ANNUAL REPORT 2017

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The Cayman Islands Monetary Authority began operations on 1 January 1997. It was established as a body corporate under the Monetary Authority Law, which was brought into force on that date. In March 2003 the Authority became operationally independent under the Monetary Authority Law (2003 Revision).

The Cayman Islands Monetary Authority has four principal functions:

Monetary - The issue and redemption of Cayman Islands currency and the management of currency reserves.

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.

Cooperative - The provision of assistance to overseas regulatory authorities, including the execution of memoranda of understanding to assist with consolidated supervision.

Advisory - The provision of advice to the Government on monetary, regulatory and cooperative matters.

OUR MISSION

To protect and enhance the reputation of the Cayman Islands as an International Financial Centre by fully utilising a team of highly skilled professionals and current technology, to carry out appropriate, effective and efficient supervision and regulation in accordance with relevant international standards and by maintaining a stable currency, including the prudent management of the currency reserve.

OUR VISION

Committed to continually enhancing the Cayman Islands Monetary Authority's position as a financial services regulator of EXCELLENCE, consistent with the jurisdiction's standing as a leading International Financial Centre.

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MESSAGE FROM CHAIRMAN OF BOARD OF DIRECTORS

Keeping up with the continuous demands of the financial services industry has always been one of the main priorities for the Cayman Islands Monetary Authority ("CIMA" or "the Authority"). As part of its 2016 – 2018 Strategic Plan, the Authority outlined eight objectives to help meet the expected and unexpected changes that arise from global developments related to the financial industry. Among them were the implementation of its human resources and technological enhancements. Reaching these milestones could not have come at a more opportune time.

The Cayman Islands is home to a thriving financial services industry. Therefore, it is critical that the Authority is able to maintain and attract highly-skilled and diverse employees who are able to fulfill the objectives of CIMA and adapt to relevant industry changes. Until now, this was quite difficult to achieve due to the challenges of the 9-year salary freeze. Therefore, the Authority, as mandated by the Board, worked with external consultants to conduct a comprehensive salary review to ensure that all CIMA staff are compensated according to market benchmarks, for their expertise, performance, educational background and qualifications.

Through an intricate job evaluation methodology, 74 jobs were examined and scored within CIMA. Comparisons were also made with similar roles in other international regulatory bodies including several local companies. From this, a new salary scale and classification and compensation policy was established to reflect the market and practices. On behalf of the Board, I sincerely thank those who were involved in this important evaluation process, and for recognising the invaluable contributions of CIMA staff.

Another significant achievement was the enhancement of the Regulatory Enhanced Electronic Forms System (REEFS), which is an online portal for electronic submissions of required information to CIMA by industry users. Some of these include electronic submissions for mandatory financial annual returns (FAR), change requests, new licence applications, including the ability to track such related information and view any applicable fees. One of the prominent improvements is the processing and response times following the submission of a FAR. Technological advancements such as these play a major role enhancing Cayman's reputation as an efficient and attractive jurisdiction.

The Board is therefore pleased to confirm that since the initial launch of REEFS in January 2015, the platform has brought about substantial performance enhancements in the delivery and management of information, for both CIMA and the industry. While enhanced performance can be noted in several areas, one prominent feature is the newest addition to REEFS – Escrow, which is a secured online fee payment module. Through this new service, users have the ability to track relevant fees and complete payments. This feature was welcomed by the industry.

Although the main goal was to provide a convenient service for our licensees and registrants, such improvements have also increased operational efficiency within CIMA. As a result, the Authority can better allocate its resources in more strategic areas. REEFS is intended to be an ongoing development project and we anticipate that it will continue to provide added operational efficiency for CIMA and its industry users.

In January 2017, the Authority proudly celebrated 20 years of service as a successful regulator of the financial services industry. Much of this success is due to the level of expertise that exists throughout the entire organisation. As a Board, we are committed to providing continuous support to the staff and executive management team of CIMA, while ensuring that the jurisdiction remains financially robust. I hereby commend the management and staff for their hard work and dedication over the years, and I am confident that this will continue in years to come.

Grant Stein
Chairman of Board of Directors

STATEMENT BY MANAGING DIRECTOR

Bolstered by transparency, and a robust regulatory framework, the Cayman Islands continues to be a leading jurisdiction in the financial services world.

Although significant milestones can be noted, this past year was an exceptional one. The Cayman Islands Monetary Authority ("CIMA" or "the Authority") marked its 20th anniversary on 1 January 2017.

As the principal regulator, the CIMA is committed to developing and maintaining a regulatory structure which emphasises adherence to international standards through contemporary legislation, rules, procedures, guidance and other legal mechanisms in order to stay abreast with the ever-evolving dynamic nature of the global financial business.

INDUSTRY REVIEW

The industry remained highly competitive in several areas during the reporting period of 1 July 2016 – 31 December 2017:

Boasting 10,559 regulated funds, the Cayman Islands maintains its position as the top domicile for hedge funds as of 31 December 2017. The number of new fund registrations with the Authority continues to experience the effects of global trends whereby 1) lack of start-up capital; and 2) post-crisis regulatory barriers are cited as two of the main reasons for the decline in new fund launches. Additionally, although the number of fund structures has dropped, there has been an increase in the number of multi-fund structures, such as segregated portfolio companies.

The Cayman Islands is also a top international location for the provision of trust and corporate services, with 147 Trust companies, 115 Company Managers and 25 Corporate Service Providers licensed to provide these services in and from the jurisdiction. The Authority has not experienced a significant increase or decrease in the number of licensed Trust companies in recent years. However, since 2012, there has been a consistent growth in the number of Company Manager and Corporate Services Providers licenses issued under the Companies Management Law.

With 724 international insurance licensees, including captive insurance companies, the Cayman Islands remains the second largest domicile of international insurers and reinsurers. Part of this success is due to the new formations and expansion of existing companies. As of 31 December 2017, the industry gained 33 new (re) insurers. In addition to (re)insurance companies, there are 29 insurance brokers and 47 insurance agents operating within the domestic market, and 26 insurance managers operating within the international market. As a leading jurisdiction for healthcare captives, the market currently attracts approximately 32% of the companies reinsuring medical malpractice liability.

With 148 bank licneces, the banking sector also continues to contribute to the overall success of the industry. As at December 2017, total international banking assets and liabilities were reported at US$934 billion and US$934 billion, respectively. The Cayman Islands is also home to 40 of the top banks worldwide.

As the trend in increasing global compliance costs continues, international banks have become increasingly cautious, reducing their risk profile by withdrawing from certain markets, product lines, customers and customer segments. This has been most discernible in the net decrease of European and US bank branches.

STATEMENT BY MANAGING DIRECTOR

To date, the domestic retail banking sector has not undergone any changes in the composition or services offered. However, the importance of access to international markets through correspondent banking relationships continues to be emphasised. The jurisdiction's money service businesses and smaller private banks continue to endure challenges as a result of de-risking exercises by US correspondent banks in recent years. CIMA, in partnership with other local, regional and international stakeholders, remains actively engaged in dialogue to identify a long-term solution.

REGULATORY FRAMEWORK

In collaboration with the Cayman Islands Government, other public agencies along with representatives of the private sector, the Authority took several steps to implement measures and recommendations in preparation for the Caribbean Financial Action Task Force (CFATF) review which took place in December 2017.

Amendments were made to several pieces of legislation such as the Monetary Authority Law (MAL) regarding the introduction of the administrative fines regime. In conjunction with this, new Anti-Money Laundering Regulations were also drafted to address specific areas of weakness in the current regime. As part of its awareness efforts, the Authority hosted a series of industry stakeholder dialogues, including in-house sessions, which covered these topics.

Such recent legislation changes help the jurisdiction achieve technical compliance with FATF standards and other supervisory core principles issued by the international standard organisations, such as the Basel Committee on Banking Supervision, the International Organization of Securities Commissions and the International Association of Insurance Supervisors.

In addition, the Terrorism Law, the Proceeds of Crime Law and the Money Laundering Regulations were revised to more closely align with the FATF 40 recommendations.

Other relevant legislative amendments included the repeal of the Confidential Relationships Preservation Law and its replacement with the Confidential Information Disclosure Law, 2016 in July 2016.

Additionally, the Companies Law and the Companies Management Law saw recent amendments and both now capture provisions that enable the establishment and maintenance of beneficial ownership information. Under the Companies Management (Amendment) Law 2017, CIMA has been granted the power to revoke licenses and/or impose other licensing and supervisory sanctions for infringement of the Companies Law and the Limited Liability Company Law.

Other Measures

As every effort is made to ensure that we continue to meet the requisite standards, both locally and internationally, the Authority also issued and revised other measures which had an impact on the various regulated sectors.

One such area relates to the Statement of Guidance on Professional Indemnity Insurance which was issued for Trust, Insurance, Mutual Fund Administrators, Securities Investment Business and Company Management Licensees and Directors. This measure sets out the minimum criteria licensees should follow when obtaining and maintaining professional indemnity insurance.

Another measure that has undergone revision is the Statement of Guidance on Responsibilities of Insurance Managers, who are now required to highlight their obligations to CIMA and emphasise their role as service providers.

In early 2017, the Authority also published a revised Statement of Guidance on the Nature, Accessibility and Retention of Records. This document applies to all entities which fall under CIMA's regulatory umbrella. Such changes include guidance on the maintenance of electronic records including related information outside of the Cayman Islands.

An amendment was also made to the Regulatory Handbook to highlight the principal objectives of CIMA's onsite inspection. The handbook highlights expectations of licensees in addressing deficiencies and matters requiring immediate attention. The revision also clearly outlines the classifications of deficiencies: high, medium or low priority.

Increase Use of Supervisory Tools

The Authority continues to produce its bi-annual publication – Supervisory Issues & Information Circular, with the aim of providing insight to the financial industry on current regulatory activities. The circular discusses the trends of the regulated sectors. It also highlights supervisory developments and offers guidance to improve any related compliance standards.

STATEMENT BY MANAGING DIRECTOR

CONCLUSION

Once again, the Cayman Islands has proven itself to be a leading financial centre. Much of this success is due to an appropriate, flexible yet robust regulatory framework, which is supported by a wide-range of quality professional expertise.

While a substantial amount of time and effort was expended on the preparation of the CFATF assessment, there is still much work to be done over the next 12 months. CIMA will continue to promote strength and stability within the financial sector.

As a part of our philosophy is to remain responsive, pragmatic and accessible to industry, I am pleased to report that the Authority was able to strengthen relationships in our key markets to ensure that Cayman remains a dominant choice for offshore financial services.

I commend the staff and the Board of Directors of CIMA for their dedication in providing excellent quality service over the past 20 years. I look forward to celebrating many more years of success, for the betterment of our beloved Cayman Islands.

Cindy Scotland
Managing Director

2014 - 2016 STRATEGIC PLAN MILESTONES COMPLETED

Enhanced Organisational Structure

Establishment of Securities Supervision Division

Enhanced Human Resources Pool

Recruitment of key senior staff in specialised areas

Strengthening Relationships with Other Key Markets

Organised 14 visits to key jurisdictions

Enhanced Regulatory Profile

Sent high-level delegations to local and international seminars, meetings and conferences

Completion of 12-week public education radio campaign

Enhanced Operational & Technology Functions

Launch of REEFS online fee payment system

Launch of new CIMA website

Enhanced Regulatory Framework

Addressed areas of priority to ensure than legal framework continually meets international standards

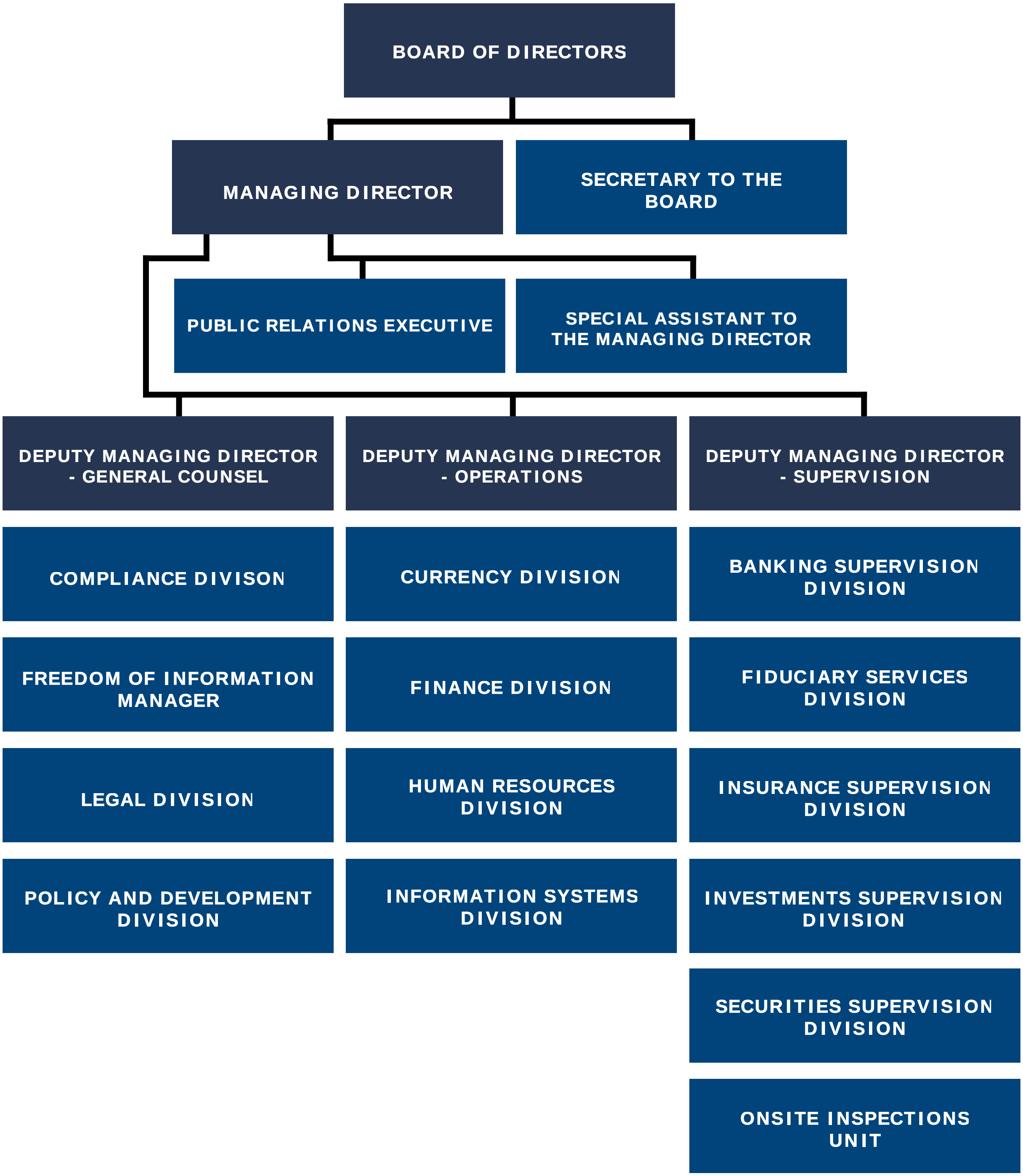
Preservation of Value and Integrity of Cayman Islands Currency

Conducted various public education and training seminars on counterfeit detection

Enhanced Collaboration with Government and Private Sector

Participated in various financial industry related events and projects

ORGANISATIONAL CHART



BOARD OF DIRECTORS

The Board of Directors of the Cayman Islands Monetary Authority comprised eight members:

Mr. Grant Stein, Chairman
Mr. Harry Chisholm, Deputy Chairman
Mrs. Cindy Scotland, Managing Director
Mr. Adrian (Gus) Pope, Director
Mrs. Patricia Estwick, Director
Ms. Judith Watler, Director
Mr. Garth MacDonald, Director
Professor William Gilmore, Overseas Director

Seated front row L-R: Deputy Chairman, Harry Chisholm, MBE, JP (term of office ended on 25 July 2017); Managing Director, Cindy Scotland; and Chairman, Grant Stein.

Standing back row L-R: Director, Patricia Estwick; Director, Adrian (Gus) Pope; Director, Judith Watler; Director, Garth MacDonald; and Overseas Director, Professor William Gilmore.

EXECUTIVE MANAGEMENT & SENIOR OFFICERS

Over the 18 month financial period of 1 July 2016 - 31 December 2017, the Executive Management and Senior Officers were as follows:

Managing Director
Cindy Scotland

Deputy Managing Director / General Counsel
Langston Sibblies, QC

Deputy Managing Director - Operations
Patrick Bodden

Deputy Managing Director - Supervision
Anna McLean

Head, Investments and Securities
Heather Smith

Deputy Head, Investments and Securities
Garth Ebanks

Deputy Head, Investments and Securities
Juliette Maynard

Head, Fiduciary Services
Rohan Bromfield

Deputy Head, Fiduciary Services
Leticia Frederick

Deputy Head, Fiduciary Services
Eric Wilson

Head, Banking
Gloria Glidden

Deputy Head, Banking
Sharon Braithwaite

Deputy Head, Banking
Shakira Cox

Head, Insurance
Ruwan Jayasekera

Deputy Head, Insurance
Razaak Busari

Deputy Head, Insurance
Suzanne Sadlier

EXECUTIVE MANAGEMENT & SENIOR OFFICERS

Deputy General Counsel, Legal
André Mon Désir

Senior Legal Counsel, Legal
Angelina Partridge

Legal Counsel, Legal
Nedra Myles

Legal Counsel, Legal
Helen Speigel

Legal Counsel, Legal
Menelik Miller

Head, Compliance
Audrey Roe

Deputy Head, Compliance
Judiann Myles

Head, Policy and Development
Justine Plenkiewicz

Chief Financial Officer, Finance
Gilda Moxam-Murray

Head, Human Resources
Deborah Musson

Deputy Head, Human Resources
Tara Abdul-Jabbar

Head, Information Systems
Charles Thompson

Deputy Head, Information Systems
Scott MacLaren

Head, Currency
Deborah Ebanks

Deputy Head, Currency
Shan Whittaker

Special Assistant to the Managing Director
Mitchell Scott

Public Relations Executive, Public Relations Unit
Yvette Cacho

The following content will highlight activities of the Authority during the 18 month financial reporting period of 1 July 2016 - 31 December 2017 and hence this is an 18 month report versus previous reports which were 12 month ending June.

Nature and Scope of Activities

The Authority is generally responsible for:

- the issue and redemption of currency notes and coins;
- the management of the currency reserve;
- the regulation and supervision of financial services business;
- the monitoring of compliance with money laundering regulations;
- the provision of assistance to overseas regulatory authorities;
- advising Government on the Authority's monetary, regulatory and cooperative functions;
- advising Government whether the Authority's regulatory functions and cooperative functions are consistent with functions discharged by an overseas regulatory authority;
- advising Government whether the regulatory laws are consistent with the laws and regulations of foreign jurisdictions; and
- representing the interest of the Cayman Islands at international forums and advising Government on recommendations of those organizations.

Structure

The Authority carries out its day-to-day activities through its divisional infrastructure together with the Managing Director's Office. The divisions are listed as follows:

Supervisory

Banking Supervision Division

The Banking Supervision Division promotes and maintains a sound financial system by monitoring the activities of licensees through an integrated risk based supervisory approach of off-site and on-site supervision and by ensuring compliance with regulatory laws, regulations, rules and statements of guidance and with the anti-money laundering regime of the Cayman Islands.

Fiduciary Services Division

The goal of the Fiduciary Services Division is to promote and maintain a sound financial system by monitoring the activities of licensees through integrated off-site and on-site supervision and by ensuring the enforcement of prudent practices by professionals in the Trust and Corporate industries, in accordance with regulatory laws.

Insurance Supervision Division

The Insurance Supervision Division promotes and maintains a sound financial system by monitoring the activities of licensees through an integrated risk based supervisory approach of off-site and on-site supervision and by ensuring compliance with regulatory laws, regulations, rules and statements of guidance and with the anti-money laundering regime of the Cayman Islands

Investments Supervision Division

The Investments Supervision Division (formerly Investments and Securities Division) regulates and oversees the activities of fund administrators, and funds operating in and from the Cayman Islands, through integrated off-site and on site supervision to promote and maintain a sound financial system by ensuring the enforcement of regulations.

Securities Supervision Division

The Securities Division is solely focused on the regulation of activities relating to securities investment business practitioners.

Non-Supervisory

Compliance Division

The Compliance Division's primary responsibilities are investigating serious breaches of the regulatory laws and directing and administering formal enforcement actions taken by the Authority; conducting risk weighted due diligence checks on persons who have applied to act as directors, shareholders, managers, officers and controllers of licensed entities, and administering and responding to non-routine requests for assistance received from overseas regulatory authorities.

Currency Division

The 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 circulating

Structure cont'd

currency notes and coins against the United States dollar, dealing with the local retail banks.

The division also administers the sale and redemption of numismatic coins to and from local and overseas collectors.

Finance Division

The Finance Division has responsibility for all financial matters relating to budget, annual licence fee collection, payroll, and accounts payable. The division is also responsible for preparation of the Monetary Authority's financial statements and the Purchase & Ownership Agreements between the Cabinet of the Cayman Islands Government and the Authority. The division's objectives are essentially created by the financial requirements of the organisation and its stakeholders and the resources available to it.

Human Resources Division

The Human Resources Division has responsibility for all employee matters relating to recruitment, employee training and development, as well as the administration of personnel policies, procedures and practices for the effective functioning and well-being of CIMA's staff. The division's objectives are largely driven by the human resource needs of the organisation and the resources available to the unit to carry out identified strategies.

Information Systems Division

The Information Systems Division is responsible for the maintenance of the Authority's existing information and telecommunications systems, the planning and implementation of new systems and developments relating to these.

Legal Division

The Legal Division provides advice to the Board of Directors, the Managing Director, and all the divisions within the Authority. The division has a central role in all cases involving the provision of formal assistance to overseas regulatory authorities, and provides support on all aspects of the Authority's responsibilities for combatting money laundering and terrorist financing.

The division aims to ensure that the Authority's procedures permit it, at all times, to act within the spirit and to the letter of the regulatory laws, and that all laws are kept under review to ensure that they remain effective.
The division assists with civil litigation and drafting legal documents such as directives, memoranda of understanding, and instructions for amendments to existing legislation, and assists in the review of applications for licensing from financial institutions.
Information requests submitted under the Freedom of Information initiative are handled by the Legal Division.

On-site Inspection Unit

On-site supervision involves inspections and supervisory visits at licensees' place of operation both in the Cayman Islands and overseas. These inspections can be full-scope, or may be limited to specific areas of the licensee/registrant's operations.

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.

Policy & Development Division

The Policy & Development Division focuses on research in the area of financial sector regulation and supervision. The division has a cross-functional role and provides support mainly to the Monetary Authority's five supervisory divisions: Banking, Insurance, Investments, Securities and Fiduciary, by providing information; advice on policy issues, and recommendations on required changes to policy and legislation for the financial sector.

The division is responsible for the co-ordination of the development of Rules, Statements of Guidance and Statements of Principle applicable to financial services providers to ensure that they are well regulated in accordance with, where applicable, international standards such as the Basel Core Principles for Banking, the International Organisation of Securities Commissions (IOSCO), and the International Association of Insurance Supervisors (IAIS).

The division also assists in devising recommendations for change to financial services legislation.

Structure cont'd

A key aspect is research of international developments and initiatives; analysis of the impact on the local financial services industry; and formulation of appropriate responses for consideration by the Authority. In addition, the division assists in the provision of responses, of both a statistical and non-statistical nature on the financial sector, to various international and domestic organisations.

Governance

The Government of the Cayman Islands wholly owns the Authority. In accordance with the Monetary Authority Law (2016 Revision) ("the MAL"), the Governor appoints CIMA's Board of Directors, including its Managing Director.

In its relations with the Government, the Authority channels its communications through the Financial Secretary and the Minister of Financial Services.

Funding

CIMA is a statutory authority under the Public Management and Finance Law. As such, the Legislative Assembly must approve its annual expenditure budget and funding and it is subject to an annual statutory audit. The Government funds the Authority by purchasing specified services as agreed in the Authority's annual purchase agreement with the Government.

Administration

The Authority's Board of Directors is responsible for the policies and general administration of the affairs and business of the Authority. The Managing Director is responsible for the day-to-day administration of the Authority.

The Authority has set out, in its Regulatory Handbook, the policies and procedures that it follows in performing its regulatory and cooperative functions.

Our People

The Authority has a present total staff complement of 204, an increase of 11% since December 2016. Recruitment of qualified and experienced staff was an even greater priority for the reporting period of 1 July 2016 – 31 December 2017.

In the last 18 months, the organisation has therefore grown in total staff complement as well as by the establishment of a fifth regulatory division.

Table 1 depicts total staff complement. Our staff are made up of 14 ethnicities (including Africa, Bahamas, Barbados, Canada, Cayman Islands, India, Ireland, Jamaica, the Philippines, Sri Lanka, St. Vincent, Trinidad, the United Kingdom, and the United States), across the functional areas of CIMA.

DIVISION	STAFF COUNT	REGULATORY EXPERIENCED STAFF
Banking Supervision	23	22
Fiduciary Services	14	13
Insurance Supervision	23	21
Investments Supervision	44	40
Securities Supervision	5	5
Onsite Inspection Unit	11	10

Continued onto next page

Our People cont'd

Compliance	15	14
Currency	7	N/A
Finance	7	N/A
Human Resources	8	N/A
Information Systems	16	N/A
Legal	7	5
Managing Director's Office	9	5
Policy & Development	15	9
TOTALS	**204**	**144**

Table 1: Total staff count across functional areas

Banking and Related Services

CIMA regulates and supervises entities operating in and from within the Cayman Islands such as banks, bank and trust companies, money service businesses, building societies and credit unions.

CIMA, through its Banking Supervision Division (BSD), regulates and supervises all banking entities operating in and from within the Cayman Islands. CIMA's BSD also supervises trust companies, nominee (trust) companies and trust (controlled subsidiary) companies that have a banking licence, as well as money services businesses. Table 2 highlights the licences under the supervision of CIMA's BSD.

