



Cayman Monetary Regulatory Authority International

At the forefront of financial regulation, the Cayman Monetary Regulatory Authority International (CMRAI) is dedicated to upholding the highest standards of financial oversight and compliance. Our mission is to safeguard the stability and integrity of the global financial system by ensuring that financial services operate within a framework of transparency, accountability, and excellence.

As a trusted partner to financial institutions worldwide, CMRAI provides rigorous supervision, innovative solutions, and strategic guidance to foster a secure and thriving financial environment. With decades of experience and a commitment to global standards, we stand as a pillar of trust and security in an ever-evolving financial landscape.

With a legacy of excellence in financial oversight, the Cayman Monetary Regulatory Authority International (CMRAI) is a beacon of trust in the international financial community. Our role extends beyond regulation; we are innovators, collaborators, and protectors of the global financial ecosystem. By fostering compliance, promoting best practices, and embracing technological advancements, CMRAI ensures that financial services remain resilient and adaptable in a dynamic global market.

Our comprehensive approach to regulation encompasses a deep understanding of financial risks and a proactive stance on emerging challenges. We are committed to empowering financial institutions with the tools and guidance necessary to navigate complex regulatory landscapes, thereby contributing to global economic stability and growth.

Monetary Regulatory Authority International Annual Report was prepared by the Cayman Monetary Regulatory Authority International Unless otherwise stated, the currency noted in this publication is expressed in Cayman Islands dollars (CI\$1=US\$1.20) Where referenced in this publication: \$1 trillion = \$1,000,000,000,000 \$1 billion = \$1,000,000,000

Cayman Monetary Regulatory Authority International PO Box 10052 80e Shedden Road Elizabethan Square Grand Cayman KY1-1001 CAYMAN ISLANDS - General Office: 345-949-7089 Fax: 345-949-2532 Website: CMRAI Annual Report 2012-13

iii CMRAI s Mission As the primary financial services regulator our mission is to enhance the economic wealth and reputation of the Cayman Islands by fostering a thriving and growing, competitive, and internationally recognised financial services industry through appropriate, responsive, cost-effective and efficient supervision and a stable currency. CMRAI Annual Report 2012-13 iv Table of Contents

MANAGING DIRECTOR S STATEMENT	1
ORGANISATIONAL CHART	3
BOARD OF DIRECTORS	4
SENIOR OFFICERS.....	5
INDUSTRY OVERVIEW	7
BANKING AND RELATED SERVICES	8
BANKING	8 MONEY
SERVICES, COOPERATIVES AND BUILDING SOCIETIES	14
FIDUCIARY SERVICES	16
TRUSTS	16
CORPORATE SERVICES	18
INSURANCE	20
INVESTMENTS AND SECURITIES	27
FUNDS AND FUND ADMINISTRATORS	27
SECURITIES INVESTMENT BUSINESS	30
ORGANISATIONAL DEVELOPMENTS	
31 NATURE AND SCOPE OF ACTIVITIES	
32 STRATEGIC GOALS	32
EXECUTION OF MONETARY FUNCTIONS	33
CURRENCY MANAGEMENT	33
EXECUTION OF REGULATORY FUNCTIONS	35
THE REGULATORY REGIME	35
REGULATORY DEVELOPMENTS	36
COMPLIANCE AND ENFORCEMENT	38
EXECUTION OF COOPERATIVE AND ADVISORY FUNCTIONS	
41 CROSS-BORDER COOPERATION	41
LOCAL COOPERATION	43
ADVISORY ACTIVITY	43
COMMUNICATION AND PUBLIC RELATIONS	49
FREEDOM OF INFORMATION INITIATIVE	50
FINANCIAL CONTROL	50
ANNUAL FINANCIAL STATEMENTS	52

tentative recovery following the financial and economic crisis has given way to new concerns about stability in leading economies such as the United States and Europe. These are key markets for the financial services industry of the Cayman Islands, which is the primary contributor to the country's economy. The Cayman Islands Monetary Authority (CMRAI) continued to play a crucial role in the supervision and regulation of the industry.

INDUSTRY ACTIVITY **Banking Supervision** As at June 2013, the jurisdiction ranked fourth internationally, based on the value of cross-border liabilities booked from the Cayman Islands (\$1.487 trillion). It was ranked as sixth in terms of cross-border assets booked (\$1.503 trillion). Although moderate in relation to the position at June 2012, the recent numbers have posted the first increase since 2009. The cross-border assets and liabilities of Cayman Islands banks had been declining steadily since June 2008 through June 2012.

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

Insurance Significant revisions to the Insurance Law were introduced during the 2012-13 financial year. These changes affect the solvency and reporting requirements for holders of Class B, C and D insurance licences. In 2012, Cayman saw the highest number of captive applications since the hard market of 2004, and 2013 continued to show growth for the jurisdiction. Fifty-six licences were issued in 2013, compared to 26 the previous financial year. There was growth in the number of reinsurance companies with a physical presence in Cayman. Southport Re (Cayman) Ltd. migrated under the new Insurance Law, 2010 from a Class B Captive to join Greenlight Re as a Class D open market reinsurer.

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

Investments and Securities The Cayman Islands is the premier domicile for funds, continuing to surpass other fund domiciles. New fund authorisations declined since the credit crisis debacle of 2008, however, the country's funds industry remains healthy, with total funds as of 30 June 2013 at 11,209. This increase in new authorisations during 2012 and 2013 was attributed to the registration of master funds as a direct result of The Mutual Funds (Amendment) Law, 2011.

CMRAI Annual Report 2012-13 2 **INTERNATIONAL STANDARDS** The Authority also partnered with its international counterparts and other agencies in the effort to increase the level of information exchange on tax and other financial matters. In January 2013, the Authority began an industry consultation on corporate governance proposals, including an updated Statement of Guidance on Corporate Governance. At the same time, CMRAI also commissioned Ernst & Young to conduct a Hedge Fund Corporate Governance survey, aimed at providing industry the opportunity to communicate to the Authority its views on the current Corporate Governance standards.

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

strengthened in relation to these international standards. With regard to banking, efforts were focused on the implementation of Pillar II of the Basel II framework. An internal framework and methodology was developed in the first and second quarter of the 2012-13 financial year to support the review process under the Internal Capital Adequacy Assessment Process (ICAAP) filing. Under ICAAP, supervisors are required to evaluate how well banks are assessing their capital needs relative to their risks and to intervene, where appropriate. On 22 May 2013, the European Securities Markets Authority approved co-operation agreements between EU Securities regulators (and authorities from Croatia, Iceland, Liechtenstein and Norway) and the Cayman Islands, as well as 33 of their other global counterparts. This important agreement enabled the continued marketing of Cayman Islands funds in Europe, with the advent of a unified regulatory regime for alternative investment fund managers and funds within the European Union from July 2013.

