Investments. US Treasury Bills and Cash Management Bill with maturity dates ranging between 02/07/09 and 17/12/09, GSE Securities with maturity dates ranging between 02/07/09 and 17/12/09, and the Federal Reserve Repurchase Agreement with a maturity date 01/07/09.

	2009	2008
	\$	\$
U.S. Treasury Note		2,947,542
US Treasury Bills/Cash Management Bill	61,192,080	24,152,213
GSE Securities Maturing	1,487	14,186,730
AAA CP/Note	-	11,631,142
Federal Reserve Repurchase Agreement at 0.01 %	29,416,667	29,500,000
Total Short-term Investments, at amortized cost	90,610,234	\$82,417,627
Fair Value of Short-term Investments	90,610,234	\$82,414,211

- b) Cash and Cash Equivalents. The Authority maintains current, call and fixed term deposits with domestic and foreign banks. Under the Law (2008 revision), domestic deposits (as part of the Currency Reserve Assets) cannot exceed 10% of Demand Liabilities. As at 30 June 2009, domestic deposits represent 3.84% (2008: 3.55%) of Demand Liabilities.

	Holding	2009	2008
	Currency	\$	\$
i) Operating Assets			
Current	KYD	(1,277,162)	(197,151)
Savings	KYD	5,191,449	4,338,414
Call	USD	6,718,789	5,627,867
CI Cash on Hand	KYD	700	700
Current and Call Deposits		10,633,776	9,769,830
ii) Currency Reserve Assets			
<i>Domestic Deposits</i>			
Call	GBP	4,671	5,642
Savings	KYD	443,077	112,483
Call	USD	1,235,536	1,190,050
<i>Foreign Deposits-</i>			
Federal Reserve Bank	USD	140,481	122,790
Investment Portfolio	USD	2,687,233	1,655,049
Total Call Deposits - Currency Reserve		4,510,998	3,086,014
Domestic - Fixed Deposits	USD	1,527,664	1,495,132
Total Operating Cash and Cash Equivalent		16,672,438	14,350,976

Interest earned on domestic call accounts at rates ranging from 0.03125% to 0.5% during the year ended 30 June 2009 (2008: 0.5% to 2.0%). The domestic fixed deposits earned interest at rates ranging from 0.3669% to 3.2918% during the year ended 30 June 2009 (2008: 2.18%).

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 2009 interest earned was \$6,043 (2008: \$129,243).

4. Financial Instruments

- 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). Financial assets that potentially subject the Authority to credit risk consist principally of current, call and fixed deposits, long and short-term investments, accounts and interest receivable, and other receivables and prepayments. 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 because the Authority only transacts business with counterparts it believes to be reputable and capable of performing their contractual obligations. Accordingly, the Authority believes it has no significant concentrations of credit risk.
- 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, 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 3. 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 3. 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.

5. Accounts Receivable

	2009	2008
	\$	\$
Services provided to the Cayman Islands Government	2,004,551	257,383
Other Receivables	180,994	53,812
Provision for doubtful accounts	(37,024)	(47,824)
Total Accounts Receivable, net	2,148,521	\$263,371

6. Fixed Assets

	Furniture & Fixtures	Leasehold Improvement	Computer Equipment	Office Equipment	Motor Vehicle	Total
Original Cost	\$	\$	\$	\$	\$	\$
Balance as at 01/07/08	668,045	694,341	1,701,951	532,379	47,200	3,643,916
Additions	37,634	177,760	238,673	143,593	-	597,660
Disposals	(10,351)	-	(438,544)	(5,040)	(24,600)	(478,535)
Balance as at 30/06/09	695,328	872,101	1,502,080	670,932	22,600	3,763,041
Accumulated Depreciation						
Balance as at 01/07/08	532,172	536,244	1,226,912	381,018	25,628	2,701,974
Charges for the year	51,843	75,266	300,758	72,042	4,520	504,429
Relieved on disposals	(7,470)	-	(438,543)	(5,040)	(24,600)	(475,653)
Balance as at 30/06/09	576,545	611,510	1,089,127	448,020	5,548	2,730,750
Net Book Value as at 30/06/09	118,783	260,591	412,953	222,912	17,052	1,032,291
Net Book Value as at 30/06/08	135,873	158,097	475,039	151,361	21,572	941,942

7. Stocks

	2009	2008
	\$	\$
External		
Bullion from the melt-down of coins	387,322	495,647
Coins awaiting melt-down	355,243	428,310
Coins for resale	169,427	174,851
Museum items	52,235	53,078
	964,227	1,151,886
Local		
Inventory of unissued currency notes and coins	747,588	869,990
Total stocks	1,711,815	\$2,021,876

The values stated in the financial statements as at 30 June 2008 for bullion from the melt-down of coins (\$504,473), coins awaiting melt down (\$428,322) and coins for resale (\$166,013) have been re-classified. The value of museum items (\$53,078) and total value of bullion held (\$1,151,886) did not change.