Cooperative societies carrying on credit union business, building societies and development banks are not required to be licensed in the Cayman Islands but are entities created by statute and supervised by CIMA. As at 31 December 2017, CIMA supervised two cooperative credit unions, one building society and one development bank.

Licensees	30 June 2016	31 December 2016	30 June 2017	31 December 2017
Category 'A' Bank (Licensed)	11	11	11	11
Category 'B' Bank (Licensed)	163	146	145	137
Money Services Business (Licensed)	6	5	5	5
Trust Company (Licensed)	66	61	61	60
Nominee (Trust) (Licensed)	24	23	23	23
Trust (Controlled Subsidiary) (Registered)	7	6	6	6

Table 2: Licences supervised by BSD, June 2016 - December 2017

Banking

The Banks and Trust Companies Law (2013 Revision), as amended, authorises CIMA to issue two categories of banking licences, namely Category 'A' and Category 'B'. Category 'A' banks are allowed to operate both in the domestic and international markets and provide both retail and non-retail services to residents and non-residents. Traditional commercial retail banking services are provided by six of the Category 'A' banks, with the other Category 'A' banks providing investment banking services. The Category 'A' banks also offer principal office/authorised agent services to Category 'B' banks that do not have a physical presence in the Cayman Islands.

The Category 'B' licence permits international banking business with limited domestic activity. The holders of a Category 'B' licence are primarily used as financial intermediaries to raise funds in the international market to provide capital for parent entities and for the financing of external/cross-border business on their own account in the international market.

As at 31 December 2017, there were 148 banking licences in the jurisdiction (31 December 2016: 157), down from 156 banking licences at 30 June 2017 (30 June

Banking cont'd

2016: 174). There were six retail Category 'A' banks, five non-retail Category 'A' banks and 137 Category 'B' banks. Of the 148 licensees, 93 were branches, primarily from North America, South America and Europe, 47 were subsidiaries, and 8 were banks privately owned or affiliated to another bank or a financial institution in their group. The majority of the banks licensed in the Cayman Islands are branches or subsidiaries of established international financial institutions conducting business in international markets. As shown in Figure 1, the largest concentrations of banks licensed in the Cayman Islands are from the Caribbean and the Americas.

Licensing Activity

Global changes in laws and regulations have had an impact on the number of banks licensed in the Cayman Islands. Banks have continued to consolidate and restructure in search of cost efficiencies, and improvements in operational risk management and governance. This has been noted in the steady decline in the number of banks licenced in the Cayman Islands over the last six years (see Figure 2 below). The number of banking licensees supervised in the Cayman Islands decreased by 16% from 176 at June 2016 to 148 at December 2017. Table 3 shows the number of banking licences from June 2012 to December 2017.

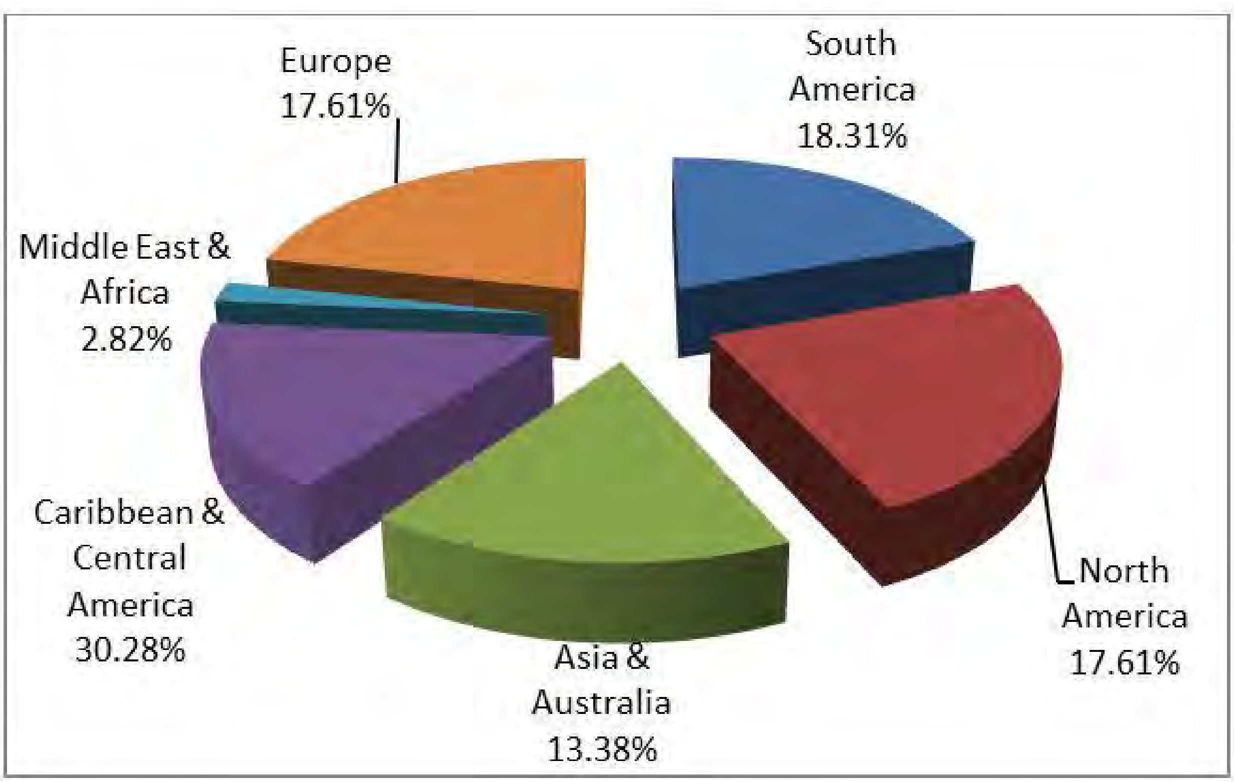


Figure 1: Region of Origin of Cayman-licensed Banks, December 2017

Banking cont'd

Figure 2: Number of Bank Licences, by Category, June 2012 – December 2017

Jurisdictional Comparison

As illustrated in Table 3, all of the jurisdictions listed experienced a decline in the number of banks licensed in the jurisdiction since 2012. It is evident that the global changes in laws and regulations have had an impact on licencing activity in a large number of jurisdictions with similar financial sectors.

Jurisdiction	2012	2013	2014	2015	2016	2017	% change 2012-2017
Cayman	218	209	193	179	157	148	-32%
Bahamas	102	101	97	96	95	85	-17%
Panama	92	92	91	93	91	88	-4%
Jersey	42	42	33	32	29	27	-36%
Luxembourg	141	147	144	143	141	139	-1%
Switzerland	271	298	281	273	269	257	-5%
Hong Kong	200	201	203	199	195	191	-5%
Singapore	165	161	159	158	159	158	-4%

Table 3: Bank Licence Numbers - Selected Jurisdictions, 2012 - 2017

Banking cont'd

Banking Sector – Assets and Liabilities
Total assets and liabilities (cross-border positions in domestic and foreign currency, domestic positions in foreign currency and domestic positions in local currency) as at 31 December 2017 stood at US$934 billion and US$934 billion, respectively. Total assets and total liabilities decreased from the US$1.04 trillion and US$1.04 trillion, respectively, reported at 31 December 2016 (30 June 2017: US$1.03 trillion and US$1.03 trillion, respectively).

Of the total assets in the sector at 31 December 2017, cross-border assets and liabilities in domestic and foreign currency of US$915 billion and US$874 billion, respectively, were booked internationally with non-residents, which was a decrease from the US$1.02 trillion and US$985 billion, respectively, reported at 31 December 2016 (June 2017: US$1.01 trillion and US$973 billion, respectively). As at December 2017, the jurisdiction ranked eighth internationally[1] in terms of cross-border assets of US$915 billion, and eighth internationally[2] by cross-border liabilities of US$874 billion booked by banks licensed in the Cayman Islands. Figure 4 provides a comparison of the level of cross-border assets and liabilities booked by banks licensed in the Cayman Islands from June 2012 to December 2017.

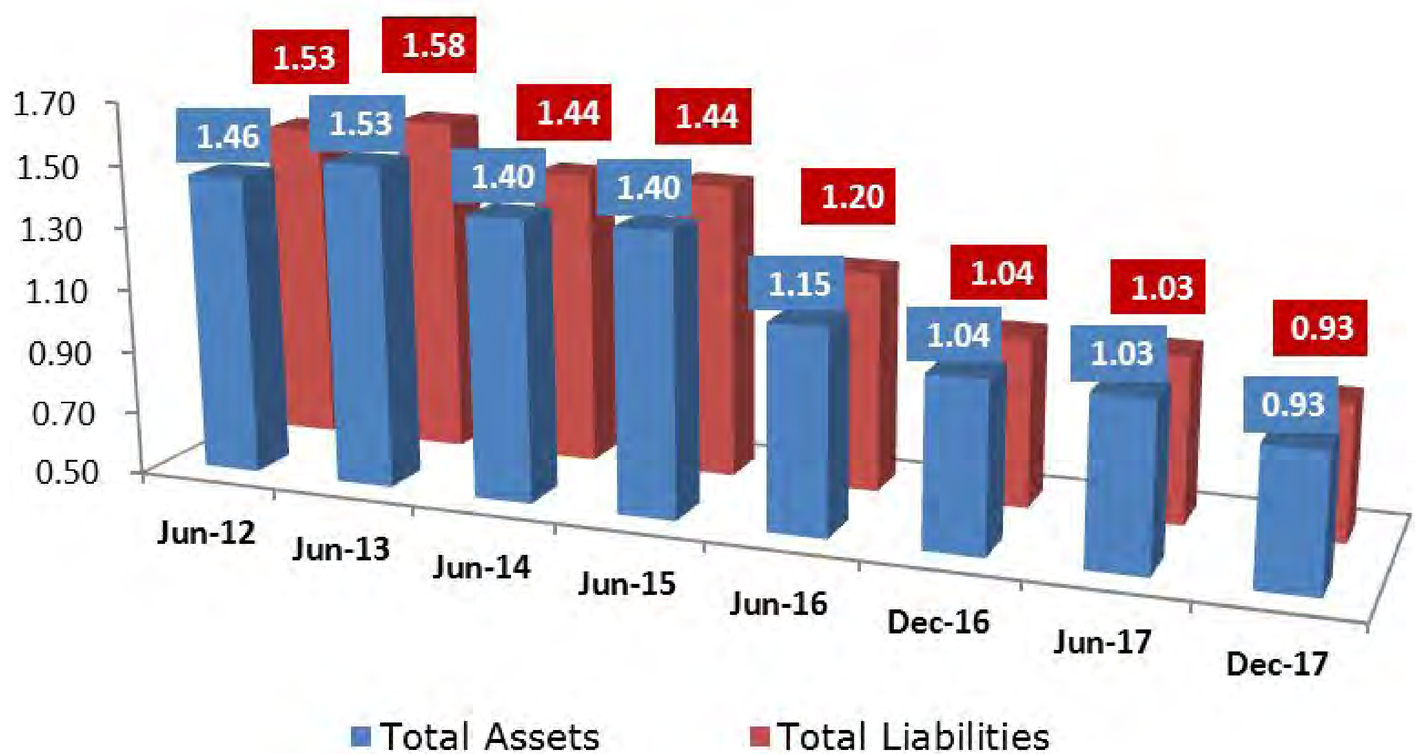


Figure 3: Total Assets and Liabilities of Cayman Islands-licensed Banks, June 2012 – December 2017

Banking cont'd

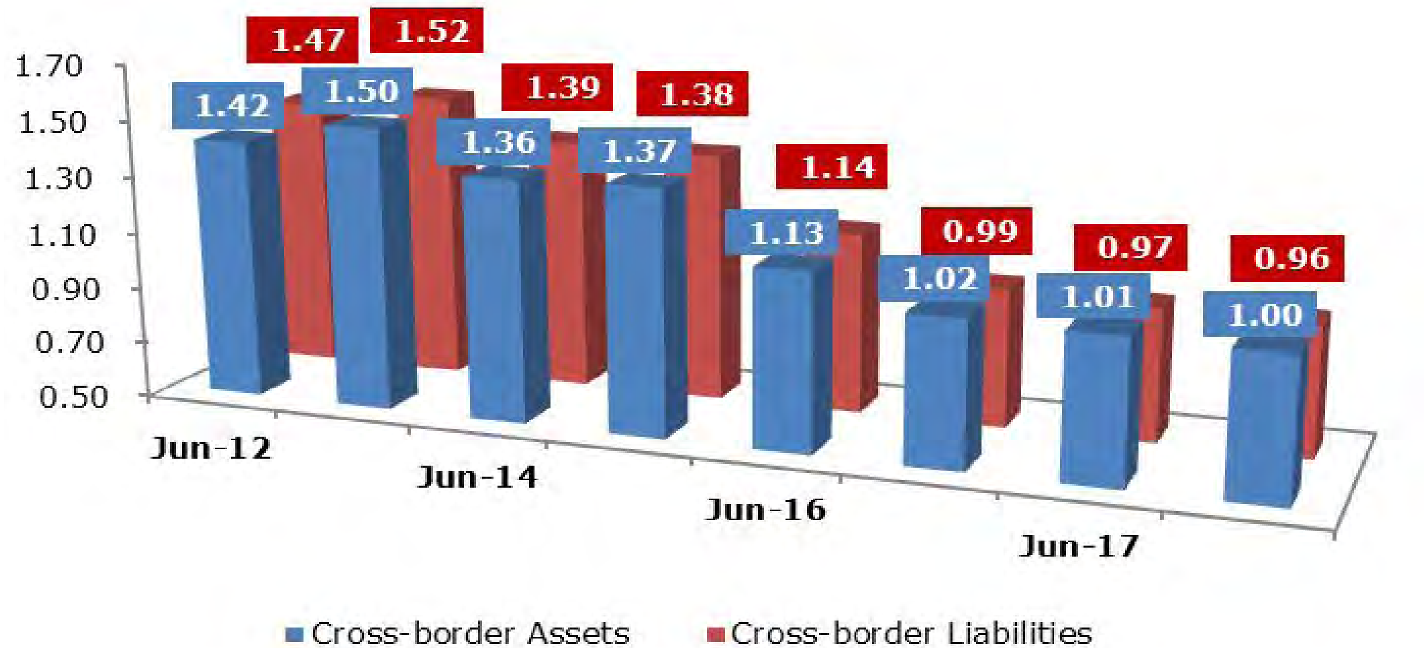


Figure 4: Cross-Border Assets and Liabilities of Cayman Islands-licensed Banks, June 2012 – December 2017

Cross-border assets and liabilities reported by banks licensed in the Cayman Islands have been declining since the global financial crisis. Branches of foreign banking institutions operating in the Cayman Islands reported a significant reduction in intra-bank assets and liabilities with parent entities as a result of international regulatory changes, which have provided an incentive to hold overnight deposits onshore and to meet liquidity requirements. Other reasons for the decline were due to the contraction in global economic growth, legislative reforms to curtail the activities of banks, de-risking and restructuring. In addition, there has been a marked shift from the banking sector to the investment funds market due to the high performance of stocks and bonds on the capital markets.

Domestic Assets[3] and Liabilities in Foreign and Local Currency

Of the total assets in the sector at 31 December 2017, domestic assets and liabilities in foreign currency of US$17.2 billion and US$57.7 billion, respectively, were booked locally with other Cayman Islands licenced entities. Domestic assets in foreign currency decreased from US$17.8 billion reported in December 2016 (June 2017: US$15 billion) and foreign liabilities in foreign currency increased from US$54.8 billion reported in December 2016 (June 2017: US$53.9 billion). The domestic assets and liabilities in foreign currency positions are largely interbank exposures with Cayman Islands licensed Category 'B' banks and other financial intermediaries and intra-bank positions. Also included in these positions are Category 'A' banks' lending to the

[1] Source: Bank for International Settlements (BIS): http://www.bis.org/statistics/bankstats.htm. Report titled 2A External positions of banks in all currencies vis-à-vis all sectors.

[2] Source: Bank for International Settlements (BIS): http://www.bis.org/statistics/bankstats.htm. Report titled 2A External positions of banks in all currencies vis-à-vis all sectors.

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

Banking cont'd

resident domestic sector, which largely includes residential mortgages, commercial private sector lending and loans to other financial intermediaries, namely investment funds. Figure 5 provides the assets and liabilities in foreign currencies from June 2012 to December 2017.

Domestic assets and liabilities in local currency of US$2.2 billion and US$2 billion, respectively, were booked locally as at 31 December 2017, which remained largely constant from the US$2.2 billion and US$1.9 billion, respectively, reported in December 2016 (June 2017: US$2.1 billion and US$1.9 billion, respectively). The majority of these domestic positions were loans and deposits with domestic households and non-financial private sector corporations.

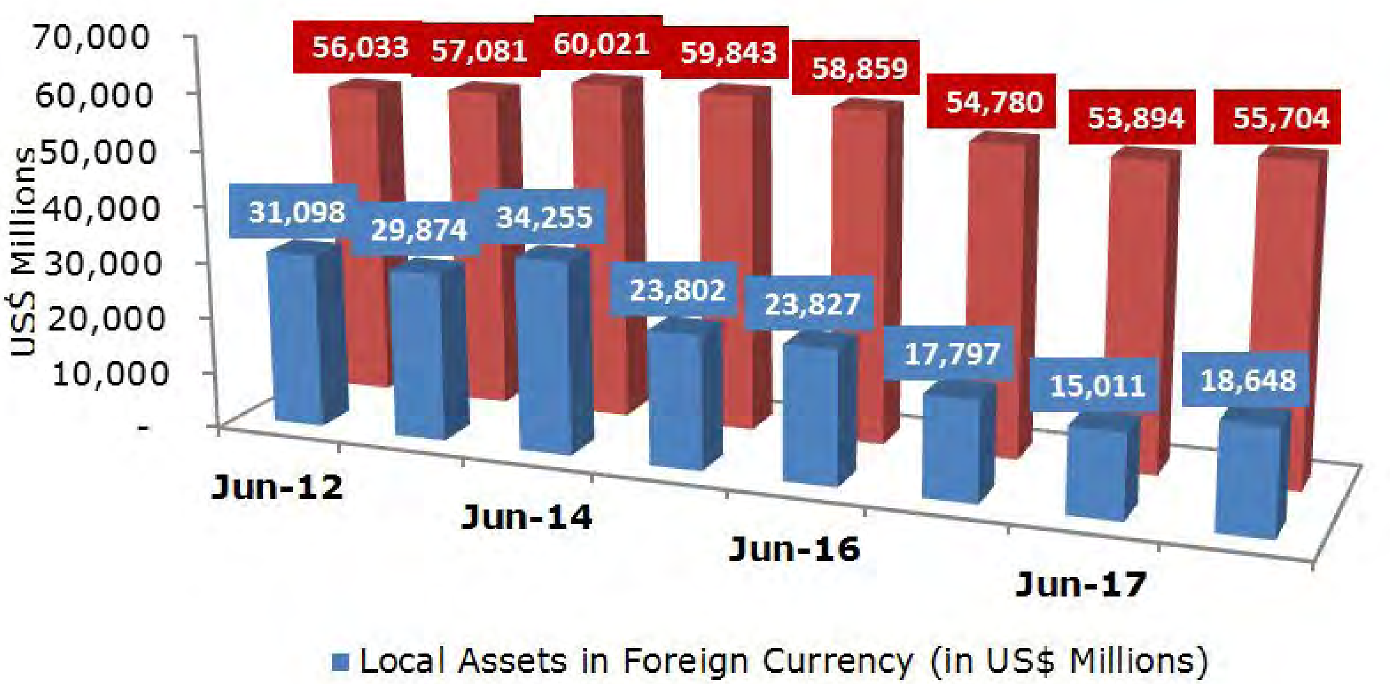


Figure 5: Domestic Assets and Liabilities of Cayman Islands-licensed Banks in Foreign Currency, June 2012 – December 2017

Domestic Sector – Category 'A' Retail Banks

The domestic market continues to be serviced by six retail banks (December 2016 and June 2017), who held assets of US$15.4 billion as at 31 December 2017 (December 2016: US$14.6 billion and June 2017: US$14.7 billion). Of the US$15.4 billion of assets booked by the retail banks, US$4.3 billion were positions with residents and US$11.1 billion were positions with non-residents. As at 31 December 2017, the retail banks reported US$7.8 billion of deposits from residents and US$5.4 billion of deposits from non-residents. Credit expansion was supported primarily by marginal increases in lending to domestic households, the non-financial commercial sector and non-resident companies.

The domestic banking sector remained resilient in the face of the overall decline in total assets and liabilities of the entire banking sector. Banks continue to be funded by retail deposits as a stable source of funding; strongly demonstrating that commercial and retail customers continue to have confidence in the soundness of the domestic banking sector.

Financial Soundness Indicators (FSIs) – Retail Banking Sector

As highlighted in Table 4, the FSIs indicate that the retail banking sector has remained healthy since 2012, with an average capital adequacy ratio (CAR)

Banking cont'd

in excess of the 8% minimum requirement set by the Basel Committee on Banking Supervision and an improvement in the quality of assets as evidenced by the decline in non-performing loans (NPLs) as a per cent of total gross loans.

portfolio remained high, reflecting improved asset quality due in part to loan write offs of NPLs and slower asset growth in loans.

Indicator (%)	2012 Year End	2013 Year End	2014 Year End	2015 Year End	2016 Year End	2017 Year End*
Capital Adequacy						
Regulatory Capital to Risk-Weighted Assets	19.7	18.3	17.6	18.9	19.0	22.2
Regulatory Capital to Total Assets	9.7	9.6	10.7	10.5	10.8	12.7
Asset Quality						
Non-performing Loans to Total Gross Loans	3.2	3.8	2.7	2.5	2.1	1.4
Specific Provisions to Impaired Loans (Coverage Ratio)	25.8	23.2	29.9	33.5	35.1	49.6
Earnings and Profitability						
Return on Equity (net income to average capital [equity])	9.4	8.4	8.1	11.2	13.3	22.1
Return on Assets (net income to average total assets)	1.1	0.9	0.9	1.3	1.5	3.0
Interest margin to gross income	70.1	69.6	71.9	69.7	69.9	83.1
Non-interest expenses to gross income	53.6	58.0	58.3	54.0	50.2	35.1
Liquidity						
Liquid assets to total assets (liquid asset ratio)	33.0	35.5	24.2	25.7	24.5	35.9

Table 4: Financial Soundness Indicators, December 2012 – December 2017June 2012 – December 2017

Capital Adequacy Ratios (CAR)

The CAR for the six retail banks increased from 19.7% at the year ended December 2012 to 22.2% at December 2017 (December 2016: 19%), and has remained comfortably above the minimum CAR requirement of 10% set by CIMA.

Asset Quality

NPLs as a percent of total gross loans for the retail banking sector decreased from 3.2% at the year ended December 2012 to 1.8% at December 2017 (December 2016: 2.1%). The quality of the loan

Earnings and Profitability

Retail banks continue to show signs of stable profits, as seen in improving Return on Equity (ROE) and Return on Asset (ROA) ratios. The sector's ROE increased from 9.4% for the year ended December 2012 to 13% at December 2017 (December 2016: 13.3%), partly due to a reduction in the provisions for credit losses/recoveries, coupled with gains in trading income. The ROA ratio was more stable over the period, increasing from 1.1% in December 2012 to 1.6% in December 2017.

Banking cont'd

Liquidity

The ratio of liquid assets to total assets for retail banks decreased from 33% at the year ended December 2012 to 24.5% at December 2016, but saw a significant increase to 33.5% at December 2017. The significant rise in the liquidity ratio in 2017 was due both to a decrease in total assets and a smaller increase in liquid assets. The liquidity position of the retail banking sector is considered healthy. However, CIMA has assessed the current liquidity requirements as outdated and to ensure liquidity risk is appropriately assessed within the jurisdiction CIMA is in the process of implementing updated liquidity risk requirements.

The Financial Services Institutions indicate that the retail banking sector has remained healthy since 2012, with an average capital adequacy ratio (CAR) in excess of the 8% minimum requirement set by the Basel Committee on Banking Supervision and an improvement in the quality of assets as evidenced by the decline in non-performing loans (NPLs) as a per cent of total gross loans.

Money Services Businesses

CIMA supervises three active money services businesses (MSB) that cater primarily to the resident domestic market. The Financial Action Task Force (FATF) defines the business of MSBs as "financial services that involve the acceptance of cash, cheques, other monetary instruments or other stores of value and the payment of a corresponding sum in cash or other form to a beneficiary by means of a communication, message, transfer, or through a clearing network to which the [MSB] provider belongs."

Remittance outflows from the Cayman Islands to other jurisdictions through these entities for the year ended December 2017 amounted to US$217.5 million, a 9% increase from US$199.3 million in December 2016. In comparison, remittance inflows to the Cayman Islands amounted to US$7.7 million for the year ended December 2017, an increase from US$5.9 million for the year ended December 2016.

Figure 6 shows the average remittance outflows and inflows from December 2012 to December 2017. Average remittance outflows remained stable between December 2012 and December 2015, followed by an increase between December 2015 and December 2017. The increase in remittance outflows was driven by demand in the sector. Remittance outflows have increased by 31% over the same period.

