



2018 ANNUAL REPORT

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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 THE BOARD OF DIRECTORS

It is no secret that over the years the Cayman Islands has enjoyed a robust financial services industry, and ensuring that remains so, has always been a top priority for the Cayman Islands Monetary Authority (“CIMA” or “the Authority”). During the reporting period, a number of improvements were made in this regard. In conjunction with its continued strategic objectives, the Authority aims to meet any changing developments related to the financial industry. Part of this initiative is the ongoing enhancement of corporate governance within the industry, whereby CIMA-regulated licensees are now required to conduct board effectiveness reviews.

In early 2017, the previous Board, led by immediate past Chairman Grant Stein, was of the view that the Authority should also evaluate its own Board particularly in light of the Board’s responsibilities under Section 26(k) of the Public Authorities Law (“PAL”). With this focus in mind, external assessors were hired to conduct the effectiveness of CIMA’s Board of Directors. The review commenced in September 2018 and will be completed shortly. This is CIMA leading by example.

Another milestone was the enhancement of the Authority’s online reporting portal, Regulatory Enhanced Electronic Forms System (REEFS). During 2018, the system underwent some improvements in an effort to bring about increased operational efficiency for both the industry and CIMA. Some of the major changes allow users the ability to complete a submission with a single click, or use an appropriate workflow. Users also now have immediate visibility of fees due upon submission of a Fund Annual Return (FAR) including those directly related to the identified office responsible for fee payments for that entity.

Throughout the year, the Authority has worked hard to ensure that its compliance better aligns with the latest anti-money laundering and countering financial terrorism (AML/CFT) international standards as outlined in the Caribbean Financial Action Task-Force’s (CFATF) assessment. As of 31 December 2018, over 17 pieces of legislation amendments including other regulatory measures have been put in place aim to help combat such related issues.

The Authority has taken the recommendations on board and appreciates that the CFATF evaluation process is an opportunity to receive and improve our existing regulatory procedures as well as learn more about international best practices, particularly



in light of the need to increase vigilance over global ML and FT activities.

I commend the management and staff for their commitment throughout the years, especially in preparation for the CFATF assessment where much work has been expended in this area. On behalf of the Board, I look forward to CIMA’s anticipated growth over the next year, in conjunction with a relocation to exciting premises, to meet the requirements of the AML/CFT regulatory framework as well as enhancing its position as a top financial services regulator. The Board will continue to support the staff and the management team to ensure that the Cayman Islands remains a steady and compliant jurisdiction in which to do business.

Wayne Panton
Board Chairman

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STATEMENT BY MANAGING DIRECTOR



Over the last 21 years, The Cayman Islands has proudly maintained its position as a as one of the world's leading jurisdictions for financial services. As the primary financial services regulator for the jurisdiction, the Cayman Islands Monetary Authority ("the Authority") remains committed to developing and continuously providing a regulatory framework which emphasises the country's level of compliance with and effectiveness in relation to the latest international standards. Doing so also helps to ensure that the Cayman Islands maintains its position as a reputable and stable international financial services centre.

INDUSTRY UPDATE

The Authority is pleased to confirm that, as of 31 December 2018, the industry remains highly competitive in several areas.

According to industry reports, in relation to investment funds, investor demands and expectations, in terms of performance and returns, are both on the increase. This is reflected in the overall numbers of funds registered with or licensed by the Authority where the total number of funds

was 10,992 compared to 10,559 at the end of the same period 2017. The growth in hedge fund assets, during the period since the last update of approximately 13% from US\$6.1 trillion to US\$6.9 trillion, is also indicative of a sector that remains strong, while the increase in the number of multi-fund structures, such as segregated portfolio companies, conveys a drive towards diversification by managers of the risk and return strategies across the fund structures in order to meet increasing demands and expectations.

The Authority has also seen unprecedented growth in the related area of securities investment business. The total number of entities within this sector, supervised by the Authority was 38 licensees and 2,926 registrants as at 31 December 2018, compared to 2,760 during the same period in 2017.

With 146 Trust companies, 115 Company Managers and 25 Corporate Service Providers licensed to provide these services in and from the jurisdiction, the Cayman Islands is also a prime international location for the provision of trust and corporate services. The number of licensed Trust companies in recent years has remained steady.

There are 830 entities with licences issued under the Insurance Law (2010), of which 101 are domestic and 729 are international. These licences are broken down as follows: 730 insurance companies (Class 'A', Class 'B', Class 'C' and Class 'D'), 26 insurance managers, 26 insurance brokers, and 48 insurance agents. Based on these results, the Cayman Islands continues to be a leading jurisdiction for healthcare captives, representing almost one-third of all captives, where medical malpractice liability and professional indemnity continue to be the primary line of business.

The banking sector continues to contribute to the overall success of the financial services industry, with 133 licensed banks at the end of 2018. 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 2018 stood at US\$174 billion and US\$174 billion, respectively compared to June 2018 where total assets and liabilities were both reported at US\$845 billion.

The Authority was also proud to note that the Cayman Islands Bankers' Association established the Automated Clearing House (Cayman) Limited

STATEMENT BY MANAGING DIRECTOR

in 2017 to plan and implement the Cayman Islands Automated Clearing House (“the CIACH”), an electronic payment and cheque imaging system to speed up the payments and clearing processes in the Islands. The participating banks include: Butterfield Bank (Cayman) Limited, Cayman National Bank Ltd., CIBC FirstCaribbean International Bank (Cayman) Limited, Fidelity Bank (Cayman) Limited, RBC Royal Bank (Cayman) Limited and Scotiabank & Trust (Cayman) Limited. The CIACH is designed to clear and settle electronic transactions and provide a secure, cost-efficient exchange and settlement mechanism for domestic payments in KYD and USD currencies that adheres to international standards.

SIGNIFICANT REGULATORY CHANGES

In December 2017, the Cayman Islands underwent the Fourth Round of the mutual evaluation process in accordance with the Financial Action Task Force’s (“FATF”) 40 Recommendations. Leading up to this period, there have been a number legislative changes which are aimed at strengthening the jurisdiction’s Anti-Money Laundering/Countering Financing of Terrorism (“AML/CFT”) regime.

New Legislation Update

In the previous report, it was noted that amendments were made to the Monetary Authority Law which granted the Authority the powers to impose administrative fines in relation to breaches of the Anti-Money Laundering Regulations (“the AMLRs”). Revisions were also made to the Terrorism Law, the Proceeds of Crime Law, the Confidential Relationships Preservation Law and its replacement with the Confidential Information Disclosure Law, the Companies Law and the Companies Management Law.

Since then, the AMLRs were issued in December 2017 repealing and replacing the Money Laundering Regulations (2010). Subsequently, the Authority issued new guidance for financial services providers by significantly amending the Guidance Notes on the Prevention and Detection of Money Laundering and Terrorist Financing in the Cayman Islands.

Although much of the Authority’s work was focussed on preparations for the Caribbean Financial Action Task Force (“CFATF”) mutual evaluation, the evaluation process was itself an opportunity for the Authority to improve its existing regulatory and AML/CFT frameworks.

Increased Supervisory Measures

In conjunction with its ongoing supervisory

measures, the Authority also enhanced and expanded its AML/CFT supervisory approach. During the year, the Authority’s onsite inspection program sought to ensure that licensees were augmenting their controls systems to comply with the changes to the jurisdiction’s legislative framework. The Authority also continued to utilise external firms to conduct AML/CFT and Sanctions audits, and review the adequacy of licensees’ compliance framework, including their documented policy and procedures as well as the application of the same. Seventy-five persons and entities, registered as Exempted Persons under the Securities Investment Business Law, were required to have independent reviews of their AML/CFT and Sanctions framework. This sector will be an ongoing focus in the upcoming year as the Authority continues to leverage the results of the reviews conducted during 2018.

During the year, the Authority continued to employ thematic assessments to gain insight into licensees’ operations and management of risks. The Banking Supervision Division conducted in-depth reviews of the Internal Capital Adequacy Assessment Process of the 6 retail banks to better assess licensees’ capital planning and management process, as well as their overall risk management framework.

The Authority also engaged and participated in various supervisory colleges with regulators across all sectors. Participation at such events helps to ensure that licensees are provided with an informed and cohesive regulatory oversight, subject to consolidated supervision.

Active engagement with the National Association of Insurance Commissioners (“NAIC”) in the United States was another priority for the Authority. As the Authority seeks to ensure that regulators in key markets are informed of the regulatory framework of the jurisdiction, significant efforts were expanded to meet and engage with the executives of the NAIC and individual state commissioners. As a result of this, the Authority entered into a Memorandum of Understanding (“MOU”) with the NAIC. The MOU establishes a formal framework which recognises the increasing international activity in insurance markets and the corresponding need for mutual cooperation and the exchange of information between the relevant supervisory authorities as a mean of improving their effectiveness in administering and enforcing the insurance laws of their respective jurisdictions. As of 31 December 2018, the Authority has entered into 56 bilateral agreements and 6 multilateral agreements with other regulatory authorities.

STATEMENT BY MANAGING DIRECTOR

CLOSING

As every effort is made to ensure that the Cayman Islands remains a well-regulated financial services centre, the Authority will continue to promote the need for strength and stability within the industry. As such, I am particularly pleased to note that progress was made in a number of areas within the Authority's 2016 – 2018 Strategic Plan. Updates can be seen within the list of completed milestones.

Once again, I hereby extend my gratitude to the staff and Board of Directors for their support and dedication. During the year, the Authority filled several key positions, including the confirmation of a newly appointed Board of Directors, some of whom were reappointed. Each director brings a unique area of expertise to the table. Therefore, I am confident that they will all continue to make a significant contribution to the Authority's work in protecting and enhancing the Cayman Island's reputation as a leading and well-regulated international financial services centre.

Cindy Scotland
Managing Director

2016 - 2018 STRATEGIC PLAN MILESTONES COMPLETED

Enhanced Structural/Functional Reforms

Identified the need for Macro-prudential Unit

Optimise Efficiency of Resources

Developed a strategic facilities plan

Human Resources Enhancements

Implemented an enhanced employee benefit package

Strengthening Relationships with Other Key Markets

Organised continued visits to key jurisdictions

Enhanced Regulatory Profile

Participated in various local and international seminars, plenaries, supervisory colleges, meetings and conferences

Hosted two global conferences and participated in several external presentations

Enhanced Collaboration with Government and Private Sector

Maintained frequent dialogue with Government

Engaged in regular meetings with industry organisations and other local regulatory bodies

Enhanced Regulatory Framework

Updated AML/CFT framework and risk-based methodology, enhanced prudential on-site inspections and various regulatory laws

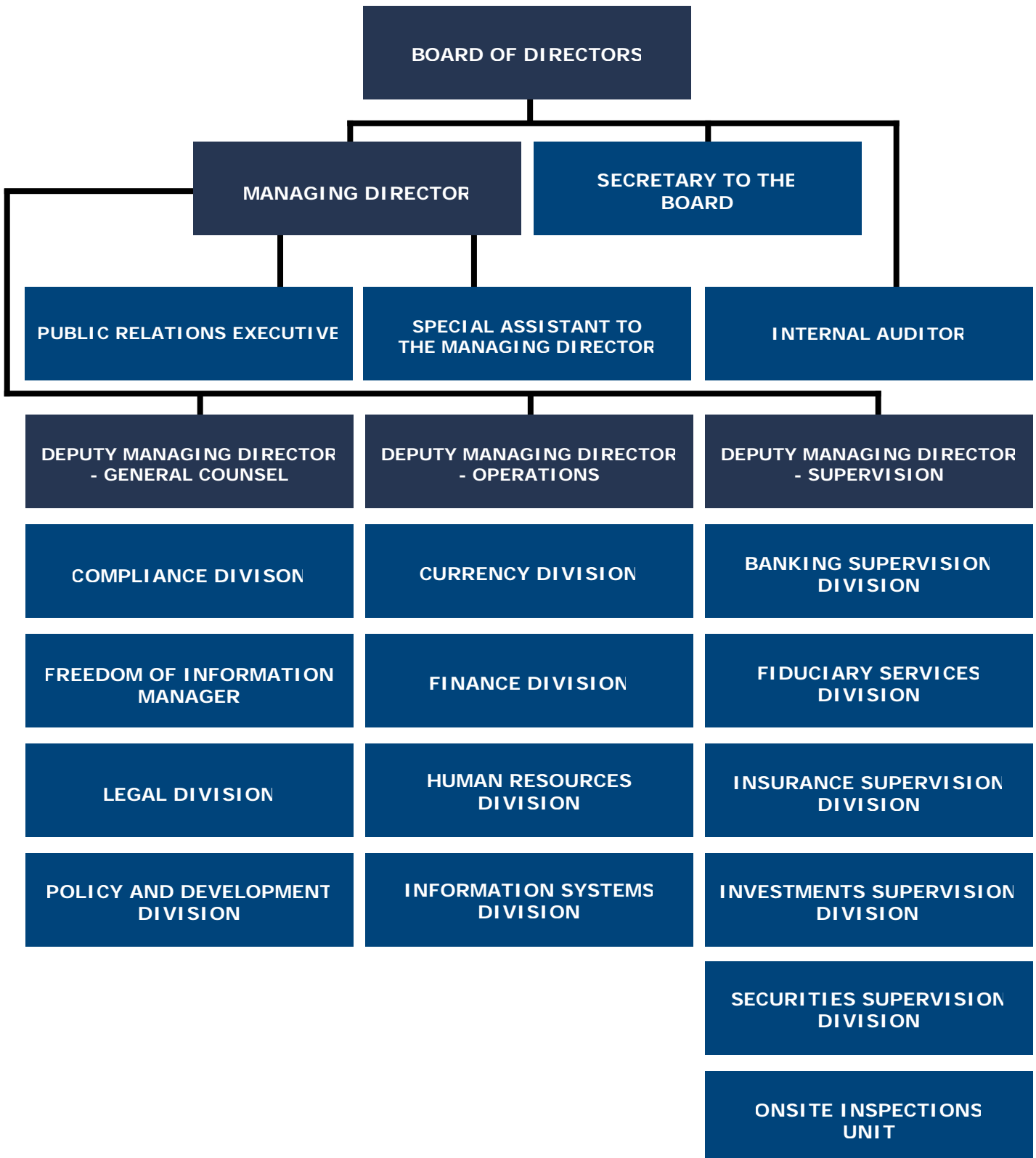
Enhanced Operational and Technology Functions

Completed additional automated functions and launched Escrow section of REEFS

Preserved Value and Integrity of Cayman Islands Currency

Co-hosted and participated in several public education and training seminars on counterfeit detection

ORGANISATIONAL CHART



BOARD OF DIRECTORS

As at 31 December 2018, the Board of Directors of the Cayman Islands Monetary Authority were as follows:

Mr. Wayne Panton, Chairman
Mr. Garth MacDonald, Deputy Chairman
Mrs. Cindy Scotland, Managing Director
Mr. George (Theo) Bullmore, Director
Ms. Pat Teufel, Director
Mr. Barry Kroeger, Director
Ms. Judith Watler, Director
Mrs. Patricia E. Estwick, Director



Seated (L-R): Mrs. Patricia Estwick, Mrs. Cindy Scotland and Ms. Pat Teufel

Standing (L-R): Mr. Barry Kroeger, Mr. Wayne Panton, Ms. Judith Watler, Mr. Garth MacDonald, and Mr. George (Theo) Bullmore

EXECUTIVE MANAGEMENT & SENIOR OFFICERS

Over the financial period of 1 January - 31 December 2018, the Executive Management and Senior Officers were as follows:



Managing Director
Cindy Scotland



**Deputy Managing Director/
General Counsel**
Langston Sibbles, QC



**Deputy Managing Director -
Operations**
Patrick Bodden



**Deputy Managing Director -
Supervision**
Anna McLean



**Head,
Investments and
Securities**
Heather Smith



**Deputy Head,
Investments and
Securities**
Juliette Maynard



**Acting Deputy
Head,
Securities**
Jessica Ebanks



**Head,
Fiduciary Services**
Rohan Bromfield



**Deputy Head,
Fiduciary Services**
Leticia Frederick



**Deputy Head,
Fiduciary Services**
Eric Wilson



Head, Banking
Gloria Glidden



**Deputy Head,
Banking**
Shakira Cox



**Deputy Head,
Banking**
Bettina Roth

EXECUTIVE MANAGEMENT & SENIOR OFFICERS



Head, Insurance
Ruwan Jayasekera



Deputy Head, Insurance
Razaak Busari



Deputy Head, Insurance
Suzanne Sadlier



Reinsurance Specialist
Peter Fox



Deputy General Counsel, Legal
André Mon Désir



Senior Legal Counsel, Legal
Angelina Partridge



Legal Counsel, Legal
Helen Spiegel



Legal Counsel, Legal
Menelik Miller



Head, On-site Inspection Unit
Kenton Tibbetts



Head, Compliance
Audrey Roe



Deputy Head, Compliance
Judiann Myles



Head, Policy and Development
Justine Plenkiewicz



Deputy Head, Policy and Development
Rayford Britton



Chief Financial Officer, Finance
Gilda Moxam-Murray



Deputy Chief Financial Officer, Finance
Tammy Archer



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



Internal Auditor
Deloris Gordon

ABOUT US

The following content will highlight activities of the Authority during the financial reporting period from 1 January - 31 December 2018 and hence this is a 12 month calendar report versus the previous report which was an 18 month fiscal year.

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 the anti-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 banks, money service business and non-bank deposit taking institutions 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 Service industries, in accordance with applicable regulatory laws, and regulations.

Insurance Supervision Division

The Insurance Supervision Division promotes and maintains a sound financial system by monitoring the activities of domestic and international insurance licensees through an integrated risk based supervisory approach of off-site and on-site supervision and by ensuring compliance with applicable 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 applicable laws and regulations.

Securities Supervision Division

The Securities Division is solely focused on the regulation of activities relating to securities investment business practitioners. The division regulates and oversees the activities of licensees and registrants 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 the applicable regulatory laws and regulations.

Structure

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.

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 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

ABOUT US

Structure

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.

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.

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 and Home Affairs.

Funding

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

During the reporting period, 26 new persons were hired to join the organisation (16 of whom were Caymanian and 10 non-Caymanians). Total staff complement as at 31 December 2018 was 217 with the organisation enjoying the synergies and benefits of a rich multicultural working environment that is inclusive of professionals from 18 different countries.

ABOUT US

Our People

Recruitment was steady throughout the year to build the expertise needed for the effective operation of the Authority. Of the 26 persons recruited, 19 were for the regulatory divisions, two technical support in legal, compliance, policy and statistics, with four operational (Human Resources, Finance and Information Systems) and an Internal Auditor appointed by the Board of CIMA.

Table 1 depicts total staff complement and employees who have technical experience with financial services supervision.

DIVISION	STAFF COUNT	REGULATORY EXPERIENCED STAFF
Banking Supervision	23	22
Compliance	14	13
Currency	7	N/A
Fiduciary Services	15	13
Finance	8	N/A
Human Resources	9	N/A
Information Systems	16	N/A
Insurance Supervision	25	23
Internal Audit	1	1
Investments Supervision	44	40
Legal	8	5
Managing Director's Office	10	5
On Site Inspection Unit	13	12
Policy & Development	18	17
Securities Supervision	7	6
Total	217	

Table 1: Total staff complement with technical experience and financial services supervision

Further information on the human resources and other related activities can be found on page 61.

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, regulates and supervises all banking entities operating in and from within the Cayman Islands. The division 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 licensees under the supervision of the division.

are not required to be licensed in the Cayman Islands but are entities created by statute and supervised by CIMA. As at December 2018, CIMA supervised two cooperative credit unions, one building society and one development bank.

Cooperative societies carrying on credit union business, building societies and development banks

Licensees	30-Jun-17	31-Dec-17	30-Jun-18	31-Dec-18
Category "A" Bank (Licensed)	11	11	11	11
Category "B" Bank (Licensed)	145	137	136	122
Money Services Business (Licensed)	5	5	5	5
Trust Company (Licensed)	61	60	60	54
Nominee (Trust) (Licensed)	23	23	23	21
Trust (Controlled Subsidiary) (Registered)	6	6	6	7

Table 2: Licences supervised by Banking Supervision Division, June 2017 - December 2018

Banking

The Banks and Trust Companies Law (2018 Revision), as amended, authorises CIMA to issue two main 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/

INDUSTRY OVERVIEW

Banking

cross-border business on their own account in the international market.

There were 133 banking licences in the jurisdiction at 31 December 2018 (31 December 2017: 148), down from 147 banking licences at 30 June 2018 (30 June 2017: 156). As at 31 December 2018, there were six retail Category “A” banks, five non-retail Category “A” banks and 122 Category “B” banks. Of the 133 licensees, 81 were branches, primarily from North America, South America and Europe, 38 were subsidiaries, and 14 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.

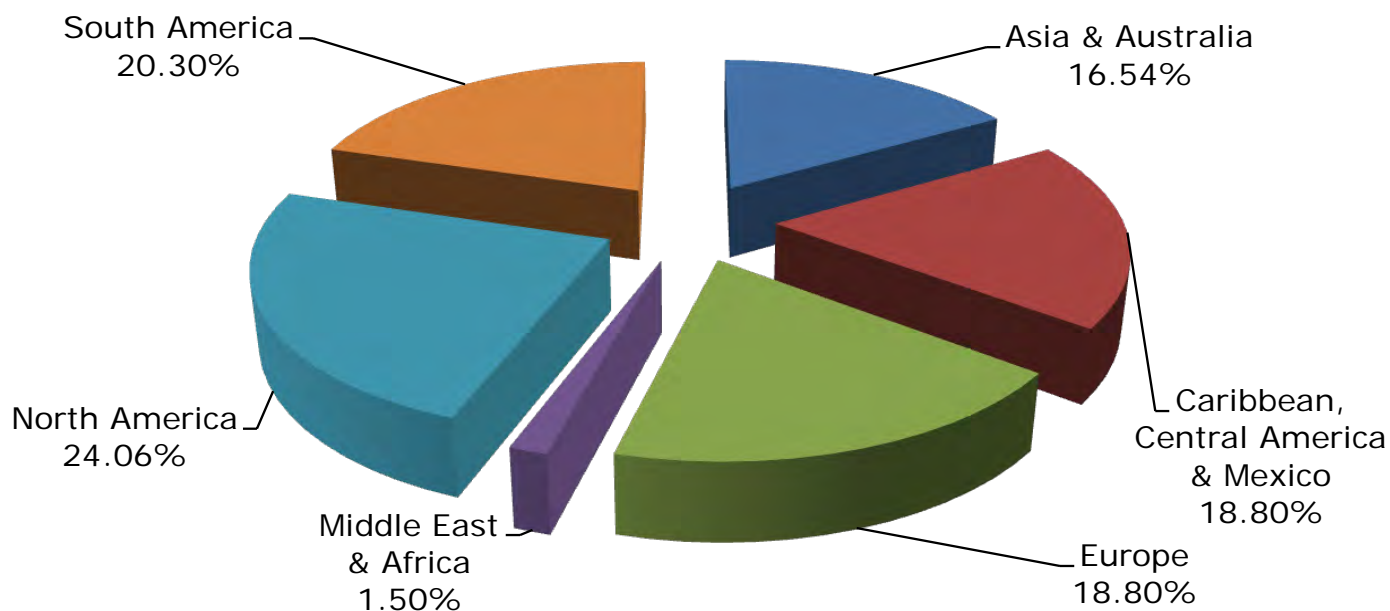


Figure 1: Region of Origin of Cayman-licensed Banks, December 2018

INDUSTRY OVERVIEW

Banking

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

licensed 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 10% from 148 at December 2017 to 133 at December 2018. Table 3 shows the number of banking licences from June 2012 to December 2018.