ORGANISATIONAL EFFECTIVENESS During the past year, greater emphasis was placed on the hiring of experienced, mature, well-qualified candidates already having industry experience; in addition to university graduates. The Human Resources Division, in conjunction with the Information Systems Division, is working to streamline CMRAI's mail receipting system. It is intended to improve efficiency and accuracy beginning in the coming year, especially during peak periods when CMRAI receives a substantial amount of year-end payments from licensees. Information Systems has undertaken a number of measures to improve operational efficiency, among them a more cost-efficient Voice-Over Internet-Protocol PBX telephone system, several network security enhancements made to existing systems, and data monitoring systems to assist with the Risk Management initiative. For fiscal year 2012-13, the Authority collected \$101.656 million in fees from regulated entities on behalf of the Government. This is an increase over the \$79.563 million for the prior year. Net income for the 2012-13 financial year was \$587,000, up from the previous year's total of \$114,000. At 30 June 2013, currency in circulation (excluding numismatic coins) totalled \$87.2 million. These achievements could not have been possible without the wise counsel of the Board of Directors and the commitment and dedication of the staff of the Authority. For this, I express my appreciation once again. Cindy Scotland

CMRAI Annual Report 2012-13	3	ORGANISATIONAL CHART AS AT 30 JUNE
2013	CMRAI Annual Report 2012-13	4
2013	BOARD OF DIRECTORS	As at 30
June 2013	At 30 June 2013, the Board of Directors of the Cayman Islands Monetary Authority comprised seven members: Mr. George McCarthy, OBE, JP, Chairman Mr. Linburgh Martin, Deputy Chairman Mrs. Cindy Scotland, Managing Director Mr. Harry Chisholm, Director Ms. Sara Collins, Director Professor William Gilmore, Overseas Director Mr. Raul Nicholson-Coe, Director	Seated L-R: Deputy Chairman, Linburgh Martin; Managing Director, Cindy Scotland; Chairman, George McCarthy, OBE, JP Standing L-R: Director, Raul Nicholson-Coe; Director, Sara Collins; Director, Harry Chisholm; Overseas Director, Professor William Gilmore.
CMRAI Annual Report 2012-13	5	
SENIOR OFFICERS	As at 30 June 2013	Managing Director Cindy Scotland
Deputy Managing Director	Operations Patrick Bodden	General Counsel Langston Sibblies, QC
Deputy Managing Director	Insurance Supervision	Fiduciary Services
Reina Ebanks	Kenton Tibbetts	Rohan Bromfield
		Leticia Frederick
	Investments & Securities	

Head	Deputy Head	Head	Deputy Head	Deputy Head
Gordon Rowell	Pedro Reis	Yolanda McCoy	Heather Smith	Gloria Glidden
CMRAI Annual Report 2012-13	6	NON-SUPERVISORY DIVISIONS		
Compliance		Policy & Development		
Legal			Deputy General Counsel	
Legal Counsel	Legal Counsel	Andre Mon D sir	Gail Goring Johnson	Angelina Partridge
OPERATIONS				Currency
Operations		Finance		Head
Deborah Ebanks	Deputy Head	Shan Whittaker	Chief Financial Officer	Gilda Moxam-Murray
Information Services		Human Resources		
		MANAGING DIRECTOR S OFFICE		
Public Relations Executive		Sharon Marshall, Ph.D.	Head	RJ Berry
Deputy Head	Audrey Roe	Head	Mitchell Scott	Deputy Head
Francis Arana	Head	Deborah Musson	Deputy Head	Tara Abdul-Jabbar
Head	Chuck Thompson	Deputy Head	Scott MacLaren	CMRAI Annual Report 2012-13
7		INDUSTRY OVERVIEW		CMRAI Annual Report 2012-13
8	BANKING AND RELATED SERVICES		BANKING	The Sector

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

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

CMRAI, through its Banking Supervision Division, regulates and supervises all banking entities operating in and from within the Cayman Islands, along with those trust entities that have a banking licence¹. There are two licence categories: A and B, with the latter having a sub-category: Restricted. The category A banking licence allows holders to operate both in the domestic and international market. The category B licence permits international banking business and limited domestic activity as set out in section 6(6) of the Banks and Trust Companies Law (2009 Revision). Category B banks are generally used as financial intermediaries to raise funds in the international market in order to provide capital for the financing of cross-border investments by their parent banks or other companies within their group. The domestic segment comprises banks that provide both retail and non-retail services to Cayman Islands residents. Retail services offered to the general public include instalment loans, residential mortgages, equity credit loans, credit card services, deposit services, and individual retirement accounts. All retail banks require a category A licence. Other banks that also hold category A licences generally do so in order to offer principal office/authorised agent services to category B banks that do not have a physical presence in the Cayman Islands, and to provide investment banking services.

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

Middle East & Africa 4% Caribbean, Central America & Mexico 12% Asia & Australia 11% South America 18% Europe 27% North America 28%

CMRAI Annual Report 2012-13 9

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

subsidiaries, and 18 were banks privately owned or affiliated to another bank within their group. Banking Activity Total international assets and liabilities (cross-border positions in domestic and foreign currency and domestic positions in foreign currency) as at June 2013 stood at \$1.533 trillion and \$1.581 trillion, respectively, with cross-border and domestic assets of \$1.503 trillion and \$30 billion and liabilities of \$1.524 trillion and \$57 billion. Cross-border Assets and Liabilities in Domestic and Foreign Currency 2011-2012 As at June 2013, the jurisdiction ranked fourth internationally based on the value of cross-border liabilities booked from the Cayman Islands - \$1.487 trillion (June 2012: \$1.441 trillion ²) - and sixth in terms of cross-border assets booked - \$1.503 trillion (June 2012: \$1.429 trillion) ³. Of the \$1.487 trillion in cross-border liabilities at June 2013, \$1.396 trillion (June 2012: \$1.365 trillion) represent cross-border deposit liabilities of which 57% or \$796 billion (June 2012: 60.4% or \$824 billion) represent inter-bank bookings between onshore banks and their Cayman Islands branches or subsidiaries. This \$1.396 trillion in deposits was used to provide \$1.246 trillion and \$36 billion of cross-border loans to Developed Countries ⁴ and Latin America and the Caribbean, respectively, highlighting the role of the Cayman Islands as a financial intermediary providing capital for cross-border investments. Figure 2: Total Value of Cross-border Assets and Liabilities of Cayman Islands Bank Licensees, 2009-2013 The Cayman Islands banks cross-border assets and liabilities were declining steadily since June 2008 through June 2012 (see Figure 2). The recent numbers have posted the first increase since 2009, though moderate in relation to the position at June 2012. The decreases were most likely influenced by the tumult in international credit markets, contraction of global economic growth and a reduction in the ² Excluding US\$31 billion in own issues of debt securities, which are reported without counterparty country breakdown and cannot be considered to be strictly cross-border as per recent changes to the reporting methodology by BIS. ³ Source: Bank for International Settlements (BIS): Report titled 2A In all currencies vis- -vis all sectors ⁴ Developed Countries: North America, Developed Europe and Other Developed Countries. Source: BIS CMRAI Annual Report 2012-13 ¹⁰ number of licensed banks stemming from the 2007-08 financial crisis. The most recent numbers are consistent with the general consensus that the global economy has been steadily improving. Domestic ⁵ Assets and Liabilities in Foreign Currency 2012-2013 In addition to the June 2013 \$1.49 trillion in cross-border liabilities booked from the Cayman Islands by Cayman-licensed banks, there was \$57 billion foreign currency liabilities booked in the domestic economy (see Figure 3). Figure 3: Domestic Assets and Liabilities of Cayman-licensed Banks, 2009-2013 Activity in the Domestic Segment The domestic market continued to be serviced by seven retail banks: Butterfield Bank (Cayman) Limited, Cayman National Bank Ltd., Fidelity Bank (Cayman) Limited, FirstCaribbean International Bank (Cayman) Limited, HSBC Bank (Cayman) Limited, RBC Royal Bank (Cayman) Limited, and Scotiabank & Trust (Cayman) Ltd. Six are subsidiaries of international banking groups and the seventh is owned by a financial group headquartered in the Cayman Islands. Table 1 shows total assets, deposits and loans for the seven retail banks on an unconsolidated basis. This includes their operations with their own branches and entities outside of the Cayman Islands and transactions with other non-resident entities. As at June 2013, the sector's Total Assets and Total Deposits reflected an increase over the prior year of \$1.2 billion (8.82%) and US\$1.3 billion (11.02%) respectively. Table 1: Solo Retail Bank Figures 2009 2013 (in \$US) Year Total Assets Total Loans o/w Total Deposits o/w Resident Loans Resident