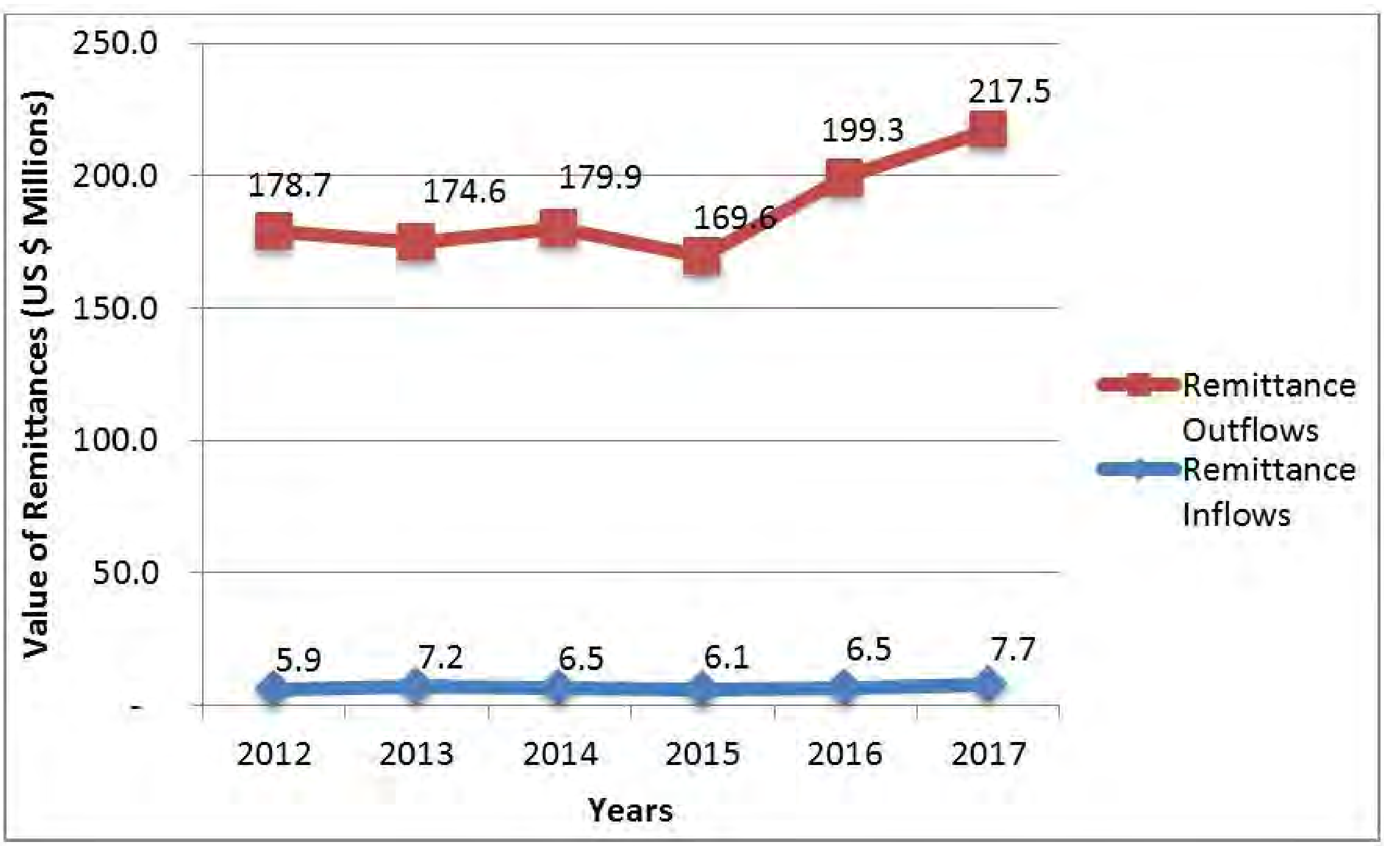


Figure 6: Total Remittance Outflows and Inflows, December 2012 – December 2017June 2012 – December 2017

Money Services Businesses cont'd

As noted in Figure 7 below, Jamaica remained the largest recipient of remittances from the Cayman Islands during the year ended December 2017, with 59% (December 2016: 60% and June 2017: 58.2%) of the US$217.5 million flowing to Jamaica. The Philippines, Honduras and the United States of America constitute a further 28% of remittance outflows.

As highlighted in Figure 8 below, the United States of America is the source of half of all remittance inflows into the Cayman Islands, with 49.6% of all remittances inflows (December 2016: 50.7% and June 2017: 49.7%). Jamaica also constitutes a relatively high percentage of remittance inflows, with 12% of all remittances flowing in from Jamaica.

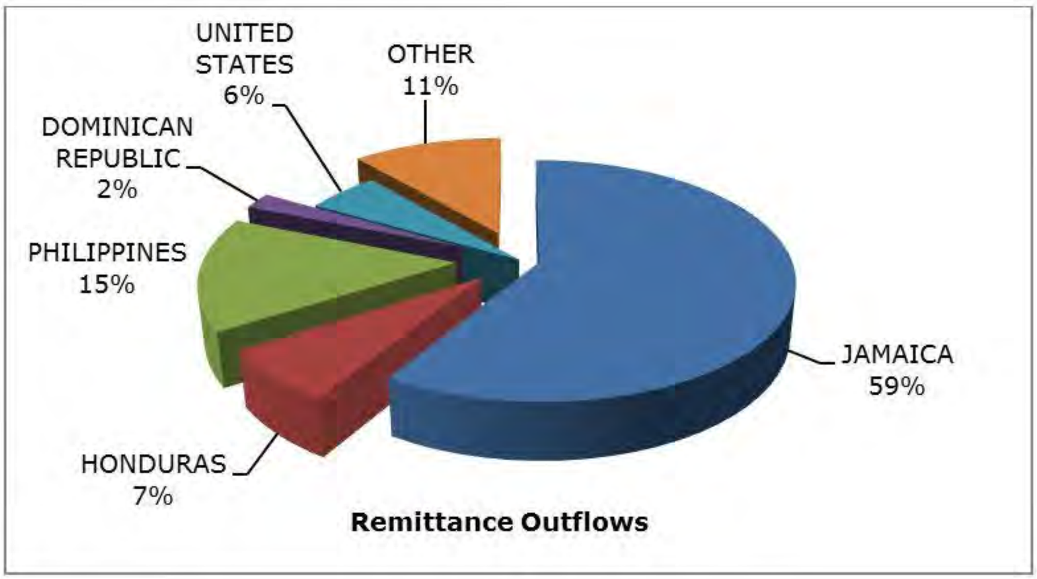


Figure 7: Proportion of Total Remittance Outflows as at 31 December 2017June 2012 – December 2017

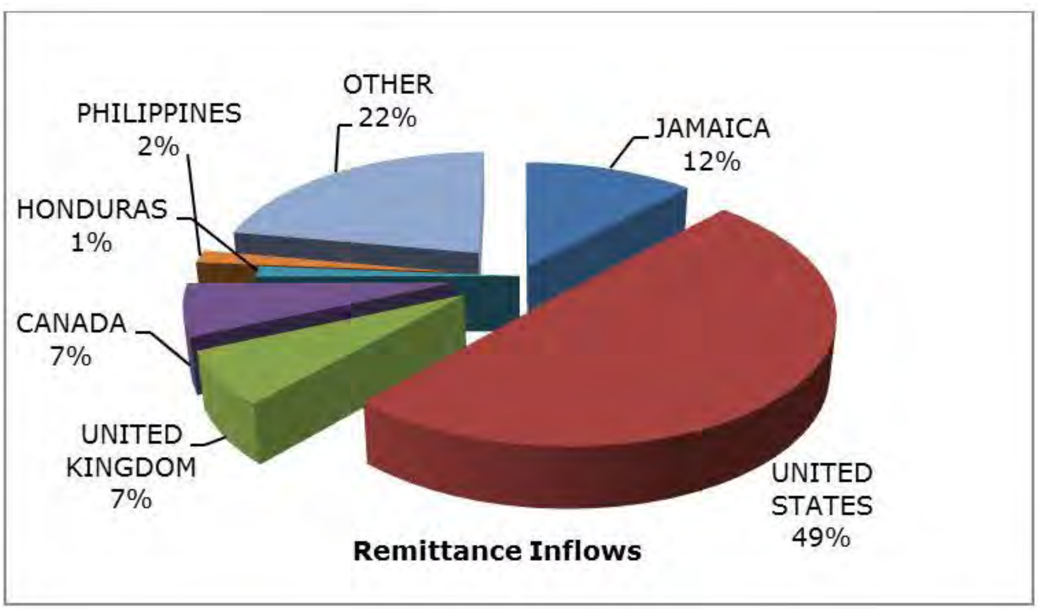


Figure 8: Proportion of Total Remittance Inflows as at 31 December 2017

Fiduciary Services

CIMA regulates and supervises trust entities operating in and from within the Cayman Islands such as company managers, corporate service providers and all trust companies not having a banking licence and credit unions.

Trusts

Corporate trust business carried out in and from the Cayman Islands is regulated pursuant to the Banks and Trust Companies Law (2013 Revision) ("the BTCL"), and the Private Trust Companies Regulations (2013 Revision) ("the PTCR"). The BTCL defines trust business as "the business of acting as trustee, executor or administrator", and no company is allowed to carry on such business unless it is licensed or registered by CIMA.

CIMA's Fiduciary Services Division has regulatory and supervisory responsibility for trust companies that do not have a banking licence. Those that have a banking licence are regulated and supervised by the Banking Supervision Division.
There are three licence categories and two registration categories for trust business. These are:

Trust – the licensee is authorised to carry on the business of acting as trustee, executor or administrator;

Restricted Trust – the licensee is authorised to undertake trust business only for persons listed in any undertaking accompanying the application for the licence;

Nominee (Trust) – the licensee is authorised to act solely as the nominee of a trust licensee, being the wholly-owned subsidiary of that licensee;

Controlled Subsidiary - the registrant is authorised to provide trust services including the issuing of debt instruments or any other trust business connected with the trust business of its parent that holds a Trust Licence, and

Private Trust Company - the registrant is authorised to provide trust services to "connected persons" as defined in Section 2(2) of the PTCR.

The Cayman Islands has been a top international location for the provision of trust services and remains so, with 404 companies providing these services in and from the jurisdiction as at 31 December 2017. Figure 9 shows the breakdown of trust companies by authorisation type from 1 July 2016 through 30 June 2017.

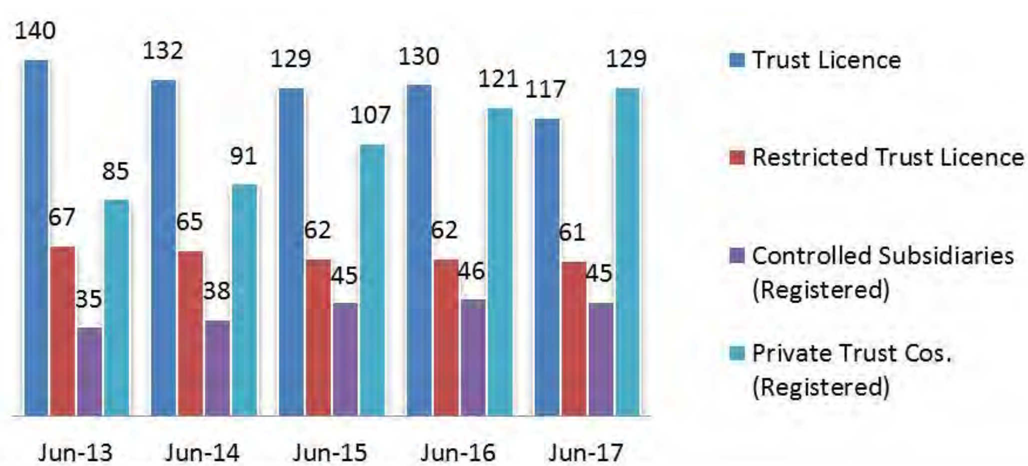


Figure 9: Number of Trust Licences by Category, June 2013 - June 2017

Fiduciary Services cont'd

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

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

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

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

Authorisation Activity

Table 5 shows trust company authorisation activity for the fiscal year, 1 July 2016 through 30 June 2017. Table 5A shows trust company authorisation activity for the six month period of 1 July 2017 through 31 December 2017. Overall, the sector remained fairly stable for the 18 month reporting period from 1 July 2016 through 31 December 2017.

Authorisation Type	**Active as at 30 June 2016**	**Terminated 1 July 2016 –30 June 2017**	**Issued 1 July 2016 - 30 June 2017**	**(12 months) Active as at 30 June 2017**
Trust Company (Licensed)	130	4	0	126
Trust Company – Restricted (Licensed)	62	2	1	61
Nominee Trust (Licensed)	55	4	0	51
Controlled Subsidiaries (Registered)	46	2	1	45
Private Trust Companies (Registered)	121	10	13	124
Total	414	22	15	407

Table 5: Trust Authorisation Activity, June 2016 – June 2017

Fiduciary Services cont'd

Authorisation Type	Active as at 30 June 2017	Terminated 1 July 2017 – 31 December 2017	Issued 1 July 2017 - 31 December 2017	(6 months) Active as at 31 December 2017
Trust Company (Licensed)	126	11	2	117
Trust Company – Restricted (Licensed)	61	0	0	61
Nominee Trust (Licensed)	51	0	1	52
Controlled Subsidiaries (Registered)	45	5	5	45
Private Trust Companies (Registered)	124	2	7	129
Total	407	18	15	404

Table 5A: Trust Authorisation Activity, 1 July 2017 - 31 December 2017

Prior to the enactment of legislation in 2008 for the registration of private trust companies, the restricted trust category had been largely used to establish private trust companies. The net decline in restricted trust companies since 2008 (see Figure 9) is mainly attributable to the availability of the registered private trust companies as a service provider option. There was a total of 129 private trust companies as at 31 December 2017, with 13 being registered during the period of July 2016 – June 2017 and 7 during the six month period of 1 July 2017 to 31 December 2017. It is anticipated that this upward movement in registration will continue.

Jurisdictional Comparisons

Table 6 shows the number of licensed trust entities for calendar years 2012 to 2016 in the Cayman Islands and in other international financial centres for which figures are available.

As illustrated, with respect to the number of licensees, the Cayman Islands has maintained its position relative to the other listed international trust services locations.

Fiduciary Services cont'd

Jurisdiction	2012	% Change	2013	% Change	2014	% Change	2015	% Change	2016
Cayman	147	↓4.8	140	↑3.6	145	↑4.1	151	↑0.7	152
BVI	189	0	189	↓1.60	186	↓4.8	177	↓2.8	172
Bahamas	159	↑3.1	164	↓5.5	155	↓1.3	153	↑0.7	154
Bermuda	30	0	30	↓3.3	29	0	29	↑3.4	28
Gibraltar	67	↑1.5	68	↓0	68	↓5.6	72	0	72
Guernsey	151	↓0.7	150	↑2.7	154	↑0.6	155	↓0.6	153
Isle of Man	128	↓1.6	126	↓3.2	122	↓4.1	117	↓5.1	111
Jersey	185	↑2.2	189	↑1.1	191	↓0.5	190	↓3.1	184
Panama	71	↑4.2	74	↑2.7	76	↑1.3	77	0	77
Turks and Caicos	12	0	12	↓8.3	11	↓18.2	9	0	9
Singapore	51	0	51	↑5.8	54	↓1.8	53	0	53

Table 6: Number of Licensed Trust Companies - Selected Jurisdictions, 2012-2016 Calendar Year-end

Note: Figures for other jurisdictions have been collected from the relevant websites and overseas contacts. *Cayman's figures do not include registered private trust companies and registered controlled subsidiaries that are wholly- owned subsidiaries of licensed trust companies. These were introduced as authorisation categories in 2008. (Note that the figures for 2008 and 2009 that were published in the CIMA Annual Report 2009-10 inadvertently included registered private trust companies and registered controlled subsidiaries.)

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

Fiduciary Services cont'd

Corporate Services

The Cayman Islands favourably compares among locations from which corporate/company management services are provided (see Table 8 for jurisdictional comparisons) and the sector has seen steady growth over the last several years (see Figure 10), with 143 such companies active at 30 June 2017. For the period of 1 July 2016 through to 31 December 2017 there was a decrease in the Corporate Services licences by three to a total of 140 as of 31 December 2017.

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

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

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

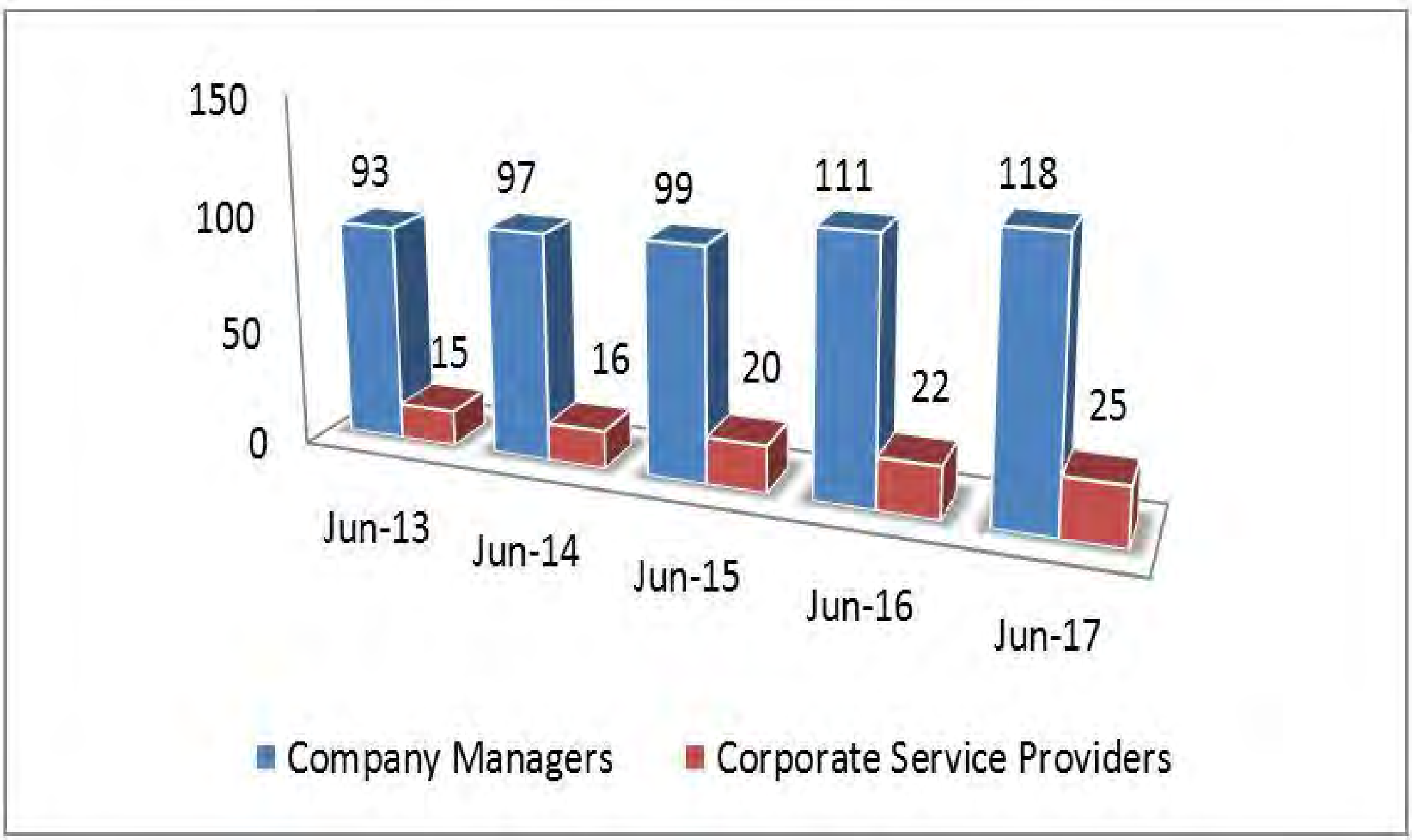


Figure 10: Number of Company Manager and Corporate Service Provider Licences, June 2013 - June 2017

Fiduciary Services cont'd

Authorisation Activity

Tables 7 and 7A shows authorisation activity for company managers and corporate service providers for the fiscal year, 1 July 2016 through 30 June 2017. The 143 licences in effect at 30 June 2017 represent an increase of 7.52% over 30 June 2016.

Authorisation Type	Active as at 30 June 2016	Terminated 1 July 2016 –30 June 2017	Issued 1 July 2016 –30 June 2017	(12 months) Active as at 30 June 2017
Company Manager (Licensed)	111	8	15	118
Corporate Service Provider (Licensed)	22	0	3	25
Total	**133**	**1**	15	**143**

Table 7: Companies Management Authorisation Activity, 30 June 2016 – 30 June 2017

Authorisation Type	Active as at 30 June 2017	Terminated 1 July 2017 –31 December 2017	Issued 1 July 2017 –31 December 2017	(6 months) Active as at 31 December 2017
Company Manager (Licensed)	118	4	1	115
Corporate Service Provider (Licensed)	25	3	3	25
Total	**143**	**7**	4	**140**

Table 7A: Companies Management Authorisation Activity, 1 July 2017- 31 December 2017

Fiduciary Services cont'd

Jurisdictional Comparisons

Table 8 shows the number of active corporate services licences for calendar years 2012 to 2016 in the Cayman Islands and in other international financial centres for which figures are available.

The Cayman Islands enacted the Directors Registration and Licensing Law, 2014, (DRLL) which came into force on 4 June 2014. The DRLL gives CIMA certain authorisation and supervisory responsibilities in respect of natural and corporate directors of mutual funds and certain entities that are registered under the Securities Investment Business Law. Tables 9 and 9A show the number of authorisations recorded in respect of applications made under the DRLL.

Jurisdiction	2012	% Change	2013	% Change	2014	% Change	2015	% Change	2016
Cayman	98	↑12.2	110	↓10.9	98	↑8.2	106	↑6.6	112
BVI	21	↓4.8	20	↑5.0	21	↓9.5	19	↓5.3	18
Bahamas	N/A	-	21	↓42.8	12	↑16.6	14	0	14
Bermuda	N/A	-	N/A	-	N/A	-	N/A	-	N/A
Gibraltar	67	↑1.5	68	0	68	↓5.6	72	0	72
Guernsey	151	↓0.7	150	↑2.6	154	↑0.6	155	↓0.6	153
Isle of Man	192	↓9.4	174	↓4.6	166	↓1.8	163	↓27	119
Jersey	185	↑2.2	189	↑1.1	191	↓0.5	190	↓3.1	184
Panama	N/A	-	N/A	-	N/A	-	N/A	-	N/A
Turks and Caicos	22	↑77.3	39	↓2.6	38	↓5.3	36	0	36

Table 8: Corporate Services Licence Numbers - Selected Jurisdictions, 2012-2016 Calendar Year-end

Note: Figures provided have been collected from the relevant websites and overseas contacts.
* Jersey, Gibraltar and Guernsey's figures include both trust and company businesses licensed, inclusive of affiliation members.

Authorisation Type	Active as at 30 June 2016	(12 months) Active as at 30 June 2017
Registration - Exemption from licensing - Section 16(1)	75	91
Licence - Professional Director	50	42
Licence - Corporate Director	21	31

Table 9: Director Authorisation Activity, 30 June 2016 – 30 June 2017

Fiduciary Services cont'd

		(6 months)
Authorisation Type	**Active as at 30 June 2017**	**Active as at 31 December 2017**
Registration - Exemption from licensing - Section 16(1)	91	111
Licence - Professional Director	42	45
Licence - Corporate Director	31	30

Table 9A: Director Authorisation Activity, 1 July 2017 – 31 December 2017

Insurance

CIMA regulates and supervises insurance entities operating in and from within the Cayman Islands such as insurance companies and insurance brokers, managers and agents.

The insurance industry in the Cayman Islands has two distinct sectors: the domestic insurance segment, which provides insurance to Cayman residents and businesses by locally incorporated or registered insurers, and the international insurance segment, which provides insurance for foreign risks by insurers incorporated in the Cayman Islands. The Authority, through its Insurance Supervision Division, regulates and supervises all insurance entities operating in and from the Cayman Islands. The Authority provides four main classes of insurer licences for (re)insurance companies, namely Class 'A' licence for domestic insurers, Class 'B' licence for international insurers to carry on insurance and/or reinsurance, Class 'C' licence for fully collateralised international insurers, e.g. Insurance Linked Securities (ILS) and catastrophe bonds, and Class 'D' licence for large open-market reinsurers. Class 'B' licence is subdivided into three subcategories, namely Class 'B(i)' for (re)insurers with at least 95% of the net premiums written originating from the insurer's related business, Class 'B(ii)' for (re)insurers with over 50% (but less than 95%) of the net premiums written originating from the insurer's related business and class 'B(iii)' for (re)insurers with 50% or less of the net premiums written originating from the insurer's related business. CIMA also regulates intermediaries, namely Insurance Managers, Insurance Brokers and Insurance Agents[4].

The International Insurance Segment

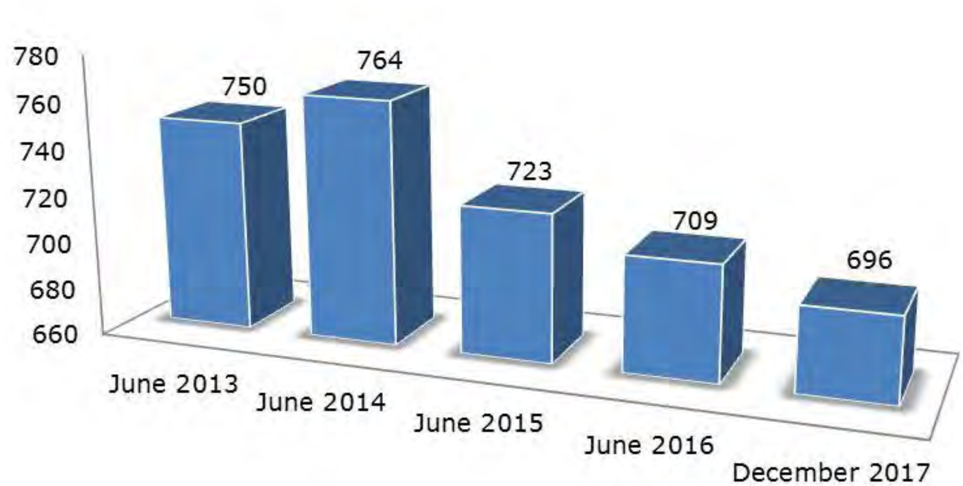


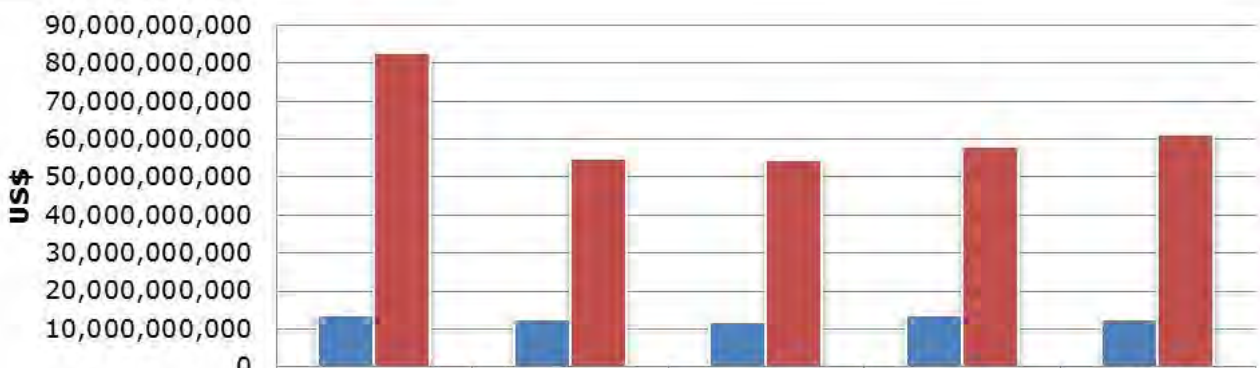
Figure 11: Number of Cayman Islands International (Class B, C, D) Insurer Licences, June 2013 – December 2017

Insurance cont'd

The Cayman Islands insurance industry is dominated by the international segment comprised primarily of international insurers including captive insurance companies[5] and their Insurance Managers.