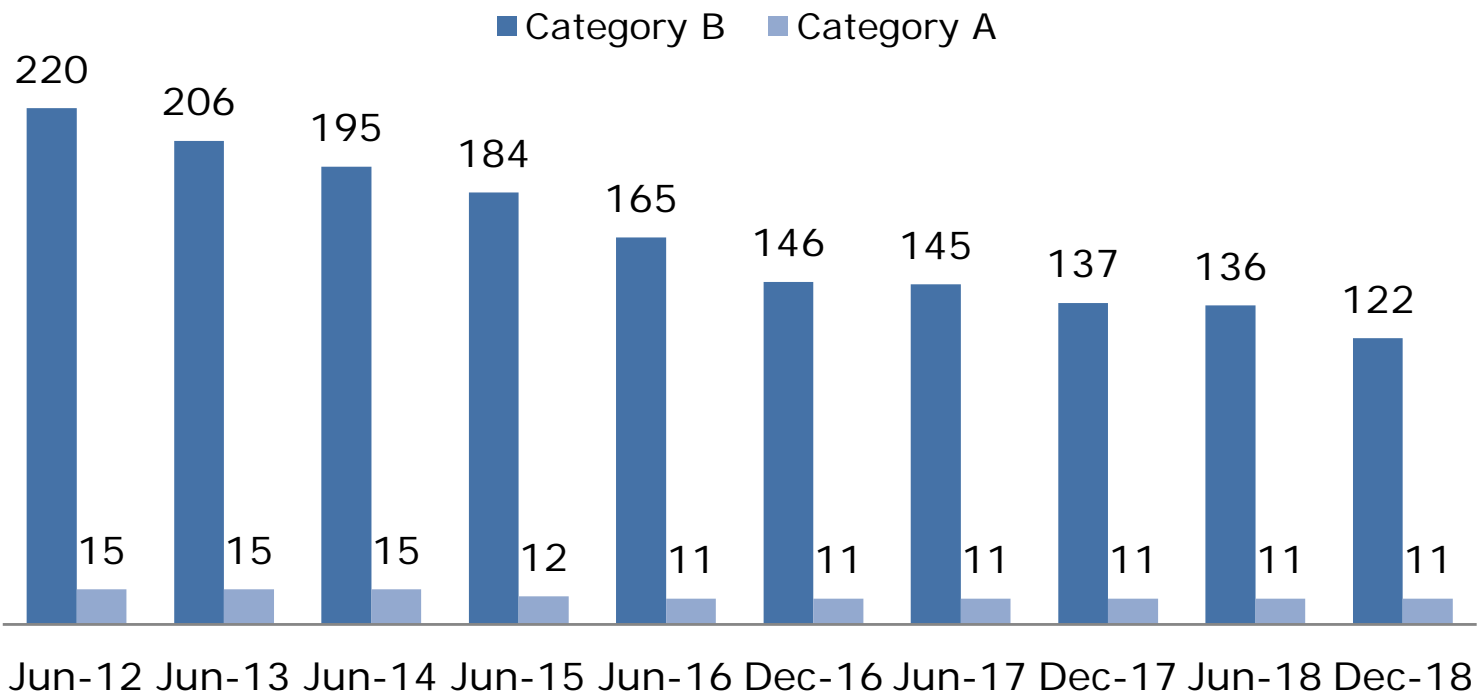


Figure 2: Number of Bank Licences, by Category, June 2012 – December 2018

Jurisdictional Comparison

As illustrated in Table 3, most of the comparative jurisdictions listed experienced a decline in the number of banks licensed since 2012, similar to the decline in the Cayman Islands. 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.

INDUSTRY OVERVIEW

Banking

Jurisdiction	2012	2013	2014	2015	2016	2017	2018	% change
								2012-2018
Cayman	218	209	193	179	157	148	133	-39%
Bahamas	102	101	97	96	95	85	84	-18%
Panama	92	92	91	93	91	88	85	-8%
Jersey	42	42	33	32	29	27	26	-38%
Luxembourg	141	147	144	143	141	139	136	-4%
Switzerland	271	298	281	273	269	257	251	-7%
Hong Kong	200	201	203	199	195	191	207	4%
Singapore	165	161	159	158	159	158	159	-4%

Table 3: Bank Licence Numbers - Selected Jurisdictions, 2012 - 2018

Banking Sector - Assets¹ and Liabilities²

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 2018 stood at US\$672 billion and US\$674 billion, respectively.

Total assets and total liabilities decreased from US\$934 billion and US\$934 billion, respectively, reported at 31 December 2017 (30 June 2018: US\$838 billion and US\$838 billion, respectively).

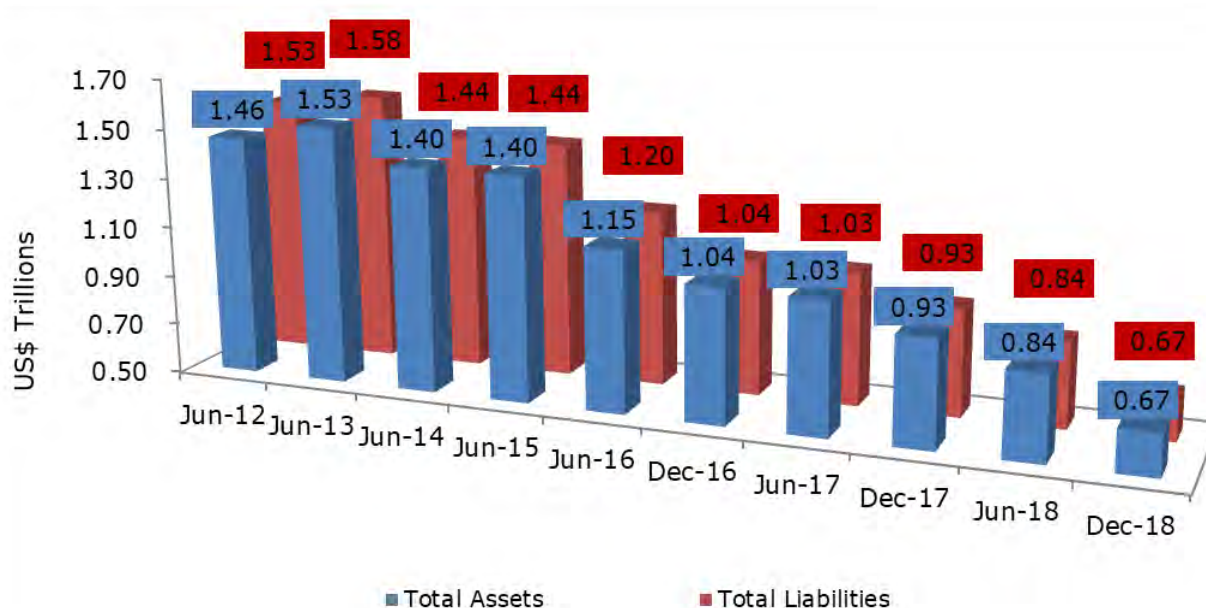


Figure 3: Total Assets and Liabilities of Cayman Islands-licensed Banks, June 2012 – December 2018

1 Assets comprise of financial assets only per the Bank for International Settlements (BIS) reporting methodology.

2 Liabilities include Equity Capital per the BIS reporting methodology.

INDUSTRY OVERVIEW

Banking

Of the total assets in the sector at 31 December 2018, cross-border assets and liabilities in domestic and foreign currency of US\$652 billion and US\$622 billion, respectively, were booked internationally with non-residents, which was a decrease from the US\$915 billion and US\$874 billion, respectively, reported at 31 December 2017 (June 2018: US\$838 billion and US\$838 billion, respectively). As at 31 December 2018, the jurisdiction ranked twelfth internationally³ in terms of cross-border assets

of US\$652 billion, and twelfth internationally³ by cross-border liabilities of US\$622 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 2018.

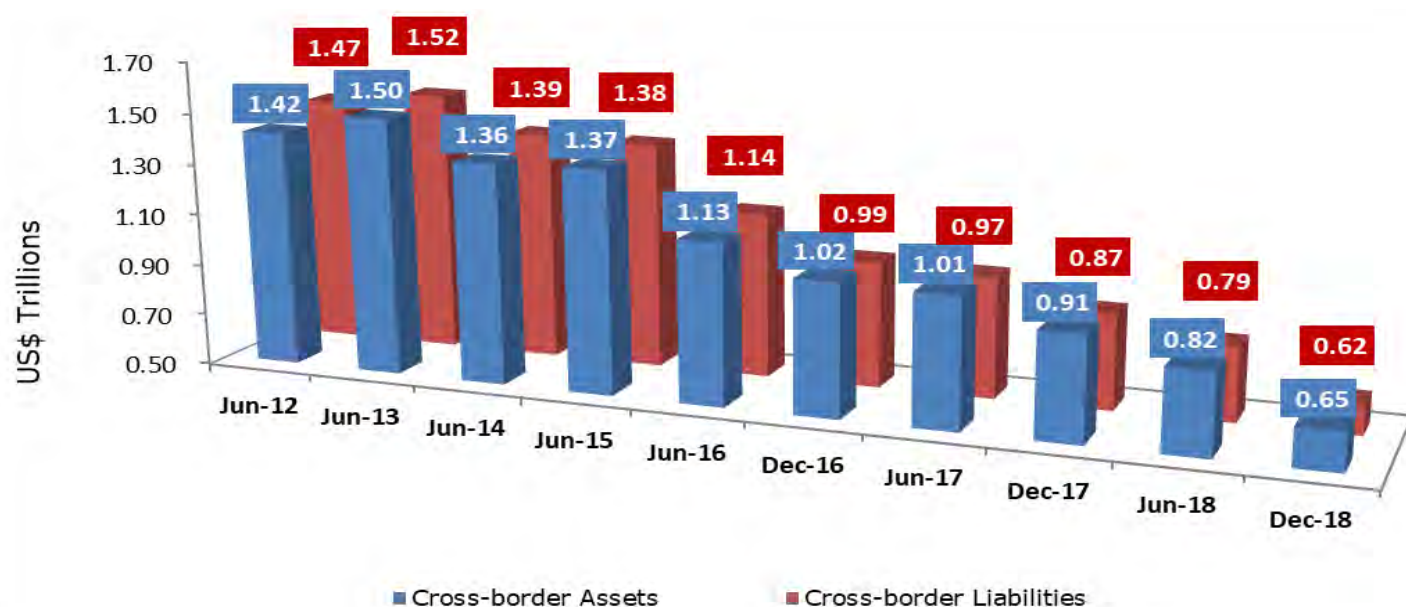


Figure 4: Cross-Border Assets and Liabilities of Cayman Islands-licensed Banks, June 2012 – December 2018

³ Source: Bank for International Settlements (BIS): https://www.bis.org/statistics/a2_1.pdf (legally resident by licence) and resident households.

INDUSTRY OVERVIEW

Banking

Cross-border assets and liabilities reported by banks licensed in the Cayman Islands have been declining since after 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 are continued cost cutting efforts and global restructuring.

Domestic Assets⁴ and Liabilities in Foreign and Local Currency

Of the total assets in the sector at 31 December 2018, domestic assets and liabilities in foreign currency of US\$17.7billion and US\$49.3 billion, respectively, were booked locally with other Cayman Islands licenced entities. Domestic assets in foreign currency increased from US\$17.2 billion reported in December 2017 (June 2018: US\$16.9 billion) and foreign liabilities in foreign currency decreased from US\$57.7 billion reported in December 2017 (June 2018: US\$50.9billion). 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 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 2018.

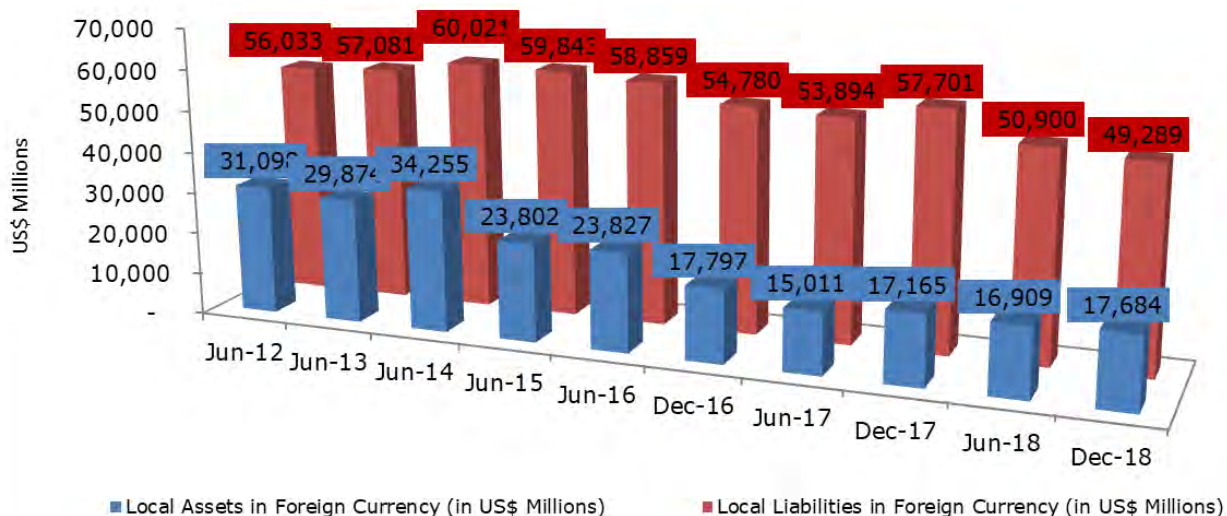


Figure 5: Domestic Assets and Liabilities of Cayman Islands-licensed Banks in Foreign Currency, June 2012 – December 2018

⁴ 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.

INDUSTRY OVERVIEW

Banking

Domestic assets and liabilities in local currency of US\$2.3 billion and US\$2.1 billion, respectively, were booked locally as at 31 December 2018. This is fairly consistent with the June 2018 numbers of US\$2.1 billion and US\$2.1 billion, respectively and the December 2017 numbers of US\$2.2 billion and

US\$2 billion, respectively. The majority of these domestic positions were loans and deposits with domestic households and non-financial private sector corporations.

Domestic Sector – Category ‘A’ Retail Banks

The domestic market continues to be serviced by six retail banks (December 2017: six and June 2018: six), who held assets of US\$14.7 billion as at December 2018 (December 2017: US\$15.4 billion and June 2018: US\$14.3 billion). Of the US\$14.7 billion of assets booked by the retail banks, US\$4.2 billion were positions with residents and US\$10.5 billion were positions with non-residents. As at 31 December 2018, the retail banks reported US\$8.4 billion of deposits from residents and US\$4.1 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. The sector has 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 as a per cent of total gross loans.

INDUSTRY OVERVIEW

Banking

Indicator (%)	2012 Year End	2013 Year End	2014 Year End	2015 Year End	2016 Year End	2017 Year End	2018 Year End
Capital Adequacy							
Regulatory Capital to Risk-Weighted Assets	19.7	18.3	17.6	18.9	19.0	22.2	25.5
Regulatory Capital to Total Assets	9.7	9.6	10.7	10.5	10.8	11.5	12.9
Asset Quality							
Nonperforming Loans to Total Gross Loans	3.2	3.8	2.7	2.5	2.1	1.8	1.6
Specific Provisions to Impaired Loans (Coverage Ratio)	25.8	23.2	29.9	33.5	35.1	42.1	48.7
Earnings and Profitability							
Return on Equity (net income to average capital [equity])	9.4	8.4	8.1	11.2	13.3	13.0	15.3
Return on Assets (net income to average total assets)	1.1	0.9	0.9	1.3	1.5	1.6	2.0
Interest margin to gross income	70.1	69.6	71.9	69.7	69.9	70.0	73.1
Non-interest expenses to gross income	53.6	58.0	58.3	54.0	50.2	48.7	43.9
Liquidity							
Liquid assets to total assets (liquid asset ratio)	33.0	35.5	24.2	25.7	24.5	33.5	32.7

Table 4: Financial Soundness Indicators, December 2012 – December 2018

Capital Adequacy Ratios (CAR)

The CAR for the six retail banks increased from 19.7% at the year ended December 2012 to 25.5% at December 2018 (December 2017: 22.2%), and has remained comfortably above the minimum CAR requirement of 10% set by CIMA.

Asset Quality

Nonperforming loans (“NPLs”) as a per cent of total gross loans for the retail banking sector decreased from 3.2% at the year ended December 2012 to 1.3% at December 2018 (December 2017: 1.8%). The quality of the loan portfolio remained high, reflecting improved asset quality due to continued improvements in macroeconomic conditions including increased employment and an overall improvement in economic activity.

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 15.3% at December 2018 (December 2017: 13%), partly due to a reduction in the provisions for credit losses/recoveries, coupled with gains in net interest margins. The ROA ratio was more stable over the period, increasing from 1.1% in December 2012 to 2.0% in December 2018.

Banking

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 32.7% at December 2018. The significant rise in the liquidity ratio in 2018 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 Liquidity Coverage Ratio and the Net Stable Funding Ratio which will become effective on 1 June 2019.

The CAR for the six retail banks increased from 19.7% at the year ended December 2012 to 26.7% at December 2018 (December 2017: 22.2%), and has remained comfortably above the minimum CAR requirement of 10% set by CIMA.

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 10.9% at December 2018 (December 2017: 13%), 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 1.4% in December 2018.

INDUSTRY OVERVIEW

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 2018 amounted to US\$234.8

million, an 8% increase from US\$217.5 million in December 2017. In comparison, remittance inflows to the Cayman Islands amounted to US\$8 million for the year ended December 2018, an increase from US\$7.7 million for the year ended December 2017.

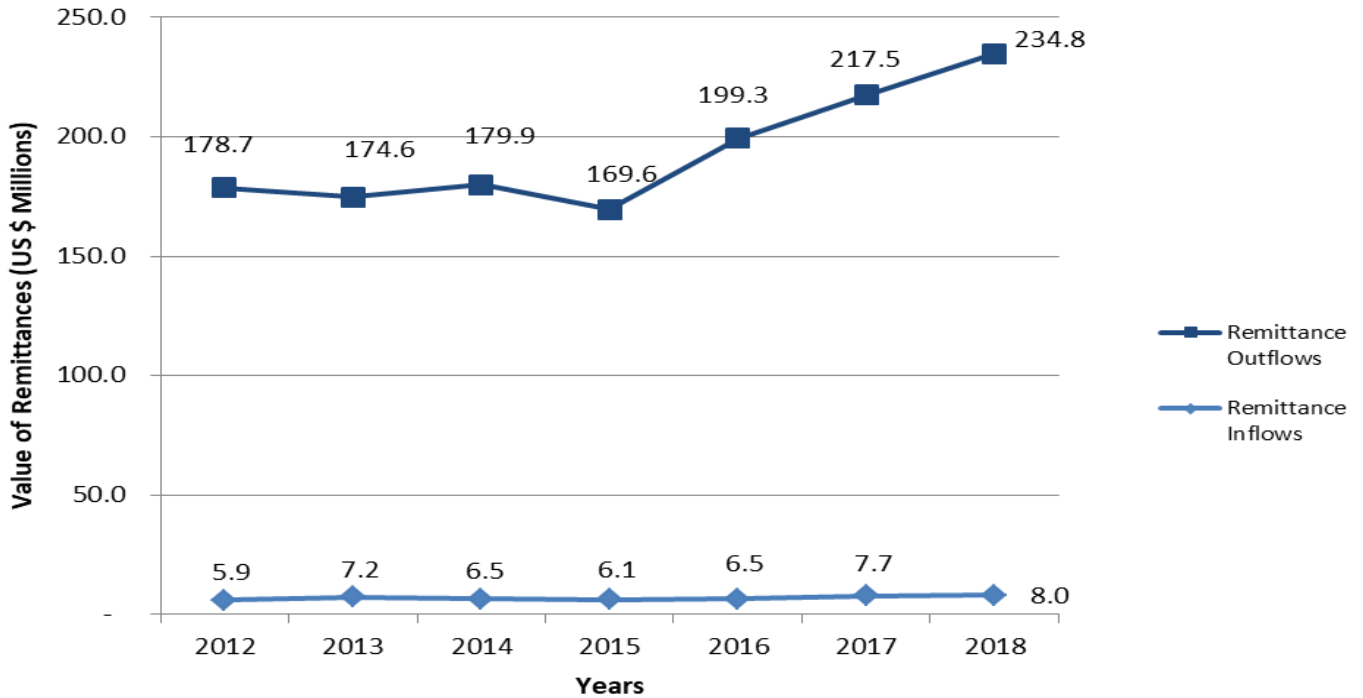


Figure 6: Total Remittance Outflows and Inflows, December 2012 – December 2018

INDUSTRY OVERVIEW

Money Services Businesses

Figure 6 shows the average remittance outflows and inflows from December 2012 to December 2018. Average remittance outflows remained stable between December 2012 and December 2015, followed by an increase of 38% between December 2015 and December 2018. The increase in remittance outflows was driven by demand in the sector. Remittance inflows have increased by 36% over the same period.

As noted in Figure 7 below, Jamaica remained the largest recipient of remittances from the Cayman Islands during the year ended December 2018, with 57% (December 2017: 59% and June 2018: 57%) of the US\$234.8 million flowing to Jamaica. The Philippines, Honduras and the United States of America constitute a further 29.1% of remittance outflows.