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:	2009	2008
	\$	\$
i) Currency notes in circulation	74,698,380	70,197,270
ii) Currency coins in circulation	8,942,353	8,700,238
Total Demand Liabilities	83,640,733	\$78,897,508

b) Other liabilities. As at 30 June 2009, Other Liabilities included unsettled investment management and custody fees of \$36,531 (2008: \$131,111).

9. Reserves and Capital

Under Section 9 and 10 of the Law (2008 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; the amount due for the year ended 30 June 2009 is \$0 (2008: \$1,185,903).

- a) General Reserve. The Authority maintains a General Reserve in accordance with Section 8 of the Law (2008 revision), to provide additional funding if necessary for Demand Liabilities and obligations arising from other business of the Authority. Reserve assets are held predominantly in United States Dollars, with minimal holdings in Cayman Islands Dollars and British Pound Sterling.
- b) Currency Issue Reserve. Prior to 1 January 2003 the cost of printing of notes or minting of coins (unissued and issued) was recorded against the Currency Issue Reserve (2002: \$250,501). The Currency Issue Reserve was set at a level deemed necessary to meet an estimated future printing or minting cost. This effectively expensed the cost of printing or minting in that period. After 1 January 2003 the cost of printing and minting was set up as a stock of unissued currency and only the cost of currency issued into a circulation is expensed. As a result of this change the Currency Issue Reserve was adjusted as at 1 January 2003 by \$314,959 (the cost of currency notes printed prior to 1 January 2003 but on hand as at 1 January 2003). The Currency Issue Reserve will be adjusted as these notes are issued until the stock is exhausted. The Currency Issue Reserve will then remain at \$375,000.
- c) Capital. The authorised capital of the Authority is \$100,000,000. The Cayman Islands Government is the sole subscriber and has contributed \$10,000,000 as at 30 June 2009 (2008: \$9,928,020). The Cabinet of the Cayman Islands Government had made a commitment to increase the Contributed Capital of the Authority to a minimum of \$10,000,000 by yearly transfers of approximately \$500,000 from Operating Surplus.
- d) Capital and Operational Expenditures Reserve. Under Section 9 of the Law (2008 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 projects such as E-Reporting, Basel II, Document Management and a Currency Vault at the new Government Administration Building. This Reserve will also be used to acquire other assets to provide for the increase in the staff count and replacement and/or upgrade of existing assets. The Operational Expenditures Reserve will fund the operating cost associated with these key projects, and other operating expenses such as the outsourcing of on-site inspections, where there is a shortfall in income in any given year.

10. Pensions

Pension contributions are paid for all eligible employees on their pensionable emoluments. The majority of the employees are participants in the Public Service Pensions Plan, with a small number participating in other private plans, which are all defined contribution schemes.

Public Service Pensions 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 2008-09 (2007-08: 13%). 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 those employees in the defined benefit plan, the Authority pays both the employer and employee contributions.

The Plans are funded at rates of: -

	2009	2008
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 2008. 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 2009 was \$676,184 (2008: \$691,903). 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 2009, 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:

	2008	2007	2006
	\$000	\$000	\$000
Net Present Value of Funded Obligation	(2,791)	(2,810)	(2,768)
Fair Value of Plan Assets	3,522	3,564	3,224
Defined Benefit Asset	731	754	456
Unrecognised Actuarial Gains	(246)	(332)	(70)
Defined Net Benefit Asset in the Balance Sheet	485	422	386

The amount of the defined benefit asset as at 30 June 2009 cannot be determined by management at this time, as there has been no update to the actuary's report since 30 June 2008.

Pension Expense for fiscal year ending	30 June 2008	30 June 2007
	\$000	\$000
Company Service Cost	197	182
Interest Cost	176	173
Expected Return on Assets (net)	(261)	(240)
Recognition of Net Loss	-	-
Total Pension Expense	112	115

Reconciliation of Defined Benefit Asset/(Liability)	30 June 2008	30 June 2007
	\$000	\$000
Previous Year Defined Benefit Asset	422	386
Net Pension Expense for Fiscal Year	(112)	(115)
Employer Contributions	175	151
Defined Benefit Asset	485	422

Change in Defined Benefit Obligation over year ending:	30 June 2008	30 June 2007
	\$000	\$000
Defined Benefit Obligation at end of Prior year	2,810	2,768
Company Service Cost	197	182
Interest Cost	176	173
Plan Participant Contributions	150	174
Net Actuarial Gain	(542)	(177)
Transfers between other participating Entities	-	(310)
Defined Benefit Obligation at End of Year	2,791	2,810

Change in Plan Assets over year ending	30 June 2008	30 June 2007
	\$000	\$000
Fair Value of Plan Assets as at End of Prior Year	3,564	3,224
Employer Contributions	175	151
Plan Participant Contributions	150	174
Transfers Between Other Participating Entities	-	(310)
Expected Return on Assets (net)	261	240
Asset Gain	(628)	166
Other	-	(81)
Fair Value of Plan Assets as at End of Year	3,522	3,564