The size of this market is evidenced by the number of insurance companies: 696 at 31 December 2017 (see Figure 11); the premiums generated: US$12.4 billion in total at 31 December 2017, and the assets held: US$61.0 billion in total at 31 December 2017 (Figure 12). With these figures, the segment also claims a major share of the global insurance market positioning the Cayman Islands as the second largest domicile for captive insurance companies.

The total number of insurance related licensees in the International Insurance Segment dropped from 709 at the end of 30 June 2016 to 696 as at 31 December 2017. The main reasons for cancellation of licences included: novation/commutation of liabilities to ceding/reinsurance companies, mergers and acquisitions of healthcare captives and maturing catastrophe bonds. As depicted in Figure 12, total assets increased by 5.4% and premiums written dropped by 8.8% compared to 30 June 2016.



	June 2013	June 2014	June 2015	June 2016	December 2017
Total Premiums	13,508,011,	12,333,618,	11,853,173,	13,563,533,	12,369,913,
Total Assets	82,771,108,	54,926,495,	54,460,741,	57,967,799,	61,093,267,

Figure 12: Total Premiums & Assets of Cayman Islands International (Class B, C, D) Insurer Licensees, June 2013 – December 2017

[4] Insurance Manager – "a company operating in and from within the [Cayman] Islands which provides insurance expertise to and for insurers and which has in its bona fide employment a person who fits the criteria outlined in section 2"; Insurance Agent - "a person (not being an insurer) who solicits directly, advertising or other means, domestic business on behalf of not more than one general insurer and one long term insurer"; Insurance Broker - "a person (not being an insurer) who arranges or procure, directly or through representatives, contracts of insurance or of reinsurance on behalf of existing or prospective policyholders".

[5] An insurance or reinsurance entity created and owned, directly or indirectly, by one or more industrial, commercial or financial entities, the purpose of which is to provide insurance or reinsurance cover for risks of the entity or entities to which it belongs, or for entities connected to those entities and only a small part if any of its risk exposure is related to providing insurance or reinsurance to other parties."
https://www.iaisweb.org/page/supervisory-material/glossary

Insurance cont'd

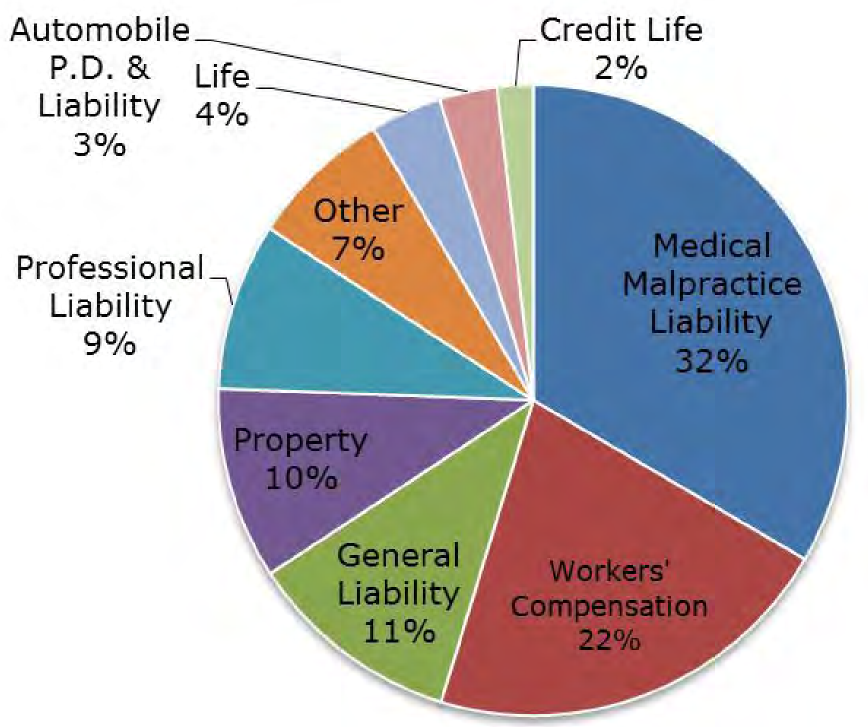


Figure 13: Cayman-Domiciled International Insurance Companies by Type of Coverage, 31 December 2017

With 32% of Cayman's captives covering healthcare risks (see Figure 13) the jurisdiction is the leading domicile for healthcare captives. Other types of coverage provided by Cayman captives include: workers' compensation, general and professional liability, property, auto and product liability, and life and annuity. In addition, Cayman is a leading domicile for group captives and cat bonds.

While the vast majority of companies in the international segment of Cayman's insurance industry are self-insured of one type or another, i.e. B(i) insurers, a number of companies provide (re)insurance coverage to unrelated entities and operate as open-market (re)insurers. The risks underwritten by international (re)insurers originate mainly from North America, with the next largest geographical source being the Caribbean and Latin America, collectively (see Figure 14).

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

Insurance cont'd

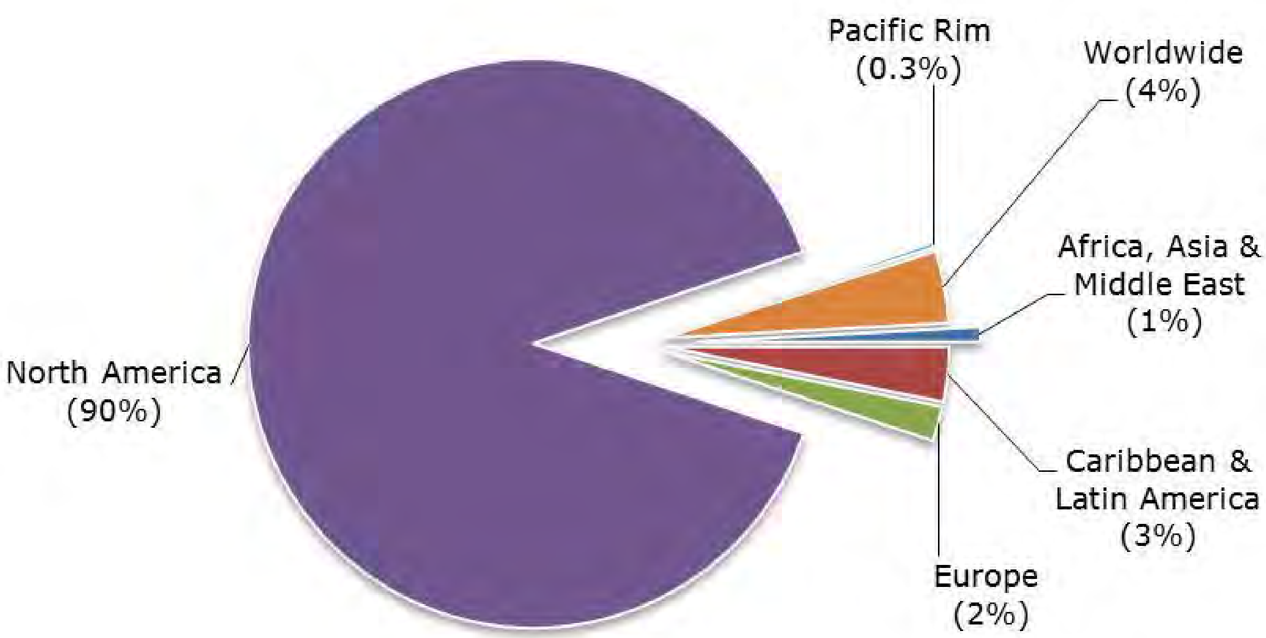


Figure 14: Cayman-Domiciled International Insurance Companies by Location of Risks Covered, 31 December 2017

The Cayman Islands continues to remain the second largest offshore jurisdiction in terms of the number of international insurers including captives, behind Bermuda, and is the leading jurisdiction for healthcare and group captives.

Over the years, corporations have made increasingly extensive use of captives as part of their overall risk management function, reducing the premium they pay for commercial coverage by insuring a portion of their risk through a captive insurance programme. In addition to expanded coverage availability and flexibility, and better risk management, reasons for the formation of captives include cost reduction and stabilisation, improved cash-flow, and access to the reinsurance market. With the introduction of the Segregated Portfolio Companies ("SPC") legislation, that typically provides insurance coverage for smaller organisations, Cayman became a leading jurisdiction for group captives.

As at 31 December 2017, there were 148 SPCs with over 600 segregated portfolios operating within them. More recently, amendments were made to the insurance law to introduce Portfolio Insurance Companies ("PIC") under the SPC structure. As at 31 December 2017, there were 10 PICs registered in the Cayman Islands.

Insurance cont'd

The Domestic Insurance Segment

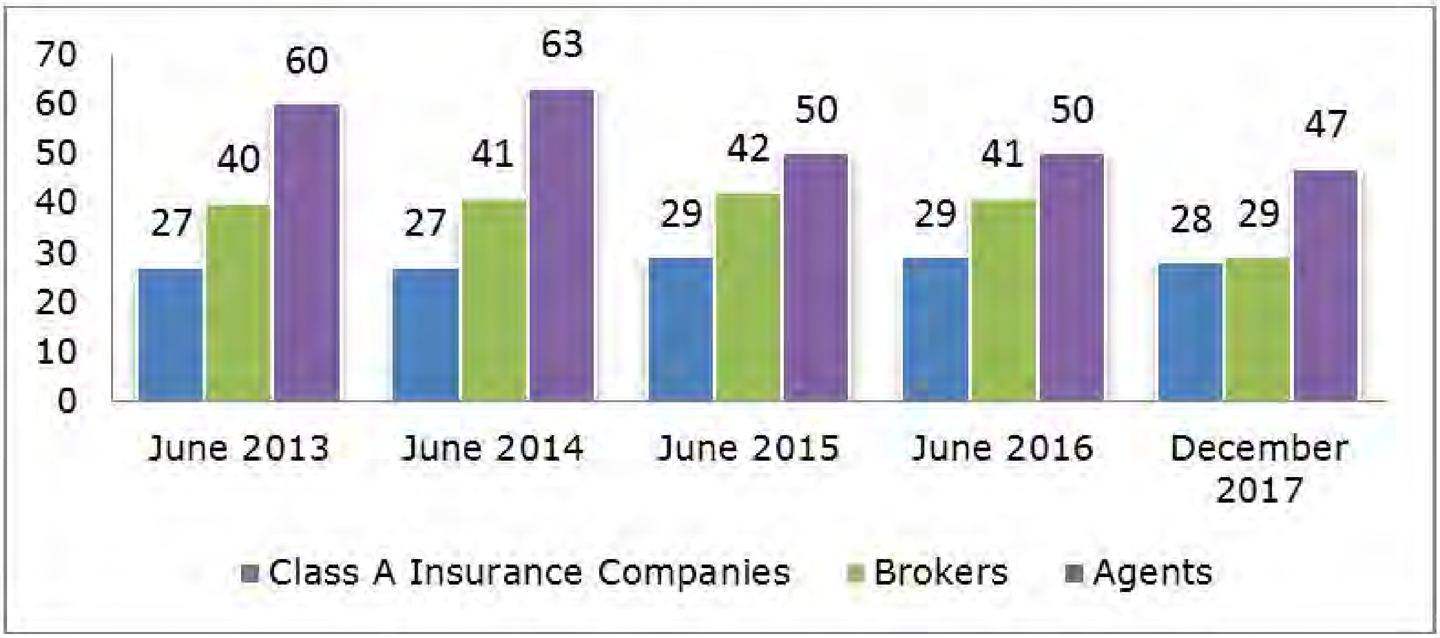


Figure 15: Number of Cayman Islands Domestic Insurance Licences, by Category, Fiscal Year-end 2013-2017

The domestic insurance market comprises insurance companies (both locally incorporated and branches of foreign companies) and intermediaries (insurance brokers and insurance agents). Business is written directly, or through the insurance brokers and insurance agents. Domestic insurers provide a range of coverage to local policyholders, with health and property insurance being the top two categories: accounting for approximately 67% of premiums written by the sector for the calendar year 2016 (see Figure 16).

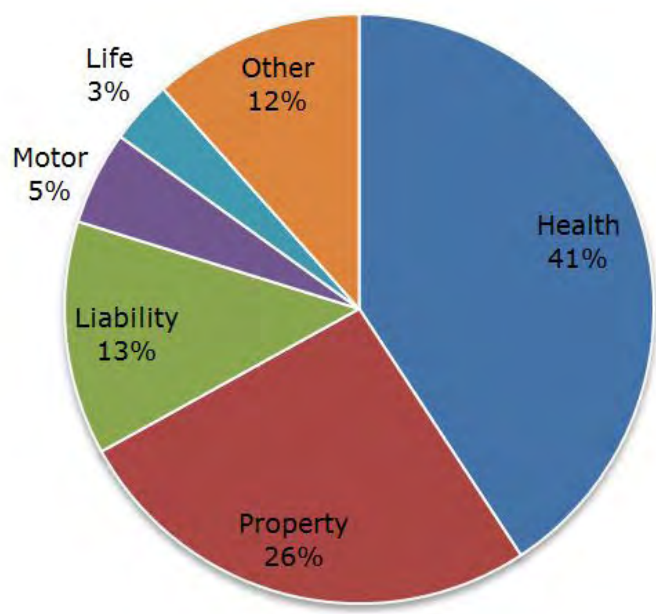


Figure 16: Coverage Provided by Class 'A' Insurers, Measured by Gross Written and Assumed Premiums, 2016 Calendar YearFiscal Year-end 2013-2017

Insurance cont'd

Cayman's Insurance Industry Activity

At 31 December 2017, there were 826 licensees under supervision of the Insurance Supervision Division of CIMA. Of these, 28 were Class 'A' insurers, 669 were Class 'B' insurers, 24 were Class 'C' insurers, three were Class 'D' insurers, 47 were insurance agents, 29 were insurance brokers and 26 were insurance managers. The number of licensees under supervision as at 30 June 2016, and the number of new licences issued and cancelled during the 18-month fiscal year ended 31 December 2017, are given in Table 10 below.

efforts to repeal the Affordable Care Act in the United States, and continuing soft market posed challenges to the Cayman Islands' captive market in 2016/17. Consolidation among hospitals and healthcare service providers in the United States, thus consolidation in the healthcare captive industry continued during the reporting period for 1 July 2016 - 31 December 2017. However, the changing landscape continues to present opportunities as well. As examples, hospitals acquiring physician practices have been considering setting up new captives or expanding existing captives; possibility of physicians and

Licence Type	As at 30 June 2016	Cancelled 1 July 2016 - 31 Dec 2017	Issued 1 July 2016 - 31 Dec 2017	As at 31 Dec 2017
Class A	29	1	0	28
Class B, C, D	709	60	47	696
Insurance Managers	33	7	0	26
Brokers	41	13	1	29
Agents	50	7	4	47
TOTAL	**862**	**88**	**52**	**826**

Table 10: Insurance Licensing Activity 30 June 2016 – 31 December 2017

The International Insurance Segment Activity

The Cayman Islands continues to remain the second largest offshore jurisdiction in terms of the number of international insurers including captives, behind Bermuda, and is the leading jurisdiction for healthcare and group captives. During the reporting period of 1 July 2016 – 31 December 2017, 47 new insurance companies were added to the Cayman Islands' international insurance market.

Growing competition among captive insurance domiciles, especially emerging captive domiciles in the United States, healthcare reforms introduced by the Patient Protection and Affordable Care Act (commonly called the "Affordable Care Act") and uncertainty created as a result of subsequent

practices teaming up to form large provider groups and establish captive insurance companies for professional liability and other risks; for those mid-sized companies in the United States who are looking for health care options, captive insurance is one option. Technologies such as digital platforms, smart contracts, artificial intelligence, telematics, drones, and blockchain have already started to transform the insurance industry, including its products and services and their delivery. Technological innovation will demand versatile and efficient insurance vehicles such as captives to provide insurance solutions to them.

Hedge funds' interest in the Cayman Islands' insurance and reinsurance market continued in the 2016/17 fiscal year. With the Cayman Islands

Insurance cont'd

being a leading jurisdiction for hedge funds and the second largest jurisdiction for captive operations, it is well positioned to build on its expertise to be the domicile of choice for the emerging hedge fund-backed reinsurers.

Total premiums, net income, total assets and net asset position of (re)insurers operating in the Cayman Islands international market are reported in Table 11.

Category	Total Licences	%
Commercial Insurer	32	4.60%
Group Captive	121	17.39%
Pure Captive	317	45.55%
Reinsurance Companies	55	7.90%
Segregated Portfolio Company	148	21.26%
Special Purpose Vehicle	23	3.30%
Totals:	**696**	**100.00%**

Table 11: International Insurance Company Statistics by Company Category and Licence Class, 31 December 2017

Insurance cont'd

The Domestic Insurance Segment Activity

The domestic insurance sector provides a number of products such as motor insurance, property insurance, health insurance, liability insurance, marine insurance, term life and credit life insurance, investment-linked products, annuities etc. As at 31 December 2017, there were 28 insurance companies operating in the Cayman Islands' domestic insurance industry. Of the 28 Class 'A' insurer licence holders in the market, 25 licensees actively engaged in insurance business in the Cayman Islands. Of the three 'inactive' licensees, two were in "run off" (a company is placed into run-off once it stops issuing new insurance policies, but continues to process claims) and one under controllership.

As depicted in Table 12, total gross written premium (GWP) and assumed reinsurance premium generated by the domestic insurance companies as at 31 December 2016 amounted to CI$598.0 million. As in the past years, general insurance business, which includes health insurance business, led the market

	Motor	Property	Liability	Health	Life	Other	Grand Total
Direct premiums	30,775,232	156,700,475	76,763,111	243,731,577	20,758,445	69,307,204	598,036,044
Ceded premiums	13,075,680	99,163,356	2,200,818	30,939,363	3,356,705	219,532	148,955,454
Unearned premium adjustment	995,520	-1,671,406	-451,197	-21,866	0	27,861	-1,121,088
NET EARNED PREMIUMS	16,704,032	59,208,525	75,013,490	212,814,080	17,401,740	69,059,811	450,201,678
Commission Received	3,600,114	19,982,654	373,797	4,438,426	0	32,366	28,427,357
TOTAL UNDERWRITING INCOME	20,304,146	79,191,179	75,387,287	217,252,506	17,401,740	69,092,177	478,629,035
Net Claims Paid	9,421,549	25,713,923	34,448,664	175,536,006	5,815,338	22,974,639	273,910,119
Movement in Claim Reserves	2,973	9,041,032	9,838,715	2,359,320	4,396,795	2,400,762	28,039,597
Commissions Paid	3,644,527	17,747,622	490,050	14,126,852	3,281,306	137,923	39,428,280
Other Expenses	2,634,988	3,459,288	3,705,876	11,169,924	1,869,323	1,125,885	23,965,284
UNDERWRITING PROFIT	4,600,109	23,229,314	26,903,982	14,060,404	2,038,978	42,452,968	113,285,755
Investment Income	0	0	0	0	0	0	10,350,038
Other Income	0	0	0	0	0	0	989,187
TOTAL NET INCOME	4,600,109	23,229,314	26,903,982	14,060,404	2,038,978	42,452,968	124,624,980

Table 12: Domestic Insurance Company Statistics by Primary Class of Business as at 31 December 2016 (CI$ based on audited financial statements)

Investments and Securities

CIMA regulates and supervises hedge fund and securities entities operating in and from within the Cayman Islands such as funds, fund administrators and which includes market makers, broker-dealers including activities relating to securities investment business practitioners.

Funds and Fund Administrations

The 2016 Investments Statistical Digest ("the Digest") indicates that total assets of regulated funds increased by 7.6% from US$5.7 trillion in 2015 to US$6.1 trillion in 2016. This represents a steady growth in overall assets managed by Cayman-based funds, demonstrating a continued confidence by investment managers in the jurisdiction's regulatory regime, which remains the premier domicile of choice for funds.

While the total number of funds, as at 31 December 2017, was down over the previous year (10,559 compared to 10,586), the Cayman Islands continues to surpass other fund domiciles in terms of total numbers (see Table 13).

The number of funds as at 31 December 2017 includes 7,331 registered funds, 2,816 master funds, 331 administered funds and 81 licensed funds (see Figure 17).

The Mutual Funds Law (2015 Revision) ("the MFL") makes provision for three categories of regulated funds: licensed, administered and registered, and charges CIMA with responsibility for their regulation and ongoing supervision. Licensed funds, commonly known as retail or public funds, are governed by a more prescriptive regime than registered funds because they are open to the public. All operators and promoters are vetted, offering documents must outline certain required information, calculation of net assets must be clearly defined and transparent, and assets must be segregated in accordance with governing rules.

Although Cayman Islands legislation refers to 'mutual funds', the vast majority of the funds regulated in the jurisdiction fall within the loose definition of a 'hedge fund' and are regulated as registered funds. A registered fund must either have a CI$80,000 minimum subscription, or have its equity interest listed on a recognised (CIMA-approved) stock exchange. The majority of investors are professional investors and/or institutions. Most of these funds have a US$1,000,000 minimum subscription level, and they are usually distributed as a private placement, all of which further reinforce their non-public status.

The Digest indicates that of the 9,324 regulated funds that filed a 2016 Fund Annual Return Form (FAR) with CIMA, 64% of the master funds and 50% of the registered funds, required a minimum initial investment of US$1 million or higher. For administered and licensed funds, which do not have a minimum subscription amount, 56% and 67%, respectively, had a minimum initial investment of less than US$50,000 (see Figure 19).

Investments and Securities cont'd

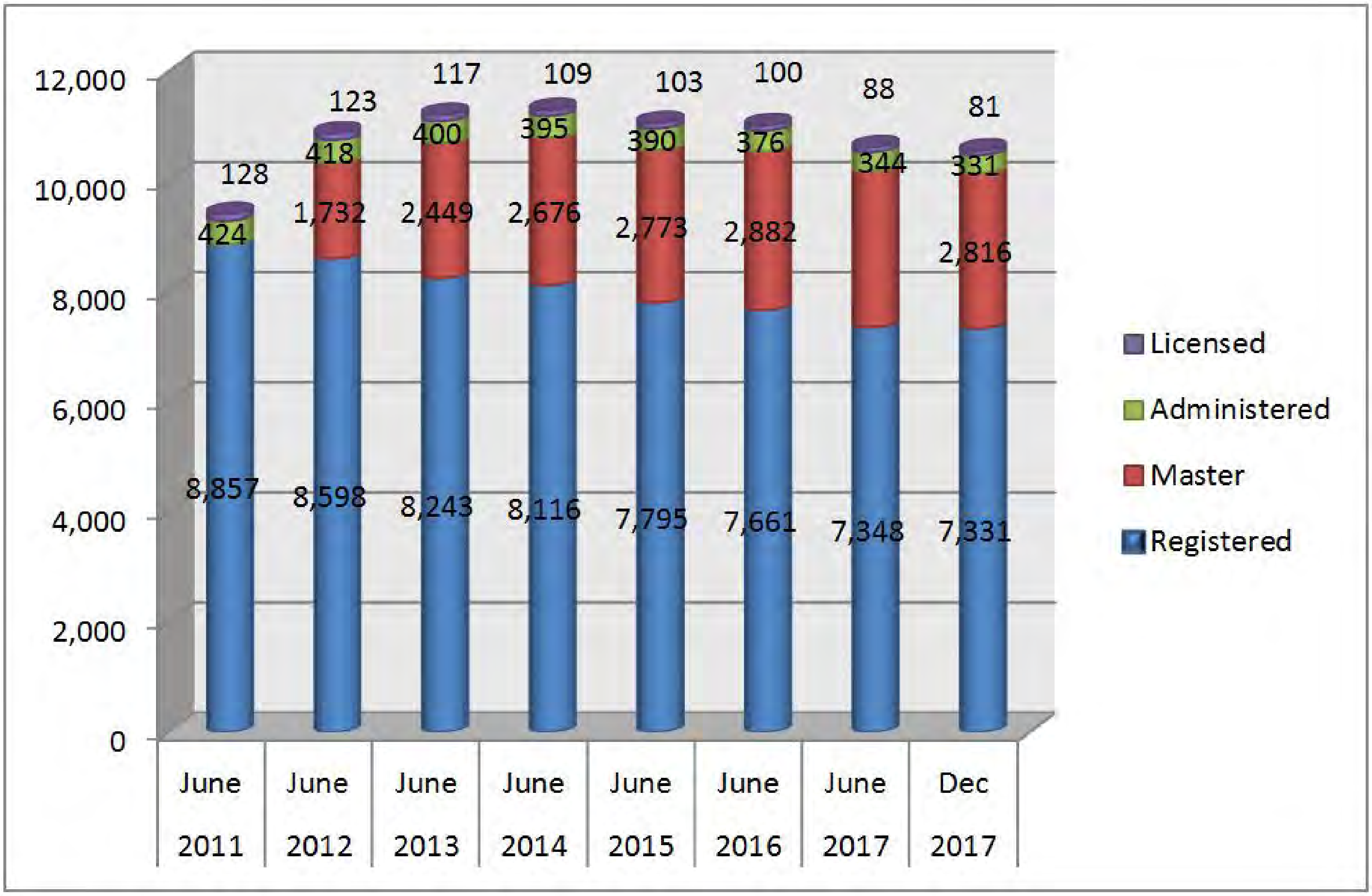


Figure 17: Number of Cayman Regulated Funds, by Category, Fiscal Year-end 2011-2017

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

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

Two categories of mutual fund administrator licences exist: full, which allows the holder to provide administration to an unlimited number of funds, and restricted, which allows administration of no more than 10 funds. See Figure 18, Mutual Fund Administrators by Category, 2011-2017.