Deposits Jun-09 \$13.3 billion \$6.6 billion \$3.60 billion \$11.5 billion \$6.78 billion Jun-10 \$13.0 billion \$6.5 billion \$3.48 billion \$11.4 billion \$7.28 billion Jun-11 \$17.5 billion \$7.5 billion \$3.57 billion \$15.9 billion \$6.42 billion Jun-12 \$13.6 billion \$7.6 billion \$3.69 billion \$11.8 billion \$6.25 billion Jun-13 \$14.8 billion \$8.4 billion \$3.58 billion \$13.1 billion \$6.26 billion

5 Domestic refers to positions booked by Category A and B banks against entities licensed in the Cayman Islands (and considered resident) and resident households. CMRAI Annual Report 2012-13 11 Domestic Credit Credit from the retail banks to the domestic market (i.e., resident loans) decreased by \$0.11 billion to \$3.58 billion as at June 2013, as compared to \$3.69 billion as at June 2012. Credit contraction was evident in lending to Public Sector Entities, Households and Other Financial Corporations, driven mainly by a decline in central government loans and loans to businesses. (Refer to Table 2). It should be noted that while lending to Households is down compared to 2012, it remains well above 2011 numbers. Table 2: Sectoral Distribution of Credit to the Domestic Market

Sector	Jun-11	Jun-12	Jun-13	Total Resident Loans
Public Sector	\$0.48 billion	\$0.45 billion	\$0.42 billion	\$0.42 billion
Public Sector Entities	\$0.11 billion	\$0.11 billion	\$0.08 billion	\$0.11 billion
Private Sector	\$3.09 billion	\$3.24 billion	\$3.16 billion	\$3.16 billion
Commercial Private Sector	\$1.09 billion	\$0.95 billion	\$0.95 billion	\$0.95 billion
Households	\$1.98 billion	\$2.24 billion	\$2.17 billion	\$2.17 billion
Other Financial Corporations	\$0.02 billion	\$0.05 billion	\$0.04 billion	\$0.04 billion

Financial Soundness of the Domestic Sector When averaging the data, the financial position of the domestic retail banks is moderately healthy with hints of deterioration as at 30 June 2013. The declines that Cayman's retail banks have experienced have been marginal, considering the high level of exposure to the residential real estate sector and increase in unemployment. The impact of the economic downturn in the domestic economy is notable in the increase in banks non-performing loans (NPLs). The profitability of Cayman's retail banks has been returning slowly since 2010. Higher net interest margins are improving profitability measures. High capitalisation and ample liquidity indicate that the domestic banking system is stable. The Authority continues to monitor these banks, despite the improvement in liquidity, to ensure that the jurisdiction is not compromised. Capital Adequacy - The capital adequacy ratio for the seven locally incorporated retail banks was an average of 21% as at June 2013, and has remained in excess of 20% for the previous five years. This is well in excess of the 8% minimum requirement set by the Basel Committee on Banking Supervision and the 10% set by Cayman's Banks and Trust Companies Law (2009 Revision). Asset Quality - The ratio of nonperforming loans (net of provisions) to capital has remained at over 10% over the last four periods. Asset deterioration is driven by loan delinquency in four main sectors, mainly, residential mortgages households, commercial mortgages, retail lending/consumer loans households, and non-financial corporations industrial and commercial private sector. This is due to general weakness in overall economy caused by a dip in population which would contribute to higher unemployment. Non-performing loans (NPL) range from 1.1% to 11.6% with an average of 3.4% for the retail banking sector. NPLs to gross loans has been on an increasing trend since 2008. It remains above the pre-crisis range of 1% - 2%, and is within an acceptable range compared to other jurisdictions in the Caribbean which are seeing their NPLs hit the high teens. The upward trend in Cayman's NPLs also mirrors the increase in unemployment from 4% to 6.2% over the 2008 to 2012 period, as published in the Compendium of Statistics - 2012. Earnings and Profitability - Cayman retail banks

profitability contracted significantly over the two-year period from 2008 to 2010, reflecting lower interest income and higher operating costs. Since 2012, banks are showing signs of fairly stable profits balanced by a significantly improving interest margin to gross income measure, but offset by increasing non-interest expenses. In the last two years, non-interest expenses has jumped to around to 57% after being stable at 50%. Return on Assets (ROA) and Return on Equity (ROE) have remained steady at 0.70% and approximately 6.5%. Liquidity - Liquidity has declined for Cayman's retail banks in aggregate - from 48.1% at end-2011 to 28.3% at June 2013. This is considered healthy.

Table 3 provides a picture of the retail banks' financial soundness as at the end of their financial years 2008 through 2012, and at the end of their second quarter 2013. Table 3: Financial Soundness Indicators for Cayman Islands Retail Banks - Solo Basis (in percentages)

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

Number of Bank Licences, by Category, Fiscal Year-end 2009-2013 CMRAI Annual Report 2012-13 13

Table 4: Bank Licensing Activity, 2012-2013 Jurisdictional Comparisons As illustrated in Table 5, changes in the number of banks licensed in the listed jurisdictions were relatively static. Cayman had the sole decline of 5.96%, while Panama and Luxembourg posted modest increases. Cayman had its third highest fiscal-year decrease over the five years. In relation to a base year of 2008, Cayman has lost 57 licensed entities (20.5%). Within the group of losing jurisdictions, Bahamas posted the second highest decline in licensed entities (15%), followed by Jersey, Switzerland and Luxembourg (10.6%, 9.2% and 6.6%, respectively). Singapore, Hong Kong and Panama posted increases of 8.8%, 2.3% and 2.2%, respectively. Nonetheless, Cayman continues to maintain its position of being the jurisdiction with the second largest number of banks.

Table 5: Bank Licence Numbers - Selected Jurisdictions, 2009-2013 Fiscal Year-end (Positive change percentages are decreases in nominal values) CMRAI Annual Report 2012-13 14

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

SERVICES, COOPERATIVES AND BUILDING SOCIETIES Money services businesses cater primarily to the domestic market and must be licensed by CMRAI. The number of these licences in effect decreased to six as at June 2013, compared to the eight money service businesses at June 2011. Two of the six licenses outstanding are expected to be cancelled within 2014. Remittances sent from the Cayman Islands to other jurisdictions through these entities for year 2013 fell to \$134 million, from \$177 million in 2012. The remittance numbers have been trending downwards since 2008. The decline can most likely be attributed to the economic slowdown, in particular the construction industry 6, following the 2007-8 financial crisis. Figure 5: Total Remittance Outflows, June 2008 to June 2013 Jamaica remained the largest recipient of remittances from the Cayman Islands in 2012, with 66.7% (June 2012: 65%) of the US\$163 million going to that country (see Figure 6). Remittances coming into 6 A large

majority of the Cayman workforce are expatriates. Their presence is particularly evident in the

Construction industry. CMRAI Annual Report 2012-13 15 the Cayman Islands through money service providers totalled \$4.9 million (June 2012: \$1.8 million). Twenty-one per cent of this amount was from Jamaica (see Figure 7). Figure 6: Proportion of total Remittance Outflows to various countries, fiscal year June 2013 Figure 7: Proportion of Total Remittance Inflows from Various Countries, Fiscal Year June 2013

Cooperative societies carrying on credit union business, building societies and development banks are not required to be licensed but must be registered by CMRAI. The number of cooperative credit unions (2), building societies (1) and development banks (1) supervised by the Banking Division as at June 2013 remained at four. CMRAI Annual Report 2012-13 16 FIDUCIARY SERVICES TRUSTS