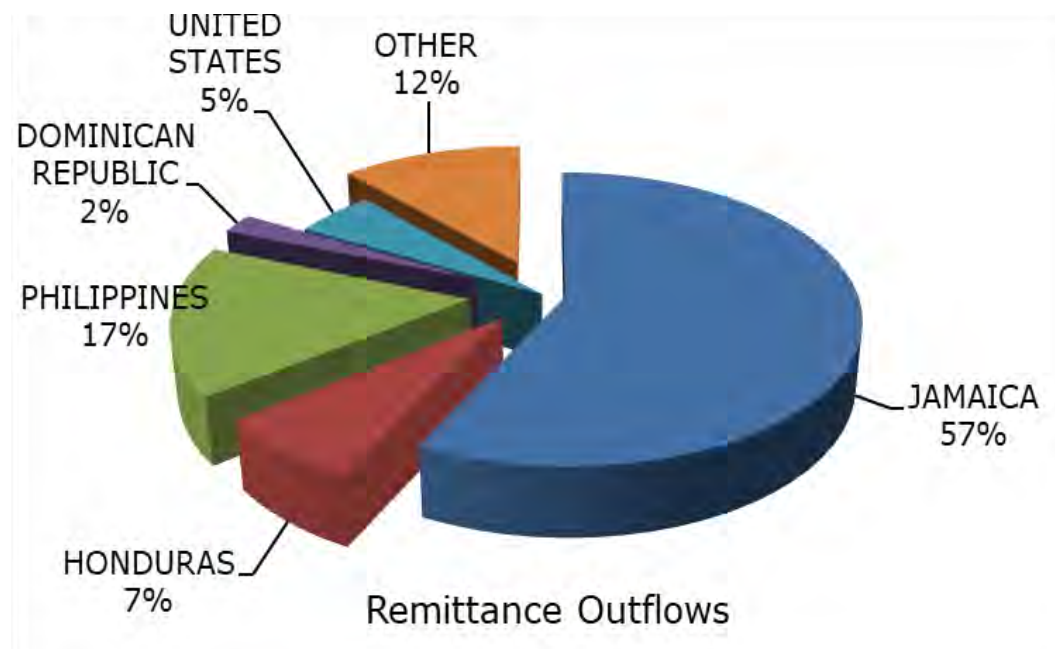


Figure 7: Proportion of Total Remittance Outflows, December 2018

INDUSTRY OVERVIEW

Money Services Businesses

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% of all remittances inflows (December 2017: 49.6% and June 2018: 50.1%).

Jamaica also constitutes a relatively high percentage of remittance inflows, with 13% of all remittances flowing in from Jamaica.

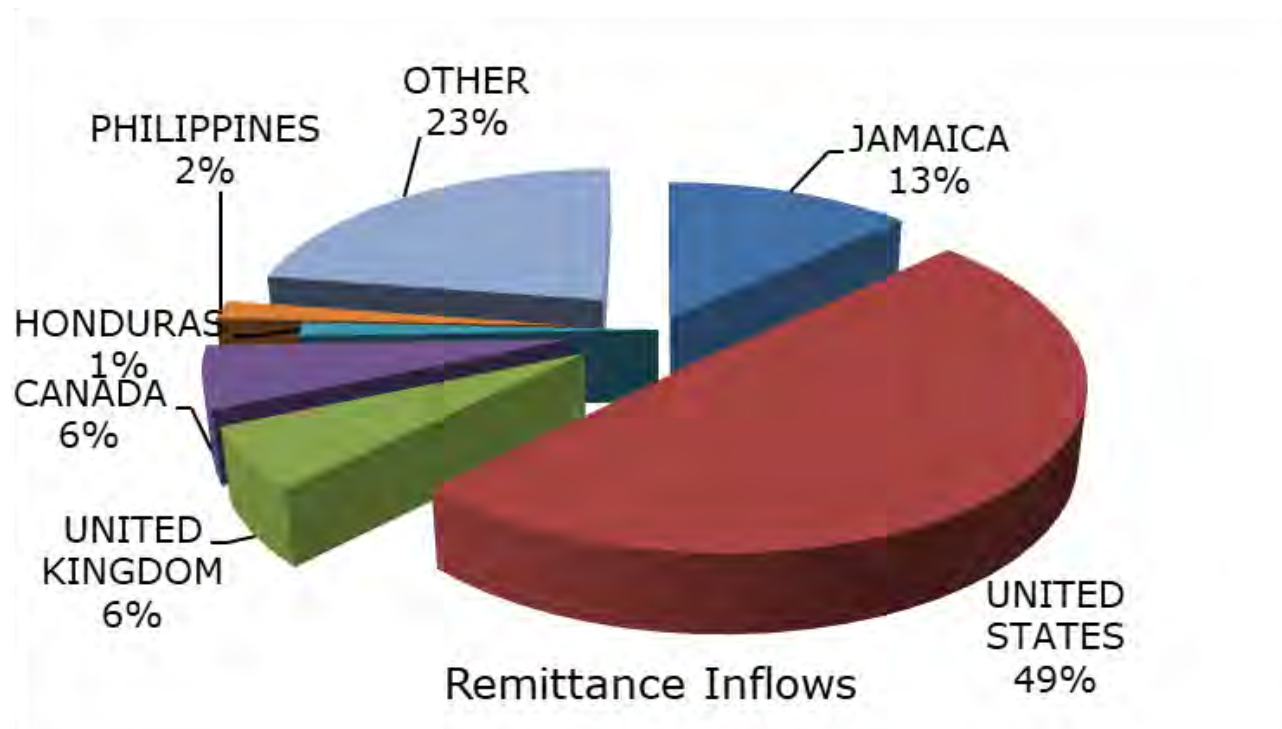


Figure 8: Proportion of Total Remittance Inflows, December 2018

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

The Sector

Corporate trust business carried out in and from the Cayman Islands is regulated pursuant to the Banks and Trust Companies Law (2018 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 393 companies providing these services in and from the jurisdiction as at 31 December 2018. Figure 9 shows the breakdown of trust companies by authorisation type from 1 January 2017 through 31 December 2017 and 1 January 2018 through 31 December 2018.

INDUSTRY OVERVIEW

Trusts

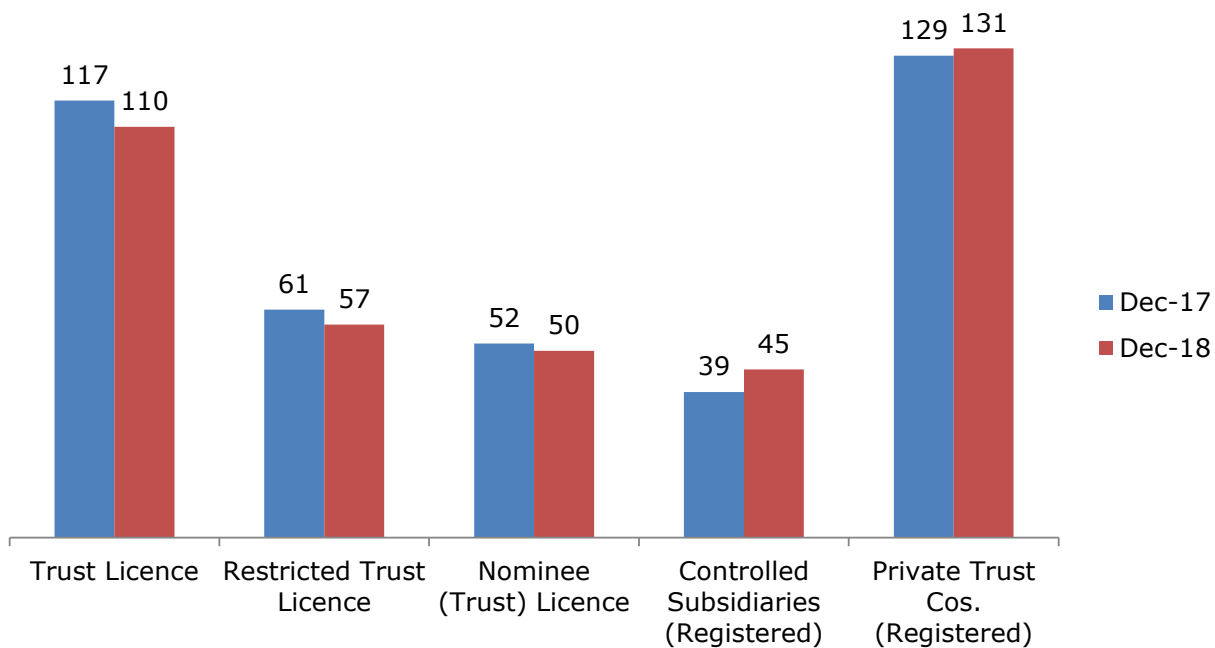


Figure 9: Number of Trust Licences by Category, 2017-2018

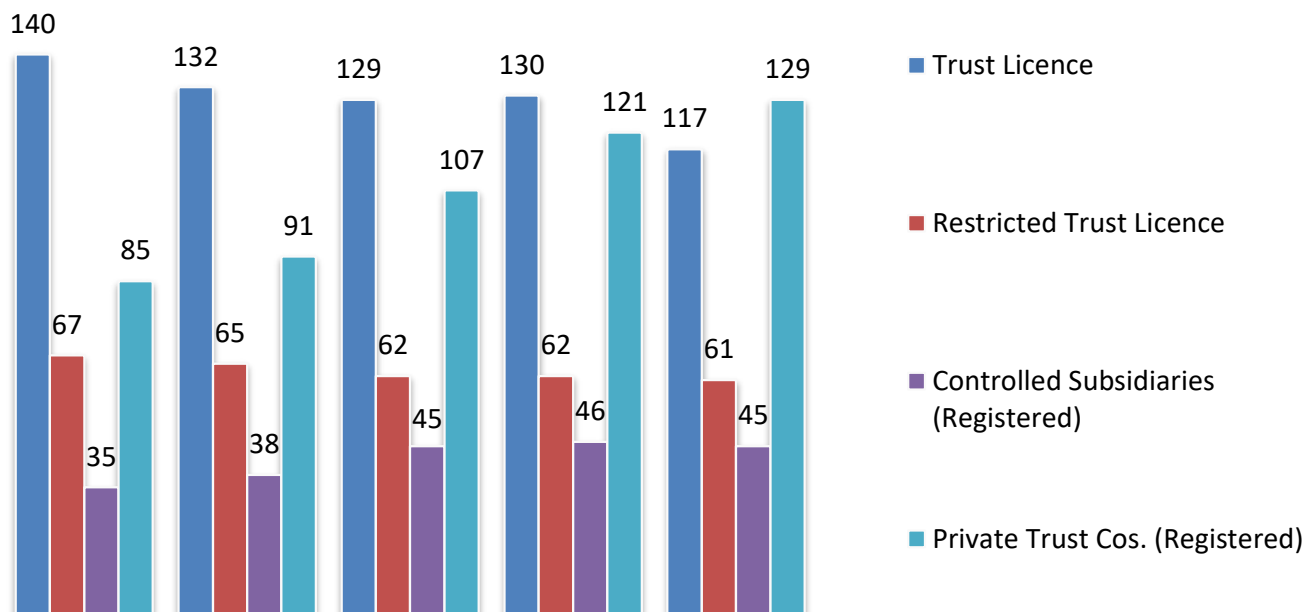


Figure 9a: Number of Trust Licences by Category, fiscal years 2013-2017

INDUSTRY OVERVIEW

Trusts

Licensed and registered trust companies in Cayman provide trust services, which include traditional discretionary family trusts, wherein families use the trust structure to manage and structure their wealth and effect succession and estate planning. Some trusts are set up to allow professionals to efficiently manage significant wealth to benefit families, charities, and other persons or causes for 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 reporting period 1 January 2018 through 31 December 2018. Overall, the sector remained fairly stable during this time.

Authorisation Type	Active as at 31 December 2017	Terminated 1 January 2018 - 31 December 2018	Issued 1 January 2018 - 31 December 2018	Active as at 31 December 2018
Trust Company (Licensed)	117	9	2	110
Trust Company - Restricted (Licensed)	61	4	0	57
Nominee Trust (Licensed)	52	2	0	50
Controlled Subsidiaries (Registered)	39	0	6	45
Private Trust Companies (Registered)	129	14	16	131
Total	398	29	24	393

Table 5: Trust Authorisation Activity, 1 January 2018 - 31 December 2018

Trusts

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 were a total of 131 private trust companies registered as at 31 December 2018. It is anticipated that this upward movement in registrations will continue.

INDUSTRY OVERVIEW

Corporate Services

The Sector

The Cayman Islands continues to be competitive among jurisdictions from which corporate/company management services are provided and the sector saw steady growth over the last several years (see Figure 10), however there was a slight decrease for 2017 and 2018, with 140 such companies active at 31 December 2018. For the period of 1 January 2018 through 31 December 2018 there was a decrease in the companies management licences by four and

an increase by four for a net total of 115 companies management licensees as of 31 December 2018.

For the period of 1 January 2018 through 31 December 2018 there was a decrease in the Corporate Services licences by one and an increase by one for a net total of 25 corporate services licences as of 31 December 2018. Currently, the net change in the total number of active licences for this sector is not indicative of a particular trend.

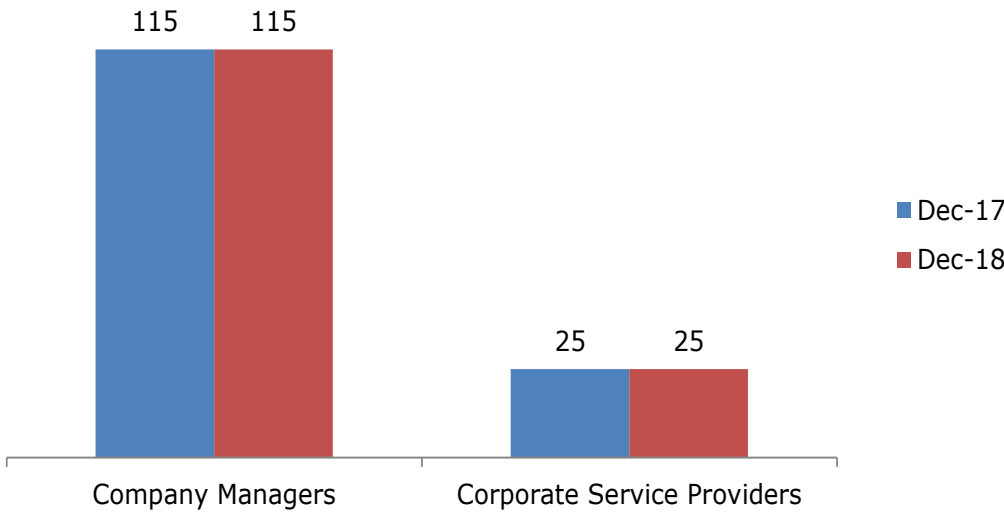


Figure 10: Number of Company Manager and Corporate Service Provider Licences, 2017-2018

Corporate Services

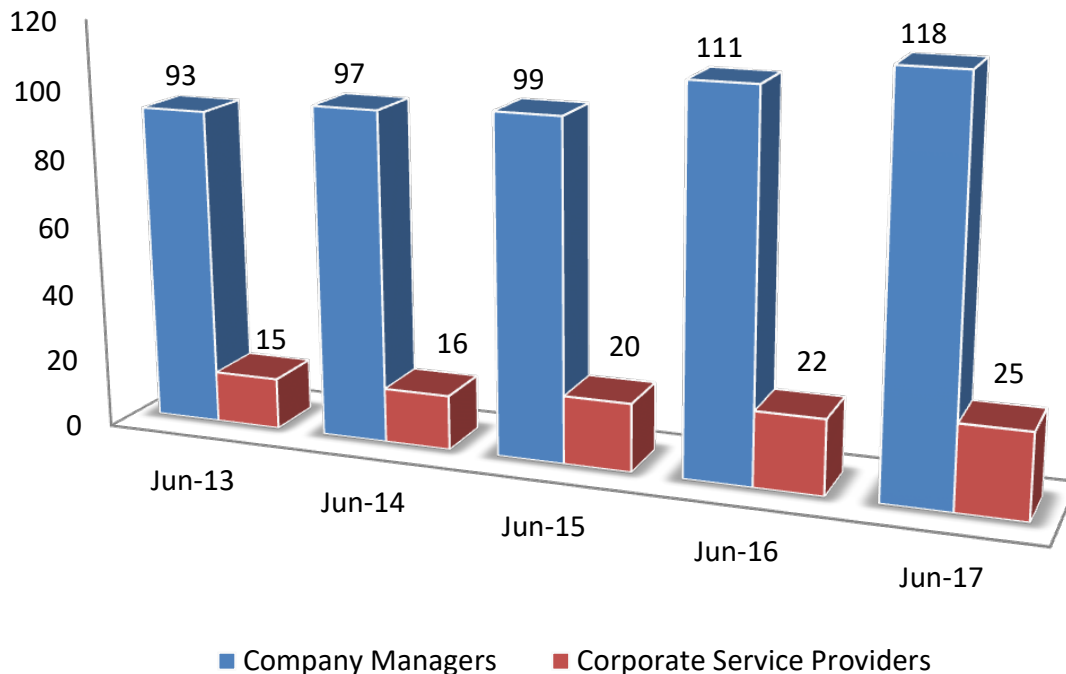


Figure 10a: Number of Company Manager and Corporate Service Provider Licences, 2013-2017

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 responsibility for these licensees.

Two licence categories are provided: a companies management licence allows the holder to provide company management services as listed in Section 3(1) of the Companies Management Law (2003 Revision) or any other corporate services as may be

prescribed under that section. A corporate services licence allows the holder to provide only the corporate services specified in Section 3(1)(a) through (e) of the Companies Management Law (2003 Revision). Licensed trust companies are also authorised to provide corporate services.

Authorisation Activity

Table 6 shows authorisation activity for company managers and corporate service providers for the current reporting period being 140 active licences. There was no net change in the number of active licences as at 31 December 2017 to 31 December 2018.

INDUSTRY OVERVIEW

Corporate Services

Authorisation Type	Active as at 31 December 2017	Terminated 1 January 2018 – 31 December 2018	Issued 1 January 2018 – 31 December 2018	Active as at 31 December 2018
Company Manager (Licensed)	115	4	4	115
Corporate Service Provider (Licensed)	25	1	1	25
Total	140	5	5	140

Table 6: Companies Management Authorisation Activity, 1 January 2018 – 31 December 2018

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. Table 7 shows the number of authorisations recorded in respect of applications made under the DRLL.

Authorisation Type	Active as at 31 December 2017	Active as at 31 December 2018
Registration - Exemption from licensing - Section 16(1)	111	112
Licence - Professional Director	45	55
Licence - Corporate Director	30	26

Table 7: Director Authorisation Activity made under the DRLL as at 31 December 2018

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 within 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 Agents⁵.

The International Insurance Segment

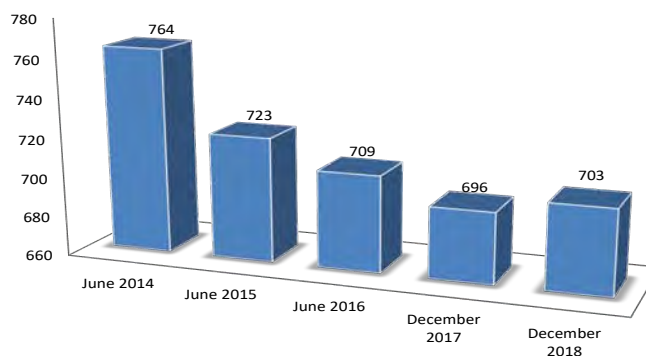


Figure 11: Number of Cayman Islands International (Class B, C, D) Insurer Licences, 2014–2018

⁵ 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”.

Insurance

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

The size of this market is evidenced by the number of insurance companies: 703 at 31 December 2018 (see Figure 11); the premiums generated: US\$15.4 billion in total at 31 December 2018, and the assets held: US\$68.7 billion in total at 31 December 2018 (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 companies⁶. The total number of insurance related licensees in the International Insurance Segment increased

from 696 at the end of 31 December 2017 to 703 as at 31 December 2018. Whilst traditional captives including healthcare captives continued to be formed in the Cayman Islands, the jurisdiction saw an increased diversity of new insurance companies formed in the Cayman Islands in 2018. A significant number of companies were formed as Class 'B(iii)' insurers to allow them to write significant unrelated business. In addition, there were a number of commercial reinsurance company formations in the Cayman Islands, both as start-ups and re-domestications from other jurisdictions.

As depicted in Figure 12, total assets increased by 12.5% and premiums written increased by 24.5% compared to 31 December 2017.