Investments and Securities cont'd

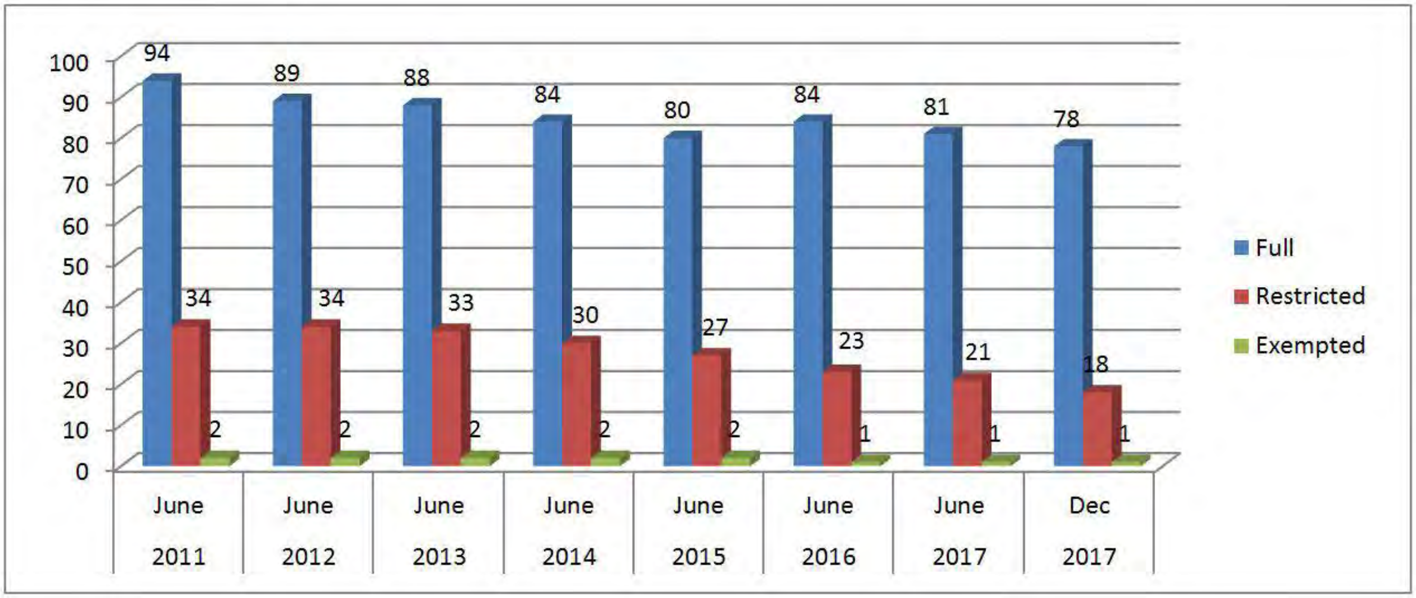


Figure 18: Number of Mutual Fund Administrators, by Category, June 2011 - December 2017

The Digest reports aggregate financial and other statistical information on regulated funds, enabling information to be gathered on the size and profile of the industry. CIMA collated information from 9,324 regulated funds that had a financial year-end in 2016 and that submitted the required FAR form via CIMA's electronic reporting system. These 9,324 funds had total assets of US$6.1 trillion combined, and net assets of US$3.6 trillion. Total subscriptions were US$1.221 trillion and redemptions were US$1.301 trillion. However, total redemptions, while higher than total subscriptions, were down over 2015 (US$1.334 trillion). Dividends/Distributions of US$30 billion were paid with Net Income reported at US$127 billion.

The increase in Net Income in 2016, as compared to 2015 (US$76 billion), is indicative of the rebound in hedge funds' performance, resulting in increased capital inflows. The total return on gross assets was 2.07% (2015: 1.34%) and return on net assets increased to 3.53%, as compared to 2.13% in 2015. A 26% decrease in performance fees reflects the power of investors to select the funds most suited to their needs, while influencing the fees paid to the investment manager, many of which are now offering discounted performance fees in a bid to attract investors.

The top five investment manager locations, as measured by net assets held by managers in these locations, are Delaware, New York, United Kingdom, California and Hong Kong. Delaware, which surpassed New York in 2015 as the top US destination for investment managers, reported an increase of 12% in the number of fund managers, with total assets under management of US$1.098 trillion, up from US$1.018 trillion in 2015. In 2017 Delaware introduced amendments to its General Corporation Law to allow Delaware companies to use blockchain technology to maintain shareholders' registers and corporate records. The rapid spread of this technology beyond cryptocurrencies (Bitcoin being the most well-known) into the more traditional sectors offers new investment opportunities and the growth in funds investing in cryptocurrencies and fintech generally is expected to continue.

As reported in the Digest, the Cayman Islands remained the primary location from which fund administration services (NAV Calculation and registrar and transfer agency (RTA)) was provided for these funds.

As the industry is constantly evolving, with increased focus on good governance and transparency, the Cayman Islands continue to enhance and

Investments and Securities cont'd

Figure 19: Minimum Initial Investment Required by Cayman-Regulated Funds Filing a Fund Annual Return for 2016

adopt appropriate legislation that meets globally acceptable regulatory standards for the funds industry.

In December 2017, the Cayman Islands was reviewed by the Caribbean Financial Action Task Force (CFATF) in relation to the jurisdiction's compliance with the Financial Action Task Force's (FATF) standards for combating money laundering (ML), terrorist financing (TF) and other related threats. This fourth round of mutual evaluations was based on the FATF's 40 recommendations and involves two components - (a) technical compliance with the FATF recommendations; and (b) an effectiveness of the country's AML/CFT regime. The focus of the CFATF's review was on the effectiveness of the Cayman Islands' AML/CFT regime. The initial draft report of the CFATF's visit is expected to be issued in early 2018.

The legislative changes and updated Guidance Notes on the Prevention and Detection of Money Laundering in the Cayman Islands will provide an enhanced AML/CFT framework for the jurisdiction, preventing the flow of funds from the proceeds of crime and thus providing a safe place in which to do business.

Authorisation Activity

Funds – For the reporting period of 1 July 2016 to 31 December 2017, 1,768 regulated entities were authorized and 2,296 regulated entities were terminated. For fiscal year ending June 30, 2016, there were 1,274 authorizations and 1,478 terminations. The total number of regulated funds as at 31 December 2017 was 10,559 (comprising 7,331 registered funds, 2,816 master funds, 331 administered funds and 81 licensed funds), compared to 10,586 for the same period in 2016 (comprising of 7,293 registered funds, 2,840 master funds, 363 administered funds and 90 licensed funds).

Administrators – The number of licensed mutual fund administrators decreased during the reporting period from 108 to 97. There were 3 new mutual fund administrators' licence applications approved, and 14 licences cancelled during the reporting period.

Investments and Securities cont'd

The Authority regularly processes shareholding changes for mutual fund administrators, indicative of the continued trend within the fund administration industry towards consolidation into a few large global players, mainly to maximize economies of scale and reduce costs. At 31 December 2017, there were 97 licensed mutual fund administrators (1 Exempted, 78 Full and 18 Restricted), compared to 108 for the fiscal year ending 30 June 2016.

Jurisdictional Comparisons - Funds

Table 13 shows the number of active funds for calendar years 2010 to 2016 in Cayman and other financial jurisdictions for which figures are available. As the figures demonstrate, the number of Cayman-authorised funds remains consistently in excess of the other jurisdictions.

Jurisdiction	2012	% change ('13 v '12)	2013	% change ('14 v '13)	2014	% change ('15 v '14)	2015	% change ('15 v '16)	2016	% change ('16 v '17)	2017 *
Bahamas	652	↑15%	750	↑10.7%	830	↑6.6%	885	↓2.9%	859	↓5.5%	812
Bermuda	762	↓8.4%	698	↓7.3%	647	↓2.6%	630	↓9.1%	567	↓1.2%	560
BVI	2,318	↓3.5%	2,238	↓4.3%	2,142	↓4.9%	2,037	↓20.8%	1,614	↓7.3%	1,496
Dublin	2,138	↑5.4%	2,254	↑0.8%	2,272	↑2.9%	2,337	↑3.5%	2,419	↑3.4%	2,502
Jersey	1,388	↓3.9%	1,334	↓0.8%	1,323	↓1.9%	1,320	↓9.5%	1,195	↓4.4%	1,143
Cayman	10,841	↑5%	11,379	↓3.2%	11,010	↓0.6%	10,940	↓3.2%	10,586	↓0.3%	10,554

Table 13: Regulated Fund Numbers - Selected Jurisdictions, 2012-2017 Calendar Year-end. *(Note, the numbers for 2017 are as at the following period: Bahamas-Nov, Bermuda–Sept, BVI–Sept, Dublin–Oct, Cayman-Dec and Jersey-Sept)

Securities

The Authority, on 1 March 2017, officially launched the Securities Supervision Division, a dedicated division for the supervision of securities and investment business. Previously a part of the Investments and Securities Division (ISD), the separation of the two areas, investments and securities, was seen as providing for a more specialized, robust, effective and efficient regulatory and supervisory regime for both sectors. The ISD has now been renamed the Investments Supervision Division.

Securities investment business activities carried out in and from the Cayman Islands include: dealing in securities, arranging deals, investments management and provision of investment advice. The Securities Investment Business Law (2015 Revision) (SIBL) provides for the regulation of persons engaged in these activities in or from the Cayman Islands, including market makers, broker-dealers, securities arrangers, securities advisors and securities managers. Such persons must be licensed by CIMA, unless they meet the criteria to be excluded from the licensing requirement, in which case, they must be registered as 'excluded persons'.

The excluded persons category continues to account for the vast majority of SIBL authorisations (see Figure 20). Most of the entities in this category conduct securities investment business exclusively for institutions or sophisticated investors. The majority of the licensees are increasingly stand-alone operations from major jurisdictions that are seeking to expand their client base, utilizing a well-established jurisdiction with a globally recognized regulatory regime for securities investment business.

Authorisation Activity

The securities investment business has declined slightly, with three licences cancelled during the reporting period. At 31 December 2017, there were 34 licensed Securities Investment Business holders and 2,760 SIBL Excluded Persons, compared to 36 and 2,555 respectively during the same period in 2016.

Of note is the unprecedented number of new licence applications received during the latter half of the 2017 calendar year, with 14 applications in progress as at 31 December 2017.

Investments and Securities cont'd

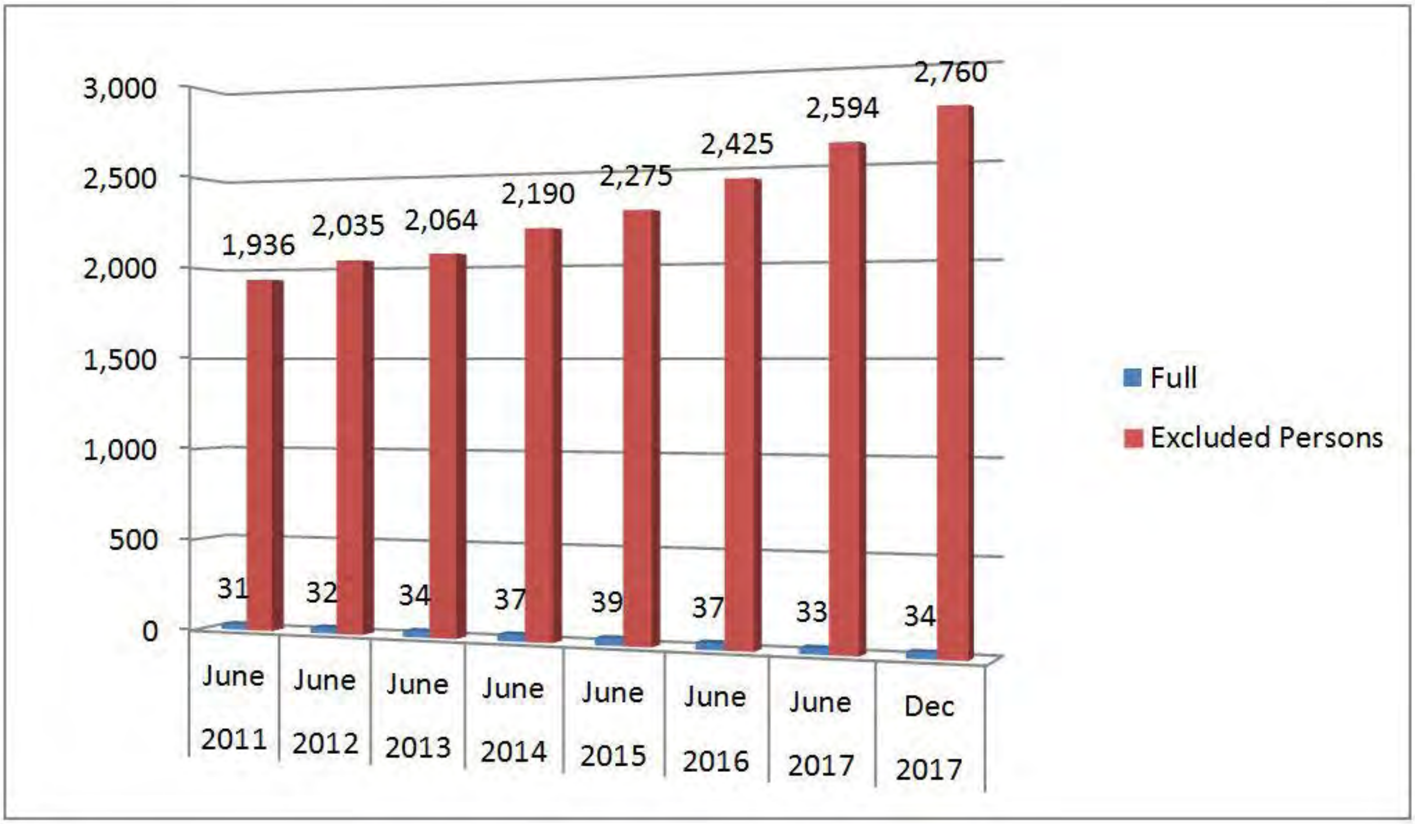


Figure 20: Number of Licensed and Registered Securities Investment Business Entities, June 2011 – December 2017

The 2016 Investments Statistical Digest ("the Digest") indicates that total assets of regulated funds increased by 7.6% from US$5.7 trillion in 2015 to US$6.1 trillion in 2016. This represents a steady growth in overall assets managed by Cayman-based funds, demonstrating a continued confidence by investment managers in the jurisdiction's regulatory regime, which remains the premier domicile of choice for funds.

Execution of Monetary Functions

Currency Management

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

Currency Reserve Management

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

The currency in circulation is backed by the currency reserve assets in accordance with Section 32 of the Monetary Authority Law. As at 31 December 2017, the value of the currency reserve assets was CI$131.921m (30 June 2016: $118.503m) representing 110.36 % (30 June 2016: 110.88%) of total demand liabilities (i.e., currency in circulation). Full details on the currency reserve assets, including specifics on the performance of the investments and cash and cash equivalent deposits that comprise the currency reserve assets, can be found at note 4 of the Notes to the Annual Financial Statements (page 61 and following).

Issue and Redemption of Currency

Currency in Circulation - At 31 December 2017, currency in circulation (excluding numismatic coins) stood at $107.8 million in notes and $11.7 million in coins, totalling $119.5 million. This represents a 11.8% increase from the 30 June 2016 figure of $106.9 million. Table 14 shows currency in circulation at fiscal and calendar year-end from 2013 to 2017. Figure 21 shows currency in circulation by month from 2011 to 2015.

Counterfeit Detection

A total of 8 forged banknotes were detected and withdrawn from circulation in the fiscal year 1 July 2016 – 31 December 2017, compared to 1 detected and withdrawn in the prior fiscal year of July 2015 – June 2016.

Table 15 shows the number of forged banknotes, by denomination, which were withdrawn from circulation in each of the six-month periods between 1 July 2013 and 31 December 2017.

DATE	2013	2014	2015	2016	2017
30-Jun	87.2	91.7	94.9	106.9	112.2
31-Dec	96.2	95.5	107.7	115.6	119.5

Table 14: Currency in Circulation at Fiscal and Calendar Year-end, 2013-2017 (in CI$m)

Execution of Monetary Functions cont'd

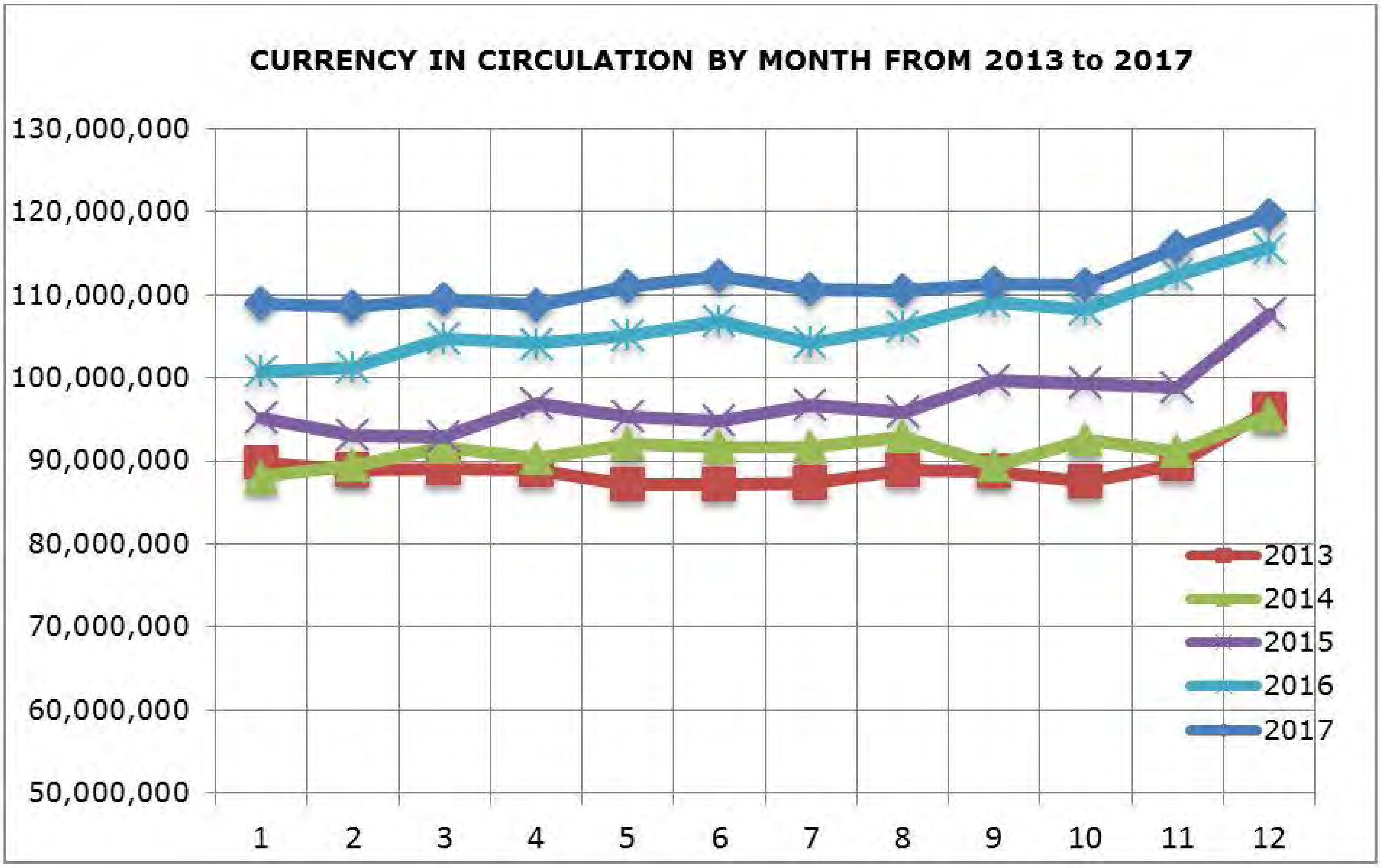


Figure 21: Cayman Islands Currency in Circulation by Month: 2013-2017

Execution of Monetary Functions cont'd

	Jul - Dec 2013	Jan - Jun 2014	Jul - Dec 2014	Jan - Jun 2015	Jul - Dec 2015	Jan - Jun 2016	Jul - Dec 2016	Jan - Jun 2017	Jul - Dec 2017
$100	3	1	0	2	0	1	2	1	6
$50	1	0	0	0	0	0	5	0	0
$25	0	0	0	0	0	0	0	0	4
$10	4	2	1	0	0	0	0	0	0
$5	0	0	0	0	0	0	0	0	0
$1	0	0	0	0	0	0	0	0	0
Total No. of Notes	8	3	1	2	0	1	7	1	10
Total Dollar Value	$390	$120	$10	$200	$0	$100	$450	$100	$700

Table 15: Counterfeit Cayman Islands Currency Notes Recovered, July 2013 - December 2017

Numismatic Coin Programme

The Authority celebrated its 20th Anniversary in 2017, and in October 2016, the Authority organised an in-house commemorative coin design competition, whereby staff members were asked to create a design that represents the true spirit of CIMA.

The winning design by Mr. Gordon "Russ" Panton, Chief Analyst of the Compliance Division, features a compass which reflects the nautical theme of the Authority's logo. It also signifies CIMA's role in "charting the course" for the financial sector. Also included in the design are the three islands, while the reverse side incorporates the Coat of Arms. The mintage limit for this coin was 200.

The Authority donated two 20th Anniversary commemorative coins as part of the raffle prizes for CIMA's first Charity Walk/Run held in May 2017. As a token of appreciation, Mr. Panton also received a complimentary coin through a formal presentation made by Deputy Head of the Currency Division, Ms. Shan Whittaker.

The Authority entered into an agreement with Scottsdale Mint to mint a new coin named the Cayman Islands Atlantic Blue Marlin Silver Bullion Coin.

Obverse side of 20th Anniversary Coin

Execution of Monetary Functions cont'd

Inspired by the Blue Marlin, the design features the effigy of Her Majesty The Queen Elizabeth II which is depicted on the obverse of the coin with the Blue Marlin on the reverse side.

The Blue Marlin is currently considered a threatened species by the International Union for Conservation of Nature due to over-fishing. Both the Authority and Scottsdale Mint hope to promote the Cayman Islands as a big sport fishing destination while helping to draw attention to the islands' eco-tourism and sustainable fishing practices such as the "catch and release" programme. Catch and release is a common practice within recreational fishing intended as a technique of conservation. After capture, the fish are unhooked and returned to the water.

The introduction of this coin will not only further enhance Cayman's tourism industry, but it will also boost its numismatic programme globally.

This initial agreement has also been enhanced by a five-year contract between the Authority and Scottsdale Mint to produce the said Silver Bullion Coin 2017-2021 and a Silver Coloured Commemorative Coin, a Gold Bullion Coin and a Gold Coloured Commemorative Coin from 2018 – 2021.

The Authority continues to explore significant milestones in our country's history which could serve as viable subjects for commemorative coins. Suggestions are welcomed but cautioned that they may not all be taken on board.

Obverse side of Atlantic Blue Marlin Silver Bullion Coin

Reverse side of Atlantic Blue Marlin Silver Bullion Coin

Execution of Regulatory Functions

Regulatory Regime

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 Authority and regulated sectors operated as at 31 December 2017 are shown in Table 16.

Sector/ Entity type	CI Law	International Standards / Memberships
All	▪ Monetary Authority Law (2016 Revision), ▪ Administrative Fines Regulations (2017) ▪ Proceeds of Crime Law (2017 Revision) ▪ Anti-Money Laundering Regulations (2017 ▪ Revision) ▪ Terrorism Law (2017 Revision) ▪ Public Management and Finance Law (2017 Revision), amendment and regulations ▪ Companies Law (2016 Revision), and amendments	Standards: ▪ Financial Action Task Force Forty Recommendations on Money Laundering and Financing of Terrorism & Proliferation Memberships: ▪ Caribbean Financial Action Task Force (CFATF) ▪ Regional Consultative Group for the Americas (Financial Stability Board)
Banks, trusts, money services businesses, credit unions, building societies, corporate services providers, company managers	▪ Banks and Trust Companies Law (2013 Revision), and amendments ▪ Private Trust Companies Regulations, 2013), and amendment ▪ Money Services Law (2010 Revision), and regulations ▪ Cooperative Societies Law (2001 Revision), and regulations ▪ Building Societies Law (2014 Revision) ▪ Development Bank Law (2004 Revision) ▪ Companies Management Law (2003 Revision), amendments and regulations	Standards: ▪ Basel Core Principles for Effective Banking Supervision[6] ▪ Trust and Company Service Providers Working Group Statement of Best Practice produced by the Offshore Group of Banking Supervisors[7] Memberships: ▪ Group of International Financial Centre Supervisors (formerly Offshore Group of Banking Supervisors) ▪ Caribbean Group of Banking Supervisors ▪ Association of Supervisors of Banks of the Americas

continued onto next page

Execution of Regulatory Functions cont'd

Insurance companies, managers, brokers, agents	▪ Insurance Law, 2010, amendments and regulations	Standards: ▪ International Association of Insurance Supervisors (IAIS) Core Principles of Insurance Regulation[8] Memberships: ▪ IAIS ▪ Group of International Insurance Centre Supervisors (GIICS) ▪ Caribbean Association of Insurance Regulators (CAIR)
Mutual funds, fund administrators, securities investment businesses (market makers, broker-dealers, securities arrangers, securities advisors and securities managers)	▪ Mutual Funds Law (2015 Revision), regulations ▪ Securities Investment Business Law (SIBL) (2015 Revision), amendment and regulations ▪ Directors Registration and Licensing Law, 2014 amendments and regulations	Standards: ▪ International Organization of Securities Commissions (IOSCO) ▪ Offshore Group of Collective Investment Schemes Supervisors (OGCISS) Memberships: ▪ Offshore Group of Collective Investment Schemes Supervisors ▪ Caribbean Group of Securities Regulators ▪ IOSCO

Table 16: The Cayman Islands Monetary Authority Regulatory Framework as at 31 December 2017

Regulation and Supervision

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

Supervision of licensees is carried out by off-site and on-site processes. 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.