The Sector Corporate trust business carried out in and from the Cayman Islands is regulated pursuant to the Banks and Trust Companies Law (2013 Revision) (BTCL), and the Private Trust Companies Regulations (2013 Revision) (PTCR). The BTCL defines trust business as the business of acting as trustee, executor or administrator, and no company is allowed to carry on such business unless it is licensed or registered by the CMRAI. CMRAI's Fiduciary Services Division has regulatory and supervisory responsibility for trust companies that do not have a banking licence. Those that have a banking licence are regulated and supervised by the Banking Division. There are three licence categories and two registration categories for trust business. These are: Trust the licensee is authorised to carry on the business of acting as trustee, executor or administrator; Restricted Trust the licensee is authorised to undertake trust business only for persons listed in any undertaking accompanying the application for the licence; Nominee (Trust) the licensee is authorised to act solely as the nominee of a trust licensee, being the wholly-owned subsidiary of that licensee; Controlled Subsidiary - the registrant is authorised to provide trust services including the issuing of debt instruments or any other trust business connected with the trust business of its parent that holds a trust licence, and Private Trust Company - the registrant is authorised to provide trust services to connected persons as defined in section 2(2) of the PTCR. The Cayman Islands has been a top international location for the provision of trust services and remains so, with 389 companies providing these services in and from the jurisdiction as at 30 June 2013. Figure 8 shows the breakdown of trust companies by authorisation type at fiscal year-end, 2009 to 2013. Figure 8: Number of Trust Licences by Category, 2009-2013

Year	Licensed	Restricted	Nominee	Controlled Subsidiaries (Registered)	Private Trust Cos. (Registered)
Jun-09	160	158	152	147	138
Jun-10	85	78	71	71	68
Jun-11	83	73	65	63	58
Jun-12	9	14	27	39	40
Jun-13	9	36	56	70	85

Trust Licence
 Restricted Trust Licence
 Nominee Trust Licence
 Controlled Subsidiaries (Registered)
 Private Trust Cos. (Registered)

CMRAI Annual Report 2012-13 17 Assets settled in trust are usually held in an underlying company and the trust (through the trustee) holds the shares in that company. These structures are established to be compliant with the laws, regulations and rules of all applicable jurisdictions whilst affording the client the comfort and the peace of mind that the settled assets are safe and will be managed in accordance with the agreed terms of the trust deed. Private trust companies are those companies established for the sole purpose of engaging in trust business for assets settled by connected persons meeting very

specific criteria (mainly familial relationship). This type of arrangement is often used in planning and managing the wealth of high net worth families. Trusts and trust companies are also used in capital markets and structured finance arrangements, usually by large institutional clients such as institutional asset managers, large investment banks and wealth management etc. These institutions see the benefit of structuring in Cayman because the jurisdiction is creditor friendly. The jurisdiction has innovative legislation that is beneficial to the efficiency of transactions and Cayman vehicles are well reputed, recognised and respected worldwide. Authorisation Activity Table 6 shows trust company authorisation activity for the fiscal year. Overall, the sector remained fairly stable in 2012-13. Table 6: Trust Authorisation Activity, 2012-2013

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

Prior to the enactment of legislation in 2008 for the registration of private trust companies, the restricted trust category had been largely used to establish private trust companies. The net decline in restricted trust companies since 2008 (see Figure 8) is mainly attributable to licence holders choosing to surrender their licences in order to register as private trust companies. There were a total of 85 private trust companies as at June 2013, with 6 being registered during the fiscal year. It is anticipated that this upward movement in registration will continue. Jurisdictional Comparisons Table 7 shows the number of licensed trust entities for calendar years 2008 to 2012 in the Cayman Islands and in other international financial centres for which figures are available. As illustrated, with respect to the number of licensees, the Cayman Islands has maintained its position relative to the other listed international trust services locations. The declines in Cayman's CMRAI Annual Report 2012-13 18 trust licences since 2008

partially reflect the movement of licensees to the new registration categories. Table 7: Number of Licensed Trusts - Selected Jurisdictions, 2008-2012 Calendar Year-end

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

Note: Figures for other jurisdictions have been collected from the relevant websites and overseas contacts. * Cayman's figures do not include registered private trust companies and registered controlled subsidiaries that are wholly owned subsidiaries of licensed trust companies. These were introduced as authorisation categories in 2008. (Note that the figures for 2008 and 2009 that were published in the CMRAI Annual Report 2009-10 inadvertently included registered private trust companies and registered controlled subsidiaries.) ** Figures for Gibraltar, Guernsey and Jersey include both trust and company businesses licensed, inclusive of affiliation members. N/A: Figures not available

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

Number of Company Manager and Corporate Service Provider Licences, 2009-2013 The services, provided mainly to institutions, include: company incorporation forming a company and having it duly constituted; registered office providing a statutory address and a place where process can be served; directorship providing qualified directors to sit on the board of a Cayman company; and nominee shareholder acting as shareholder on a client's behalf.

Corporate services are used in conjunction with the majority of the trust structures established in the jurisdiction. 0 50 100 Jun-09 Jun-10 Jun-11 Jun-12 Jun-13 77 77 82 86 93 6 7 9 11 15 Company Managers Corporate Service Providers CMRAI Annual Report 2012-13 19 All providers of corporate services are required to be licensed by CMRAI, and the Authority's Fiduciary Services Division has regulatory/supervisory responsibility for these licensees. Two licence categories are provided: a company's management licence allows the holder to provide company management services as listed in section 3(1) of the Companies Management Law (2003 Revision) or any other corporate services as may be prescribed under that section. A corporate services licence allows the holder to provide only the corporate services specified in section 3(1)(a) through (e) of the Companies Management Law (2003 Revision). Licensed trust companies are also authorised to provide corporate services. Authorisation Activity Table 8 shows authorisation activity for company managers and corporate service providers for 2012-2013. The 108 licences in effect at 30 June 2013 represent an increase of 11.34% over June 2012. Table 8: Companies Management Authorisation Activity, 2012-2013

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

Jurisdictional Comparisons Table 9 shows the number of active corporate services licences for calendar years 2008 to 2012 in the Cayman Islands and in other international financial centres for which figures are available. Table 9: Corporate Services Licence Numbers - Selected Jurisdictions, 2008-2012 Calendar Year-end

Jurisdiction	2008	change 2009	change 2010	change 2011	change 2012
Cayman	80	5%	84	0%	84
BVI	20	0%	20	5%	21
Guernsey	205	1.5%	197	3.55%	199
Jersey	175	5.14%	184		
Turks & Caicos	42	2.38%	43	27.90%	31
Isle of Man	185	12.97%	209	3.82%	201
Gibraltar	72	6.94%	67	10.4	74

Note: Figures provided have been collected from the relevant websites and overseas contacts. N/A: Figures not available * Jersey, Gibraltar and Guernsey's figures include both trust and company businesses licensed, inclusive of affiliation members.

CMRAI Annual Report 2012-13 20 INSURANCE 1. The Sector The insurance industry in the Cayman Islands has two distinct sectors: the domestic market, which provides insurance of local risks by locally incorporated or registered insurers, and the international market, which provides insurance of foreign risks by insurers from within the Cayman Islands. CMRAI, through its Insurance Supervision Division, regulates and supervises all insurance entities operating in and from the Cayman Islands. The Authority provides four classes of licence for insurance companies: Class A for domestic insurers, Class B for international insurers, Class C for fully funded vehicles e.g. insurance linked securities and Class D for commercial reinsurers. Class C and D have been included during the current fiscal year with the enactment of the Insurance Law, 2010. CMRAI also regulates insurance managers, brokers and agents 7. 1.1. The International (Captive) Segment Figure 10: Number of Cayman Islands International (Class B, C, D) Insurance Licences, 2009-2013 The industry is dominated by the international

segment, comprised primarily of captive insurance companies and their service providers (hence the popular reference to this segment as the captive market). The size of this market is evidenced by the number of insurance companies: 750 at 30 June 2013 (see Figure 10); the premiums generated: US\$13.5 billion total at 30 June 2013, and the assets held: US\$82.7 billion total at 30 June 2013 (Figure 11). With these figures, the segment also claims a major share of the global insurance market. Worldwide, the Cayman Islands is the second largest domicile for captive insurance companies. Moreover, with 34% of Cayman's captives covering healthcare risks (see Figure 12), the jurisdiction is the number one domicile for healthcare captives.