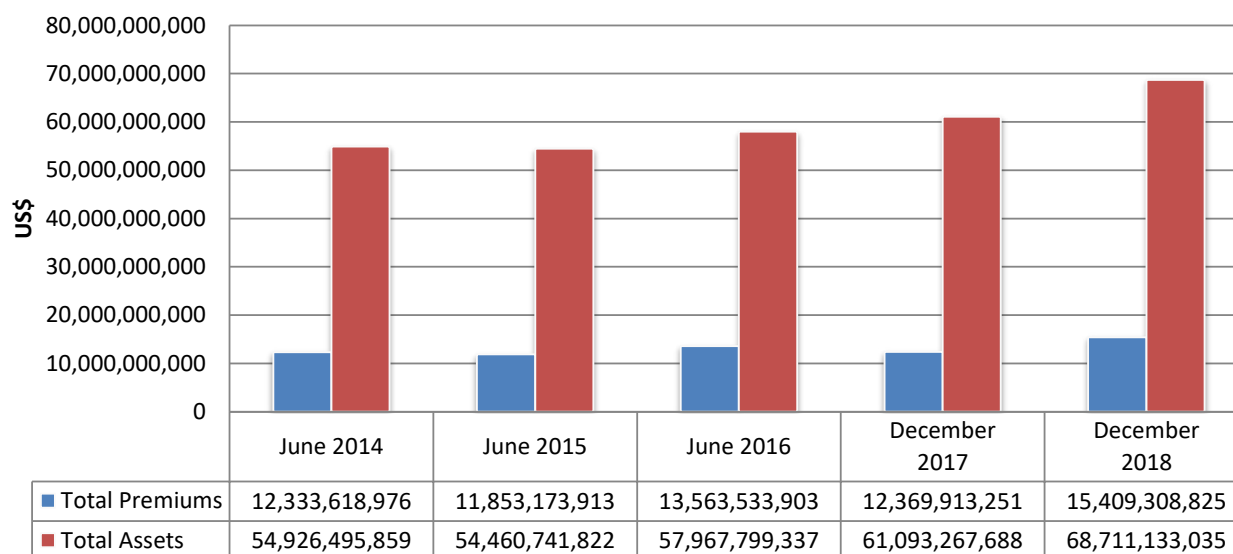


Figure 12: Total Premiums & Assets of Cayman Islands International (Class B, C, D) Insurer Licensees, 2014–2018

⁶ 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

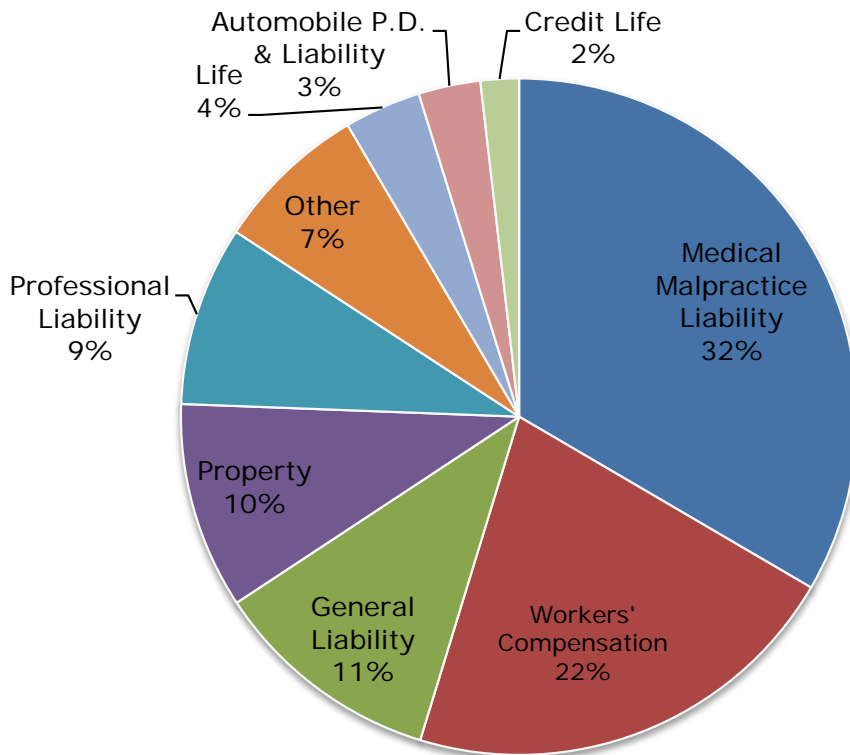


Figure 13: Cayman-Domiciled International Insurance Companies by Primary Class of Business, 31 December 2018

With 32% of Cayman's captives covering medical malpractice 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 catastrophe 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 Cayman began in the mid-1970s with the medical malpractice insurance crisis in the United States of America, and was later 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

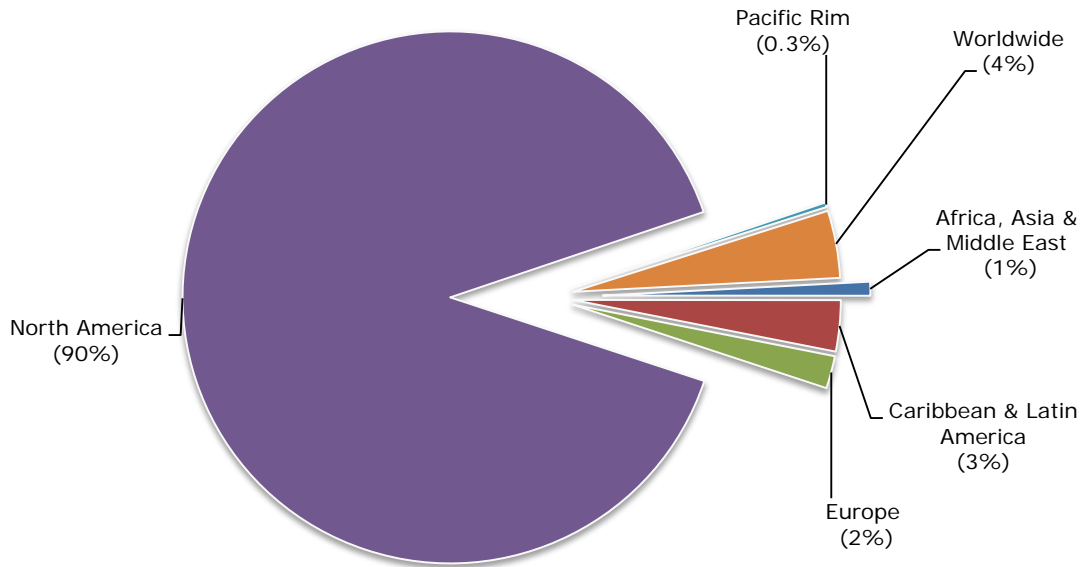


Figure 14: Cayman-Domiciled International Insurance Companies by Location of Risks Covered, 31 December 2018

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”) framework, that typically provides insurance coverage

for smaller organisations, Cayman became a leading jurisdiction for group captives. As at 31 December 2018, there were 149 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 2018, there were 19 PICs registered in the Cayman Islands.

Insurance

The Domestic Insurance Segment

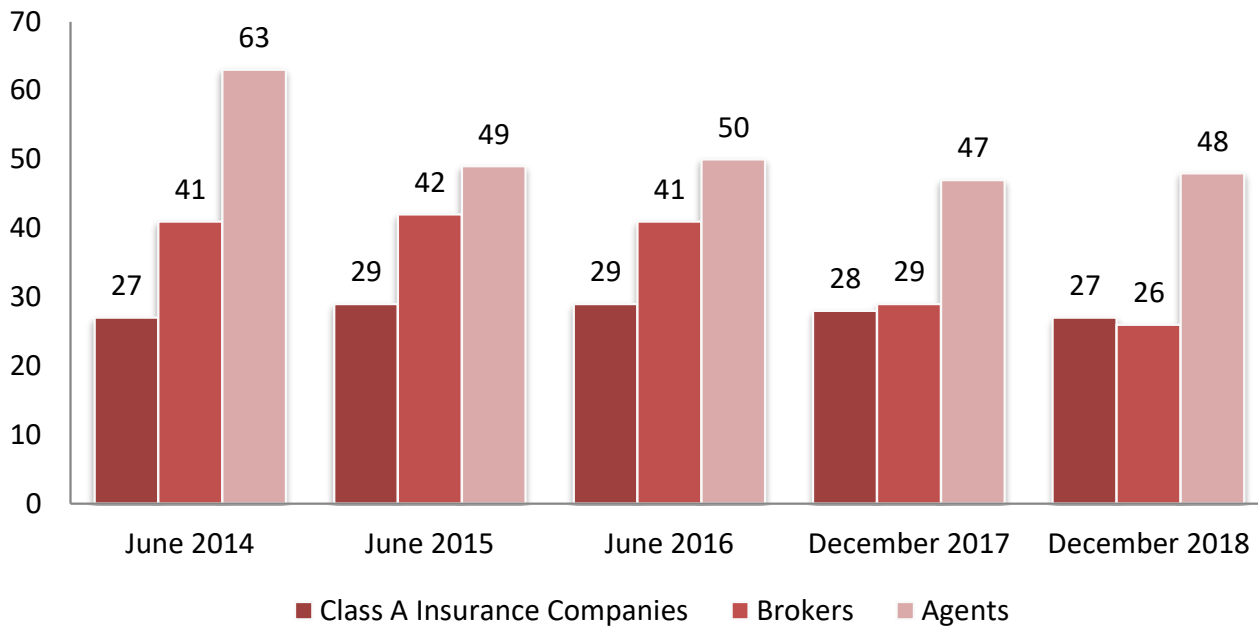


Figure 15: Number of Cayman Islands Domestic Insurance Licences, by Category, Fiscal Year-end 2014-2018

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 66% of premiums written by the sector for the calendar year 2017 (see Figure 16).

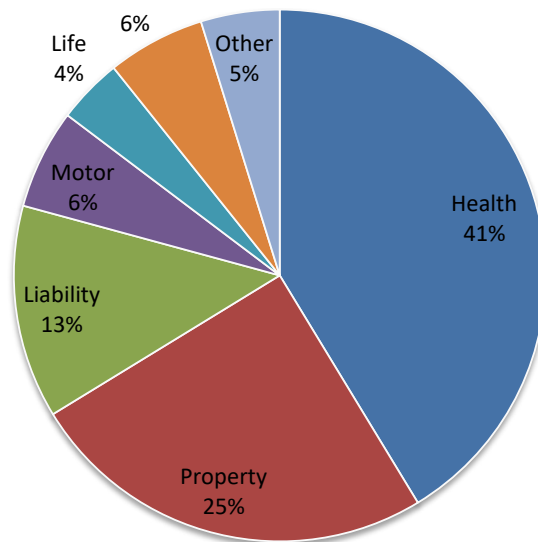


Figure 16: Coverage Provided by Class 'A' Insurers, Measured by Gross Written and Assumed Premiums, 2017 Calendar Year

INDUSTRY OVERVIEW

Insurance

Cayman's Insurance Industry Activity

At 31 December 2018, there were 830 licensees under supervision of the Insurance Supervision Division of CIMA. Of these, 27 were Class 'A' insurers, 674 were Class 'B' insurers, 25 were Class 'C' insurers, four were Class 'D' insurers, 48 were insurance agents, 26 were insurance brokers and 26 were insurance managers. The number of licensees

under supervision as at 31 December 2017, and the number of new licences issued and cancelled during the 12-month fiscal year ended 31 December 2018, are given in Table 8 below.

Licence Type	As at 31 Dec 2017	Cancelled 1 Jan 2018 - 31 Dec 2018	Issued 1 Jan 2018 - 31 Dec 2018	As at 31 Dec 2018
Class A	28	1	0	27
Class B, C, D	696	26	33	703
Insurance Managers	28	2	0	26
Brokers	29	3	0	26
Agents	47	4	5	48
TOTAL	828	36	38	830

Table 8: Insurance Licensing Activity 2017-2018

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 the leading jurisdiction for healthcare and group captives. During the reporting period of 1 January 2018 – 31 December 2018, 33 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, consolidation in the healthcare captive industry in the United States and continuing soft market posed challenges to the Cayman Islands' international market in 2018. 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 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.

INDUSTRY OVERVIEW

Insurance

Hedge funds' interest in the Cayman Islands' insurance and reinsurance market continued in the 2018 fiscal year. With the Cayman Islands 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 (re) insurers.

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 2018, there were 27 insurance companies operating in the Cayman Islands' domestic insurance industry. Of the 27 Class 'A' insurer licence holders in the market, 24 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 9, total gross written premium (GWP) and assumed reinsurance premium generated by the domestic insurance companies as at 31 December 2017 amounted to CI\$578.8 million. As in the past years, general insurance business, which includes health insurance business, led the market with a share of 91% of the total premium income. In 2017, general insurance business recorded a gross written premium and reinsurance premium income of CI\$528.1 million.

	Motor	Property	Liability	Marine	Health	Life	Other	Grand Total
Total premiums	35,104,213	144,452,902	75,041,945	34,443,223	239,095,985	22,977,065	27,722,682	578,838,016
Ceded premiums	12,914,666	114,035,043	2,582,663	0	36,679,819	2,810,302	938,011	169,960,505
Unearned premium adjustment	-274,244	5,523,085	-243,121	0	33,454	0	-2,837	5,036,338
NET EARNED PREMIUMS	21,915,303	35,940,944	72,216,161	34,443,223	202,449,620	20,166,763	26,781,834	413,913,848
Commission Received	4,469,871	20,150,716	419,956	0	5,326,870	0	\$43,541	30,410,955
TOTAL UNDERWRITING INCOME	26,385,174	56,091,660	72,636,117	34,443,223	207,776,490	20,166,763	26,825,375	444,324,803
Net Claims Paid	13,966,579	56,768,352	29,930,674	19,072,161	180,696,100	6,150,002	2,519,137	309,103,004
Movement in Claim Reserves	-1,027,999	13,490,863	1,459,985	19,213,286	-9,517,503	6,190,199	229,149	30,037,980
Acquisition cost	3,769,998	17,372,640	1,114,656	0	14,072,099	3,039,838	36,898	39,406,127
Other Underwriting Expenses	203,298.50	662,393.54	1,255,666	668,331.98	7,291,813.92	811,453.14	162,944.66	11,055,903
UNDERWRITING EXPENSES	16,911,877	88,294,248	33,760,981	38,953,779	192,542,509	16,191,492	2,948,128	389,603,014
UNDERWRITING PROFIT	9,473,297	-32,202,587	38,875,136	-4,510,556	15,233,981	3,975,271	23,877,247	54,721,789
Other Income	0	0	0		0	0	0	14,907,822
Other Expenses	0	0	0		0	0	0	32,939,966
TOTAL NET INCOME								36,689,644

Table 9: Domestic Insurance Company Statistics by Primary Class of Business as at 31 December 2017 (CI\$ based on audited financial statements)

Investments and Securities

Funds and Fund Administrations

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.

The Sector

The 2017 Investments Statistical Digest (“the Digest”) indicates that total gross assets of regulated funds increased by 13% from US\$6.1 trillion in 2016 to US\$ 6.9 trillion in 2017 and ending Net Assets increased by 12% from US\$3.6 trillion in 2016 to US\$ 4.0 trillion in 2017. 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.

The total number of funds as at 31 December 2018 was 10,992, compared to 10,559 for the same period 2017, an increase of 4% and the first increase since 2013. The Cayman Islands also continues to surpass other fund domiciles in terms of total numbers (see Table 10). The number of funds as at 31 December 2018 includes 7,654 registered funds, 2,946 master funds, 317 administered funds and 75 licensed funds (see Figure 17).

The Mutual Funds Law (2015 Revision) (“MFL”) makes provision for three categories of regulated funds: licensed, administered and registered, and charges the Authority with responsibility for their regulation and ongoing supervision. Licensed funds, commonly known as retail or public funds are governed by a more prescriptive regime than registered funds because they are open to the public. All operators

and promoters are vetted, offering documents must outline certain required information, calculation of net assets must be clearly defined and transparent, and assets must be segregated in accordance with governing rules.

Although Cayman Islands legislation refers to ‘mutual funds’, the vast majority of the funds regulated in the jurisdiction fall within the loose definition of a ‘hedge fund’ and are regulated as registered funds. A registered fund must either have a CI\$80,000 minimum subscription, or have its equity interest listed on a recognised (CIMA-approved) stock exchange. 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 9,323 regulated funds that filed a 2017 Fund Annual Return Form (“FAR”) with CIMA, 41% of the master funds and 31% 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, 55% and 72%, respectively, had a minimum initial investment of less than US\$50,000 (see Figure 19).

Investments and Securities

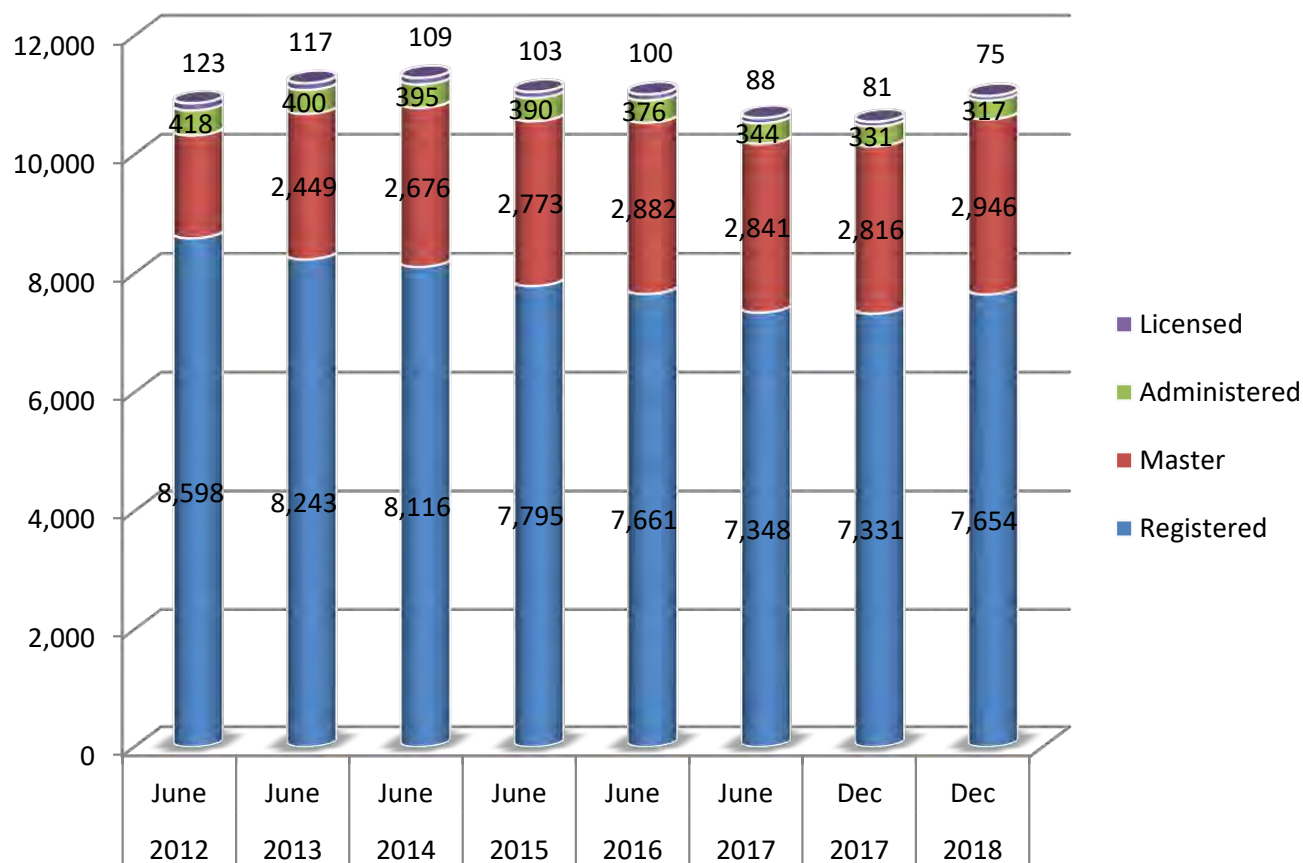


Figure 17: Number of Cayman Regulated Funds, by Category, Fiscal Year-end 2012-2018

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 be authorised by CIMA to carry out mutual fund administration, which is defined as providing 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.

A full mutual fund administrator licence allows the holder to provide administration to an unlimited number of funds, whereas a restricted mutual fund administrator licences allows administration of no more than 10 funds. See Figure 18, Mutual Fund Administrators by Category, 2012-2018.

Investments and Securities Cont'd

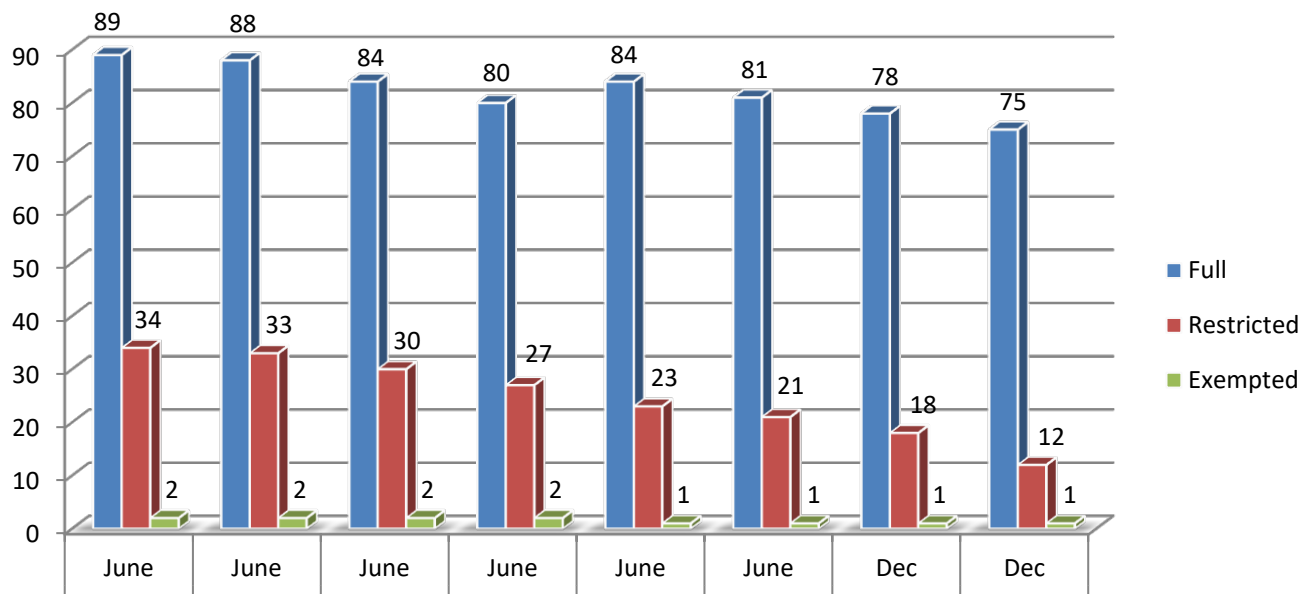


Figure 18: Number of Mutual Fund Administrators, by Category, 2012-2018

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 9,323 regulated funds that had a financial year-end in 2017 and that submitted the required FAR form via CIMA's electronic reporting system. These 9,323 funds had total gross assets of US\$6.9 trillion combined, and net assets of US\$4.0 trillion. Total subscriptions were US\$1.19 trillion and redemptions were US\$1.21 trillion. Total redemptions while higher than total subscriptions, were down over 2016 (US\$1.31 trillion). Dividends/Distributions of US\$38 billion were paid with Net Income reported at US\$383 billion.

Net income at US\$383 billion was almost three times the amount reported in 2016 (US\$128 billion) is indicative of the rebound in hedge funds' performance, resulting in increased capital inflows. The total return on gross assets was 5.52% (2016: 2.08%) and return on net assets increased to 9.50%, as compared to 3.56% in 2016. An 83% increase in performance fees further reflects the rebound in the funds' performance, as managers were able to meet

the high watermark and receive these fees.