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

[7] 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.

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

Execution of Regulatory Functions cont'd

Regulatory Developments

Rules, Guidelines and Policies

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

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

During the period under review, the Authority issued several measures that impacted the investment funds, securities, banking, fiduciary and insurance sectors. The Statement of Guidance (SOG) on Professional Indemnity Insurance was one such measure that impacted all of the Authority's regulated sectors. In August 2016, the Authority revised the "SOG on Professional Indemnity Insurance for Trust Companies" to (1) include all relevant licensees, (2) provide clarity on the Authority's expectations for these licensees in relation to Professional Indemnity Insurance, and (3) broaden the measure's overall scope. The SOG on the Nature, Accessibility and Retention of Records was also revised to include all relevant entities and to better capture existing and emerging record keeping considerations. The Authority also issued a Regulatory Policy on the Use of Restricted Words. This policy provides guidelines to industry and clarifies the Authority's approach to the granting of approval for use of certain names by applicants and non-licensees.

One of the most important measures developed in 2017 was the Guidance Notes on the Prevention and Detection of Money Laundering and Terrorist Financing in the Cayman Islands. These guidance notes apply to all "relevant financial businesses" as defined in the Proceeds of Crime Law (2017 Revision) and sought to clarify the requirements outlined in the new Anti-Money Laundering (AML) Regulations (2017).

In terms of sector specific measures, the Authority issued two policies and a SOG in relation to the insurance industry in May and August 2017 respectively. A new Regulatory Policy entitled Exemption from the Audit Requirement for a Class C Insurance Company came into effect in May of 2017, which allows Class 'C' insurance companies to be exempted from an annual audit requirement. In August 2017, the SOG on the Responsibilities of Insurance Managers was revised to provide further clarification on the Authority's expectations on the requirement to (1) have a place of business in the Islands, (2) segregate clients assets and to (3) clarify and expand other obligations and responsibilities. The Authority also revised the Licensing Policy for Insurance Brokers, Agents and Agencies to clarify the licensing criteria for insurance intermediaries.

The regulatory measures issued during the reporting period of 1 July 2016 – 31 December 2017 are listed in Table 17. Copies of all rules, statements of guidance and policies and procedures issued by the Authority are available on the CIMA website.

Execution of Regulatory Functions cont'd

When Issued	Type of Standard	Title	Description
August 2016	Statement of Guidance	Professional Indemnity Insurance	The Statement of Guidance was amended to set out the minimum criteria licensees should follow when obtaining and/or maintaining professional indemnity insurance in relation to losses arising from claims in respect of civil liability.
May 2017	Policy	Exemption from the Audit Requirement for a Class C Insurance Company	The Policy was developed to set out conditions for exempting a Class C insurance company from the annual audit requirement by the Monetary Authority.
August 2017	Statement of Guidance	Nature, Accessibility and Retention of Records	This Statement of Guidance was amended to better capture existing and emerging record keeping considerations and to also include, under its scope of application, all relevant entities.
August 2017	Statement of Guidance	Responsibilities of Insurance Managers	The Statement of Guidance was revised to provide further clarification on the Authority's expectations of Insurance Managers.
August 2017	Statement of Guidance	Approval of Use of Restricted Words	This Statement of Guidance provides guidelines to industry and clarifies the Authority's approach to the granting of approval for use of certain names by applicants and non-licensees.
August 2017	Policy	Licensing – Insurance Brokers, Agents and Agencies	The Policy sets out the Authority's criteria on licensing Insurance Brokers, Agencies and Agents pursuant to Section 4 of the Insurance Law, 2010.
November 2017	Guidance Notes	Prevention and Detection of Money Laundering and Terrorist Financing in the Cayman Islands	The Guidance Notes on the Prevention and Detection of Money Laundering and Terrorist Financing in the Cayman Islands were drafted to provide guidance on the new Anti-Money Laundering Regulations (November 2017).

Table 17: List of Regulatory Measures Issued in 2016-17

Execution of Regulatory Functions cont'd

Other Regulatory Developments

Anti-Money Laundering and Counter Terrorist Financing
In 2016 and 2017, the Authority established a number of working groups in preparation for an assessment by the CFATF as part of the Fourth Round of Mutual Evaluations in 2017 with an aim to effect changes to strengthen the Cayman Islands AML/CFT framework and to enhance related supervisory practices for a more robust regime.

The working groups produced the following outputs, revisions and additions to the Cayman Islands AML framework:

- The revisions to the MAL
- The development of Administrative Fines Regulations
- The development of new Guidance Notes on the Prevention and Detection of Money Laundering and Terrorist Financing in the Cayman Islands
- The development of AML/CFT Financial Sector Risk Assessments

Other amendments and revisions included:

- Revisions to the Terrorism Law (November 2017),
- Proliferation Financing (Prohibition) (Amendment) Law,
- Revisions to the Proceeds of Crime Law (May 2017),
- The new Anti-Money Laundering Regulations (October 2017)

Anti-Money Laundering (AML) Regulations
The AML Regulations (formerly the Money Laundering Regulations) were drafted as part of the Cayman Islands Government's commitment to ensuring that the jurisdiction's anti-money laundering and countering terrorist financing regime continues to meet the international standards set out in the Financial Action Task Force 2012 Recommendations.

The new AML Regulations did not change the scope of the previous anti-money laundering regime but rather expanded it to include the following:

Risk-Based Approach – the new AML Regulations have introduced a risk-based approach as part of the AML processes and procedures. In line with international best practices in various sectors, financial service providers (FSPs) will now be required to conduct AML/CFT self-assessments. FSPs will also be required to identify, assess, and mitigate the money laundering and terrorist financing risks emanating from their customer-base, the country or geographic area in which their customers reside or operate, their products, service, transactions, and delivery channels.

Expanded Scope – the new AML Regulations remove the definition of the term "relevant financial business" under the prior regulations. The new regulations refer to a more expanded definition of the term "relevant financial business" under the Proceeds of Crime Law (2017 Revision).

Additional Mandatory Procedures – The AML Regulations expand its scope to include the following mandatory procedures:

i. Employee screening procedures
ii. Conducting sanctions and FATF non-compliant territory checks

Simplified Processes for Due Diligence – The AML Regulations give licensees the flexibility to reduce due diligence requirements for "Acceptable Applicants". The new regulations on the other hand, increase the financial service providers' ability to vet eligible introducers through a provision that allows financial service providers to request enhanced written assurances from introducers. For SWIFT or Regulation 8 exemption, the AML Regulations clarify expectations in relation to the time of the receipt of customer due diligence documents.

Enhanced Process for Due Diligence – The AML regulations stipulate enhanced due diligence for customer relationships rated as higher risk and Politically Exposed Persons. Enhanced due diligence must also be applied in relation to correspondent banking relationships.

Increase in penalties – the AML Regulations provide that a person who contravenes the AML Regulations

Execution of Regulatory Functions cont'd

commits an offence and is liable on summary conviction to a fine of CI$500,000 (approximately US$600,000) or on conviction on indictment, to a fine and to imprisonment for two years. This is a substantial increase in the penalties for breach of the AML Regulations.

Removal of Schedule 3 – Schedule 3 of the old regulations set forth the list of countries recognised by the Cayman Islands as having an equivalent AML regime and has been deleted from the AML Regulations. The list of recognised countries now will be maintained electronically by the Anti-Money Laundering Steering Group, being a body created under the Proceeds of Crime Law (2017 Revision). The current list of equivalent countries will be maintained on the Cayman Islands government's website rather than as a list maintained as an appendix to the regulations.

Guidance Notes on the Prevention and Detection of Anti- Money Laundering and Terrorist Financing in the Cayman Islands

These guidance notes provide guidance on the new and expanded requirements listed above. The notes were produced as a joint effort between all regulatory divisions in the Authority and will be amended periodically as necessary.

CFATF Visit

Representatives of the CFATF conducted an assessment of the Cayman Islands AML/CFT regime from 4 -15 December 2017. The assessors conducted interviews with government, regulatory authorities as well as participants of the financial services industry. The CFATF will produce a report outlining the findings and give recommendations for improving the Islands' AML/CFT regime.

Compliance and Enforcement

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

Due Diligence

In carrying out due diligence, the Authority follows its Regulatory Policy – Assessing Fitness and Propriety and Procedure – Assessing Fitness and Propriety[9]. The Compliance Division, which is tasked with conducting due diligence on applicants that the regulatory divisions refer to it, received 400 such applications during the reporting period of July 2016 to December 2017. A breakdown of the due diligence requests by regulatory division is reflected in Table 18.

Enforcement

CIMA's Enforcement Manual[10] describes the policies, procedures and tools for the exercise of its enforcement powers in the event of non-compliance with the regulatory laws. The manual includes a ladder of compliance detailing the steps the Authority will follow in the event of non-compliance. Where appropriate, CIMA will work with the licensee or registrant in an attempt to resolve regulatory issues prior to taking formal enforcement action. The Compliance Division and the Legal Division are responsible for the exercise of enforcement action, under the authorisation of CIMA's Board of Directors.

The Authority initiated 15 formal enforcement actions during the reporting period. Table 19 lists the formal enforcement actions initiated[11].

Division	Banking	Fiduciary	Insurance	Investments	Securities	Total
Applications as at 31 December 2017:	110	194	7	58	31	**400**

Table 18: Due Diligence Applications Referred to the Compliance Division during the reporting period

[9] The Regulatory Policy: Fitness and Propriety and the Regulatory Procedure - Fitness and Propriety. Also see information on Fitness and Propriety at page 30 of the Regulatory Handbook . The Policy, Procedure and Handbook can be found at Address: http://www.cima.ky/policies-procedures

[10] The Enforcement Manual Address: http://www.cima.ky/policies-procedures

[11] See the Enforcement Notices section of CIMA's website. Address: http://www.cima.ky/notice

Execution of Regulatory Functions cont'd

Name of Entity	Type of Authorisation Held	Enforcement Action	Effective Date
European Underwriters Insurance Company SPC Ltd.	Class B Insurer - B1	Licence Revoked	19-Aug-16
Robert Aspinall	Registered Director	Registration Cancelled	19-Aug-16
The Cubex Investment Fund, Ltd.	Registered Fund	Registration Cancelled	8-Nov-16
AAA Venture Fund SPC Limited	Registered Fund	Registration Cancelled	8-Nov-16
Radmak International Incorporated Ltd.	Insurance Broker	Licence Revoked	27-Jan-17
Kingsend Capital Partners, Ltd.	Registered Fund	Registration Cancelled	23-May-17
Beechwood RE	Class B Insurer – B3	Controllers Appointed	25-Jul-17
Titan Volatility Fund L.P.	Registered Fund	Registration Cancelled	31-Oct-17
Titan Volatility Fund Offshore Ltd.	Registered Fund	Registration Cancelled	31-Oct-17
Titan Global Return Fund L.P.	Registered Fund	Registration Cancelled	31-Oct-17
Titan Global Return Fund Offshore Ltd.	Registered Fund	Registration Cancelled	31-Oct-17
Titan Asia Volatility Fund L.P.	Registered Master Fund	Registration Cancelled	31-Oct-17
Titan Asia Volatility Fund Ltd.	Registered Fund	Registration Cancelled	31-Oct-17

Table 19: Formal Enforcement Actions taken during the reporting period

*Note: Two entities are not publicly available for disclosure

Litigation

There was no litigation with regards to enforcement actions during the reporting period.

Other Compliance-related Matters

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

In addition, in keeping with its mandate to protect the jurisdiction from individuals or entities seeking to reap illegal benefit by false association with the Cayman Islands, the Compliance Division continued updating a list of websites which give Cayman addresses for various businesses which are not registered or licensed in the Cayman Islands[12].

[12] The Notice of Fraudulent Websites can be viewed in the Enforcement Notices section of the website:
Address: http://www.cima.ky/notice

Execution of Cooperative Functions

Cross-Border Cooperation

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

Memoranda of Understanding

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

During the reporting period of 1 July 2016 – 31 December 2017, CIMA signed two bi-lateral MOUs. These are listed in Table 20.

Agreement	Effective Date
Group of International Financial Centre Supervisors (GIFCS)	8 May 2017
Icelandic Financial Supervisory Authority (FME)	11 August 2017

Table 20: International Information Exchange and Cooperation Agreements Concluded, 2016-2017

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, 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) - 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 directive to obtain the information sought. The division is currently responsible for assessing the request, preparing the directive 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 directive, and providing the information to the requesting ORA.

During the reporting period of 1 July 2016 – 31 December 2017, the Authority handled a total of 224 requests for assistance from ORAs, compared to 246 requests during the fiscal period in 2015-16 and 207 during 2014-15.

Local Cooperation

Money Laundering Reporting

The Head of Compliance is the Authority's Money Laundering Reporting Officer (MLRO) under the Proceeds of Crime Law (2017 Revision). 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 onward disclose to the Financial Reporting Authority (FRA) in conformance with the Money Laundering Regulations (2017 Revision).

The MLRO filed 6 suspicious activity reports (SAR) with the FRA during the reporting period of 1 July 2016 – 31 December 2017, compared to 4 filed during 2015-16. The FRA made 52 onward disclosures during 2016-17 to the Authority, pursuant to the MOU between the FRA and CIMA. This compares to 42 made by the FRA during 2015-16. CIMA assesses all onward disclosures to determine if further investigation and regulatory action are required.

Organisational Support and Administration

Human Resource Management and Development

The Human Resources Division is one of the strategic divisions of CIMA and carries out five main services of: 1) Employee Services (which includes employee relations, compensation & contract administration, benefit plan administration, attendance, and liaison with several Government Departments); 2) Recruitment; 3) Learning and Development (performance management & reward and management development); 4) Mail, Courier and Reception, and 5) Facilities/Security (covering all facility-related issues, security, and conferences).

Employee Services, Recruitment and Strategic Initiatives

The organisation carries out its ambit according to its strategic plan, through the regulatory divisions, the non-regulatory divisions (of which the Human Resources Division is included), and the On-Site Inspection Unit.

In addition to the recruitment and the filling of key level positions in the Banking, Compliance and Insurance Divisions, a number of strategic initiatives were achieved in the last eighteen months that included the completion of a comprehensive review of salaries and the valuing of jobs across the organisation; the establishment of a structure within the regulatory divisions designed to promote upward mobility and the recognition of acquired additional skills and experience at various levels.

Staff Award function

One hundred (100) employees were recognised for their contributions to the organisation at the CIMA Staff Award luncheon for service with the Authority of five or more years. The majority of employees in the 15 – or more years' category included management levels; whilst those in the 10 year category were senior and chief analysts as the majority. It demonstrates that CIMA continues to retain its technical expertise from which succession is built.

Promotions and Recruitment

The organisation's management and supervisory team were strengthened with the promotions of 32 employees across the regulatory and non-regulatory divisions. Fifty percent of these were upper and middle management promotions.

Summer Internships

CIMA's Internship Programme which hosted a total of seven (7) interns in 2016 grew in 2017 with a total of 17 interns receiving placements for the Summer. The students' summer placements were in the following divisions: Information Systems, Banking Supervision, Investments, Policy & Development, Insurance, Legal Divisions and in the Public Relations Unit of the Managing Director's Office. For several of our summer students, 2017, was their second or third internship with CIMA which is evidence that the Authority continues to be a vibrant centre of learning focused on providing real work to enhance the skills and experiences of the students.

The Thomas Jefferson Memorial Scholarship

The fourth offering of the Thomas Jefferson Memorial Scholarship took place with interviews of which two candidates were the successful recipients. Two students intending to study Actuarial Science with a Double Major in Economics and Cyber Security have been awarded the scholarship. It is the intention that both will return to CIMA during vacation and after their studies to work in the Insurance Supervision and the Information Systems Divisions.

Learning and Development

CIMA's in-house learning and development approach is designed to enable collaborative learning and development of our managers, supervisors and their teams to ensure that employees and CIMA share the responsibility of gaining and maintaining the required knowledge, skills and competencies to effectively carry out their responsibilities of the financial services industry. Both local and overseas training, conferences and seminars are attended each year by varying levels of staff.

External subject matter experts were partnered with to facilitate soft skills courses for our new and aspiring managers. These included resolving conflict and mastering the art of coaching. Both sessions provided our new managers with the knowledge and skills needed to confront the challenges associated with getting their footing and getting results more quickly in a new leadership role. A similar session was facilitated for our senior managers to share

Organisational Support and Administration

key points at the executive management levels and to facilitate an alignment of approaches and an understanding from the top down.

A number of overseas training opportunities were also utilised in specialised regulatory areas that included regulatory assessor training, good governance and risk identification, various technical working group debriefing meetings, effective money remittance monitoring, annual regulatory conferences and committee meetings for Investments & Securities, Insurance and Banking supervision. CIMA continues to enjoy a good working relationship with the Federal Reserve (FED) and the Federal Deposit of Insurance Corporation (FDIC) whose courses were also attended by senior and middle management levels. The staff of the Policy and Development Division benefitted from attendance at financial statistics training seminars, Microsoft's annual Summit and meetings of the Financial Stability Board. Some members of the Information Systems Division became certified in several technical areas as a part of their ongoing development and the ability to remain one step ahead of the information technology field. Table 21 shows a breakdown of CIMA's learning and development statistics for the fiscal year:

Course Type	Total Held	Total Attendance
Internal Courses – External Presenters	2	25
Internal Courses – Leader Led	22	472
Internal Web Seminar Courses	15	38
External Local Events	17	85
Overseas Conference	36	38

Table 21: Learning and Development Programme Statistics, 1 July 2016 - 31 December 2017

Information Services

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

System uptime and service goals for the 2016-2017 year again exceeded the Industry Standards. On 20 August 2017, during maintenance work carried out by Caribbean Utilities Company, fibre-optic cables were unintentionally destroyed. These cables link all of the offices of the Authority together. While the Authority was able to restore communications by the next business day using a temporary solution, full communications were not restored until three days thereafter.

As a result of this, the uptime was still very good at approximately 98.996%. IS's internal goal, however is 99.99%. Generally accepted industry standard is 98.00%.

Disaster Recovery – IS tests for business continuity were completed prior to the annual hurricane season and proved very successful. Requested improvements from last year's test have been implemented and all systems were proven to be well balanced and performing satisfactorily. Plans are underway to update the Disaster Recovery Center on Cayman Brac, which is now falling behind on capacity as other resources are needed to carry over key systems in the event of loss of both sites on Grand Cayman. This will be completed prior to the start of the 2018 hurricane season.

Network Security – Security continues to be a prime focus of the IS team. Additional staff training has paid off tremendously for CIMA. IS now has three staff with Certified Information Systems Security Professional (CISSP) qualifications, which is a difficult independent test and top designation to achieve.

Organisational Support and Administration

In 2017, the Authority added significant changes to its alert and detection systems which currently offers more visibility across the network. This feature also provides a level of investigative tools that are now giving the Authority greater insight into activity on the network both from internally and externally.

CIMA is clearly a targeted entity. Its two main threat vectors are phishing emails and direct attacks against internet facing assets. The Authority received several phishing emails during the year which were directed at, or pretending to be from, CIMA staff. Some of these messages were well-crafted and also used common writing style or "voice". Such messages should not be overlooked as it indicates a direct attack utilising intelligence that should not be easy to come by.

As it relates to untargeted general phishing emails, in the month of December 2017, the systems blocked 39,336 emails before they were delivered to users.

The division continues to run awareness exercises for CIMA staff in the form of simulated phishing emails which are crafted from real-life cases. The results of these exercises show that the division will continue to enhance its awareness efforts of threats. It is anticipated that in 2018, the IS division will begin to run formal awareness training seminars either from a third-party or in-house.

Attacks against the Authority's infrastructure continued at a normal pace with only a slight increase in suspect activity on 13 June 2017. This incident involved a video which encouraged persons to attack the Authority as a central bank. The video was issued once again in the days surrounding the release of the "Paradise Papers".

IS is however, seeing a change in the type of attack. Much of what is being crafted and directed at us is designed to release Ransomware on our systems, which has proven to be effective in generating pay-outs. Now that fraudsters have found a revenue stream from hacking, the Authority anticipates that the threat will continue to grow. Therefore, our ability to evade and avoid should also continue to grow day-by-day.

CIMA is also continuing the adoption of the National Institute of Standards and Technology (NIST) Cyber Security Framework policies and procedures which will prove vital in the event of a breach as our Response and Recovery actions will have already been documented and tested.

REEFS System – Industry have been able to login to the new Regulatory Enhanced Electronic Forms Submission (REEFS) web based online portal since its launch on 5 January 2015. Online forms for new applications to become a licensed entity and Change Requests to existing licensees along with the mandatory financial return submissions for all divisions have been completed. Using REEFS, industry can process the majority of their requests to CIMA from their desk on a 24-hour basis from anywhere in the world. With this type of global access, direct communication and efficiencies, the system should also add value to both CIMA and industry's business continuity plans.

Escrow Online Payment System Update - The ability for industry to view outstanding annual fees for which they had a relationship, indicating that they were the payment office for various entities, was launched on 1 October 2017.

This first implementation displayed in read-only mode all current outstanding annual fees. This was done to give the entities time to review the annual fees in question and liaise with the Finance Division or the respective divisions to make changes where required. In early November 2017, annual fees that would be due on 1 January 2018 were also published to the system in a separate folder which was also read only.

At the same time, the online escrow payment system was launched. However it was only activated for one initial user who provided feedback and allowed us to fine-tune the process. In the ensuing weeks, the larger industry entity fee payment offices were brought in for training at which time we activated their accounts. By 15 December 2017 there were several repeat top-ups and payments and the system was considered stable enough to launch to the wider audience. An email introducing the online escrow payment system was sent out to all of the industry fee payment offices at that time.

Organisational Support and Administration

Even though training was only given to a handful of the larger industry entities, it was adopted widely across industry with no serious issues.

Since then, progress can be reported on the following:

- 65 unique escrow payment accounts have been set up from across industry entities.
- 193 top-ups have been applied to those accounts.
- CI$37,726,270.75 is the total amount of all top-ups.
- CI$33,042,960.89 has been used to pay outstanding fees.
- CI$8,645 outstanding fees were paid with the above amount.
- CI$3,683,309.86 remains as escrow balances.

Work will now continue to complete the automation of the top up process from the CIMA side which is being done manually now. Simultaneously, we will be liaising with industry to finalise requirements before coding the system so that transactional fees (new applications, change requests etc.) can then be paid online through escrow as the transaction is submitted and completed.

As an example of the time-saving, and revenue flow of this new product, the Finance Division was not required to manually enter over 8,600 individual annual fee payments, and due to the automated processing, the CORIS update of transferring money from the escrow liability account to the government revenue account occurs within 24 hours instead of several weeks or months.

Directors Registration Portal – As per normal practice, the 2018 Director Registration requirements were published to the portal in early December 2017. An email was also sent to industry advising that they were ready for payment. Table 22 shows totals for 2016 and 2017:

Communication and Public Relations

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

Events and Activities

The PR Unit coordinated a 12-week educational radio campaign as part of the Authority's effort to ensure that the local community is aware of the important role that CIMA plays in protecting the integrity and reputation of the Islands as an international financial centre.

Leading up to the development of the Authority's 2018-2020 Strategic Plan, the Unit helped to coordinate a confidential survey to get the views of industry professionals regarding regulation of the Cayman Islands financial services industry and to also help measure the effectiveness of the Authority's performance. The Unit also organised internal meetings with the Authority's management team.

In preparation for the CFATF assessment, the Unit organised a series of stakeholder dialogues. Such presentations highlighted topics such as risk-based approach, proposed administrative fines and the new AML Regulations.

The Unit also provided assistance with the planning and execution of the Authority's inaugural Charity Walk/Run.

As a part of CIMA's team, staff of the Human Resources participated in the John Gray High School's careers day. In their interactions with the

staff representatives, students were able to learn

Year	Number of Directors Registered	Revenue
2016	11,473	$8,875,141
2017	11,795	$9,082,857

Table 22: Total Number of Directors Registered and Associated Revenue

Organisational Support and Administration

about career options at the Authority.

The Authority also arranged for an informational booth at the 25th Anniversary Insurance Managers of the Cayman (IMAC) Conference. In addition, CIMA representatives participated in interviews, panel discussions and other presentations to discuss the developments of the captive insurance industry and any related issues affecting the jurisdiction.
For the fourth consecutive year, the Authority participated in the CHHS 'Take Your Child To Work' programme.

External Publications

The PR Unit assisted the Authority's senior management in producing articles and written interviews for publication such as Cayman Captive magazine, Captive Insight Magazine, Cayman Funds magazine, Cayman Islands Captive Review, Cayman Finance Magazine, Captive Insurance Times, The Journal: Guide to Investing, and the Global Banking & Financial Policy Review.

CIMA Publications

The Unit continued to produce and disseminate news releases and notices; the monthly internal newsletter, the CIMA Insider; quarterly issues of CIMA's external newsletter, The Navigator; the Authority's Annual Report; and the CIMA Fact Sheet.

In addition, the PR Unit collaborated with the Investments and Securities Division on the production of the Investments Statistical Digest 2016, and with the Policy and Development Division on the Banking Statistical Digest 2016.

Direct Public Information and Assistance

The Unit frequently responded to local, regional and international media requests. Regular updates were also posted to the Authority's LinkedIn company page during the period, in addition to frequent updates to the CIMA website.

Internal Support

PR Unit staff worked closely with the various divisions to provide communication support in the form of photographic, graphic design and content development for a number of external conferences and activities. The Unit also collaborated with the Human Resources Division on various staff related projects and activities, including the redesign of job vacancy advertisements, job application form, and the new staff orientation presentation.