7 Insurance Manager - a company operating in and from within the [Cayman] Islands which provides insurance expertise to and for insurers and which has in its bona fide employment a person who fits the criteria outlined in section 2; Insurance Agent - a person (not being an insurer) who solicits directly, or through representatives, advertising or other means, domestic business on behalf of not more than one insurer; Insurance Broker - a person (not being an insurer) who negotiates directly or through representatives or other means, contracts of insurance or of reinsurance on behalf of more than one insurer, or for placement with insurers or reinsurers (Insurance Law (2008 Revision) s.2). 8 The International Association of Insurance Supervisors has defined a captive insurer as an insurance or reinsurance entity created and owned, directly or indirectly, by one or more industrial, commercial or financial entities, other than an insurance or reinsurance group entity, the purpose of which is to provide insurance or reinsurance cover for risks of the entity or entities to which it belongs, or for entities connected to those entities and only a small part if any of its risk exposure is related to providing insurance or reinsurance to other parties.

680 700 720 740 760 780 800 June 2009 June 2010 June 2011 June 2012 June 2013 787
760 725 731 750 CMRAI Annual Report 2012-13 21 Other types of coverage provided by Cayman captives include: general and professional liability, workers compensation, property, auto and product liability, and life and annuity. Figure 11: Total Premiums & Assets of Cayman Islands Class B Insurance Licensees, Fiscal Year-end 2009-2013

Figure 12: Cayman-Domiciled International Insurance Companies by Type of Coverage, 30 June 2013 While the vast majority of companies in the international segment of Cayman's insurance industry are self-insured captives of one type or another, a small number are engaged in commercial operations, providing insurance or reinsurance coverage to non-related entities. Along with insurance companies, the international segment comprises insurance managers. The international insurers originate mainly from North America, with the next largest geographical source being the Caribbean and Latin America, collectively (see Figure 13). The captive industry in Cayman began in the mid-1970s with the medical malpractice insurance crisis in the United States, and was formalized with the introduction of the Insurance Law in 1979. Unable to obtain commercial insurance, healthcare organisations began to form captives in Cayman to provide for their risk management needs. As a result, Cayman has developed particular expertise in this area.

	June 2009	June 2010	June 2011	June 2012	June 2013	Total
Premiums	7,986,587	7,496,373	9,065,474	8,883,201	13,508,01	
Total Assets	40,218,964	42,275,665	7,405,637	8,901,058	2,771,100	10,000,000,000
	30,000,000,000	40,000,000,000	50,000,000,000	60,000,000,000	70,000,000,000	
	80,000,000,000	90,000,000,000				
US\$						
Automobile P.D. & Liability	3%					
Credit Life	2%					
General Liability	10%					
Life	3%					
Medical Malpractice Liability	34%					
Professional Liability	9%					
Property	12%					
Workers' Compensation	21%					
Other	6%					

CMRAI Annual Report

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

Over the years, corporations have made increasingly extensive use of captives as part of their overall risk management function, reducing the premium they pay for commercial coverage by insuring a portion of their risk through a captive insurance programme. In addition to expanded coverage availability and flexibility, and better risk management, reasons for the formation of captives include cost reduction and stabilisation, improved cash-flow, and access to the reinsurance market which otherwise is unavailable if self-funding retained risk. (The reinsurance market generally provides better rates and conditions than the direct market.) More recently, Alternative Financing Vehicles (e.g. insurance-linked securitization contracts) have been formed to allow reinsurers access to capital markets for catastrophe cover. Segregated Portfolio Companies (SPCs), also called Protected Cell Companies that typically provide captive products for smaller organisations, are also a significant part of the market. During the 2012-13 fiscal year, significant revisions to the Insurance Law were introduced, affecting the solvency and reporting requirements for Class B, C and D insurance licences. These changes to the law came into effect on 1 November 2012, but due to the transitional arrangements introduced by Law, licensees have until 30 April 2014 to do the needful to bring themselves into full compliance with the Law.

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

Category	2009	2010	2011	2012	2013
Class A Insurance Companies	27	27	25	32	32
Managers	29	31	34	37	38
Brokers	29	31	34	37	38
Agents	29	31	34	37	38
CMRAI	84	106	60	58	58
Health	0	50	100	150	June

The domestic market comprises insurance companies (both locally incorporated and branches of foreign companies) and intermediaries (brokers and agents). Business is written directly, or through the brokers and agents. Domestic insurers provide a range of coverage to local policyholders, with Africa, Asia & Middle East 5 (1%) Caribbean & Latin America 24 (3.2%) Europe 14 (1.9%) North America 678 (90%) Pacific Rim 2 (0.3%) Worldwide 27 (3.6%)

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

2. Industry Activity At 30 June 2013, there were 906 insurance licensees under regulation (June 2012: 886). Of these, 709 were class B, 39 were class C, 2 were class D, 27 were class A, 29 were insurance managers, 40 were brokers and 60 were agents. Table 10: Insurance Licensing Activity 2012-2013

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

* Revised ** The number of Class A insurance companies writing business at 30 June 2013 was 23 as Class A insurer Motor and General Insurance Company Limited was under controllership, Dyoll Insurance Company Limited has liquidators appointed, and Reliastar Life Insurance Company of New York and Occidental Life Insurance Company of North Carolina were in run-off. 2.1. Captives There was an increase in the number of licences issued during 2012-2013 (56), compared to 2011-12 (36). In particular, 2012 was a year of tremendous growth for the Cayman Islands, with 53 licences granted. To put this in perspective, in 2012 Cayman received the highest number of captive applications since the hard market of 2004. 2013 continues to show growth for the Cayman Islands, with a

combined total of 24 licences granted during the first two quarters of 2013, compared to the 20 licences granted during the same period in 2012. This is a very good indicator of the recovery in the captive insurance sector and in the licensing numbers, following the effects of the US subprime crisis on captives. Health 52% Marine & Aviation 14% Property 10% Liability 9% Motor 6% Life 7% Other 2% CMRAI Annual Report 2012-13 24

There was a slight increase in the number of licences cancelled during 2012-13 (37) compared to 2011-12 (30), but a decrease when compared to 2010-11 (68). The higher number of cancellations in 2010-11 was mostly reflective of CMRAI's review and cleaning out of a number of licences that had been surrendered in prior years but not removed from the system. In addition, the cancellations included SPVs that completed their one-year policy cycle. Despite the general soft global insurance marketplace, there was continued demand in 2012-13 for the use of captives, primarily in the areas of medical malpractice liability (the primary class of business for 34% of class B licences at 30 June 2013), workers compensation (21% of licences) and property coverage (12%). The most popular region of origin of Cayman captives continues to be North America, which accounted for 90% of captives at fiscal year-end (see Figure 13). This was followed by Latin America and the Caribbean: 3.2%. With 1.9% of companies covering risk in Europe, that region became the third largest risk location, overtaking Africa, Asia and the Middle East which accounted for 1%, Pacific Rim: 0.3%, and the rest of the world accounted for a combined 3.6%. Table 11: International Insurance Company Statistics by Company Category and Licence Class, 30 June 2013

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

Jurisdictional Comparisons - Captives As shown in Table 12, between 2010 and 2012 most of the jurisdictions for which figures are available experienced very small variations/declines in licences, evidence of the extremely soft commercial insurance markets. Nevertheless, the Cayman Islands continued prominence as a captive domicile is evidenced. Table 12: Captive Insurance Licence Numbers - Selected Jurisdictions, 2009-2012-Calendar Year-end