The top five investment manager locations, as measured by net assets held by managers in these locations, remains 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 8.7% in the number of funds manager, with total assets under management of US\$1.19 trillion, up from US\$1.10 trillion in 2016.

Several major trends will continue to impact the popularity of mutual funds in the future. These trends include shifts in buyer behaviour as the millennial generation becomes a greater force in the investing market place, increased regulation and the transformation effect that block chain, robotic process automation and other emerging technologies will have on the industry. Artificial intelligence and machine learning will continue to increase the effectiveness and efficiency with which investment managers perform their tasks by automating activities such as content distribution, tagging and brand updates. Investment strategies for regulated funds within the

Investments and Securities

jurisdiction are being expanded to include investing in cryptocurrency, blockchain technology, Fintech, outperforming or replicating the performance of cryptocurrencies and indices related to crypto assets. Licensed mutual fund administrators who intend to provide services to these funds are therefore expanding their policies and procedures to address the related emerging risks, including risks associated with AML/CFT.

remained the primary location from which fund administration services (NAV Calculation and registrar and transfer agency (RTA)) was provided for these funds.

As reported in the digest, the Cayman Islands

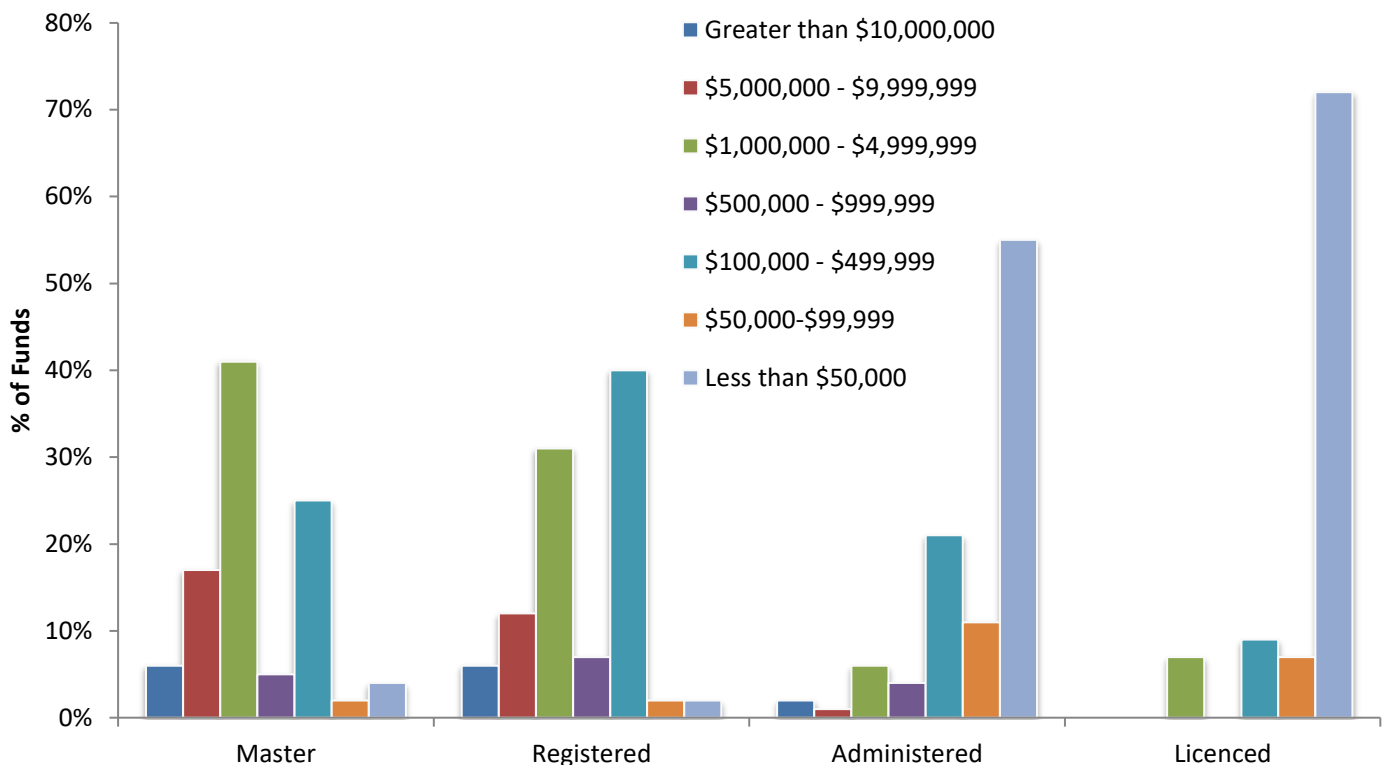


Figure 19: Minimum Initial Investment Required by Cayman-Regulated Funds Filing a Fund Annual Return for 2017

Investments and Securities

Authorisation Activity

Funds – For the reporting period of 1 January 2018 to 31 December 2018, 1,313 regulated entities were authorized and 850 regulated entities were terminated. For the previous fiscal year ending 31 December 2017, there were 1,172 authorizations and 1,205 terminations. The total number of regulated funds as at 31 December 2018 was 10,992 (comprising 7,654 registered funds, 2,946 master funds, 317 administered funds and 75 licensed funds) compared to 10,559 for the same period in 2017 (comprising 7,331 registered funds, 2,816 master funds, 331 administered funds and 81 licensed funds).

Administrators – The number of licensed mutual fund administrators decreased during the reporting period. There were 2 new mutual fund administrators' licence applications approved, and 11 licences cancelled during the reporting period. The Authority continues to process shareholding changes for mutual fund administrators, as the

trend continues within the fund administration industry towards consolidation into a few large global players. At 31 December 2018, there were 88 licensed mutual fund administrators (75 Full, 12 Restricted and 1 Exempted), compared to 97 for the fiscal year ending 31 December 2017.

Directors – Since the introduction of the Director Registration and Licensing Law, 2014 ("the DRLL"), there has been a positive upward trend in the registration and licensing of directors of covered entities. A "covered entity" being a company which is an Excluded Person subject to Sections 1 and 4 of Schedule 4 of the Securities Investment Business Law (2015 Revision) or a regulated mutual fund under the MFL. As of December 2018, there were 13,708 directors, registered or licensed pursuant to the DRLL, compared to 12,126 directors in 2017.

Jurisdictional Comparisons - Funds

Table 10 shows the number of active funds for calendar years 2012 to 2018 in Cayman and other financial jurisdictions for which figures are

available. As the figures demonstrate, the number of Cayman-authorized 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	% change ('17 v '18)	Latest available for 2018*
Bahamas	652	↑15%	750	↑10.7%	830	↑6.6%	885	↓2.9%	859	↓8.8%	783	↑2.6%	803
Bermuda	762	↓8.4%	698	↓7.3%	647	↓2.6%	630	↓9.1%	567	↓4.2%	543	↓3.3%	525
BVI	2,318	↓3.5%	2,238	↓4.3%	2,142	↓4.9%	2,037	↓20.8%	1,614	↓7.3%	1,499	↑0.2%	1,502
Ireland	703	↓0.4%	700	↓5.3%	663	↓0.2%	664	↑6.3%	706	↑4.7%	739	↑2.0%	754
Jersey	1,388	↓3.9%	1,334	↓0.8%	1,323	↓1.9%	1,320	↓9.5%	1,195	↓7.6%	1,104	↓7.6%	1,020
Guernsey	1,114	↓2.3%	1,088	↓3.7%	1,048	↓3.4%	1,012	↓2.9%	983	↓0.7%	976	↓0.7%	970
Cayman	10,841	↑5%	11,379	↓3.2%	11,010	↓0.6%	10,940	↓3.2%	10,586	↓0.3%	10,559	↑4.1%	10,992

Table 10: Regulated Fund Numbers - Selected Jurisdictions, 2012-2018 Calendar Year-end.

Investments and Securities

Securities

The Sector

Securities investment business conducted in and from the Cayman Islands includes: 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 the Authority, unless they meet the criteria to be excluded from the licensing requirement. In which case, they must be registered as ‘excluded persons’.

The majority of the licences issued are increasingly being made to stand-alone operations from major

jurisdictions that are seeking to expand their client base or established groups that conduct the same lines of business across the globe. This is as a result of the industry deeming the Cayman Islands as a well-established jurisdiction with a globally recognised regulatory regime for securities investment business.

The Excluded Persons registration 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, high net worth or sophisticated investors.

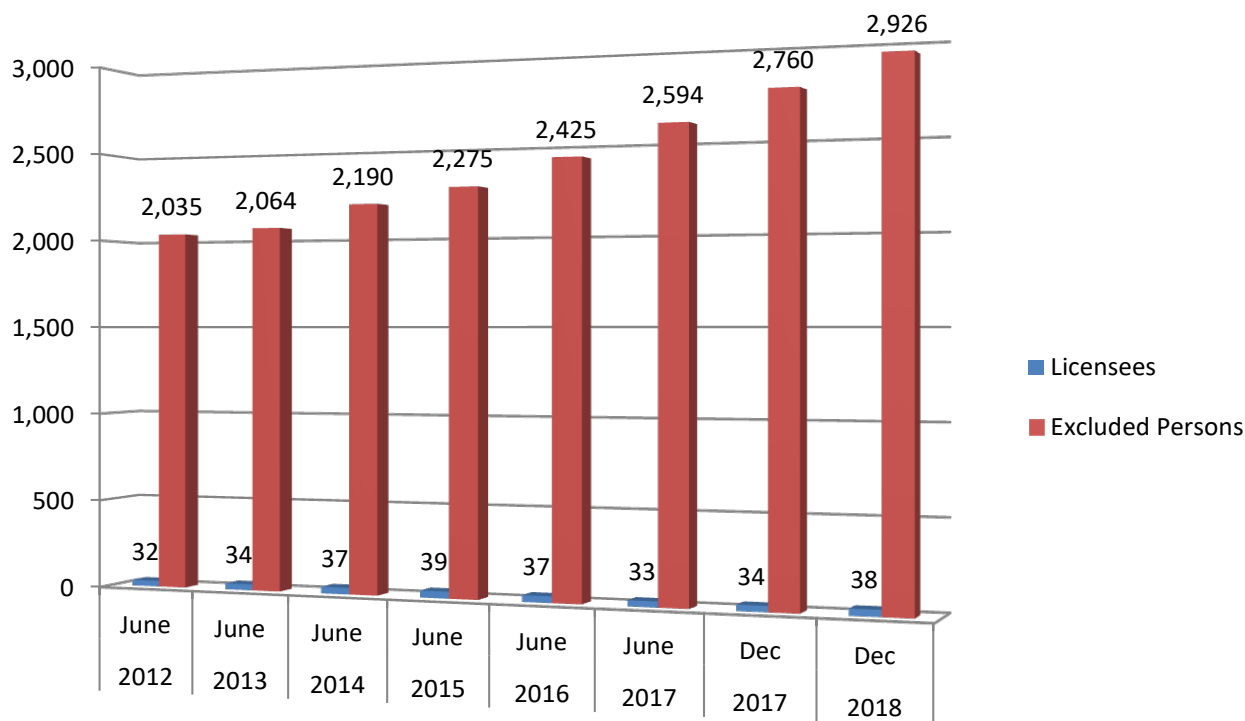


Figure 20: Number of Licensed and Registered Securities Investment Business Entities, June 2012-2018

Investments and Securities

Authorisation Activity

Licensees - For the reporting period 1 January 2018 to 31 December 2018, there were nine licence applications approved and five licences cancelled, in comparison to 2017 where there was one licence application approved and two cancelled. Licences granted predominantly relate to Broker-Dealers and/or Market Makers who offer foreign exchange trading and over the counter contracts for differences to retail, institutional and/or professional clients within various countries of the world. At 31 December 2018, there were 38 Securities Investment Business Licenced holders, compared to 34 for the fiscal year ending 31 December 2017.

Excluded Persons - As at 31 December 2018, there were 2,926 Excluded Persons, compared to 2,760 during the same period in 2017. This represents a 6% increase in registrations over the past year, with the expectation that this number will continue to increase.

The 2017 Investments Statistical Digest (“the Digest”) indicates that total gross assets of regulated funds increased by 13% from US\$6.1 trillion in 2016 to US\$ 6.9 trillion in 2017 and ending Net Assets increased by 12% from US\$3.6 trillion in 2016 to US\$ 4.0 trillion in 2017. 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 2018, the value of the currency reserve assets was

CI\$142.368m (31 December 2017: \$131.921m) representing 112.45% (31 December 2017: 110.36%) 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 77 and following).

Issue and Redemption of Currency

Currency in Circulation

At 31 December 2018, currency in circulation (excluding numismatic coins) stood at \$114.4 million in notes and \$12.2 million in coins, totalling \$126.6 million. This represents a 5.9% increase from the 31 December 2017 figure of \$119.5. Table 11 shows currency in circulation at half year and year-end from 2014 to 2018. Figure 21 shows currency in circulation by month from 2014 to 2018.

DATE	2014	2015	2016	2017	2018
30-Jun	91.7	94.9	106.9	112.2	117.9
31-Dec	95.5	107.7	115.6	119.5	126.6

Table 11: Currency in Circulation at Fiscal and Calendar Year-end, 2014-2018 (in CI\$m)

Execution of Monetary Functions

CURRENCY IN CIRCULATION BY MONTH FROM 2014 to 2018

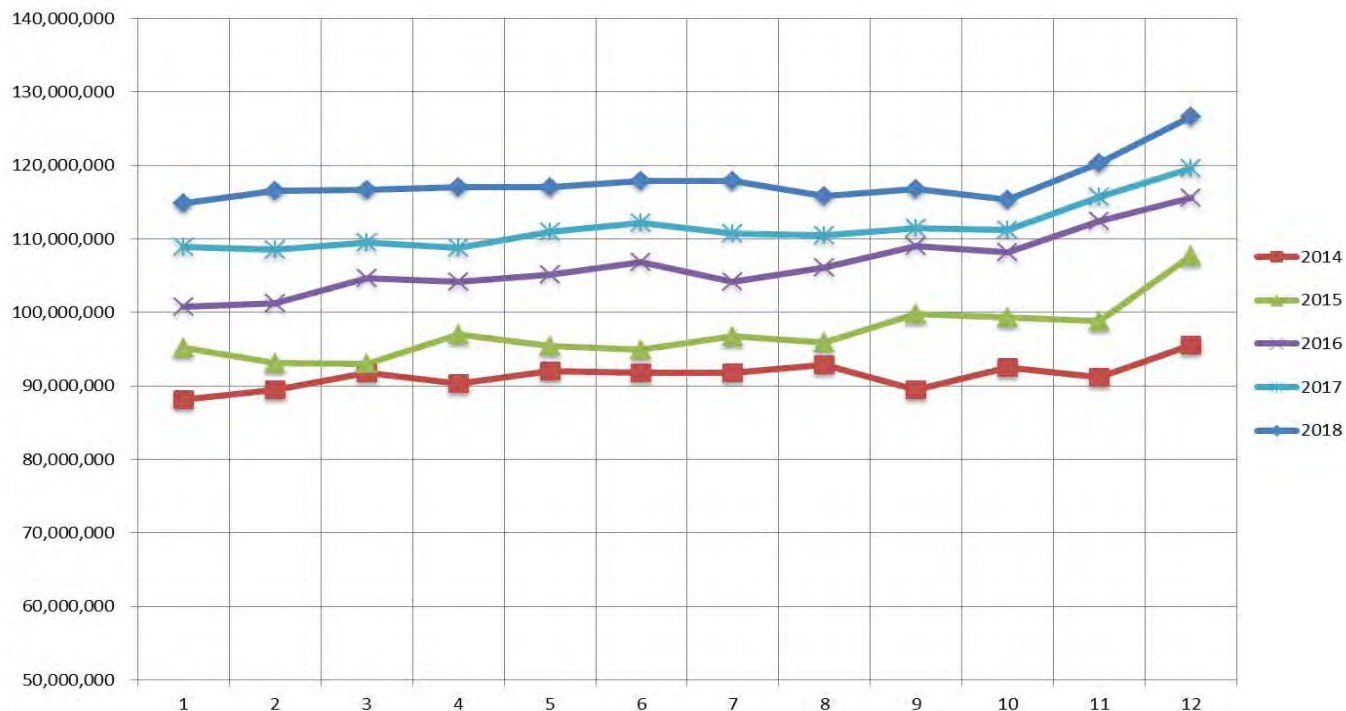


Figure 21: Cayman Islands Currency in Circulation by Month: 2014-2018

Counterfeit Detection

A total of 13 forged banknotes were detected and withdrawn from circulation in the fiscal year 1 January 2018 – 31 December 2018, compared to 11 detected and withdrawn in the prior fiscal year of 1 January 2017 – 31 December 2017.

Table 12 shows the number of forged banknotes, by denomination, which were withdrawn from circulation in each of the six-month periods between 1 January 2014 and 31 December 2018.

Execution of Monetary Functions

	Jan - Jun 2014	Jul - Dec 2014	Jan - Jun 2015	Jul - Dec 2015	Jan - Jun 2016	Jul - Dec 2016	Jan - Jun 2017	Jul - Dec 2017	Jan - Jun 2018	Jul - Dec 2018
\$100	1	0	2	0	1	2	1	6	3	1
\$50	0	0	0	0	0	5	0	0	1	0
\$25	0	0	0	0	0	0	0	4	0	0
\$10	2	1	0	0	0	0	0	0	5	3
\$5	0	0	0	0	0	0	0	0	0	0
\$1	0	0	0	0	0	0	0	0	0	0
Total No. of Notes	3	1	2	0	1	7	1	10	9	4
Total Dollar Value	\$120	\$10	\$200	\$0	\$100	\$450	\$100	\$700	\$400	\$130

Table 12: Counterfeit Cayman Islands Currency Notes Recovered, January 2014 - December 2018

Numismatic Coin Programme

At the request of the Cayman Islands Government, the Authority partnered with the Celebrate Cayman Committee to commission a silver commemorative coin as part of the 60th Anniversary of Our Coat of Arms. The Scottsdale Mint of Phoenix Arizona was the chosen mint and a one troy ounce of .999 fine silver coin with a face value of \$5 was designed by the Celebrate Cayman Committee Project Coordinator and former CIMA employee Kara Coe.

The Coat of Arms is depicted on the obverse side of the coin with the 60th Anniversary logo in partial colour on the reverse. The mintage limit for this coin was 250 which was well received and completely

sold out in less than 48 hours upon launching.

The coin was featured in the souvenir programme for our National Heroes Day 2019 celebrations under the theme Honouring Contributions to Our Coat of Arms. Two of the coins were also purchased and presented to the two living members of the 1956-1958 House of Vestry Mr. C. Lindberg Eden representing Prospect and Capt. Owen M. Farrington representing West Bay.

Execution of Monetary Functions



Obverse side of 60th Anniversary of Our Coat of Arms



Reverse side of 60th Anniversary of Our Coat of Arms

Under the enhanced five-year contract which was launched in 2017 with Scottsdale Mint to mint a coin named the Cayman Islands Atlantic Blue Marlin Silver Bullion Coin the Silver Coloured Commemorative Coin, the Gold Bullion Coin and the Gold Coloured Commemorative versions were minted in 2018. The Authority purchased a few of each of the three coins for resale and they were

well received over the Christmas holiday season. 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.



Execution of Regulatory Functions

Regulatory Regime

Framework

The framework for the 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 CIMA and regulated sectors operated as at 31 December 2018 are shown in Table 13.

Sector/ Entity type	CI Law	International Standards / Memberships
All	<ul style="list-style-type: none"> ▪ Monetary Authority Law (2018 Revision), ▪ Administrative Fines Regulations (2017) ▪ Proceeds of Crime Law (2018 Revision) ▪ Anti-Money Laundering Regulations (2018 Revision) ▪ Terrorism Law (2018 Revision) ▪ Public Management and Finance Law (2018 Revision), amendment and regulations ▪ Companies Law (2018 Revision), and amendments 	<p>Standards:</p> <ul style="list-style-type: none"> ▪ Financial Action Task Force Forty Recommendations on Money Laundering and Financing of Terrorism & Proliferation <p>Memberships:</p> <ul style="list-style-type: none"> ▪ Caribbean Financial Action Task Force ("CFATF") ▪ Regional Consultative Group for the Americas (Financial Stability Board)

Table 13: The Cayman Islands Monetary Authority Regulatory Framework as at 31 December 2018

continued on next page

Execution of Regulatory Functions

<p>Banks, trusts, money services businesses, credit unions, building societies, corporate services providers, company managers</p>	<ul style="list-style-type: none"> ▪ Banks and Trust Companies Law (2018 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 (2018 Revision) ▪ Companies Management Law (2018 Revision), amendments and regulations 	<p>Standards:</p> <ul style="list-style-type: none"> ▪ Basel Core Principles for Effective Banking Supervision⁷ ▪ Trust and Company Service Providers Working Group Statement of Best Practice produced by the Offshore Group of Banking Supervisors⁸ <p>Memberships:</p> <ul style="list-style-type: none"> ▪ 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
<p>Insurance companies, managers, brokers, agents</p>	<ul style="list-style-type: none"> ▪ Insurance Law, 2010, amendments and regulations 	<p>Standards:</p> <ul style="list-style-type: none"> ▪ International Association of Insurance Supervisors (“IAIS”) Core Principles of Insurance Regulation⁹ <p>Memberships:</p> <ul style="list-style-type: none"> ▪ IAIS ▪ Group of International Insurance Centre Supervisors (“GIICS”) ▪ Caribbean Association of Insurance Regulators (“CAIR”)
<p>Mutual funds, fund administrators, securities investment businesses (market makers, broker-dealers, securities arrangers, securities advisors and securities managers)</p>	<ul style="list-style-type: none"> ▪ 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 	<p>Standards:</p> <ul style="list-style-type: none"> ▪ International Organization of Securities Commissions (“IOSCO”) ▪ Offshore Group of Collective Investment Schemes Supervisors (“OGCISS”) <p>Memberships:</p> <ul style="list-style-type: none"> ▪ Offshore Group of Collective Investment Schemes Supervisors ▪ Caribbean Group of Securities Regulators ▪ IOSCO

⁷ As promulgated by the Basel Committee on Banking Supervision

⁸ 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.

⁹ 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

Regulation and Supervision

The Banking Supervision, Securities, Fiduciary Services, Insurance, and Investments 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 making 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 and full-scope inspections both in the Cayman Islands and overseas. The objectives of the inspection process are to understand the licensee's business activities and operating environment, to detect problems of compliance with the relevant laws and/or regulations, and to gather information on matters identified as requiring policy considerations.