The Unit monitored, collected, and disseminated relevant information, in order to keep staff abreast of local and international market, regulatory and political developments.

Through its organisational support and communication efforts, the Authority continues to enhance relationships with staff, its licensees, industry stakeholders, international and local media, as well as the general public.

Financial Control

The Finance Division has responsibility for all financial matters relating to budget, fee collection, payroll, and accounts payable, and is responsible for preparation of CIMA's financial statements and the Purchase & Ownership Agreements between the Cabinet and the Authority. The division's objectives are essentially created by the financial requirements of CIMA and its stakeholders and the resources available to it.

Coercive Revenue Collection

The Authority collected $112.276m in coercive fees from regulated entities on behalf of the Cayman Islands Government for the 18 month financial period of 1 July 2016 – 31 December 2017, compared to $116.866m for the prior 18 month period of 1 July 2015 - 31 December 2016.

The Authority's Income

The Authority depends on the sale of its outputs to the Cabinet of the Government of the Cayman Islands, as one of its main sources of income to meet its obligations. The outputs delivered in the 18 month period ended 31 December 2017, for a total of $20.750m were:

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

The other sources of income are from the Directors Registration and Licensing Fees $11.180m, CIMA Transactional Fees $6.909m, Investments $1.894m, commission and the sale of numismatic items $1.267m.

Net Income

The Authority's net income for the 18 month period ended 31 December 2017 was $10.128m (12 month period ended 30 June 2016: $0.708m), which was allocated to CIMA's General Reserve and Capital Expenditures Reserve.

Details of CIMA's financial position for the 18 month period ended 31 December 2017 can be seen in the Audited Financial Statements that follow.

The Authority collected $112.276m in coercive fees from regulated entities on behalf of the Cayman Islands Government for the 18 month financial period of 1 July 2016 – 31 December 2017, compared to $116.866m for the prior 18 month period of 1 July 2015 - 31 December 2016.

Highlights of Achievements

As a part of its 2016-2018 Strategic Plan, the Authority revised the eight strategic objectives as a continuation of the previous plan, and progress can be reported for all areas. Adjusting the Authority's organisational structure was also a central focus. A key component of these reforms was the establishment of the Securities Supervision Division in July 2017. This division now separates the supervision of securities investment business from the former Investments and Securities Division. The segregation of securities investment from funds-related business has provided for a more specialised, robust, effective and efficient regulatory and supervisory regime for each sector. Another area of focus was enhancing its human resource pool, which included recruitment and promotions of key senior staff, especially within specialised areas. During the reporting period of 1 July 2016 – 31 December 2017, 15 top level positions were filled. These include positions ranging from Chief, Deputy Heads and Heads of divisions. Salary reviews were also carried out to ensure that staff were well compensated for their duties and qualifications.

The Authority continues to strengthen relationships in our key markets, to ensure that Cayman remains a dominant choice for offshore financial services. During the reporting period, the Authority organised 14 visits to other key jurisdictions.

Another ongoing objective is to maintain and enhance our regulatory profile both locally and internationally. As standards evolve, CIMA must continually be involved in related events and evaluate what implications they have for the Cayman Islands. Recognising this, the Authority sent high-level delegations to meetings and conferences of standard-setting agencies. A number of staff members also represented the Authority at various local seminars and conferences. As a more proactive initiative, the Authority also organised a 12-week public education radio campaign in an effort to raise awareness on its role and functions within the financial industry.

As CIMA is constantly exploring ways to improve its operational and technology functions, another milestone was the launch of its fee payment section of the REEFS system for authorised financial services industry users. The new payment section allows persons of licensed and registered entities to view all applicable fees which are currently due or overdue. Users are also able to view historical payments, track relevant fees, and sort by groups such as fee category, due date, and covered entity. In October 2017, the Authority also launched its newly revamped website which now offers a fresh, modern, clean look with enhanced security and user-friendly features.

Another key objective is the enhancement of our regulatory framework to ensure that the framework for regulating and supervising the Cayman Islands financial services industry continually meets international standards. Further to the MD's statement regarding this area, it can be reported that self-assessments have been completed, and priorities for addressing deficiencies have also been identified.

Other objectives include preserving the value and integrity of the Cayman Islands currency through public education and training seminars, and enhancing the collaboration with the Cayman Islands Government and private sector.

A key component of the Authority's organisational reform was the establishment of the Securities Supervision Division in July 2017.

This division now separates the supervision of securities investment business from the former Investments and Securities Division.

Risk Management

KEY RISKS FACED BY MINISTRY/PORTFOLIO	CHANGED IN STATUS FROM 2015/16	ACTIONS TO MANAGE RISK	FINANCIAL VALUE OF RISK
Continuing negative impact of the economic downturn	On-going	Regular monitoring of the performance and composition of the Investment Portfolio Implementing cost savings measures	unquantifiable; (Poorer performance on the Investment Portfolio)
Loss and absence of critical staff	On-going	Regular training, succession planning, regular performance assessments and recognition	Unquantifiable
Limited resources resulting in an inadequate regulatory framework and supervision processes. (The underpinning of Cayman as a reputable, international and successful regulator of financial services, in addition to having a strong legal framework, policies and practices; is heavily reliant on experienced and high calibre human resources in sufficient numbers and a robust, secure and efficient information systems and technology infrastructure) **This in turn places the Islands' reputation at stake from an inability to supervise financial services at the level required of an international regulator. Further impairment to the reputation of the Cayman Islands (as a jurisdiction of choice for financial services) could impact the stability of the Cayman economy including the loss of Government revenues, potential failure of financial institutions in the Cayman Islands, financial losses for consumers and unemployment.**		Continue to work along with Government with respect to legislative framework and budget. Continue regular review of systems and processes and take full advantage of IS technology to achieve highest efficiency Amend CIMA's organizational structure. Facilitate more focused HR soft skills training for persons Take full advantage of the online learning portals for all regulatory staff Establish partnerships with local professionals and firms to conduct subject matter expert training Outsource tasks/projects where efficient and or necessary Maintain recruitment efforts (to expediently fill vacancies and new positions Continue to develop and implement proposals on enhancement measures to attract and retain highly qualified and experienced	Unquantifiable
Inadequate regulatory framework (i.e. limited in range, level and or scope) that, as outlined above, leads to a threat to the Islands' reputation with significant potential dangers. **e.g. insufficient legislation and or rules and or policies required for compliance with international standards (that are established to promote and ensure a**	On-going	Enhance framework and prepare for IMF and CFATF Assessments by: Recruiting a qualified individual to assist in the preparation process particularly preparations relating to macroprudential surveillance, financial stability and crisis management Continuing the internal CIMA process in	Unquantifiable

Risk Management cont'd

sound financial system through effective regulation, supervision and risk management of the financial sector) can lead to: **Unsafe and unsound practices or activities that pose risks to the financial system that in turn could impact the stability of the Cayman economy.** **The Cayman Islands not receive a sufficiently favourable assessment (IMF and or CFATF) that is necessary in dispelling misconceptions about the character or integrity of the financial industry and of the islands as an international financial centre and is useful in attracting beneficial, legal quality financial activity.**		identifying and addressing areas for legislative and other regulatory requirements changes Continuing to work with the Cayman Islands Government's AML Unit on enhancing the Cayman Islands AML/CFT framework including completion of the national risk assessment and amendment of legislation, regulations and guidance	
Inadequate legislation (outdated, delayed or lack of legal requirements) resulting in an impaired regulatory framework that, as outlined above, leads to a threat to the Islands' reputation with significant potential dangers. E.g. inadequate enforcement powers (i.e. limited in range, level and or scope) hinders CIMA's ability to take timely, effective, proportionate and dissuasive actions to address unsafe and unsound practices or activities that pose risks to the financial system.	On-going	Continue to work along with Government with respect to legislative framework and budget Retain and build on existing technical expert knowledge and expertise and attract new high calibre staff to ensure proactive oversight and enforcement	Unquantifiable
Increasing responsibilities with no corresponding enhancement of resources limits CIMA's ability to carry out effectively and comprehensively the responsibilities of its regulatory functions.		Continue to work along with Government with respect to legislative framework and budget Continue regular review of systems and processes and take full advantage of IS technology to achieve highest efficiency. Outsourcing tasks/projects where efficient and or necessary Defer (relatively) less critical work	
Failure to achieve and stay current with Industry developments, requirements, and standards (due to inadequate funding and or resources) resulting in: • **Inability or impaired ability in identifying and analysing risk trends at both the individual financial entity and system wide level.** • **Negative impact on jurisdiction reputation as a leading IFC**		Continue involvement in and assessment of new or revised international regulatory standards by: Sending high-level delegations to meetings of IOSCO, IAIS, Basel, GFICS, CGBS, GICIS, ASBA and FSB Continue to develop a cadre of representatives from the Legal, Compliance, Policy and Supervisory divisions with specialised knowledge, skills and experience capable of proactive engagement with standard setters and other regulators	Unquantifiable

Risk Management cont'd

		technology to achieve highest efficiency. Outsourcing tasks/projects where efficient and or necessary Defer (relatively) less critical work	
Failure to achieve and stay current with Industry developments, requirements, and standards (due to inadequate funding and or resources) resulting in: • **Inability or impaired ability in identifying and analysing risk trends at both the individual financial entity and system wide level.** • **Negative impact on jurisdiction reputation as a leading IFC**		Continue involvement in and assessment of new or revised international regulatory standards by: Sending high-level delegations to meetings of IOSCO, IAIS, Basel, GFICS, CGBS, GICIS, ASBA and FSB Continue to develop a cadre of representatives from the Legal, Compliance, Policy and Supervisory divisions with specialised knowledge, skills and experience capable of proactive engagement with standard setters and other regulators	Unquantifiable
Continued scrutiny and demands by international and or regional organizations or individual foreign jurisdictions, such as the G20, EU and the United States and misinformed allegations from these and other institutions (e.g. Tax Justice Network) can harm the reputation of the jurisdiction and consequently threaten business activity.	On-going	Continue dialogue with, and engagement in the work of standard-setting bodies and international and regional organisations Send high-level delegations to meetings of IOSCO, IAIS, Basel, GFICS, CGBS, GICIS, ASBA and FSB Conduct visits to key jurisdictions	Unquantifiable
The global review and advancement of regulatory standards, whether prudentially sound or flawed and overreaching, can negatively impact the islands financial industry e.g. financial stability measures, de-risking and impact on correspondent banking relationships, AIFMD.	On-going	Close oversight of, and dialogue with, (impacted) local industry and interaction with other jurisdictions and international organizations to share experiences and develop solutions	Unquantifiable
Increased competition from other jurisdictions (potential risk to market confidence & sound financial system)	On-going	Monitor and analyse jurisdictional developments Develop proposals for enhancing or amending regulatory regime for implementation and or submission to Government for its consideration	Unquantifiable

FINANCIAL STATEMENTS

FOR THE 18TH MONTH PERIOD ENDED

31 DECEMBER 2017

CAYMAN ISLANDS
MONETARY AUTHORITY

Statement of Responsibility

For Financial Statements

31 December 2017

These financial statements have been prepared by the Cayman Islands Monetary Authority in accordance with the provisions of the *Public Management and Finance Law* (2017 Revision).

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the *Public Management and Finance Law* (2017 Revision).

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

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

The financial statements fairly present the financial position, financial performance and cash flows of the Cayman Islands Monetary Authority for the 18-month financial period ended 31 December 2017.

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

(a) Completely and reliably reflect the financial transactions of Cayman Islands Monetary Authority for the 18-month period ended 31 December 2017;

(b) fairly reflect the financial position as at 31 December 2017 and performance for the 18-month financial period ended 31 December 2017;

(c) comply with International Financial Reporting Standards under the responsibility of the International Accounting Standards Board.

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

Grant Stein
Chairman
Cayman Islands Monetary Authority
Date: 30 April 2018

Patrick Bodden
Deputy Managing Director - Operations
Cayman Islands Monetary Authority
Date: 30 April 2018

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AUDITOR GENERAL'S REPORT

To the Board of Directors of the Cayman Islands Monetary Authority

Opinion

I have audited the financial statements of the Cayman Islands Monetary Authority (the "Authority"), which comprise the statement of financial position as at 31 December 2017 and the statements of comprehensive income, statement of changes in reserves and contributed capital and statement of cash flows for the 18 month period from 1 July 2016 to 31 December 2017, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 8 to 29.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Authority as at 31 December 2017 and its financial performance and its cash flows for the 18 month period from 1 July 2016 to 31 December 2017 in accordance with International International Financial Reporting Standards.

Basis for Opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Authority in accordance with the the International Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, together with the ethical requirements that are relevant to my audit of the financial statements in the Cayman Islands, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

AUDITOR GENERAL'S REPORT (continued)

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I have undertaken the audit in accordance with the provisions of section 60(1)(a)(ii) of the Public Management and Finance Law (2017 revision). I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Sue Winspear, CPFA
Auditor General

30 April 2018
Cayman Islands

CAYMAN ISLANDS MONETARY AUTHORITY
STATEMENT OF FINANCIAL POSITION
As at 31 December 2017
(in Cayman Islands Dollars)

	Note	31 December 2017 $000	30 June 2016 $000
ASSETS			
Currency Reserve Assets			
Current Assets			
Call Deposits	4b	4,393	3,845
Short-Term Investments	4a	94,177	97,487
Fixed Deposits	4b	1,566	1,553
Interest Receivable, Deposits		269	195
Stocks	7	2,366	2,821
Non-Current Assets			
Long-Term Investments	4a	29,150	12,602
Total Currency Reserve Assets		131,921	118,503
Operating Assets			
Current Assets			
Current and Call Deposits	4b	16,534	10,902
Fixed Deposits	4b	7,335	3,338
Accounts Receivable	5	2,509	3,501
Other Receivables and Prepayments		1,137	464
Non-Current Assets			
Intangible Asstes	6	1,928	1,897
Property and Equipment	6	777	897
Total Operating Assets		30,220	20,999
TOTAL ASSETS		**162,141**	**139,502**
LIABILITIES, RESERVES and CONTRIBUTED CAPITAL			
Liabilities			
Current Liabilities			
Demand Liabilities, Currency in Circulation	8a	119,544	106,877
Other Liabilities and Payables	8b	4,117	1,274
Non-Current Liabilities			
Defined Benefit Pension Liability	9a	111	3,130
Defined Benefit Healthcare Liability	9b	6,520	-
Total Liabilities		130,292	111,281
Reserves			
General Reserve		21,495	20,650
Currency Issue Reserve		375	375
Capital Expenditures Reserve		7,548	4,642
Operational Expenditures Reserve		103	226
Total Reserves		29,521	25,893
Contributed Capital		2,328	2,328
TOTAL LIABILITIES, RESERVES and CONTRIBUTED CAPITAL		**162,141**	**139,502**

Approved on 30 April 2018

Patrick Bodden
Deputy Managing Director-Operations

GMoxam-Murray

Gilda Moxam-Murray
Chief Financial Officer

The accompanying notes form an integral part of these financial statements

CAYMAN ISLANDS MONETARY AUTHORITY
STATEMENT OF COMPREHENSIVE INCOME
For the 18 month period ended 31 December 2017
(in Cayman Islands Dollars)

	Note	31 December 2017	30 June 2016
		$000	$000
INCOME			
Services Provided to The Cayman Islands Government	11a	20,750	10,693
Directors Registration and Licensing Fees		11,180	7,768
CIMA Transactional Fees		6,909	4,586
Investment Income		1,894	728
Commission Income		1,266	518
Net Gain on Numismatic Items		1	114
TOTAL INCOME		**42,000**	**24,408**
EXPENSES			
Salaries and Benefits	13	23,620	14,184
Other Operational Expenses	12	5,182	2,924
Pension Expenses	9	2,119	1,249
Accomodation	14	1,874	1,265
Depreciation and Amortization	6	765	574
Professional Fees		885	496
Utilities		559	407
Training and Conferences		348	254
Official Travel		417	208
Realised Loss on Investments		848	177
Loss on Disposal of Fixed Assets		45	11
Net Loss on Numismatic Items		48	-
TOTAL EXPENSES		**36,710**	**21,748**
INCOME FOR THE YEAR before:-		**5,290**	**2,659**
OTHER COMPREHENSIVE INCOME / (LOSS)			
Remeasurement of Defined Benefit Pension Liability	9	3,761	(1,951)
Remeasurement of Defined Benefit Healthcare Liability	13	1,077	-
COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**10,128**	**708**

The accompanying notes form an integral part of these financial statements

CAYMAN ISLANDS MONETARY AUTHORITY
STATEMENT OF CHANGES IN RESERVES AND CONTRIBUTED CAPITAL
For the 18 month period ended 31 December 2017
(in Cayman Islands Dollars)

	31 December 2017					30 June 2016				
	General Reserve $000	Currency Issue Reserve $000	Capital Expenditures Reserve $000	Operational Expenditures Reserve $000	Contributed Capital $000	General Reserve $000	Currency Issue Reserve $000	Capital Expenditures Reserve $000	Operational Expenditures Reserve $000	Contributed Capital $000
BALANCE AT 01 JULY	20,650	375	4,642	226	2,328	19,789	375	4,795	226	2,328
Transfers in :										
From Net Income	6,500		3,628					708		
From Capital Expenditures Reserve	722					861				
From Operational Expenditures Reserve	123									
Transfers out :										
Contribution Payable to CI GOVT										
To Capital Expenditures Reserve										
Currency Inventory Issued										
Fixed Assets Purchased			(722)					(861)		
Post Retirement Benefit Healthcare Liability	(6,500)									
Operational Expenses				(123)						
BALANCE AT 31 December / 30 June	**21,495**	**375**	**7,548**	**103**	**2,328**	**20,650**	**375**	**4,642**	**226**	**2,328**

The accompanying notes form an integral part of these financial statements

CAYMAN ISLANDS MONETARY AUTHORITY
STATEMENT OF CASH FLOWS
For the 18 month period ended 31 December 2017
(in Cayman Islands Dollars)

	31 December 2017 $000	30 June 2016 $000
CASH FLOWS FROM OPERATING ACTIVITIES		
Comprehensive Income/(Loss) for the year	10,128	708
Adjustments for:		
Depreciation	765	574
(Gain) Loss on Defined Pension Benefits	(3,019)	2,269
(Gain) on Defined Health Care Benefits	20	-
Loss on Disposal of Fixed Assets	46	11
(Increase) in Investments	(13,239)	(13,177)
(Increase) in Interest Receivable - Currency Reserve Assets	(74)	(108)
Decrease / (Increase) in Accounts Receivable	992	(1,160)
(Increase) in Other Receivables and Prepayments	(673)	(59)
Unearned Income - Directors Registration and Licensing Fees	3,313	-
Unearned Income - CIMA Transactional Fees	-	34
(Decrease) / Increase in Other Liabilities and Payables	(469)	433
Decrease in Stocks	455	368
Increase in Demand Liabilities	12,667	11,989
NET CASH PROVIDED BY OPERATING ACTIVITIES	10,912	1,882
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of Fixed Assets	(722)	(861)
NET CASH USED IN INVESTING ACTIVITIES	(722)	(861)
INCREASE IN CASH AND CASH EQUIVALENTS	10,190	1,021
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	19,638	18,617
CASH AND CASH EQUIVALENTS, END OF THE YEAR	29,828	19,638

The accompanying notes form an integral part of these financial statements

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the 18 month period ended 31 December 2017

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 (2016 Revision) (the "Law (2016 revision)")*, the primary functions of the Authority are: -

To issue and redeem Cayman Islands currency notes and coins and to manage the Currency Reserves
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 31 December 2017 the Authority has 204 employees (30 June 2016: 180). The Authority is located in Elizabethan Square, George Town, Grand Cayman, Cayman Islands.

2. Significant Accounting Policies

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

a) *Basis of Preparation*

Statement of compliance

The financial statements of the Authority are prepared in accordance with International Financial Reporting Standards ("IFRS")

The financial statements have been prepared on the accrual basis under historical cost convention except for past service liability (note 9).

The financial year end of the Authority was changed from 30 June to 31 December in order to facilitate more efficient monitoring of revenues and expenditures by the Government during the financial year. Accordingly, the current financial statements are prepared for 18 months from 01 July 2016 to 31 December 2017 and as a result, the comparative figures stated in the Statement of Comprehensive Income, Statement of Changes in Reserves and Contributed Capital, Statement of Cash Flow and related notes are not directly comparable.

b) *Foreign currency translation*

Functional and presentation currency

The reporting currency is Cayman Islands dollars. All financial information is rounded to the nearest thousand dollars, except as otherwise indicated.

Transactions and balances

Foreign currency transactions are recorded at the exchange rates prevailing on the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Assets and liabilities are translated at the exchange rate in effect at the date of the Statement of Financial Posting.

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the 18 month period ended 31 December 2017

Significant Accounting Policies (continued)

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

d) *Financial Instruments*

Classification
The classification of financial instruments at initial recognition depends on the purpose and management's intention for which the financial assets were acquired.

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

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable to the Authority. Financial liabilities comprise accounts and other payables, accrued expenses and notes and coins in circulation.

Recognition
The Authority recognises financial instruments on its statement of financial position on the date it becomes a party to the contractual provisions of the instrument. From this date, any gains or losses arising from changes in fair value of the assets or liabilities are recognised in the statement of comprehensive income.

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

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

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

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

De-recognition
A financial asset is derecognised when the Authority realises the rights to the benefits specified in the contract or the Authority loses control over any right that comprise the asset. A financial liability is derecognised when it is extinguished, that is when the obligation is discharged, cancelled or expired.

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the 18 month period ended 31 December 2017

Significant Accounting Policies (continued)

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

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

When currency is issued, the face value of the currency is also recognised as a liability within the "Demand Liabilities, Currency in Circulation"

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

h) Numismatic Coins in Circulation
The total nominal value of numismatic coins outstanding as at 31 December 2017 is $14,493k (30 June 2016: $14,497k). No liability for redeeming numismatic coins is recognised in the financial statements, since the amount of redemption cannot be reasonably estimated and the probability of material redemption is remote. Redemption costs and sales proceeds are recorded in the statement of comprehensive income as incurred.

i) Property and Equipment
Property and equipment are stated at historical cost less accumulated depreciation. Historical costs include expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefit associated with the item will flow to the Authority and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income in the financial period in which they are incurred.

Depreciation is charged to the statement of income on a the straight-line method to allocate the cost of each asset over their estimated useful lives as follows:-

• Furniture and Fixtures	5 years
• Leasehold Improvements	5 years
• Motor Vehicle	5 years
• Office Equipment	5-7 years
• Computer Hardware	3-5 years

The assets' useful lives are reviewed and adjusted where appropriate.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the statement of comprehensive income in the year the asset is derecognized.

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the 18 month period ended 31 December 2017

Significant Accounting Policies (continued)

j) Intangible Assets

Intangible assets are identifiable non-monetary assets without physical substance. The Authority's intangible assets comprise externally acquired computer software. Costs associated with maintaining computer software programmes are charged to the statement of comprehensive income in the financial period in which they are incurred.

All of the Authority's intangible assets have a finite life. Depreciation is calculated using the straight-line method to allocate the cost of each asset over their estimated useful lives which is estimated to be three to ten years. Useful lives are reviewed at the end of each reporting period, and adjusted if appropriate.

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. 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. 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 recognised as pension expense in the statement of comprehensive income as incurred.

Other Benefits.

Other employee benefits include maternity leave, sick leave, vacation days and performance awards. Vacation days accumulate and vest and therefore a liability is accrued each year. The accrued vacation liability as at 31 December 2017 is $253k (30 June 2016: $194k) and is included in the other liabilities and payables.

l) Allocation of profits

Under Section 9 and 10 of the *Law (2016 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.

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
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Significant Accounting Policies (continued)

m) *General Reserve*
The Authority maintains a General Reserve in accordance with Section 8 of the Law (2013 revision), to provide additional funding if necessary for Demand Liabilities and obligations arising from other business of the Authority. In accordance with section 8 of the *Law (2016 revision)* the General Reserve shall represent at least 15% of Demand Liabilities. As at 31 December 2017, the General Reserve was $21,495k (30 June 2016: $20,650k) equating to 17.98% (30 June 2016: 19.32%) of Demand Liabilities.

n) *Currency Issue Reserve*
The Currency Issue Reserve was adjusted as the stock of notes printed prior to 2003 was all issued into circulation. The Currency Issue Reserve remained at $375k.

o) *Capital and Operational Expenditures Reserves*
Under Section 9 of the *Law (2016 revision)*, the net profits of the Authority for any financial year shall include, but shall not be limited to, the income from the investments of the Authority, and the profit from the sales of investments belonging to the Authority, and shall be determined by the Authority after meeting or providing for all expenditure for that year and making such provisions for contingencies and the establishment of such additional reserves as it may consider desirable. The Capital Expenditures Reserve has been established for the implementation and acquisition of key capital projects. The Operational Expenditures Reserve will fund the operating costs associated with these key projects.

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

In December 2009, Section 7 (5) of the Monetary Authority Law (2008 Revision) was amended by the Monetary Authority (Amendment Law, 2009), to allow Cabinet to vary the amount of paid-up capital held by the Authority, and where the capital is reduced any excess shall be transferred by the Authority to the Government. In June 2010 the Cayman Islands Government withdrew $8.25 million. Contributed Capital as at 31 December 2017 was $2.328 million (30 June 2016: $2.328 million).

q) *Revenue recognition*
The Authority's main source of income is derived from the services it provides to the Government of the Cayman Islands. The Authority's other sources of income are generated from Directors Registration and Licensing Fees (DRL fees), CIMA Transaction fees, its investments, bank balances, and other currency transactions.

Revenue is recognised when it is probable that the economic benefits will flow to the Authority and the amount of revenue can be measured with reliability. Revenue is measured at the fair value of consideration received or receivable.

DRL fees received for a calendar year are recognised as revenue in the respective financial year; this includes such fees received within three and half months subsequent to the year end from all directors that were registered as of the year end. DRL fees subsequent to this are recognised as revenue in the financial year in which they are collected. In order to be in compliance with the Directors Registration and Licensing Law, 2014, Directors are required to file an annual registration and pay the fee by January 15th.