Category	Total Licences	To date %	Total Premiums	Net Income	Net Worth	Total Assets									
Commercial Insurer	39	5.21%	2,496,018,091	2,795,815,051	1,884,353,982	22,752,555,396									
Group Captive	124	16.56%	1,625,052,375	253,328,035	2,478,879,704	5,089,631,433									
Pure Captive	412	55.01%	7,751,857,175	302,932,449	9,323,638,808	42,096,988,582									
Reinsurance Companies	2	0.27%	840,348,606	66,299,141	77,646,122	5,685,244,647									
Segregated Portfolio Company	134	17.76%	498,953,349	87,396,445	565,344,239	3,506,240,774									
Special Purpose Vehicle	39	5.21%	295,781,961	-5,333,705	-9,201,006	3,640,447,319									
Totals:	750	100.00%	13,508,011,557	3,500,437,416	14,320,661,849	82,771,108,151									
Jurisdiction	2009	Change	2010	Change	2011	Change	2012								
Cayman	780	5%	738	-739	-741	Barbados	N/A	-242	-N/A	8%	261	Bermuda	885	5%	
	845	2%	862	1%	855	BVI	285	23%	219	21%	174	-N/A	Guernsey	355	6%
	343	-N/A	Hawaii	N/A	-168	2%	172	-N/A	S. Carolina	147	9%	160	4%	153	-N/A
	Vermont	560	3%	576	2%	590	-593	CMRAI Annual Report 2012-13	25	* *					

2006 Source: Business Insurance, 12 March 2007 edition ** 2006 was the first year Bermuda released data specifically for captives as a licence class. Prior figures reflected the combined position for all licence classes. *** Business Insurance estimate 2007

Source: jurisdictions websites or regulators 2010 Source: Captive Review March 2011:

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

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

The MFL makes provision for three categories of regulated funds: licensed, administered and registered, and charges the Cayman Islands Monetary Authority with responsibility for their regulation and ongoing supervision. Licensed funds, commonly known as retail or public funds, are governed by a more prescriptive regime than registered funds because they are open to the public. All operators and promoters are vetted, offering documents must outline certain required information, calculation of net assets must be clearly defined and transparent, and assets must be segregated in accordance with governing rules. Although Cayman Islands legislation refers to mutual funds, the vast majority of the funds regulated in the jurisdiction fall within the loose definition of a hedge fund and are regulated as registered funds. A registered fund must either have a CI\$80,000 minimum subscription, or have its equity interest listed on a recognised (CMRAI-approved) stock exchange; or a master fund and the minimum aggregate equity interest purchasable by a prospective investor in the master fund is CI\$80,000 (or its equivalent in any other currency); or the equity interests of the master fund are listed on a stock exchange (including an over-the-counter market) specified by the Authority by notice in the Gazette. The great majority of investors are professional investors and/or institutions. Most of these funds have a US\$1,000,000 minimum subscription level, and they are usually distributed as a private placement, all of which further reinforce their non-public status. According to the Authority's 2011 Investment Statistical Digest, of the 6,917 regulated funds that filed a 2011 FAR with CMRAI, 44% required a minimum initial investment of US\$1,000,000 or greater (see Figure 18).

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

Year	Registered	Administered	Licensed	Total
June 2009	9189	8929	8857	17118
June 2010	8596	8243	1732	16571
June 2011	2449	506	427	3382
June 2012	424	418	400	1242
June 2013	130	130	128	388

CMRAI Annual Report 2012-13 28 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 CMRAI if it knows or suspects that the fund is unable to meet its obligations as they fall due, or if the fund is carrying on business in contravention of a law or in a manner prejudicial to investors or creditors. Mutual fund administrators must themselves be authorised by CMRAI to carry out mutual fund

administration. This is defined as the provision of any of the following services for a fund: management (including control of the fund's assets), administration, providing a principal office in the Cayman Islands, or providing an operator (i.e., the director, trustee or general partner) to the fund. Two categories of mutual fund administrator licence⁹ exist: full, which allows the holder to provide administration to an unlimited number of funds, and restricted, which allows administration of no more than 10 funds. See Figure 17, Mutual Fund Administrators by Category, 2009-2013. Figure 17: Number of Mutual Fund Administrators, by Category, 2009-2013

While aggregate financial and other statistical information covering all regulated funds is not currently available, one can get an indication of the size and profile of the industry from statistics that CMRAI collated from 6,917 regulated funds that had a financial year end in 2011 and that submitted the required Fund Annual Return form via CMRAI's electronic reporting system.¹⁰ These 6,917 funds had total assets of US\$2.4 trillion combined and net assets of US\$1.7 trillion. The 2011 Investment Statistical Digest records a significant decline in hedge funds profitability, as reflected in the decrease in total net income from US\$170 billion to US\$14 billion in 2011. Even though the total net income is not as robust as the 2010 figures, it nevertheless represents a positive return for the industry. In addition, overall ending net assets increased by 4% from US\$1.728 trillion to US\$1.798 trillion. Cayman was the primary location from which fund administration services (registrar and transfer (R&T) service was provided for these funds, with New York again being the primary location of the investment managers to these funds¹¹. In addition to the factors that facilitate financial services generally from the Cayman Islands, investors and their fund promoters/sponsors primarily form hedge funds in the Cayman Islands in order to benefit from its tax neutral platform, which allows investors from multiple jurisdictions to avoid excessive layers of foreign taxation in addition to their home country tax. This tax neutrality provides a level playing field for all investors, natural persons or institutional, within the complex parameters of existing tax and securities laws that apply to the investors, the management team

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

Year	Exempted	Restricted	Full
2009	2	2	2
2010	2	2	2
2011	2	2	2
2012	44	37	34
2013	36	33	97
2014	92	94	89
2015	88	88	88

CMRAI Annual Report 2012-13 ²⁹ and the business or investment activities in their multiple home jurisdictions. It does not mean that investors avoid paying taxes. This tax neutrality provides a level playing field for all investors, natural persons or institutional, within the complex parameters of existing tax and securities laws that apply to the investors, the management team and the business or investment activities in their multiple home jurisdictions - it does not mean that investors avoid paying taxes. The fact that the MFL does not impose restrictions on investment strategies, limits on leveraging, mandate resident directors or the physical presence of funds service providers in the Cayman Islands, as well as the fact that there is a distinction between the regulation of public funds and that of non-public funds, are other reasons for the growth of the Cayman Islands as a funds domicile. Figure 18: Minimum Initial Investment Required by Cayman-Regulated Funds Filing a Fund Annual Return for 2011

Authorisation Activity - Funds - Fiscal year to date, 1,635 regulated entities were authorised and 1,206 regulated entities were terminated, compared to 2,704 and 1,177 respectively during

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

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

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

7% 8% 33% 8% 30% 10% 4% 0% 5% 10% 15% 20% 25% 30% 35% Less than \$50,000 \$50,000-\$99,999 \$100,000-\$499,999 \$500,000-\$999,999 \$1,000,000-\$4,999,999 \$5,000,000-\$9,999,999 Greater than \$10,000,000 Percentage of Funds Minimum Initial Subscription Amount (US\$)

CMRAI Annual Report 2012-13 30 Table 14: Regulated Fund Numbers - Selected Jurisdictions, 2008-2012 Calendar Year-end

* Restatement of number due to enhancements made by Regulator.

SECURITIES INVESTMENT BUSINESS The Sector Securities investment business activities carried out in and from the Cayman Islands include: dealing in securities, arranging deals, investments management and provision of investment advice. The Securities Investment Business Law (SIBL) provides for the regulation of persons engaged in these activities in or from the Cayman Islands, including market makers, broker-dealers, securities arrangers, securities advisors and securities managers. Such persons must be licensed by CMRAI unless they meet the criteria to be excluded from the licensing requirement, in which case they must be registered as excluded persons. Since 2003, when the SIBL regime commenced, the excluded persons category has accounted for the vast majority of SIBL authorisations (see Figure 19). Most of the entities in this category conduct securities investment business exclusively for institutions or sophisticated investors. The majority of the licensees are Category A Banks, or affiliates thereof, that maintain securities investment business licences in order to provide securities investment services to their customers.

Figure 19: Number of Regulated Securities Investment Business Entities, 2009-2013 Authorisation Activity The securities investment business continues to grow modestly. Two new licence applications were approved in the fiscal year. As of 30 June 2013, there were 34 licensed Securities Investment Business holders and 2,064 SIBL Excluded Persons, compared to 32 and 2,035 respectively during the same period 2012.