Regulatory Developments

Rules, Guidelines and Policies

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

The division's development and advisory role entails research of international developments and initiatives; analysis of the impact on the local financial services industry; formulation of appropriate options for consideration by the Authority and providing policy advice to the Authority, including

recommendations 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 banking sector. The Statement of Guidance ("SOG") on Liquidity Risk Management for Banks aim to promote banks' ability to meet cash flow obligations during both normal and stressed conditions and prevent liquidity shortfalls which may result in system-wide repercussions affecting financial sector stability locally and at the global level. The SOG on Credit Risk Classification, Provisioning and Management aims to provide guidance on adequate asset loss provision policies and procedures to recognise measure and monitor asset impairment. The guidance also focuses on loss provision practices relating to the credit risk in problem assets.

The Authority has redefined its guidance on the Internal Capital Adequacy Assessment Process ("ICAAP") and Stress Testing which pertains to the Supervisory Review Process of the Basel II Pillar II framework. The Supervisory Review Process Rules and Guidelines and the Stress Testing Principles and Guidelines were revised in February 2018. These standards are intended to not only ensure that banks have adequate capital to support all their risks, but to also encourage banks to develop and use better risk management techniques in monitoring and managing these risks.

The regulatory measures issued in 2018 are listed in Table 14. 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

When Issued	Type of Standard	Title	Description
February 2018	Enforcement	Enforcement Manual	Enhancements to enforcement procedure that are more aligned with evolving international best practices and align the document with current versions of the Cayman Laws and practices of the Authority.
February 2018	Procedure	Appointing Controllers and Advisors, and Auditors for AML audits and Assessing Costs	To set out and describe the criteria the Authority will adopt when applying its expanded role as it relates to resolution powers.
May 2018	Rule	Market Conduct – Insurers, Agents and Brokers	Emphasizes the importance of proper market conduct for Insurers, Agents and Brokers. Insurers and Intermediaries should have a clear understanding as to what constitutes as fair and proper treatment.
May 2018	Guidance	Market Conduct – Insurers, Agents and Brokers	This guidance clarifies the role of Insurers and Intermediaries as mentioned in the above Rule.
May 2018	Policy	Licensing – Securities Investment Business	This policy applies to those who are applying for a Securities Business license. It lists requirements and assessment criteria needed to obtain the license.
June 2018	Policy	Net Worth and Liquidity – Trust and Corporate Service Provider	This policy sets out the minimum net worth requirement for Corporate Services Licensees. Also, it outlines the criteria against which the Authority will assess liquidity for Trust Licensees, Restricted Trust Licensees, Companies Management Licensees and Corporate Services Licensees. Lastly, its used to help ensure that licensees maintain adequate assets, that are readily available to them, and that are sufficient to: <ul style="list-style-type: none"> a) Meet expenditures even in fluctuating financial conditions; b) Minimize the risk of financial failure; and c) Allow for an orderly wind up, if necessary.
November 2018	Rule and Guidance	Liquidity Risk Management for Banks	This Statement of Guidance and Rule on liquidity standards aim to promote banks' ability to meet cash flow obligations during both normal and stressed conditions and prevent liquidity shortfalls which may result in system-wide repercussions affecting financial sector stability locally and at the global level.
December 2018	Rule and Guidance	Credit Risk Classification, Provisioning and Management	This Statement of Guidance aims to provide guidance on adequate asset loss provision policies and procedures to recognise, measure and monitor asset impairment. The guidance also focuses on loss provision practices relating to the credit risk in problem assets.

Table 14: List of Regulatory Measures Issued in 2018

Execution of Regulatory Functions

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

In 2018, the regulatory structure was revamped to strengthen the Cayman Islands' Anti-Money Laundering/Countering Financing of Terrorism (AML/CFT) framework and to enhance the AML/CFT related supervisory practices for a more robust

regulatory regime.

Revisions and amendments to the Cayman Island's AML framework include:

- Monetary Authority Law (2018)
- Monetary Authority (Administrative Fines) (Amendment) Regulations
- Guidance Notes on the Prevention and Detection of Money Laundering and Terrorist Financing in the Cayman Islands – November 2018

Other amendments and revisions included:

- Terrorism Law (March 2018),
- Proceeds of Crime Law (March 2018), Amendment (December 2018)
- Anti-Money Laundering Regulations (March 2018)

Terrorism Law

Revisions to the Terrorism Law expand the category of offences to which there will be extra-territorial application and those offences that may be attributable to a body corporate. In addition, the new law also outlines the new procedure for freezing the funds and economic resources of a designated person.

Proceeds of Crime Law

Amendments to this law provide additional duties, powers and operational functions for the Financial Reporting Authority and the Anti-Money Laundering Steering Group, and govern the relationship between the two entities.

CFATF Visit

Representatives of the CFATF conducted an assessment of the Cayman Islands AML/CFT regime from the 4-15 December 2017. During 2018 the Authority assisted the Government in the review

Execution of Regulatory Functions

process, liaising and engaging with the assessment team in reviewing draft reports and providing requisite data to facilitate the process. The Mutual Evaluation Report is in the final stages.

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 Pro-

priety and Procedure – Assessing Fitness and Propriety⁹. The Compliance Division, which is tasked with conducting due diligence on applicants that the regulatory divisions refer to it, received 284 such applications during the reporting period of 1 January 2018 to 31 December 2018. A breakdown of the due diligence requests by regulatory division is reflected in Table 15.

Division	Banking	Fiduciary	Insurance	Investments	Securities	Total
Applications as at 31 December 2018:	78	76	34	30	66	284

Table 15: Due Diligence Applications Referred to the Compliance Division

Enforcement

CIMA's Enforcement Manual¹⁰ 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 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 20 formal enforcement actions during 1 January 2018 – 31 December 2018. Table 16 lists the formal enforcement actions initiated¹¹.

Execution of Regulatory Functions

Name of Entity	Type of Authorisation Held	Enforcement Action	Effective Date
Quanto Strategic Currency Fund	Licensed Fund	Licence Cancelled	27-Apr-18
Infinium Global Fund	Registered Fund	Registration Cancelled	27-Apr-18
Beechwood Re	Class B Insurer	Winding Up	27-Nov-18
Beechwood Re	Class B Insurer	Licence Revoked	27-Nov-18
Global Securities Capital Fund	Registered Fund	Registration Cancelled	12-Jun-18
Greenhouse Offshore Fund	Registered Fund	Registration Cancelled	14-Aug-18
Ryan Kenneth Schroeder	Registered Director	Registration Cancelled	18-Oct-18
Madbury Lane Advisors Fund No. 3	Registered Fund	Registration Cancelled	9-Oct-18
Madbury Lane Advisors Fund No. 3 Offshore Investors	Registered Fund	Registration Cancelled	9-Oct-18
John David Geraci	Registered Director	Registration Suspended	18-Oct-18
Oliver-Barrett Lindsay	Registered Director	Registration Suspended	18-Oct-18
Redwood Fund III, Ltd.	Registered Fund	Registration Cancelled	31-Oct-18
Keydata International Fund SPC	Registered Fund	Registration Cancelled	28-Nov-18
China Commonwealthy Fund	Registered Fund	Registration Cancelled	28-Nov-18
Oak Palm Fund Ltd. (formerly ACCL Multi-Strategy Fund Inc.)	Registered Fund	Registration Cancelled	28-Nov-18
Upper Canada Securities Ltd. (formerly All-Canadian (Cayman) Ltd.)	Mutual Fund Administrator - Restricted	Licence Revoked	5-Dec-18
Seed Special Opportunities Fund	Registered Fund	Registration Cancelled	18-Dec-18

Table 16: Formal Enforcement Actions taken during the reporting period

*Note: Three entities are not publicly available for disclosure

Execution of Regulatory Functions

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 Islands¹².

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

Execution of Co-operative 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 January 2018 – 31 December 2018, CIMA signed three bi-lateral MOUs. These are listed in Table 17.

Agreement	Effective Date
Republica del Peru-Superintendency of Banking, Insurance and Private Pension Fund Administrators	4 January 2018
National Association of Insurance Commissioner (NAIC)	4 August 2018
China Securities Regulatory Commission	5 November 2018

Table 17: International Information Exchange and Cooperation Agreements Concluded as at 31 December 2018

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.

Execution of Co-operative Functions

During the reporting period of 1 January 2018 – 31 December 2018, the Authority handled a total of 157 requests for assistance from ORAs.

Local Co-operation

Money Laundering Reporting

The Head of Compliance is the Authority's Money Laundering Reporting Officer (MLRO) under the Proceeds of Crime Law (2018 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 ("the FRA") in conformance with the Anti Money Laundering Regulations (2018 Revision).

The MLRO filed 7 suspicious activity reports with the FRA during the reporting period of 1 January 2018 – 31 December 2018. The FRA made 69 onward disclosures during reporting period of 1 January 2018 – 31 December 2018 to the Authority, pursuant to the MOU between the FRA and CIMA

Organisational Support and Administration

Human Resource Management and Development

The Human Resources Division is one of the strategic divisions of CIMA and carries out its responsibilities through five main areas of: 1) Employee Services (which includes activities relating to staff); 2) Recruitment; 3) Learning and Development; 4) Mail, Courier and Reception, and 5) Facilities/Security.

Learning and Strategic Initiatives

In addition to the focus on recruitment of technically competent and experienced staff, efforts were also focused on the strengthening of partnerships with external (local and overseas) parties for the facilitation of training and workshops - an area that forms a part of the strategic direction of the Human Resources ambit for the organisation.

Internal Presentations

Staff was afforded development opportunities for speaking engagements through presentations in various forums. The Policy & Development Division presented to internal regulatory and other relevant divisions on new guidance for initiatives on regulations and Anti-Money Laundering/Countering Financing of Terrorism ("AML/CFT"). Staff also received advanced AML training with shared facilitation by CIMA's experts on the subject matter including representatives from the Financial Reporting Authority ("FRA").

External Presentations

From the Human Resources, Regulatory and Currency divisions, presentations were made to the students of Truman Bodden Law School, the John Gray High School, University College of the Cayman Islands and the Cayman Preparatory School. Main topics highlighted the history and formation of CIMA, a broad overview of its functions as well as career opportunities within the organisation.

Regulatory experts from CIMA also presented to industry at the Cayman Islands Fund Administrators Association ("CIFAA") seminar, the AML/Compliance

& Financial Crime Conference, Insurance Managers Association of Cayman's Captive Forum Conference and the Cayman Finance New York Breakfast Briefing.

Partnerships - Local

Through the long established, strong working relationship with local audit firms, staff benefitted from and shared relevant regulatory practices with other organisations. Representatives from KPMG presented on Voluntary Liquidations; Deloitte facilitated training on Risk Assessments and PwC imparted experience on International Financial Reporting Standard 9 ("IFRS9"). Staff also attended local bitcoin compliance seminars.

The Office of the Ombudsman sensitized managers on the new Data Protection Law. Soft skills training sessions in the areas of time management, coaching and mentoring, people supervision and management leadership were afforded to a range of staff across all divisions. Sessions were led by Baldrige Seminars International.

Partnerships – Overseas

The Caribbean Regional Technical Assistance Centre ("CARTAC") offered training to staff in the areas of Basel II–III Pillar 2 and 3, Macro-prudential and Systemic Risk Indicators and IMF Framework and Analytical Tools for Monitoring of Correspondent Banking Relationships from their subject experts.

The Authority also benefits from having a seat on multiple overseas international and regional working groups and bodies including the Caribbean Group of Banking Supervisors ("CGBS"), the International Association of Insurance Supervisors ("IAIS"), the Financial Stability Board ("FSB"), International Organisation of Securities Commissions ("IOSCO") and the Group of International Financial Centre

Organisational Support and Administration

Human Resource Management and Development cont'd

Supervisors ("GIFCS").

Throughout the year staff participated in and attended regulatory conferences, working groups, seminars and supervisory colleges to exchange new approaches and challenges within the areas of regulation of financial services industries and information system technologies as well as macro prudential regulation and statistics.

Ongoing Development

Staff from the regulatory division increased their technical proficiency in the area of insurance with advanced certifications from an international insurance institute.

During 2018, three staff across the supervisory divisions attained membership with the Association of Certified Anti-Money Laundering Specialists (ACAMS), having successfully completed the requirements for certification.

Hosted Conferences

CIMA hosted the 2018 IOSCO Growth and Emerging Markets Committee ("GEMC") Annual Conference and Meetings in conjunction with the Inter-American Regional Committee ("IARC") and the Council of Securities Regulators of the Americas ("COSRA") in September. The event was attended by approximately 118 delegates from over 30 IOSCO member countries.

During the event, panel sessions, plenary meetings and workshops covered a variety of topics such as emerging market trends, key regulatory focused areas, potential risks and challenges including other global issues. The success of the event was credited to the GEMC organising committee, CIMA employee volunteers, and local sponsors: Cayman Finance and the Ministry of Financial Services & Home Affairs.

The Authority also hosted the Financial Stability Board Regional Consultative Group for the Americas Meeting. The event attracted over 20 high-level representatives from various FSB member jurisdictions. Presenters focused on various issues affecting the international financial industry, some of which included the assessment of global and regional financial vulnerabilities, a general update on FSB activities, challenges, risks and outlook of crypto-assets, the use of FinTech and the evaluation of the effects of the financial regulatory reforms on infrastructure finance. During the meeting, the Authority highlighted the jurisdiction's efforts towards financial sector resilience 10 years following the global financial crisis. Overall, the event was well received by fellow participants.

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 2017-2018 year were reported at 99.8% as a result of the challenges of maintaining customer facing websites without downtime. Despite several system failures, and planned downtime, the uptime was still very good, reported at approximately 99.8%. Although, IS's internal goal was 99.99%. The generally accepted industry standard is 98.00%

Disaster Recovery

Prior to the start of the hurricane season, the IS Division completed tests against the system to ensure business continuity which proved successful. Each year, the division assembles all requested improvements from the previous year's test and incorporates those that will provide value and resilience into the current plan and operations.

Organisational Support and Administration

Information Services cont'd

Network Security

Security has become a major item for the IS team and by extension, the Authority. Significant upgrades have been made in monitoring the various layers of threat prevention and detection that are already in place. The ability to mesh all of the security logs from servers and security appliances, which provide alerts to possible security threats, has enabled the Authority to react faster to potential issues.

CIMA continues to be a targeted entity. During the reporting period, there were thousands of attempts of very basic scans against our systems, including spam emails each day and phishing attempts. As the Authority seeks to enhance its filtering, fewer scams reach the intended user.

As it relates to untargeted general phishing emails, particularly in the month of December 2018, the systems blocked nearly 50,000 emails before they were delivered to users.

The division continues to conduct 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 needs to enhance its awareness efforts of threats.

As a starting point, the division introduced online training that is now mandatory for all new employees. This training consists of about two hours of videos which discuss and demonstrate phishing exercises, the dangers of surfing the Internet, company policy regarding use of CIMA computers and more. Ultimately, similar training will be offered to existing staff.

REEFS System

Industry have been able to login to the 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 annual return submissions for all divisions have been completed. Through 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. As of 31 December 2018, nearly 70,000 submissions have been made by industry through REEFS.

Escrow Online Payment System Update 4th Quarter 2017

Since 1 October 2017, industry users have been able to view and ultimately pay their annual fees using the escrow system by topping up their balances with a cheque to CIMA.

Work is also being carried out to allow industry to top-up their escrow account using the method of electronic funds transfer (EFT).

Since then, progress can be reported on the following:

- 65 unique escrow payment accounts have been set up from across industry entities.
- 634 top-ups have been applied to those accounts.
- CI\$89,962,535.73 is the total amount of all top-ups.
- CI\$87,261,559.09 has been used to pay outstanding fees.
- 25,192 fees were paid with the above amount.
- CI\$2,700,976.64 remains as escrow balances.

Work will continue to allow individual transactional fees (new applications, change requests etc.) to be paid online through escrow instantly as the transaction is submitted and completed.

As an example of the time-saving and revenue flow

Organisational Support and Administration

of this new product, the Finance Division was not required to manually enter over 25,100 individual annual fee payments. Also, 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.

Communication and Public Relations

The Public Relations (PR) Unit forms 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

Together with the Policy & Development Division, the PR Unit helped to coordinate the national campaign for the 2018 World Investor Week ("WIW"). As part of the week-long campaign, the unit developed and disseminated daily educational messages and investor tips via social media, mass e-mail marketing, a press release, the CIMA website, and featured articles for the Authority's staff and industry newsletters.

PR staff also provided assistance with the planning and execution of the Authority's second annual Charity Walk/Run, and was heavily involved in coordinating two successful international conferences hosted by CIMA: 1) International Organization of Securities Commission's Growth and Emerging Market Committee Annual Meetings and Conference; and 2) Financial Stability Board Regional Consultative Group of the Americas Meeting.

The unit also assisted the Insurance Supervision Division in coordinating CIMA's participation at the Cayman Captive Forum hosted by the IMAC which included panel discussions, opening remarks at the event, a media television interview, and arrangement of the CIMA informational booth.

Organisational Support and Administration

External Publications

The PR Unit assisted the Authority's senior management in producing articles and written interviews for publication such as Cayman Captive magazine, Intelligent Insurer Magazine: Influential Women in Reinsurance, Captive Insight magazine, Cayman Funds Magazine, Cayman Islands Captive Review, Cayman Finance magazine, Captive International, Captive Insurance Times, Central Banking Publication, The Journal: Global Banking and Financial Policy Review.

CIMA Publications

The unit continued to produce and disseminate news releases, notices and advisories; 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 Supervision Division on the production of the Investments Statistical Digest 2017, and with the Policy and Development Division on the Banking Statistical Digest 2017.

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 staff worked closely with the various divisions to provide communication support in the form of photographic, graphic design and content development for various external conferences and newspaper adverts. The unit also collaborated with the Human Resources Division on various staff related projects and activities, including developing formal speeches and presentations for members of CIMA's senior management team.

The unit continued to monitor, collect, and disseminate 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 Ownership & Purchase Agreements between the Cabinet of the Government of the Cayman Islands ('Cabinet') and the Authority. The division's objectives are essentially created by the financial requirements of the Authority and its stakeholders and the resources available to it.

Coercive Revenue Collection

The Authority collected \$104.542m in coercive fees from regulated entities on behalf of the Cayman Islands Government for the year ended 31 December 2018, compared to \$100.249m for the prior period of 1 January 2017 - 31 December 2017.

The Authority's Income

The Authority depends on the sale of its outputs to the Cabinet, as one of its main sources of income to meet its obligations. The outputs delivered in the year ended 31 December 2018, for a total of \$16.333m 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 Authority's other sources of income are from the Directors Registration and Licensing Fees \$10.984m, CIMA Transactional Fees \$4.510m, Investments \$2.507m, Commission Income \$0.926m and Other Income \$0.019m.

Net Income

The Authority's net income for the year ended 31 December 2018 was \$8.358m (18-month period ended 31 December 2017: \$10.128m) of which \$3.358m was allocated to CIMA's Capital Expenditures Reserve, and \$5.000m to the general revenue of the Cayman Islands Government.

Details of CIMA's financial position for the year ended 31 December 2018 can be seen in the Audited Financial Statements that follow.

The Authority collected \$104.542m in coercive fees from regulated entities on behalf of the Cayman Islands Government for the year ended 31 December 2018, compared to \$100.249m for the prior period of 1 January 2017 - 31 December 2017.

Highlights of Achievements

As a part of its 2016-2018 Strategic Plan, the Authority revised the strategic objectives as a continuation of the previous plan, and progress can be reported for the following areas:

1. Enhance efficiency and effectiveness through structural/functional reforms

A key component of these reforms was identifying the need for a Macro-prudential Unit. The purpose of the Unit is to create macro-prudential policy to further the enhancement of data reliability and create stress testing scenarios. Enhancing the functions of the Onsite Inspections Unit and AML/CFT capabilities was also another area of focus.

2. Optimise efficiency of resources by developing (and implementing) a comprehensive medium and long-term facilities plan

In anticipation of the future growth of CIMA, and while considering the best workplace possible for its employees, the Authority developed a strategic facilities plan to take into account the work performance and productivity in full support of the organisation's Mission and Vision thus enabling the Authority to carry out its operational strategy more efficiently.

3. Implement Human Resources enhancements

During the reporting period, the Authority completed the implementation and comprehensive enhancement of CIMA employee benefits package. The Authority, as mandated by its Board of Directors, 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. As at 31 December 2018, all staff were brought onto the new salary scales.

4. Conduct visits to key jurisdictions

As the Authority continue to strengthen relationships and facilitate activity in key or emerging markets, staff members from CIMA's management team attended the 20th International Conference of Banking Supervisors (ICBS) held in Abu Dhabi.

Visits such as these provide an opportunity for CIMA to ensure that regulators, including investors and service providers, recognise that Cayman has a robust regulatory and legal framework.

5. Enhance the Authority's regulatory profile both locally and internationally

Several senior members of CIMA staff participated in various overseas supervisory colleges, plenaries, and seminars of standard-setting agencies and regulatory organisations. As a more practical approach, the Authority hosted two global conferences, namely the IOSCO Growth and Emerging Markets Committee Meeting and Annual Conference as well as the Financial Stability Board Regional Consultative Group for the Americas. Significant efforts were also expanded to meet and engage with the executives of the National Association of Insurance Commissioners ("NAIC") and individual state commissioners. As a result of this, CIMA entered into an international agreement with the NAIC.

6. Enhance collaboration with the Cayman Islands Government and private sector

CIMA maintained frequent dialogue with the Ministry of Financial Services to discuss various matters affecting the financial services industry and provided quarterly reports to reflect the related work undertaken by the Authority. CIMA representatives also engaged in regular meetings with industry organisations including other government agencies and local regulatory or oversight bodies. The Authority was also represented at a number of local panel discussions and conferences hosted by industry organisations.

7. Implement regulatory framework enhancements

In conjunction with the CFATF evaluation, several steps were taken to enhance the AML/CFT framework together with the risk-based supervisory approach. The updated risk-based methodology was developed in response to the changing global economic environment which has presented more complex risks that we currently face as a financial services regulator. The Authority also enhanced

Highlights of Achievements

prudential on-site inspections for all high-risk licensed entities while ensuring that the Authority's regulatory measures aligned with appropriate international standards required for effective and prudent oversight per CIMA's statutory obligations. As noted in the Managing Director's statement, proposed amendments were also made to various regulatory laws including the Monetary Authority Law.