Commission Income is recognised as earned on redemption of currency in circulation

CAYMAN ISLANDS MONETARY AUTHORITY
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Significant Accounting Policies (continued)
Revenue Recognition (continued)

Rendering of Services (Services provided to the Cayman Islands Government and CIMA Transactional Fees) are recognised as revenue when the related service is rendered.

Net Gain on Numismatic Items – bullions stocks are stated at year-end market values. Numismatic coins sales and expenses are accounted for with the revaluation gain/loss.

Investment Income and other sources of income are accrued as earned.

r) Leases
Those in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on as straight line basis over the period of the lease.

2.1 Changes in Accounting Standards/IFRS

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

a. **IFRS 9, Financial Instruments(Amendment):**
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Authority is in the process of evaluating the impact of the new standard.

b. **IFRS 15, Revenue from Contracts with Customers(Amendment):**
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers.
Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Authority is in the process of evaluating the impact of the new standard.

c. **IFRS 16, Leases:**
In January 2016, the IASB Issues IFRS 16, "Leases", which replaces IAS 17, "Leases". IFRIS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard establishes a single lessee accounting model while maintaining the classification of either an operating or financing lease for the lessor similar to IAS 17. The standard is effective for annual periods beginning on or after 01 January 2019, with early adoption permitted. The Authority is currently assessing the impact of the new standard.

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the 18 month period ended 31 December 2017

Significant Accounting Policies (continued)
Changes in Accounting Standards/IFRS (continued)

d. IAS 7, Statement of Cash Flows:
In January 2016, the IASB issued an amendment to IAS 7, "Statement of Cash Flows". The IAS 7 amendment is designed to improve the quality of information provided to users of the financial statements about changes in an entity's debt and related cash flow (and non-cash changes). The amendment to IAS 7 is effective for annual periods beginning on or after 01 January 2017, with early adoption permitted. The Authority is currently assessing the impact of the amendment.

3. Financial Risk Management

a) Interest Rate Risk
The Cayman Islands Monetary Authority is subject to interest rate risk on the cash placed with local and international institutions which attracts interest. The Authority is not exposed to significant interest rate risk as the cash and cash equivalents are placed on call and available on demand. No interest payments are charged to customers on late payments on accounts receivable.

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

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

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

4. Currency Reserve Assets

Sections 32(8) of the *Law (2016 revision)* mandates the preservation of Currency Reserve Assets, separately from all other assets of the Authority. These assets are to be used to fund the Authority's currency redemption obligations. (See Note 8.) They shall not be used to satisfy liabilities arising from any other business of the Authority. After all Demand Liabilities are extinguished, any surplus Currency Reserve Assets would form, in part, the assets of the General Reserve. (See Note 2 m.)

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the 18 month period ended 31 December 2017

Currency Reserve Assets (continued)

Under the *Law (2016 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 31 December, the value of Currency Reserve Assets was $131,921k (30 June 2016: $118,503k) representing 110.36% (30 June 2016: 110.88%) of total Demand Liabilities. The value of external assets equated to 105.92% (30 June 2016: 105.65%) while the value of local assets as at 31 December 2017 equated to 4.44% (30 June 2016: 5.23%) of Demand Liabilities.

Currency Reserve Assets comprise the following:

a) Investments

The classification of financial instruments at initial recognition depends on the purpose and management's intention for which the financial assets were acquired. The investments are actively traded, classed as available-for-sale, and meet the principal investment objectives of the Authority - 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 (2016 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 Notes and U.S. Government Sponsored Enterprise ("GSE") stated at market value, with interest rates ranging from 1.25% to 3.043% and maturity dates between 30 April 2019 and 20 October 2042.

Included in long-investments are five securities totalling $2,517k (30 June 2016 five totalling $4,366k) with maturity dates over ten years. These securities are of the class for which the average life shall be used in place of maturity, under the investment guidelines.

	31 December 2017	30 June 2016
Range of maturities	$000	$000
1-5 years	25,944	8,236
6-10 years	689	-
Over 10 years	2,517	4,366
	29,150	12,602

Short-term Investments. US Treasury Bills, AAA Corporate Bonds and US Treasury Notes with maturity dates ranging between 18 January 2018 and 31 October 2018, and the Federal Reserve Repurchase Agreement with a maturity date 02 January 2018.

	31 December 2017	30 June 2016
	$000	$000
US Treasury Bills		23,544
Federal Reserve Repurchase Agreement at 1.36 %	57,583	44,333
US Treasury Notes	36,594	2,508
AAA Corporate Bonds	-	27,102
Total Short-term Investments	94,177	97,487

CAYMAN ISLANDS MONETARY AUTHORITY
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Currency Reserve Assets (continued)
Investments (continued)

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

b) Cash and Cash Equivalents
The Authority maintains current, call and fixed term deposits with domestic and foreign banks; the fixed deposit account has a maturity date of three months. Under the *Law (2016 revision)*, domestic deposits (as part of the Currency Reserve Assets) cannot exceed 10% of Demand Liabilities. As at 31 December 2017, domestic deposits represent 3.10% (30 June 2016: 3.36%) of Demand Liabilities.

		Holding Currency	31 December 2017 $000	30 June 2016 $000
i) Operating Assets				
	Current	KYD	(225)	(244)
	Savings	KYD	3,308	1,787
	Savings	USD	13,095	9,116
	CI Cash on Hand		356	243
Total Current and Call Deposits			16,534	10,902
	Fixed Deposits	KYD	7,335	3,338
Total Cash and Cash Equivalent - Operating Assets			23,869	14,240

		Holding Currency	31 December 2017 $000	30 June 2016 $000
ii) Currency Reserve Assets				
Domestic Deposits				
	Savings	GBP	6	6
	Savings	KYD	922	904
	Savings	USD	1,210	1,122
Foreign Deposits				
	Federal Reserve Bank	USD	258	216
	Investment Portfolio	USD	1,997	1,597
Total Call Deposits			4,393	3,845
	Domestic - Fixed Deposits	USD	1,566	1,553
Total Cash and Cash Equivalent - Currency Reserve			5,959	5,398
Total Cash and Cash Equivalent			29,828	19,638

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the 18 month period ended 31 December 2017

Currency Reserve Assets (continued)
Cash and Cash Equivalents (continued)

Interest was earned on domestic call accounts at a rate of 0.01% during the period ended 31 December 2017 (30 June 2016: 0.01%). The domestic fixed deposit earned interest at rates ranging between 0.05% to 0.45% during the period ended 31 December 2017 (30 June 2016: 0.05% to 0.45%).

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 period ended 31 December 2017 no interest was earned (30 June 2016: $0).

5. Accounts Receivable

Aged profile of Trade Receivable

	31 December 2017	30 June 2016
Period Outstanding Days	$000	$000
1-30	1,650	1,368
31-60	373	1,244
61-90	-	889
>90	486	-
	2,509	3,501

$7k (2015-16: $18K) was recovered during the year in relation to 1 individual; full provision had been made.

The creation and release of provision for impairment of receivables has been included in Other Operating expenses (Note 12) in the statement of comprehensive income. The Authority provides 100% for all trade balances where management believes that the collectability of the account is unlikely, based on an evaluation of collectability and prior bad debt experience.

	31 December 2017	30 June 2016
	$000	$000
Output Income	1,188	2,694
CIMA Transactional Fees	835	632
Directors Registration and Licensing Fees	486	1,315
Provision for doubtful accounts	-	(1,140)
Accounts Receivable, net	2,509	3,501

CAYMAN ISLANDS MONETARY AUTHORITY
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6. Property, Equipment and Intangibles

	Furniture & Fixtures	Leasehold Improvement	Computer Equipment Hardware	Office Equipment	Motor Vehicle	TOTAL TANGIBLE	Intangible	GRAND TOTAL
Original Cost	$000	$000	$000	$000	$000	**$000**	**$000**	**$000**
Balance as at 30/06/2016	937	1,182	1,649	634	23	**4,425**	**4,759**	**9,184**
Additions	33	-	259	71	-	**363**	**359**	**722**
Disposals	-	-	(56)	(137)	-	**(193)**	**(68)**	**(261)**
Balance as at 31/12/2017	970	1,182	1,852	568	23	**4,595**	**5,050**	**9,645**
Accumulated Depreciation and Amortization								
Balance as at 30/06/16	751	873	1,332	549	23	**3,528**	**2,862**	**6,390**
Depreciation and Amortization for the year	78	95	263	47	-	**483**	**282**	**765**
Relieved on disposals	-	-	(56)	(137)	-	**(193)**	**(22)**	**(215)**
Balance as at 30/12/2017	829	968	1,539	459	23	**3,818**	**3,122**	**6,940**
Net Book Value as at 31/12/2017	141	214	313	109	-	**777**	**1,928**	**2,705**
Net Book Value as at 30/06/2016	186	309	316	85	-	897	**1,897**	**2,794**

7. Stocks

	31 December 2017	30 June 2016
	$000	$000
External		
Bullion from the melt-down of coins	467	519
Coins awaiting melt-down	-	-
Coins for resale	225	225
Museum items	73	74
	765	818
Local		
Inventory of unissued currency notes and coins	1,602	2,003
Total Stocks	2,367	2,821

The inventory of unissued currency notes and coins are stated at cost of production. All associated cost such as shipping, handling and insurance are expensed immediately. The amount of inventory recognized as expense during the period amounted to $793k (2016:$486k). The Bullion stocks are stated at year-end market values for gold and silver bullion.

CAYMAN ISLANDS MONETARY AUTHORITY
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8. Liabilities

a) Demand Liabilities

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

Total Demand Liabilities comprise:

	31 December 2017	30 June 2016
	$000	$000
Currency notes in circulation	107,804	95,739
Currency coins in circulation	11,740	11,138
Total Demand Liabilities	119,544	106,877

b) Other Liabilities and Payables

	31 December 2017	30 June 2016
	$000	$000
Unearned income - Director Registration Fees	3,313	-
Unearned income - CIMA Transactional Fees	202	202
Annual leave accrual	253	194
Other accruals	95	800
Accounts payable	236	65
Other Payables	18	13
	4,117	1,274

As at 31 December 2017, Other Liabilities included unsettled investment management and custody fees of $10k (2016:$10k).

9. Post-Employment Benefits

a) Defined Benefit Pension

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

CAYMAN ISLANDS MONETARY AUTHORITY
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Post-Employment Benefits (continued)

Defined Benefit Pension (continued)

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 the 'Actuarial Valuation as of 01 July 2005 for the purposes of establishing required contribution rates towards the Public Service Pensions Fund'. This rate included a 1% for the cost of all of the benefits that are provided over and above those related to the participant's total account balance. The Authority pays this 1% for all employees. Under the Public Service Pensions (Contribution Rates) Regulations, 2016, this 1% was changed to 0% for the Defined Benefit plans and to 0.4% for Defined Contribution plans. For some employees in the defined benefit plan, the Authority pays both the employer and employee contributions.

The Plans are funded at rates of: -

	31 December 2017	30 June 2016
Defined Contribution Plans		
Employee	6	6
Employer	6.4	7
Defined Benefit Plans		
Employee	6	6
Employer	6	7

The Actuary to the Pensions Board has valued the Fund as at 31 December 2017. 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 18 month period ended 31 December 2017 was ($1,642k) (30 June 2016: $3,200k). 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. Pension expense is the expense under IAS 19, inclusive of service cost, amortisations and net Interest. Current service cost represents the pension cost to the Authority associated with the financial year benefit accruals and is net of participant contributions.

	31 December 2017	30 June 2016
Public Service Pension Board Defined Benefit	348	206
Public Service Pension Board Defined Contirbution	665	532
Private Pension Plans	364	193
Defined Benefit Pension cost	742	318
Total Pension Expense All Plans	2,119	1,249
Remeasurement of DB Liability in OCI	(3,761)	1,951
	(1,642)	3,200

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Post-Employment Benefits (continued)
Defined Benefit Pension (continued)

The actuarial position is as follows:

	31 December 2017	30 June 2016	30 June 2015	30 June 2014	30 June 2013
	$000	$000	$000	$000	$000
Net Present Value of Funded Obligation	(11,167)	(12,201)	(9,319)	(9,560)	(7,401)
Fair Value of Plan Assets	11,056	9,071	8,458	7,866	6,467
Funded Status	(111)	(3,130)	(861)	(1,694)	(934)
Unrecognised Actuarial Loss	-	-	-	-	-
Net (Liability)	(111)	(3,130)	(861)	(1,694)	(934)

Components of defined benefit pension cost	31 December 2017	30 June 2016
	$000	$000
Current service cost	714	382
Interest expense on DBO	622	443
Interest income on plan assets	(470)	(407)
Defined benefit cost included in P&L	866	418
Remeasurements (recognised in other comprehensive income)		
Effect of changes in demographic assumptions	(1,187)	-
Effect of changes in financial assumptions	(1,229)	1,988
Effect of experience adjustments	74	(17)
(Return) on plan assets (excluding interest income)	(1,419)	(20)
Total remeasurements included in OCI	(3,761)	1,951
Total defined benefit cost recognised in P&L and OCI	(2,895)	2,369
Employer Contributions	(124)	(100)
Total net defined benefit cost recognised in P&L and OCI	(3,019)	2,269

Reconciliation of defined benefit pension liability	31 December 2017	30 June 2016
	$000	$000
Previous year net defined benefit liability	3,130	861
Defined benefit cost included in P&L	866	418
Total remeasurement included in OCI	(3,761)	1,951
Employer contributions	(124)	(100)
Net defined benefit liability	111	3,130

CAYMAN ISLANDS MONETARY AUTHORITY
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Post-Employment Benefits (continued)
Defined Benefit Pension (continued)

Change in defined benefit pension obligation	31 December 2017	30 June 2016
	$000	$000
Defined benefit obligation at end of prior year	12,201	9,319
Current service cost	714	382
Interest expense	622	443
Transfers between Other Participating employers	(152)	-
Plan participant contributions	124	86
Remeasurements:-		
Effect of changes of demographic assumptions	(1,187)	-
Effect of changes of financial assumptions	(1,229)	1,988
Effect of experience adjustments	74	(17)
Defined benefit obligation at end of year	11,167	12,201

Change in fair value of plan assets	31 December 2017	30 June 2016
	$000	$000
Fair value of plan assets as at end of prior year	9,071	8,458
Interest income	470	407
Employer contributions	124	100
Plan participant contributions	124	86
Transfers between Other Participating employers	(152)	-
Return on assets (excluding interest income)	1,419	20
Fair value of plan assets at end of year	11,056	9,071

Allocation of Assets

The distribution of the plan assets, as at 31 December 2017 and 30 June 2016, based on the share of the total fund allocated to the Authority was as follows: -

	31 December 2017	30 June 2016
	%	%
Global equity securities	80	80
Debt securities	19	19
Cash	1	1
Total	100	100

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
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Post-Employment Benefits (continued)
Defined Benefit Pension (continued)

Actuarial Assumptions
The principal actuarial assumptions used to determine benefit obligations at 31 December 2017 and 30 June 2016 are as follows:

	31 December 2017	30 June 2016
	%	%
Discount Rate	3.80	4.75
Rate of salary increase	2.50	3.50
Rate of price inflation	2.00	2.50
Rate of pension increases	2.00	2.50

The economic assumptions used to determine Net Periodic Benefit Cost for the period ended 31 December 2017 and 30 June 2016 are as follows:

	31 December 2017	30 June 2016
	%	%
Discount rate	4.10	4.75
Rate of salary increase	3.50	3.50
Rate of price inflation	2.50	2.50
Rate of pension increases	2.50	2.50

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

	31 December 2017	30 June 2016
	$000	$000
Sensitivity analysis on defined benefit pension obligation		
Discount rate		
Discount rate - 25 basis points	11,857	12,979
Discount rate + 25 basis points	10,528	11,483
Inflation rate		
Inflation rate - 25 basis points	10,595	11,570
Inflation rate + 25 basis points	11,780	12,878
Mortality rates		
Mortality - 10% of current rates	11,432	12,466
Mortality + 10% of current rates	10,925	11,960
Expected cash flows for following year		
Expected employer contributions	115	155
Defined benefit obligation by participant status		
Actives	8,528	9,578
Vested deferreds	2,639	2,623
Total	11,167	12,201

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the 18 month period ended 31 December 2017

Post-Employment Benefits (continued)

b) Defined Benefit Healthcare

The Authority has established a Post-retirement Healthcare program for employees who are members of the PSPB Defined Benefits Pension plan. This group included some employees who were transferred to the Authority from core Cayman Island Government (CIG) upon the creation of the Authority. The intention was that the staff members transferred to the Authority will not be worse off after the transfer in terms of the employee benefits they enjoyed as employees of the CIG.

This action (accepting responsibility to provide the same healthcare benefits enjoyed by CIG employees for the transferred employees and other long-serving employees who are members of the PSPB Defined Benefit plan) creates a valid expectation on the part of these employees and therefore results in a constructive obligation on the Authority. Consequently, for these employees, the Authority provides for a post-retirement healthcare obligation plan identical to the CIG (which is in accordance with paragraph 18(2) of Schedule 1 of the Personnel Regulation (2013 Revision)). Under this plan, the premiums for this healthcare coverage would be paid for by the Authority for all eligible employees, together with their spouses (until the end of their lives) and dependent children (until the end of their eligibility as a dependent child). To be eligible, the Authority would have been the employee's principal employer for 10 consecutive years and also retire in service with the Authority.

This coverage falls within the definition of a defined benefit as defined by the International Accounting Standards (IAS) and as such represents a future liability of the Authority. The Authority is therefore required to use the actuarial valuation method to determine the present value of its healthcare benefit obligations and the related current service costs for its future (qualified) retirees. IAS 19 requires that the funded or unfunded post-employment benefits to be recognized in the statement of financial position (in the case of net defined liability or asset) and the statement of comprehensive income (for the annual expense).

The Authority obtained the services of Mercer Actuaries of Canada to provide actuarial valuation service. The report of their valuation and the details of the valuation method and assumptions used are presented hereunder in accordance with IAS 19.

The Authority has a present value net defined healthcare benefit obligation of $6,520k the end of the financial year 31 December 2017, (30 June 2016: $6,500k).

Change in defined benefit healthcare obligation	31 December 2017
	$000
Defined benefit obligation at end of prior year	6,500
Current service cost	746
Interest expense	351
Remeasurements:-	
Effect of changes of demographic assumptions	(930)
Effect of changes of financial assumptions	321
Effect of experience adjustments	(468)
Defined benefit obligation at end of year	6,520

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Post-Employment Benefits (continued)
Defined Benefit Healthcare (continued)

Components of defined benefit healthcare cost	31 December 2017
	$000
Current service cost	746
Interest expense on DBO	351
Interest income on plan assets	-
Defined benefit cost included in P&L	1,097
Remeasurements (recognised in other comprehensive income)	
Effect of changes in demographic assumptions	(930)
Effect of changes in financial assumptions	321
Effect of experience adjustments	(468)
Total remeasurements included in OCI	(1,077)
Total defined benefit cost recognised in P&L and OCI	20

Reconciliation of defined benefit healthcare liability	31 December 2017
	$000
Net defined benefit liability	6,500
Defined benefit cost included in P&L	1,097
Total remeasurement included in OCI	(1,077)
Net defined benefit liability	6,520
Defined benefit obligation total	6,520

Post-Employment Benefits (continued)
Defined Benefit Healthcare (continued)

Actuarial Assumptions

The principal actuarial assumptions used to determine benefit obligations at 31 December 2017 is as follows:

	31 December 2017
	%
Weighted-average assumptions to determine defined benefit obligation	
Discount Rate for defined benefit obligation	3.85
Healthcare cost trend rates	
Immediate trend rates	5.00
Ultimate trend rate	5.00
Rate of pension increases	5.00
Weighted-average assumptions to determine defined benefit cost	
Discount Rate for defined benefit cost	4.05
Net interest cost rate	3.60
Discount rate for service cost	4.20
Rate for interest on service cost	4.10
Healthcare cost trend rates	
Immediate trend rates	5.00
Ultimate trend rate	5.00

	31 December 2017
	$000
Sensitivity analysis	
Change in defined benefit obligation	
Effective discount rates - 25 basis points	430
Effective discount rates + 25 basis points	(398)
Healthcare cot trend rates - 100 basis points	(1,440)
Healthcare cot trend rates + 100 basis points	1,925
Mortality assumption + 10%	(286)
Expected cash flows for following year	
Expected employer contributions	5
Expected total benefit payments	
Year 1	5
Year 2	11
Year 3	18
Year 4	28
Year 5	41
Next 5 years	505

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10. Commitments

a) *Capital Commitments*
This relates to the contract for the Regulatory Electronic Enhancement Filing System ('REEFS) project, awarded to SQL Power in May 2014 for US$1,998k.

b) *Operating Commitments*

Office Accommodation The Authority has the following:-
i. Office Accommodation Leases with Montpelier Properties Ltd. effective 1 February 2016 for 2 years at a cost per square foot of $33 for rent and $6 CAMs;

Business Continuity Leases As a part of its Business Continuity Plan the Authority has the following agreements:-

i. An agreement with the Disaster Recovery Centre (Cayman Islands) Limited for dedicated seats effective 1 July 2017 for a period of three year at a monthly cost of US$17k.
ii. An agreement with the Disaster Recovery Centre (Cayman Islands) Limited for a dedicated suite effective 1 September 2013 for a period of five years at a monthly cost of US$6k plus electricity.
iii. An agreement with the Brac Informatics Centre effective 1 April 2014 at a monthly cost of CI$4.9k for a five year period.
iv. An agreement with the Brac Informatics Centre effective 1 January 2017 at a monthly cost of CI$2.019k to 31 December 2019.

	31 December 2017	30 June 2016
	$000	$000
Capital Commitments	-	147
Office Accomodation and Storage	107	2,082
Business Continuity Leases	770	493
Other Operating Commitments	-	831
	877	3,553

11. Related Party Transactions

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

One of the Authority's main sources 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 of each financial year, the Authority contributes to the Government the net operating surplus after fulfilling Reserve requirements.

CAYMAN ISLANDS MONETARY AUTHORITY
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Related Party Transactions (continued)

b) Directors.
The Board of Directors of the Authority is appointed by the Governor in Cabinet, and consisted of the Managing Director ("MD") and six directors as at 31 December 2017 (seven directors at 30 June 2016). The fees of $233k (2015-16: $143k) relates to payments made to the directors only.

c) Key Management Personnel.
For the purposes of IAS 24 disclosure the MD is included in the number and cost of the Senior Management Team. The total number of personnel on the Senior Management Team was 16 in the current period (2015-16: 16) and salaries & other short term benefits expensed in 2016-17 was $3,734k (2015-16: $2,378k).

d) Services Provided by Government Entities.
The Authority obtained various goods and services from other Government departments/entities of the Cayman Islands Government, at prevailing market prices on an arm's length basis, in the current period in the amount of $915k (2015-16: $597k).

12. Other Operating Expenses

	31 December 2017	30 June 2016
	$000	$000
Other expenses	1,669	1,038
Maintenance and software licences	1,571	777
Currency Stock issues	828	525
Business Continuity	532	358
eMerchant Discounts	255	170
Directors Fees	233	143
Management and Custody Fees	101	67
Doubtful Debt Expense	(7)	(154)
Total	5,182	2,924

13. Salaries and Benefits

	31 December 2017	30 June 2016
	$000	$000
Salaries and Allowances	20,286	13,000
Medical Expense	2,237	1,184
DB Healthcare Expense	1,097	-
	23,620	14,184
Remeasurement of DB Healthcare liability in OCI	(1,077)	-
	22,543	14,184

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14. Accommodation

Accommodation expenses are comprised primarily of the cost of office and storage rental, and any related stamp duty and registration expense. Other rental expenses are for conference room and parking. As of December 2017, total accommodation expense amount to $1,874k (2015-16:$1,265k)

SCRUTINY BY PARLIAMENT

The Authority plays a central role in the fight against money laundering and terrorism financing. As part of its mandate, the Authority continues to keep abreast of any relevant issues which have an impact, or potential impact, on the jurisdiction. Amongst the measures taken are the enactment of appropriate legislation and internal regulatory reforms. During the reporting period of 1 July 2016 – 31 December 2017, 35 legislative documents were tabled in the Legislative Assembly. This included enhancements to the financial regulatory framework, most of which were in relation to the anti-money laundering and financial terrorism procedures.

Freedom of Information Initiative

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

During the reporting period, the Authority received and processed five requests. Full access was granted to one request. One request was denied on the basis that the Authority did not hold the requested record. The remaining three requests were excluded from release on the basis that the FOI Law excludes access to records containing information that may not be disclosed under Section 50 of the MAL. Records were provided for all requests within 30 days.

Cross Government Commitment and Advisory

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

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

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

The measures implemented or in development during 2016-17 are covered in the Regulatory Developments section of this report, beginning on page 52.

Future Objectives and Outlook

In 2017, CIMA identified a revised list of strategic objectives which were approved by the Board of Directors. In summary, the strategic priorities for the 2018 – 2020 period are to:

1. enhance efficiency and effectiveness through functional reforms;
2. optimize efficiency of resources by developing (and implementing) a comprehensive medium and long-term facilities plan;
3. implement HR enhancements;
4. conduct visits to key jurisdictions;
5. maintain and enhance CIMA's regulatory profile locally and internationally;
6. enhance collaboration with the Cayman Islands Government, private sector and within the Authority;
7. implement regulatory framework enhancements;
8. implement operational and technology enhancements; and
9. preserve the value and integrity of the Cayman Islands currency.

CIMA will continue to play its role in enhancing the regulation and supervision of the financial industry in the Cayman Islands, and with specific reference to the funds sector, the Authority will continue to support the industry in providing factual information explaining the regulatory regime in the Cayman Islands.

The Cayman Islands business environment as it relates to the financial industry also remains highly rated by various independent groups. In 2016, and according to the 20th Global Financial Centers Index Report, the Cayman Islands was rated number 28 among 87 international financial centres rated worldwide and number one in the Latin America and Caribbean region. Therefore, despite the challenges which the jurisdiction may face, the Authority is confident that the Cayman Islands will maintain its position as a leading international financial services hub.