0 200 400 600 800 1000 1200 1400 1600 1800 2000 2200 2400 June 2009 June 2010 June 2011 June 2012 June 2013 28 28 31 32 34 2270 2414 1936 2035 2064 Licensees Excluded Persons (Registered) Jurisdiction % change (08 v 07) 2008 % change (09 v 08) 2009 % change (10 v

09) 2010 % change (11 v 10) 2011 % change (12 v 11) 2012 Bahamas 11%
 867 9% 788 4% 753 5% 713 N/A N/A Bermuda 11% 1,133 16% 1,309 10%
 1,181 11.8% 772 1% 762 BVI 8% 2,942 1% 2,923 1% 2,951 12.3% 2,627
 11.8% 2,318 Dublin 1.5% 975 1.4% 961 6.3% 1,022 9.7 1,121 3.3 1,158
 Jersey 12% 1,472 12% 1,294 2% 1,324 3% 1,392 0.3% 1,388 Cayman 5%
 9,870 4% 9,524 1% 9,438 1.9% 9,258 17.1% 10,846 CMRAI Annual Report
 2012-13 31

ORGANISATIONAL DEVELOPMENTS CMRAI

Annual Report 2012-13 32 NATURE AND SCOPE OF ACTIVITIES FUNCTIONS

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

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

STRATEGIC GOALS
 CMRAI is in the final year of a three-year strategic plan approved by the Authority's Board of Directors. In summary, the strategic priorities are: 1. to further modernise regulation and enhance supervision in order to ensure that Cayman keeps on par with the evolving international regulatory standards and best practices that are relevant to our business; 2. to intensify CMRAI's international cooperation and involvement so as to: ensure that the Authority does its part in maintaining the safety and sound regulation of the international financial system; enable Cayman to continue to contribute to the development of international rules and standards that affect this jurisdiction, and to enhance the jurisdiction's reputation; 3. to facilitate the Government and private sector's efforts to further develop the Cayman Islands as an international financial centre, and 4. to increase CMRAI's effectiveness and cost-efficiency.

CMRAI Annual Report 2012-13 33

EXECUTION OF MONETARY FUNCTIONS CURRENCY MANAGEMENT The Monetary Authority, through its Currency Operations Division, is the sole issuing

authority for Cayman Islands currency. The division is responsible for the issue, re-issue, and withdrawal of Cayman Islands currency notes and coins against the United States dollar, dealing with the local retail banks: Butterfield Bank (Cayman) Limited, Cayman National Bank Ltd., Fidelity Bank (Cayman) Limited, CIBC FirstCaribbean International Bank (Cayman) Limited, HSBC Bank (Cayman) Limited, RBC Royal Bank (Cayman) Limited, and Scotiabank & Trust (Cayman) Ltd. The division also administers the sale and redemption of numismatic coins to and from local and overseas collectors. Currency Reserve Management Cayman Islands currency is issued on demand only against United States currency at the rate of one Cayman Islands dollar per 1.20 US dollars. It is repurchased on demand with US dollars at the same rate. The currency in circulation is backed by the currency reserve assets in accordance with section 32 of the Monetary Authority Law. As at 30 June 2013, CI\$97.930m (2012: \$99.417m) representing 112.27 per cent (2012: 12.09 per cent) of total demand liabilities (i.e., currency in circulation). Full details on the currency reserve assets, including specifics on the performance of the investments and cash and cash equivalent deposits that comprise the currency reserve assets, can be found at Note 4 of the Notes to the Annual Financial Statements (page 56 and following). Issue and Redemption of Currency

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

DATE	2009	2010	2011	2012	2013
30 June	83.6	78.8	84.9	88.7	87.2
31 December	87.5	85.2	89.7	94.0	

New Currency The Currency Division continues to put into circulation the D series banknotes featuring innovative security measures, which were launched in April 2011, with the \$10 banknotes introduced in September 2012. The \$100 banknote is the only denomination which remains to be put into circulation. CMRAI and the Royal Cayman Islands Police Service (RCIPS) Financial Crime Unit continue to work with the industry and business community with Know Your Money sessions. A video produced by Government Information Services Spotlight Segment during the 2011 launch has been updated and is now featured on the CMRAI website under Currency. The public is being encouraged to use this video as a training tool for their cash-handling employees.

CMRAI Annual Report 2012-13 34 Figure 20: Cayman Islands Currency in Circulation by Month: 2009-2013

Counterfeit Detection A total of 24 forged banknotes was detected and withdrawn from circulation in 2012-13, compared to 46 detected and withdrawn in the prior fiscal year. Table 16 shows the number of forged banknotes, by denomination, which were withdrawn from circulation in each of the six-month periods between 1 July 2009 and 30 June 2013. Table 16: Counterfeit Cayman Islands Currency Notes Recovered, July 2009-June 2013

Numismatic Coin Programme CMRAI added two more coins to the Authority's numismatic coin programme during the 2012-2013 fiscal year. The first coin was issued in January 2013 to commemorate the 10th Anniversary of National Heroes Day. This is a \$5 silver coin which was designed by a young creative Caymanian graphic artist attached to Government Information Services, which was very fitting given that the 2013 National Heroes Day celebrations was under the theme Youth Services. The second coin was issued in the Royal Mint 24 Commonwealth Coin Collection to celebrate the historic event of Queen Elizabeth II's

Diamond Jubilee. The theme of this \$5 silver coin is The Queen s Golden Jubilee and features the image of the Jubilee Beacon as well as the phrase A Celebration that Binds Us Together as a Nation an excerpt from the Queen s Golden Jubilee speech in 2002. This coin went on sale on 2 June 2013, just in time for the 60 th Anniversary of the Queen s Coronation on 2 June 1953.

CURRENCY IN CIRCULATION BY MONTH FROM 2009 TO 2013											
2009	2010	2011	2012	2013	Jul - Dec 2009	Jan - Jun 2010	Jul - Dec 2010	Jan - Jun 2011	Jul - Dec 2011	Jan - Jun 2012	Jul - Dec 2012
\$100	8	2	5	8	7	0	0	4	\$50	1	1
0	0	10	5	1	1	2	\$25	0	10	0	19
23	1	4	7	\$10	2	0	0	72	7	2	2
4	\$5	0	0	0	0	0	0	0	0	0	\$1
0	0	0	0	0	0	0	0	0	0	0	Total No. of
Notes	11	13	5	109	42	4	7	17	Total Dollar	Value	\$870
\$500	\$500	\$500	\$170	\$715	CMRAI Annual Report 2012-13	35	EXECUTION	OF REGULATORY FUNCTIONS	THE REGULATORY REGIME	Framework	The

framework for the Monetary Authority's regulation and supervision of financial services is made up of a number of elements. These include the applicable laws and regulations passed by the Government of the Cayman Islands; rules and statements of principle and of guidance issued by the Authority; and policies and procedures detailed in the Regulatory Handbook and other manuals. Regulation and supervision are carried out in accordance with internationally accepted standards where these exist and are appropriate for the jurisdiction. The domestic laws and international standards under which the Cayman Monetary Regulatory Authority International and regulated sectors operated as at 30 June 2013 are shown in Table 17. Copies of all rules, statements of guidance and policies and procedures issued by the Authority are available on the CMRAI website. No regulatory measures were issued during the year under review.