In its efforts to enhance market conduct of Cayman-based direct insurers, the Authority issued revised Statements of Guidance, Policies and Rules on licensing insurance agents and brokers.

8. Implement operational and technology enhancements

As CIMA continues to improve its operational and technology functions, enhancements were made to the Authority's online submission portal, REEFS. The system was updated to carry out more automated functions, which has brought about noted improvements in the delivery and management of information. More specifically, it has enabled staff to collect statistical data in a more timely manner. This, in turn, allows the Authority to analyse and track prudential information more efficient and effectively. Another milestone was the launch of the escrow section of the REEFS system for authorised financial services industry users. This new feature allows users to better monitor upcoming fees, complete multiple payments, while avoiding any processing delays.

9. Preserve 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, the Authority continued to preserve the value and integrity of the Cayman Islands currency.

In anticipation of the future growth of CIMA, and while considering the best workplace possible for its employees, the Authority developed a strategic facilities plan to take into account the work performance and productivity in full support of the organisation's Mission and Vision thus enabling the Authority to carry out its operational strategy more efficiently.

Risk Management

KEY RISKS FACED BY MINISTRY/PORTFOLIO	CHANGED IN STATUS FROM 2016/17	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
<p>Limited resources resulting in an inadequate regulatory framework and supervision processes. (The underpinning of Cayman as a reputable successful regulator of financial services is, in addition to having a strong legal framework, policies and practices; heavily reliant on experienced and high calibre human resources in sufficient numbers and an effectual information systems and technology infrastructure.)</p> <p>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 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.</p>	Marginal improvement as resources have increased but are still insufficient.	<p>Continue to work along with Government with respect to legislative framework and budget.</p> <p>Continue regular review of systems and processes and take full advantage of IS technology to achieve highest efficiency.</p> <p>Amend CIMA's organizational structure.</p> <p>Facilitate more focused HR soft skills training for persons.</p> <p>Take full advantage of the online learning portals for all regulatory staff.</p> <p>Establish partnerships with local professionals and firms to conduct subject matter expert training.</p> <p>Outsource tasks/projects where efficient and or necessary.</p> <p>Maintain recruitment efforts (to expediently fill vacancies and new positions.</p> <p>Continue to develop and implement proposals on enhancement measures to attract and retain highly qualified and experienced persons.</p>	Unquantifiable
An inadequate regulatory framework that leads to a threat to the Islands' reputation with significant potential dangers. e.g. insufficient legislation, rules and or policies	On-going On-going with marginal improvement as there have been several recent needed new laws or	<p>Enhance framework by:</p> <p>Continuing the internal CIMA process in identifying and developing proposals and recommendations or, if within</p>	Unquantifiable

Risk Management

KEY RISKS FACED BY MINISTRY/PORTFOLIO	CHANGED IN STATUS FROM 2016/17	ACTIONS TO MANAGE RISK	FINANCIAL VALUE OF RISK
<p>required to promote and ensure a sound financial system through effective regulation, supervision and risk management of the financial sector) can lead to:</p> <ul style="list-style-type: none"> • Unsafe and unsound practices or activities that pose risks to the financial system; • Failures of financial entities or unfavourable (international or peer) assessments that would impact the stability of the Cayman economy. 	<p>revisions / amendments to legislation (e.g. Administrative Fines). However, several proposals are still delayed and other legislation remains inadequate.</p>	<p>ambit, implementing measures for addressing areas for legislative and other regulatory requirements changes.</p> <p>Continue to work along with Government with respect legislative framework and budget.</p> <p>Retain and build on existing technical expert knowledge and expertise and attract new high calibre staff to ensure proactive oversight and enforcement.</p>	
<p>Increasing responsibilities with insufficient corresponding enhancement of resources limits CIMA's ability to carry out effectively and comprehensively the responsibilities of its regulatory functions.</p>	<p>On-going (resources have increased but so have regulatory and supervisory obligations).</p>	<p>Continue to work along with Government with respect to legislative framework and budget.</p> <p>Continue regular review of systems and processes and take full advantage of IS technology to achieve highest efficiency.</p> <p>Outsourcing tasks/projects where efficient and or necessary.</p> <p>Defer (relatively) less critical work.</p>	Unquantifiable
<p>Failure to achieve and stay current with Industry developments, requirements, and standards (due to inadequate funding and or resources) resulting in:</p> <ul style="list-style-type: none"> • 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. 	<p>On-going (resources have increased but utilised for other regulatory functions or tasks).</p>	<p>Continue involvement in and assessment of new or revised international regulatory standards by:</p> <p>Sending high-level delegations to meetings of IOSCO, IAIS, Basel, GFICS, CGBS, GICIS, ASBA and FSB.</p> <p>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.</p> <p>Amending CIMA's organizational structure to enable a greater focus and efficiency in</p>	Unquantifiable

Risk Management

KEY RISKS FACED BY MINISTRY/PORTFOLIO	CHANGED IN STATUS FROM 2016/17	ACTIONS TO MANAGE RISK	FINANCIAL VALUE OF RISK
		identifying, analysing and addressing developments.	
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
Emerging trends, Market risks and developments can have a potential impact on regulated industries/institutions that in turn could require increased oversight/regulation by CIMA (e.g. technology, information security, cybercrime, Money Laundering and Terrorist Financing, outsourcing, financial innovation, de-risking by correspondent banks.	On-going	Be better informed of new or developing market trends and financial innovation by, inter-alia, leveraging experienced senior staff and CIMA's membership and participation in standard setting bodies, international and regional and local organisations, regulatory associations, conferences, international and regional regulatory bodies etc. Also, by keeping abreast of developments via media, training, etc.	Unquantifiable

Risk Management

KEY RISKS FACED BY MINISTRY/PORTFOLIO	CHANGED IN STATUS FROM 2016/17	ACTIONS TO MANAGE RISK	FINANCIAL VALUE OF RISK
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 FISCAL YEAR-END
31 DECEMBER 2018

AUDITED FINANCIAL STATEMENTS



CAYMAN ISLANDS MONETARY AUTHORITY

Statement of Responsibility

For Financial Statements

31 December 2018

These financial statements have been prepared by the Cayman Islands Monetary Authority in accordance with the provisions of the *Public Management and Finance Law (2018 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 (2018 Revision)*.

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

The financial statements fairly present the financial position, financial performance and cash flows of the Cayman Islands Monetary Authority for the financial year ended 31 December 2018.

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

- (a) Completely and reliably reflect the financial transactions of Cayman Islands Monetary Authority for the year ended 31 December 2018;
- (b) fairly reflect the financial position as at 31 December 2018 and performance for the financial year ended 31 December 2018;
- (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.

Handwritten signature of Wayne Panton in black ink.

Wayne Panton

Chairman

Cayman Islands Monetary Authority

Date: 30 April 2019

Handwritten signature of Cindy Scotland in black ink.

Cindy Scotland

Managing Director

Cayman Islands Monetary Authority

Date: 30 April 2019

AUDITOR GENERAL'S REPORT



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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 2018 and the statements of comprehensive income, statement of changes in reserves and contributed capital and statement of cash flows for the year ended 31 December 2018, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 8 to 33.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Authority as at 31 December 2018 and its financial performance and its cash flows for the year ended 31 December 2018 in accordance with 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 International Ethics 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 and fair presentation of the financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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 GENERAL'S REPORT

AUDITOR GENERAL'S REPORT (continued)

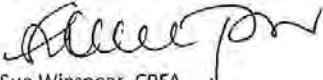
Auditor's Responsibilities for the Audit of the Financial Statements

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.

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) of the Public Management and Finance Law (2018 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 2019
Cayman Islands


AUDITED FINANCIAL STATEMENTS

CAYMAN ISLANDS MONETARY AUTHORITY
STATEMENT OF FINANCIAL POSITION
As at 31 December 2018
(in Cayman Islands Dollars)

	Note	31 December 2018 \$000	31 December 2017 (18 months) \$000
ASSETS			
Currency Reserve Assets			
<i>Current Assets</i>			
Cash and Cash Equivalents	4b	71,573	63,542
Short-Term Investments	4a	10,763	36,594
Interest and Other Receivables		572	269
Stocks	7	3,471	2,366
<i>Non-Current Assets</i>			
Long-Term Investments	4a	55,989	29,150
Total Currency Reserve Assets		<u>142,368</u>	<u>131,921</u>
Operating Assets			
<i>Current Assets</i>			
Cash and Cash Equivalents	4b	29,274	23,869
Accounts Receivable	5	3,899	2,509
Other Receivables and Prepayments		512	1,137
<i>Non-Current Assets</i>			
Defined Benefit Pension Assets	9a	213	
Intangible Assets	6	1,680	1,928
Property and Equipment	6	556	777
Total Operating Assets		<u>36,134</u>	<u>30,220</u>
TOTAL ASSETS		<u>178,502</u>	<u>162,141</u>
LIABILITIES, RESERVES and CONTRIBUTED CAPITAL			
Liabilities			
<i>Current Liabilities</i>			
Demand Liabilities, Currency in Circulation	8a	126,609	119,544
Other Liabilities and Payables	8b	4,699	4,117
Due to Cayman Islands Government	8c	5,000	-
<i>Non-Current Liabilities</i>			
Defined Benefit Pension Liability	9a	-	111
Defined Benefit Healthcare Liability	9b	6,995	6,520
Total Liabilities		<u>143,303</u>	<u>130,292</u>
Reserves			
General Reserve		21,896	21,495
Currency Issue Reserve		375	375
Capital Expenditures Reserve		10,560	7,548
Operational Expenditures Reserve		40	103
Total Reserves		<u>32,871</u>	<u>29,521</u>
Contributed Capital		<u>2,328</u>	<u>2,328</u>
TOTAL LIABILITIES, RESERVES and CONTRIBUTED CAPITAL		<u>178,502</u>	<u>162,141</u>

Approved on 30 April 2019


Cindy Scotland
Managing Director
Cayman Islands Monetary Authority


Gilda Moxam-Murray
Chief Financial Officer
Cayman Islands Monetary Authority

The accompanying notes form an integral part of these financial statements

AUDITED FINANCIAL STATEMENTS

CAYMAN ISLANDS MONETARY AUTHORITY STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

(in Cayman Islands Dollars)

		31 December Note	2018 \$000	31 December 2017 (18 months) \$000
INCOME				
Services Provided to The Cayman Islands Government	11a		16,333	20,750
Directors Registration and Licensing Fees			10,984	11,180
CIMA Transactional Fees			4,510	6,909
Investment Income			2,507	1,856
Commission Income			926	1,266
Other Income			19	-
TOTAL INCOME			<u>35,279</u>	<u>41,961</u>
EXPENSES				
Salaries and Benefits	13		18,793	23,620
Other Operational Expenses	12		3,597	5,182
Pension Expenses	9		1,479	2,119
Accommodation	14		1,374	1,874
Depreciation and Amortisation	6		815	765
Training and Conferences			552	348
Professional Fees			503	885
Realised Loss on Investments			450	848
Utilities			400	559
Official Travel			203	417
Loss on Disposal of Fixed Assets			-	45
Net Loss on Numismatic Items			26	47
Credit Loss IFRS 9			7	-
TOTAL EXPENSES			<u>28,199</u>	<u>36,709</u>
INCOME FOR THE YEAR before:-			<u>7,080</u>	<u>5,252</u>
OTHER COMPREHENSIVE INCOME				
May be reclassified to Profit or Loss in subsequent periods				
Net Gain on Debt Securities at Fair Value			404	38
Expected Credit Loss	4c		6	-
Will not be reclassified to Profit or Loss in subsequent periods				
Remeasurement of Defined Benefit Pension Liability	9		604	3,761
Remeasurement of Defined Benefit Healthcare Liability	13		264	1,077
			<u>1,278</u>	<u>4,876</u>
COMPREHENSIVE INCOME FOR THE YEAR			<u>8,358</u>	<u>10,128</u>

The accompanying notes form an integral part of these financial statements

AUDITED FINANCIAL STATEMENTS

CAYMAN ISLANDS MONETARY AUTHORITY
STATEMENT OF CHANGES IN RESERVES AND CONTRIBUTED CAPITAL
For the year ended 31 December 2018
(in Cayman Islands Dollars)

31 December 2018

	General Reserve \$000	Currency Issue Reserve \$000	Capital Expenditures Reserve \$000	Operational Expenditures Reserve \$000	Contributed Capital \$000
BALANCE AT 01 Jan 2018	21,495	375	7,548	103	2,328
Transfers in :					
From Income for the year	5,000	-	2,080	-	-
From Other Comprehensive Income for the year	-	-	1,278	-	-
From Capital Expenditures Reserve	346	-	-	-	-
From Operational Expenditures Reserve	63	-	-	-	-
Transfers out :					
Contribution Payable to CI GOVT	(5,000)	-	-	-	-
To Capital Expenditures Reserve	-	-	-	-	-
Fixed Assets Purchased	-	-	(346)	-	-
Post Retirement Benefit Healthcare Liability	-	-	-	-	-
Provision IFRS 9	(8)	-	-	-	-
Operational Expenses	-	-	-	(63)	-
BALANCE AT 31 December	21,896	375	10,560	40	2,328

31 December 2017

	General Reserve \$000	Currency Issue Reserve \$000	Capital Expenditures Reserve \$000	Operational Expenditures Reserve \$000	Contributed Capital \$000
BALANCE AT 01 July 2016	20,650	375	4,642	226	2,328
Transfers in :					
From Income for the year	6,500	-	3,628	-	-
From Other Comprehensive Income for the year	-	-	-	-	-
From Capital Expenditures Reserve	722	-	-	-	-
From Operational Expenditures Reserve	123	-	-	-	-
Transfers out :					
Contribution Payable to CI GOVT	-	-	-	-	-
To Capital Expenditures Reserve	-	-	-	-	-
Currency Inventory Issued	-	-	-	-	-
Fixed Assets Purchased	-	-	(722)	-	-
Post Retirement Benefit Healthcare Liability	(6,500)	-	-	-	-
Provision IFRS 9	-	-	-	-	-
Operational Expenses	-	-	-	(123)	-
BALANCE AT 31 December	21,495	375	7,548	103	2,328

The accompanying notes form an integral part of these financial statements

AUDITED FINANCIAL STATEMENTS

CAYMAN ISLANDS MONETARY AUTHORITY
STATEMENT OF CASH FLOWS
For the year ended 31 December 2018
(in Cayman Islands Dollars)

	31 December 2018 \$000	31 December 2017 (18 months) \$000
CASH FLOWS FROM OPERATING ACTIVITIES		
Comprehensive Income for the year	8,358	10,128
Adjustments for:		
Depreciation and Amortisation	815	765
Gain on Defined Pension Benefits	(324)	(3,019)
Loss on Defined Health Care Benefits	475	20
Loss on Disposal of Fixed Assets	-	46
Loss on Expected Credit Loss		-
Net unrealised gain on fair value of financial investments	(404)	(38)
(Increase) in Interest Receivable - Currency Reserve Assets	(312)	(74)
(Increase) / Decrease in Accounts Receivable	(1,390)	992
Decrease / (Increase) in Other Receivables and Prepayments	625	(673)
Unearned Income - Directors Registration and Licensing Fees	367	3,313
Unearned Income - CIMA Transactional Fees	(47)	-
Increase / (Decrease) in Other Liabilities and Payables	262	(469)
(Increase) / Decrease in Stocks	(1,105)	455
Increase in Demand Liabilities	7,065	12,667
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>14,386</u>	<u>24,113</u>
CASH FLOW USED IN INVESTING ACTIVITIES		
Acquisition of Property, Equipment and Intangible Assets	(346)	(722)
Net purchase of financial investments	(1,054)	(798)
Net gain on fair value of sales and maturities of financial investments	450	848
NET CASH USED IN INVESTING ACTIVITIES	<u>(950)</u>	<u>(672)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	13,436	23,441
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	87,411	63,970
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>100,847</u>	<u>87,411</u>

The accompanying notes form an integral part of these financial statements

AUDITED FINANCIAL STATEMENTS

CAYMAN ISLANDS MONETARY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

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 (2018 Revision) (the “Law (2018 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 2018 the Authority has 217 employees (31 December 2017: 204). 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 financial statements are prepared for 12 months from 01 January to 31 December 2018 and as a result, the 18 month comparative figures from 01 July 2016 to 31 December 2017 stated in the Statement of Comprehensive Income, Statement of Changes in Reserves and Contributed Capital, Statement of Cash Flows 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 Position.

AUDITED FINANCIAL STATEMENTS

CAYMAN ISLANDS MONETARY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

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

Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Authority's business model for managing them. In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. All debt instruments are classified as "Hold to collect and sell" and recognized as fair value through OCI. The debt instruments were previously classified as available for sale under IAS 39. Accounts receivables are measured at the transaction price determined under IFRS 15.

Cash and Cash Equivalents classified as loans and receivables under IAS 39 have been reclassified to amortized cost at the adoption date of the standard.

The Authority's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that the Authority commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments); or
- Financial assets at fair value through profit or loss.

All debt instruments are subsequently measured at fair value with gains and losses arising due to change in the fair value recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortised cost.

AUDITED FINANCIAL STATEMENTS

CAYMAN ISLANDS MONETARY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

Significant Accounting Policies (continued) Financial Instruments (continued)

Derecognition

A financial asset is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Authority has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Authority has transferred substantially all the risks and rewards of the asset, or (b) the Authority has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

Impairment of financial assets

The Authority recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Authority expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For accounts receivables, the Authority applies a general approach in calculating ECLs.

For debt instruments at fair value through OCI, the Authority applies the low credit risk simplification. At every reporting date, the Authority evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Authority reassesses the credit rating of the debt instrument. In addition, the Authority considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Authority's debt instruments at fair value through OCI comprise solely of quoted bonds that are graded in the top investment category and, therefore, are considered to be low credit risk investments. It is the Authority's policy to measure ECLs on such instruments on a 12-month basis.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Financial liabilities comprise accounts and other payables, accrued expenses and notes and coins in circulation.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

AUDITED FINANCIAL STATEMENTS

CAYMAN ISLANDS MONETARY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

Significant Accounting Policies (continued)

Financial Instruments (continued)

Subsequent measurement

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

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 2018 is \$14,490k (31 December 2017: \$14,493k). 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.

AUDITED FINANCIAL STATEMENTS

CAYMAN ISLANDS MONETARY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

Significant Accounting Policies (continued)

Property and Equipment (continued)

Depreciation is charged to the statement of comprehensive income on 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.

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. Amortisation 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.

AUDITED FINANCIAL STATEMENTS

CAYMAN ISLANDS MONETARY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

Significant Accounting Policies (continued)

Employee Benefits - Pension Plans (continued)

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, and vacation days. Vacation days accumulate and vest and therefore a liability is accrued each year. The accrued vacation liability as at 31 December 2018 is \$243k (31 December 2017: \$253k) and is included in the other liabilities and payables.

l) Allocation of profits

Under Section 9 and 10 of the *Law (2018 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.

m) General Reserve

The Authority maintains a General Reserve in accordance with Section 8 of the *Law (2018 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 (2018 revision)* the General Reserve shall represent at least 15% of Demand Liabilities. As at 31 December 2018, the General Reserve was \$21,896k (31 December 2017: \$21,495k) equating to 17.29% (31 December 2017: 17.98%) 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 (2018 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 2018 was \$2.328 million (31 December 2017: \$2.328 million).

AUDITED FINANCIAL STATEMENTS

CAYMAN ISLANDS MONETARY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

Significant Accounting Policies (continued)

q) Revenue recognition

The Authority adopted IFRS 15 (Revenue from Contracts with Customers) from 1 January 2018. The new standard was applied using the modified retrospective method, with the cumulative effect recognised in retained earnings on 1 January 2018. This core principle is delivered in a five-step model framework which are: (1) Identify the contract with a customer; (2) Identify the performance obligations in the contract; (3) Determine the transaction price; (4) Allocate the transaction price to the performance obligations in the contract; and (5) Recognize revenue when the Authority satisfies a performance obligation.

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.

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 Loss or 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 a straight-line basis over the period of the lease.

s) Comparatives

Where necessary, comparative figures have been adjusted to comply with changes in presentation in the current year.

AUDITED FINANCIAL STATEMENTS

CAYMAN ISLANDS MONETARY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

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 16 Leases*

In January 2016, the IASB Issues IFRS 16, "Leases", which replaces IAS 17, "Leases". IFRS 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.

3. Financial Risk Management

a) *Financial instruments at fair value.*

The fair value of investments, hold to collect and sell as per Note 2 (d) is classified using a fair value hierarchy that reflects the significance of the inputs disclosed in making the measurements:

Level 1 – quoted prices in active markets

Level 2 – inputs are observable either directly or derived from quoted prices

Level 3 – no observable inputs

The fair value hierarchy requires the use of observable market inputs wherever such inputs exist. A financial instrument is classified at the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial instruments at fair value as at 31 December 2018				
Investments, Hold to collect and sell	66,752	-	-	66,752
Total financial instruments	<u>66,752</u>	<u>-</u>	<u>-</u>	<u>66,752</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial instruments at fair value as at 31 December 2017				
Investments, Hold to collect and sell	65,744	-	-	65,744
Total financial instruments	<u>65,744</u>	<u>-</u>	<u>-</u>	<u>65,744</u>

The Authority is exposed to interest rate risk, credit risk, liquidity risk, and market risk as a result of holding financial instruments. The following is a description of those risks and how the Authority manages its exposure to them.

AUDITED FINANCIAL STATEMENTS

CAYMAN ISLANDS MONETARY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

Financial Risk Management (continued)

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.

	31 December 2018	31 December 2017
Investments, Hold to collect and sell		
AAA	58,828	62,893
AA	2,875	2,851
A	5,049	-
	<u>66,752</u>	<u>65,744</u>
Cash and cash equivalents		
Cash at bank and in-hand		
AAA	214	258
AA	4,788	5,564
A	1,947	1,997
BBB	28,315	22,009
	<u>35,264</u>	<u>29,828</u>
Overnight repurchase agreements		
AAA	65,583	57,583
	<u>100,847</u>	<u>87,411</u>

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.

AUDITED FINANCIAL STATEMENTS

CAYMAN ISLANDS MONETARY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

4. Currency Reserve Assets

Sections 32(8) of the *Law (2018 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.)

Under the *Law (2018 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). Under 32(4) local assets shall be in value not less than the difference, if any, between the amount of its total demand liabilities and the value of external assets.