Change in Unrecognised Net Actuarial Loss/(Gain)	30 June 2008	30 June 2007
	\$000	\$000
Unrecognised Net Actuarial Gain	(332)	(70)
Amortisation Cost for Year	-	-
Liability Gain	(542)	(177)
Asset Loss / (Gain)	628	(85)
Unrecognised Net Actuarial Gain	(246)	(332)

Allocation of Assets

The Distribution of the Plan Assets, as at 30 June 2008 and 2007, based on the share of the total Fund allocated to the Authority was as follows: -

	30 June 2008	30 June 2007
	%	%
Global Equities	46	59
Bond Investments	43	34
Property	5	-
Cash/Other	6	7
Total	100	100

Actuarial Assumptions

The principal Actuarial Assumptions used to Determine Benefit Obligations at 30 June 2008 and 2007 are as follows:

	30 June 2008	30 June 2007
	%	%
Discount Rate	6.75	6.25
Rate of Salary Increase	4.00	4.00
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 2008 and 2007 are as follows:

	30 June 2008	30 June 2007
	%	%
Discount Rate	6.25	6.25
Expected long-term Return on Plan Assets	7.00	7.00
Expected long-term Return on reimbursement rights	-	-
Salary increase	4.00	4.00
Rate of Inflation	2.50	2.50
Pension Increases	2.50	2.50

Other Assumptions

Mortality – Standard U.S. mortality rates

Retirement Age – completion of age 57 and 10 years of service

Asset Valuation –Fair (Market) Value

11. Commitments

a) Capital Commitments. The Authority has 3 contracts for the implementation of the Basel II project, which has a scheduled completion date of December 2010, totalling CI\$1,955,875. In addition there is a contract for Vault Management for CI\$97,750.

b) Operating Lease Commitments.

Accommodation Leases

The Authority leases the premises used for its operations at Elizabethan Square from Montpelier Properties.

- i. There are 11 lease agreements totaling 26,933 square feet, effective 1 July 2009 for 21 months, at costs ranging from \$28 to \$29 per sq. ft. per annum. Of this space 24,774 is renewal and 2,159 is new space.
- ii. There is 1 lease agreement for 800 square feet (renewal) effective 1 July 2009 for 12 months at \$30 per sq. ft. per annum.
- iii. All leases carry a Common Area Maintenance charge cost of \$5 per sq. ft. per annum.

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 2008 for a period of three years at a monthly cost of US\$17,000.
- ii. An agreement with the Brac Informatics Centre (renewed) effective 1 April 2009 at a monthly cost of US\$13,308.45 for a five year period.

Rental payments under operating leases are charged to the Statement of Comprehensive Income in equal installments over the period of the leases.

Other Operating Commitment - relates to the Thomas Jefferson Memorial Scholarship.

12. 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 the annual license fees (these fees do not form a part of the Authority's revenue) and the regulator and supervisor of the financial services business. These services form a part of the Outputs purchased by Government.

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 nine directors as of 30 June 2009. The fees of \$156,583 (2007-8: \$225,000) relates to payments made to the nine 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 13 in 2008-9 (2007-8: 13) and salaries & other short term benefits expensed in 2008-9 was \$1,554,681 (2007-8: \$1,467,609).
- d) Government Departments. The following Cayman Islands Government departments/entities provided services to the Authority during the year ended 30 June 2009:
- i. Office of the Auditor General at a cost of \$46,000 (2007-8: \$41,000);
 - ii. Internal Audit Office;
 - iii. Computer Services Department;
 - iv. Legal Department;
 - v. Public Service Pension Board (see Note 10);
 - vi. Public Works Department;
 - vii. Department of Environmental Health;
 - viii. Post Office;
 - ix. Lands and Survey Department;
 - x. Government Information Services;
 - xi. The Royal Cayman Islands Police Service;
 - xii. Cayman Islands Investment Bureau

13. **Prior Period Adjustment**

In prior years, adjustments relating to Retirement Benefit Asset (IAS 19 -adopted in the June 2006 financial statements) and Capital Expenditures Reserves spending (in the June 2007 and 2008 financial years) were made through the Contributed Capital account. In 2009, adjustments have been made to reflect these prior period entries through the General Reserve which acts as a “quasi retained earnings” for the Authority, in a manner consistent with IAS 8 Changes in Accounting Errors.

The amounts adjusted are as follows:-

- i. An adjustment of \$422,000 for Retired Benefit Asset (up to June 2008) transferred to the General Reserves; and
- ii. An adjustment of \$799,888 for Capital Expenditure (funded from the Capital Expenditures Reserve) undertaken in 2007 and 2008

These adjustments brought Contributed Capital at June 2008 to \$9,928,020.