As at 31 December, the value of Currency Reserve Assets was \$142,368k (31 December 2017: \$131,921k) representing 112.45% (31 December 2017: 110.36%) of total Demand Liabilities. The value of external assets equated to 107.27% (31 December 2017: 105.92%) while the value of local assets as at 31 December 2018 equated to 5.18% (31 December 2017: 4.44%) 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 'hold to collect and sell', 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 (2018 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 5.00% and maturity dates between 29 February 2020 and 20 September 2048.

Included in long-term investments are four securities totalling \$8,571k (31 December 2017 - five totalling \$2,517k) 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 2018	31 December 2017
Range of maturities	\$000	\$000
1-5 years	47,380	25,944
6-10 years	38	689
Over 10 years	8,571	2,517
	<u>55,989</u>	<u>29,150</u>

AUDITED FINANCIAL STATEMENTS

CAYMAN ISLANDS MONETARY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

Currency Reserve Assets (continued)

Investments (continued)

Short-term Investments. AAA Corporate Bonds and US Treasury Notes with maturity dates ranging between 15 April 2019 and 31 July 2019.

	31 December 2018	31 December 2017
	\$000	\$000
US Treasury Notes	9,482	36,594
AAA Corporate Bonds	1,281	-
Total Short-term Investments	<u>10,763</u>	<u>36,594</u>

All 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 (2018 revision)*, domestic deposits (as part of the Currency Reserve Assets) cannot exceed 10% of Demand Liabilities. As at 31 December 2018, domestic deposits represent 3.03% (31 December 2017: 3.10%) of Demand Liabilities.

	Holding	31 December 2018	31 December 2017
	Currency	\$000	\$000
i) Operating Assets			
Current	KYD	(117)	(225)
Savings	KYD	2,968	3,308
Savings	USD	10,308	13,095
CI Cash on Hand		243	356
Total Current and Call Deposits		<u>13,402</u>	<u>16,534</u>
Fixed Deposits	KYD	15,872	7,335
Total Cash and Cash Equivalent - Operating Assets		<u>29,274</u>	<u>23,869</u>
ii) Currency Reserve Assets			
Domestic Deposits			
Savings	GBP	-	6
Savings	KYD	975	922
Savings	USD	348	1,210
Foreign Deposits			
Federal Reserve Bank	USD	213	258
Investment Portfolio	USD	1,947	1,997
Federal Reserve Repurchase Agreement @ 2.45%	USD	65,583	57,583
Total Call Deposits		<u>69,066</u>	<u>61,976</u>
Domestic - Fixed Deposits	USD	2,507	1,566
Total Cash and Cash Equivalent - Currency Reserve		<u>71,573</u>	<u>63,542</u>
Total Cash and Cash Equivalent		<u>100,847</u>	<u>87,411</u>

AUDITED FINANCIAL STATEMENTS

CAYMAN ISLANDS MONETARY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

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 2018 (31 December 2017: 0.01%). The domestic fixed deposit earned interest at rates ranging between 0.99% to 2.37% during the period ended 31 December 2018 (31 December 2017: 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 2018 no interest was earned (31 December 2017: \$0).

Overnight repurchase agreements for terms of one business day are acquired through buyback transactions with the US Federal Reserve to earn an overnight interest rate.

c) Financial Instruments

The Authority adopted IFRS 9, Financial Instruments, from 1 January 2018. The Authority elected not to restate comparative figures and recognised any adjustments to the carrying amounts of financial assets and liabilities in the opening retained earnings as of the date of initial application of the standard 1 January 2018. Consequently, the revised requirements of the IFRS 9, Financial Instruments: Disclosures, have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

The significant new accounting policies applied in the current period are described in Note 2 and 4. Accounting policies applied prior to 1 January 2018 and applicable to the comparative information are disclosed in Note 2.

The following table reconciles the carrying amounts of each class of financial assets as previously measured in accordance with IAS 39 and the new amounts determined upon adoption of IFRS 9 on 1 January 2018.

	Measurement category		IFRS 9 carrying amount	Remeasurement	IAS 39 carrying amount
	IAS 39	IFRS 9	1 January 2018	ECL Effect	31 December 2017
			\$000	\$000	\$000
Cash on hand and at banks	Loans and receivables	Amortised cost	87,406	5	87,411
Investment securities	Available for Sale	FVOCI	65,741	3	65,744
Other receivables	Loans and receivables	Amortised cost	2,509	-	2,509
			155,656	8	155,664

Cash and cash equivalents

All classes of cash and cash equivalents as disclosed in Note 4 b) were reclassified from loans and receivables measurement category under IAS 39 to amortised cost measurement category under IFRS 9 at the adoption date of the standard. The ECLs for cash and cash equivalents balances were insignificant.

Investment securities

All debt instruments have been reclassified to new categories under IFRS 9, as their previous categories under IAS 39 were retired, with no changes to their measurement basis; those previously classified as available for sale and now classified as hold to collect and sell and measured at FVOCI.

AUDITED FINANCIAL STATEMENTS

CAYMAN ISLANDS MONETARY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

Currency Reserve Assets (continued)

Financial instruments (continued)

Other receivables

Other receivable as disclosed in Note 5 were reclassified from loans and receivables measurement category under IAS 39 to amortised cost measurement category under IFRS 9 at the adoption date of the standard. The ECLs for these receivables were insignificant.

5. Accounts Receivable

Aged profile of Accounts Receivable

	31 December 2018	31 December 2017
	\$000	\$000
Period Outstanding Days		
1-30	1,891	1,650
31-60	1,361	373
61-90	-	-
>90	647	486
	<u>3,899</u>	<u>2,509</u>

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 2018	31 December 2017
	\$000	\$000
Output Income	2,722	1,188
CIMA Transactional Fees	530	835
Directors Registration and Licensing Fees	647	486
Accounts Receivable, net	<u>3,899</u>	<u>2,509</u>

AUDITED FINANCIAL STATEMENTS

CAYMAN ISLANDS MONETARY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

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 31/12/2017	970	1,182	1,852	568	23	4,595	5,050	9,645
Additions	6	-	263	19	-	288	58	346
Disposals	(1)	-	-	-	-	(1)	-	(1)
Balance as at 31/12/2018	975	1,182	2,115	587	23	4,882	5,108	9,990
Accumulated Depreciation and Amortisation								
Balance as at 31/12/17	830	968	1,539	458	23	3,818	3,122	6,940
Depreciation and Amortisation for the year	89	156	224	40	-	509	306	815
Relieved on disposals	(1)	-	-	-	-	(1)	-	(1)
Balance as at 31/12/2018	918	1,124	1,763	498	23	4,326	3,428	7,754
Net Book Value as at 31/12/2018	57	58	352	89	-	556	1,680	2,236

	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 Amortisation								
Balance as at 30/06/16	752	873	1,332	548	23	3,528	2,862	6,390
Depreciation and Amortisation for the year	78	95	263	47	-	483	282	765
Relieved on disposals	-	-	(56)	(137)	-	(193)	(22)	(215)
Balance as at 30/12/2017	830	968	1,539	458	23	3,818	3,122	6,940
Net Book Value as at 31/12/2017	140	214	313	110	-	777	1,928	2,705

AUDITED FINANCIAL STATEMENTS

CAYMAN ISLANDS MONETARY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

7. Stocks

	31 December	31 December
	2018	2017
	\$000	\$000
<i>External</i>		
Bullion from the melt-down of coins	427	467
Coins awaiting melt-down	-	-
Coins for resale	239	224
Museum items	71	73
	<u>737</u>	<u>764</u>
<i>Local</i>		
Inventory of unissued currency notes and coins	<u>2,734</u>	<u>1,602</u>
Total Stocks	<u><u>3,471</u></u>	<u><u>2,366</u></u>

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 \$576k (2017: \$793k). The Bullion stocks are stated at year-end market values for gold and silver bullion.

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	31 December
	2018	2017
	\$000	\$000
Currency notes in circulation	114,372	107,804
Currency coins in circulation	<u>12,237</u>	<u>11,740</u>
Total Demand Liabilities	<u><u>126,609</u></u>	<u><u>119,544</u></u>

AUDITED FINANCIAL STATEMENTS

CAYMAN ISLANDS MONETARY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

Liabilities (continued)

b) Other Liabilities and Payables

As at 31 December 2018, Other Liabilities included unsettled investment management and custody fees of \$10k (2017:\$10k).

	31 December 2018	31 December 2017
	\$000	\$000
Unearned income - Director Registration Fees	3,680	3,313
Unearned income - CIMA Transactional Fees	155	202
Annual leave accrual	243	253
Other accruals	191	95
Accounts payable	332	236
Pension Payables	74	-
Other Payables	24	18
	<u>4,699</u>	<u>4,117</u>

c) Net profit allocation

The Board approved to pay over \$5,000k of the net profit to the General Revenue of the Cayman Islands Government in accordance with Section 9 and 10 of the *Law (2018 revision)*.

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.

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. In the 01 January 2017 actuarial valuation of the Public Service Pensions Plan for funding purposes, the Authority's prescribed employer contribution rates have been established at 8.6% for DB participants and 6.4% for DC participants. For some employees in the defined benefit plan, the Authority pays both the employer and employee contributions.

AUDITED FINANCIAL STATEMENTS

CAYMAN ISLANDS MONETARY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

Post-Employment Benefits (continued)

Defined Benefit Pension (continued)

The Plans are funded at rates of: -

	31 December <u>2018</u>	31 December <u>2017</u>
Defined Contribution Plans		
Employee	6	6
Employer	6.4	6.4
Defined Benefit Plans		
Employee	6	6
Employer	8.6	8.6

The Actuary to the Pensions Board has valued the Fund as at 31 December 2018. 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 period ended 31 December 2018 was \$875k (31 December 2017: (\$1,642k)). 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 <u>2018</u>	31 December <u>2017</u>
Public Service Pension Board Defined Benefit	238	348
Public Service Pension Board Defined Contribution	541	619
Public Service Pension Board Additional cost contribution	135	46
Private Pension Plans	285	364
Defined Benefit Pension cost	<u>280</u>	<u>742</u>
Total Pension Expense All Plans	1,479	2,119
Remeasurement of DB Liability in OCI	<u>(604)</u>	<u>(3,761)</u>
	<u><u>875</u></u>	<u><u>(1,642)</u></u>

AUDITED FINANCIAL STATEMENTS

CAYMAN ISLANDS MONETARY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

Post-Employment Benefits (continued)

Defined Benefit Pension (continued)

The actuarial position is as follows:

	31 December 2018	31 December 2017	30 June 2016	30 June 2015	30 June 2014
	\$000	\$000	\$000	\$000	\$000
Net Present Value of Funded Obligation	(9,882)	(11,167)	(12,201)	(9,319)	(9,560)
Fair Value of Plan Assets	10,095	11,056	9,071	8,458	7,866
Funded Status	213	(111)	(3,130)	(861)	(1,694)
Unrecognised Actuarial Loss	-	-	-	-	-
Net Asset/(Liability)	213	(111)	(3,130)	(861)	(1,694)

	31 December 2018	31 December 2017
Components of defined benefit pension cost	\$000	\$000
Current service cost	363	714
Interest expense on DBO	391	622
Interest income on plan assets	(391)	(470)
Defined benefit cost included in P&L	363	866
Remeasurements (recognised in other comprehensive income)		
Effect of changes in demographic assumptions	(92)	(1,187)
Effect of changes in financial assumptions	(1,711)	(1,229)
Effect of experience adjustments	362	74
(Return) on plan assets (excluding interest income)	837	(1,419)
Total remeasurements included in OCI	(604)	(3,761)
Total defined benefit cost recognised in P&L and OCI	(241)	(2,895)
Employer Contributions	(83)	(124)
Total net defined benefit cost recognised in P&L and OCI	(324)	(3,019)

	31 December 2018	31 December 2017
Reconciliation of defined benefit pension liability	\$000	\$000
Previous year net defined benefit liability	111	3,130
Defined benefit cost included in P&L	363	866
Total remeasurement included in OCI	(604)	(3,761)
Employer contributions	(83)	(124)
Net defined benefit (asset)/liability	(213)	111

AUDITED FINANCIAL STATEMENTS

CAYMAN ISLANDS MONETARY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

Post-Employment Benefits (continued)

Defined Benefit Pension (continued)

	31 December 2018	31 December 2017
Change in defined benefit pension obligation	<u>\$000</u>	<u>\$000</u>
Defined benefit obligation at end of prior year	11,167	12,201
Current service cost	363	714
Interest expense	391	622
Transfers between Other Participating employers	(435)	(152)
Benefit payments from plan asset	(246)	-
Plan participant contributions	83	124
Remeasurements:-		
Effect of changes of demographic assumptions	(92)	(1,187)
Effect of changes of financial assumptions	(1,711)	(1,229)
Effect of experience adjustments	362	74
Defined benefit obligation at end of year	<u>9,882</u>	<u>11,167</u>
	<u>31 December 2018</u>	<u>31 December 2017</u>
Change in fair value of plan assets	<u>\$000</u>	<u>\$000</u>
Fair value of plan assets as at end of prior year	11,056	9,071
Interest income	391	470
Employer contributions	83	124
Plan participant contributions	83	124
Transfers between Other Participating employers	(435)	(152)
Benefit payments from plan assets	(246)	-
Return on assets (excluding interest income)	(837)	1,419
Fair value of plan assets at end of year	<u>10,095</u>	<u>11,056</u>

Allocation of Assets

The distribution of the plan assets, as at 31 December 2018 and 31 December 2017, based on the share of the total fund allocated to the Authority was as follows: -

	31 December 2018	31 December 2017
	%	%
Global equity securities	79	80
Debt securities	20	19
Cash	1	1
Total	<u>100</u>	<u>100</u>

AUDITED FINANCIAL STATEMENTS

CAYMAN ISLANDS MONETARY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

Past-Employment Benefits (continued)

Defined Benefit Pension (continued)

Actuarial Assumptions

The principal actuarial assumptions used to determine benefit obligations at 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	31 December 2017
	%	%
Discount Rate	4.50	3.80
Rate of salary increase	2.50	2.50
Rate of price inflation	2.00	2.00
Rate of pension increases	2.00	2.00

The economic assumptions used to determine Net Periodic Benefit Cost for the period ended 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018	31 December 2017
	%	%
Discount rate	3.85	4.10
Rate of salary increase	2.50	3.50
Rate of price inflation	2.00	2.50
Rate of pension increases	2.00	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 2018	31 December 2017
	\$000	\$000
Sensitivity analysis on defined benefit pension obligation		
Discount rate		
Discount rate - 25 basis points	10,444	11,857
Discount rate + 25 basis points	9,358	10,528
Inflation rate		
Inflation rate - 25 basis points	9,427	10,595
Inflation rate + 25 basis points	10,366	11,780
Mortality rates		
Mortality - 10% of current rates	10,096	11,432
Mortality + 10% of current rates	9,685	10,925
Expected cash flows for following year		
Expected employer contributions	128	115
Defined benefit obligation by participant status		
Actives	7,610	8,528
Vested deferreds	2,272	2,639
Total	9,882	11,167

AUDITED FINANCIAL STATEMENTS

CAYMAN ISLANDS MONETARY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

Post-Employment Benefits (continued)

b) Defined Benefit Healthcare

The Authority has established a Post-retirement Healthcare program for some employees/retirees who are/were 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 \$6,995k at the end of the financial year 31 December 2018, (31 December 2017: \$6,520k).

	31 December 2018	31 December 2017
Change in defined benefit healthcare obligation	<u>\$000</u>	<u>\$000</u>
Defined benefit obligation at end of prior year	6,520	6,500
Current service cost	501	746
Interest expense	238	351
Remeasurements:-		
Effect of changes of demographic assumptions	(26)	(930)
Effect of changes of financial assumptions	(1,115)	321
Effect of experience adjustments	877	(468)
Defined benefit obligation at end of year	<u><u>6,995</u></u>	<u><u>6,520</u></u>

AUDITED FINANCIAL STATEMENTS

CAYMAN ISLANDS MONETARY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

Post-Employment Benefits (continued)

Defined Benefit Healthcare (continued)

	31 December 2018	31 December 2017
Components of defined benefit healthcare cost	\$000	\$000
Current service cost	501	746
Interest expense on DBO	238	351
Interest income on plan assets	-	-
Defined benefit cost included in P&L	<u>739</u>	<u>1,097</u>
Remeasurements (recognised in other comprehensive income)		
Effect of changes in demographic assumptions	(26)	(930)
Effect of changes in financial assumptions	(1,115)	321
Effect of experience adjustments	877	(468)
Total remeasurements included in OCI	<u>(264)</u>	<u>(1,077)</u>
Total defined benefit cost recognised in P&L and OCI	<u><u>475</u></u>	<u><u>20</u></u>
Reconciliation of defined benefit healthcare liability	2018	2017
	\$000	\$000
Net defined benefit liability	6,520	6,500
Defined benefit cost included in P&L	739	1,097
Total remeasurement included in OCI	(264)	(1,077)
Net defined benefit liability	<u>6,995</u>	<u>6,520</u>
Defined benefit obligation total	<u><u>6,995</u></u>	<u><u>6,520</u></u>

AUDITED FINANCIAL STATEMENTS

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018

Post-Employment Benefits (continued)

Defined Benefit Healthcare (continued)

Actuarial Assumptions

The principal actuarial assumptions used to determine benefit obligations at 31 December 2018 is as follows:

	31 December 2018 %	31 December 2017 %
Weighted-average assumptions to determine defined benefit obligation		
Discount Rate for defined benefit obligation	4.55	3.85
Healthcare cost trend rates		
Immediate trend rates	5.00	5.00
Ultimate trend rate	5.00	5.00
Weighted-average assumptions to determine defined benefit cost		
Discount Rate for defined benefit cost	3.85	4.05
Net interest cost rate	3.65	3.60
Discount rate for service cost	3.90	4.20
Rate for interest on service cost	3.85	4.10
Healthcare cost trend rates		
Immediate trend rates	5.00	5.00
Ultimate trend rate	5.00	5.00

	31 December 2018 \$000	31 December 2017 \$000
Sensitivity analysis		
Change in defined benefit obligation		
Effective discount rates - 25 basis points	427	430
Effective discount rates + 25 basis points	(436)	(398)
Healthcare cost trend rates - 100 basis points	(1,405)	(1,440)
Healthcare cost trend rates + 100 basis points	1,845	1,925
Mortality assumption + 10%	284	(286)

Expected cash flows for following year

Expected employer contributions	15	5
Expected total benefit payments		
Year 1	15	5
Year 2	37	11
Year 3	45	18
Year 4	61	28
Year 5	72	41
Next 5 years	742	505

10. Commitments

AUDITED FINANCIAL STATEMENTS

CAYMAN ISLANDS MONETARY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

a) Operating Commitments

Office Accommodation The Authority has the following:-

- i. Office Accommodation Leases with Montpelier Properties Ltd. effective 1 February 2018 for one (1) year at a cost per square foot of \$35 for rent and \$7 CAMs;
- ii. Storage Agreement with Rosseau Ltd. At a monthly cost of \$6.7k rent and \$0.6k CAMS; expiring 31 May 2019.

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 Brac Informatics Centre effective 1 April 2014 at a monthly cost of CI\$4.9k for a five year period.
- iii. 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 2018	31 December 2017
	\$000	\$000
Office Accommodation and Storage	152	107
Business Continuity Leases	294	595
	<u>446</u>	<u>702</u>

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's net operating surplus after fulfilling Reserve requirements.

b) Directors.

The Board of Directors of the Authority is appointed by the Governor in Cabinet, and consisted of the Managing Director ("MD") and seven directors as at 31 December 2018 (six directors at 31 December 2017). The fees of \$149k (2016-17: \$233k) relates to payments made to the directors only.

AUDITED FINANCIAL STATEMENTS

CAYMAN ISLANDS MONETARY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 December 2018

Related Party Transactions (continued)

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 18 in the current period (2016-17: 16) and salaries & other short term benefits expensed in 2018 was \$2,928k (2016-17: \$3,734k).

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 \$519k (2016-17: \$915k).

12. Other Operating Expenses

	31 December 2018	31 December 2017
	\$000	\$000
Other expenses	1,223	1,669
Maintenance and software licences	945	1,571
Currency Stock issues	597	828
Business Continuity	358	532
eMerchant Discounts	258	255
Directors Fees	149	233
Management and Custody Fees	67	101
Doubtful Debt Expense	-	(7)
Total	3,597	5,182

13. Salaries and Benefits

	31 December 2018	31 December 2017
	\$000	\$000
Salaries and Allowances	16,306	20,286
Medical Expense	1,748	2,237
DB Healthcare Expense	739	1,097
	18,793	23,620
Remeasurement of DB Healthcare liability in OCI	(264)	(1,077)
	18,529	22,543

AUDITED FINANCIAL STATEMENTS

**CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018**

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 2018, total accommodation expense amount to \$1,374k (2016-17: \$1,874k).

15. Subsequent Events

In April 2019, the Authority signed an Agreement for Lease for new office accommodations with Cricket Square Ltd.

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 January 2018 – 31 December 2018, several legislative documents were tabled in the Legislative Assembly, most of which were in relation to the Anti-Money Laundering and Financial Terrorism procedures. For a list of measures implemented or in development, please see the Regulatory Developments section of this report, beginning on page 53.

Freedom of Information Initiative

The Freedom of Information (“FOI”) Law came into effect across the Cayman Islands Public Service in January 2009, giving members of the public a general right of access to government records, with some exemptions and exclusions that are specified in the law. Because of the nature of CIMA’s work, the FOI Law (in Section 3(1) (c)) specifically excludes the release of records and information protected by Section 50 of the Monetary Authority Law (2018 Revision) (“the MAL”).

From 1 January 2018 – 31 December 2018, the Authority received and processed nine requests. No requests were granted full access. Two requests were denied on the basis that the Authority did not hold the requested record. One request was denied on the basis that the information was already available in the public domain. One request (for the CFATF Mutual Evaluation Report) was deferred, as its premature release would be contrary to the public interest. The remaining five 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. All requests were responded to 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 2018 are covered in the Regulatory Developments section of this report, beginning on page 53.

Future Objectives and Outlook

With a focus on fostering a compliant environment in accordance with the recommendations as outlined in the CFATF review, the Authority's key priorities for the 2019 – 2020 period will remain as follows:

1. Enhance efficiency and effectiveness through functional reforms;
2. Optimise 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.

Despite any challenges that may lie ahead, the Authority will continue to play its role in ensuring that the Cayman Islands remains a top domicile for financial business, and one that is responsible and well-respected.