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

Sector/ Entity type	CI Law	International Standards / Memberships
All Monetary Authority Law (2011 Revision), and amendment	Proceeds of Crime Law (2008)	Money Laundering Regulations (2010 Revision), and amendment
Terrorism Law (2011 Revision)	Public Management and Finance Law (2012 Revision), amendment	and regulations
Companies Law (2012 Revision), and amendments	Standards: Financial Action Task Force Forty Recommendations on Money Laundering and Financing of Terrorism & Proliferation	Memberships: Caribbean Financial Action Task Force (CFATF)
Regional Consultative Group for the Americas (Financial Stability Board)	Banks, trusts, money services businesses, credit unions, building societies, corporate services providers, company managers	Banks and Trust Companies Law (2009 Revision), and amendments
Private Trust Companies Regulations, 2008), and amendment	Money Services Law (2010 Revision), and regulations	Cooperative Societies Law (2001 Revision), and regulations
Building Societies Law (2010 Revision)	Development Bank Law (2004 Revision)	Standards: Basel Core Principles for Effective Banking Supervision ¹²
Trust and Company Service Providers Working Group	Statement of Best Practice produced by the Offshore Group of Banking Supervisors	13 Memberships: Group of International Financial Centre Supervisors (formerly Offshore Group of Banking Supervisors)
Caribbean Group of Banking		12 As promulgated by the Basel Committee on Banking Supervision
13 The working group comprised representatives of various offshore financial centres, the FATF, IMF and OECD as well as representatives of four G7 countries. The Statement was disseminated to the fiduciary sector via the Society of Trust and Estate Practitioners (STEP) and the Company Managers Association, and was		

Public Management and Finance Law (2012 Revision), amendment and regulations Companies Law (2012 Revision), and amendments Standards: Financial Action Task Force Forty Recommendations on Money Laundering and Financing of Terrorism & Proliferation Memberships: Caribbean Financial Action Task Force (CFATF) Regional Consultative Group for the Americas (Financial Stability Board) Banks, trusts, money services businesses, credit unions, building societies, corporate services providers, company managers Banks and Trust Companies Law (2009 Revision), and amendments Private Trust Companies Regulations, 2008), and amendment Money Services Law (2010 Revision), and regulations Cooperative Societies Law (2001 Revision), and regulations Building Societies Law (2010 Revision) Development Bank Law (2004 Revision) Standards: Basel Core Principles for Effective Banking Supervision¹² Trust and Company Service Providers Working Group Statement of Best Practice produced by the Offshore Group of Banking Supervisors¹³ Memberships: Group of International Financial Centre Supervisors (formerly Offshore Group of Banking Supervisors) Caribbean Group of Banking

12 As promulgated by the Basel Committee on Banking Supervision

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

accepted locally. CMRAI Annual Report 2012-13 36 Companies Management Law (2003 Revision), and regulations Supervisors Association of Supervisors of Banks of the Americas Insurance companies, managers, brokers, agents Insurance Law, 2010, amendments and regulations Standards: International Association of Insurance Supervisors (IAIS) Core Principles of Insurance Regulation 14 Memberships: IAIS Offshore Group of Insurance Supervisors¹⁵ Mutual funds, fund administrators, securities investment businesses (market makers, broker-dealers, securities arrangers, securities advisors and securities managers) Mutual Funds Law (2012 Revision), amendment and regulations Securities Investment Business Law (SIBL) (2011 Revision), amendment and regulations Standards: International Organization of Securities Commissions (IOSCO) Offshore Group of Collective Investment Schemes Supervisors (OGCISS) Memberships: Offshore Group of Collective Investment Schemes Supervisors (OGCISS) IOSCO Regulation and Supervision The Banking Supervision, Fiduciary Services, Insurance, and Investments and Securities divisions (collectively referred to as the supervisory divisions) are responsible for processing, and making recommendations on applications for licences and other relevant authorisations for the provision of those financial services falling within their sectors. They are also responsible for the on-going supervision of licensees/registrants, and make recommendations for enhancements to the supervisory regime where appropriate. Supervision of licensees is carried out off-site and on-site. Off-site supervision is continuous, involving the analysis of quarterly prudential returns and annual audited statements, supplemented with prudential meetings. On-site supervision involves limited scope and full-scope inspections both in the Cayman Islands and overseas. The objectives of the inspection process are to understand the licensee's business activities and operating environment, to detect problems of compliance with the relevant laws and/or regulations, and to gather information on matters identified as requiring policy considerations. REGULATORY DEVELOPMENTS Rules, Guidelines and Policies The Policy and Development Division is responsible for the continuous development of the financial services regulatory framework within the Cayman Islands in accordance with international standards. Its cross-functional role supports and advises the Authority's senior management, four

14 Issued by the International Association of Insurance Supervisors (The Cayman Islands is a charter member of this association. 15 CMRAI Annual Report 2012-13 37 supervisory divisions (Banking, Insurance, Investments & Securities and Fiduciary) and the Compliance Division. The division's development and advisory role entails research of international developments and initiatives; analysis of the impact on the local financial services industry; formulation of appropriate options for consideration by the Authority and providing policy advice to the Authority, including during the industry consultation process. In addition, the division assists in the provision of responses, of both a statistical and non-statistical nature, on the financial sector to various international and domestic organisations. No regulatory measures were issued during the year under review. Other Regulatory Developments Insurance Law, 2010 The Insurance Law, 2010, which was passed by the Legislative Assembly in September 2010, came into effect on 1 November 2012. Four new regulations relating to the new Insurance Law also came into effect during the 2012-2013 fiscal year: Insurance (Applications and Fees) Regulations, 2012; Insurance (Capital and Solvency) (Class A Insurers) Regulations, 2012; Insurance (Capital and Solvency) (Class B, C and D Insurers) Regulations, 2012; and the Insurance (Reporting) Regulations, 2013. The new Insurance Law and

Regulations substantially change the regulatory framework for licensees under the Insurance Law. The new framework includes a reorganisation of license classes, new capital requirements, as well as new application and annual reporting forms. Current licensees must advise the Authority of their new license class within 18 months of the coming into force of the Law. Licensees will need to be fully compliant with the new Law and Regulations by 30 April 2014.

Alternative Investment Fund Managers Directive (AIFMD) In November 2010, the European Parliament passed the AIFMD, which introduced a unified regulatory regime for alternative investment fund managers and funds within the European Union from July 2013. In July 2012, the Authority launched an AIFMD working group composed of representatives from the private sector, Cayman Islands Government and the Authority to discuss the parties' concerns with the AIFMD and the regulatory enhancements needed to allow the Cayman Islands financial services sector to meet the requirements of the AIFMD. The Working Group drafted a report that summarised the Working Group's deliberations and recommended actions. The report of the Working Group was approved by the Authority's Board of Directors in November 2012. In addition, throughout the 2012-2013 fiscal year, the Authority was in discussions with the European Securities and Markets Authority regarding the signing of a cooperation arrangement with securities regulators in European Union jurisdictions before the coming into force of the AIFMD on 22 July 2013. On 22 May 2013, the European Securities Markets Authority (ESMA) approved co-operation agreements between EU Securities regulators (and authorities from Croatia, Iceland, Liechtenstein and Norway) and 34 of their global counterparts, including the Cayman Islands. On 4 July 2013, confirmation was received from ESMA that 22 EU member states had signed the bi-lateral Memorandum of Understanding with the Cayman Islands.

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

CMRAI Annual Report 2012-13 38

Basel II Implementation CMRAI completed the first part of its implementation of the Basel II framework in the Cayman Islands on 1 January 2011, when Pillar 1 became effective. The Basel II framework applies to both categories A and B banks that are locally incorporated in the Cayman Islands. During the year under review, CMRAI's efforts were focussed on the implementation of Pillar II of the Basel II framework in the following key areas:

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

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

Bank Holding Companies In 2011, the Authority had recommended to the Cayman Islands Government that changes be made to the Banks and Trust Companies Law that would allow the Authority to exercise greater oversight of bank holding companies and

to supervise Cayman-based banking groups. These proposed changes were aimed at aligning the Authority's supervisory regime with the Basel II capital requirements. Throughout fiscal year 2012-2013, the Authority worked with Government's Legislative Drafting Department to finalise draft revisions proposed for the Banks and Trust Companies Law. These revisions are expected to be sent to Cabinet in the 2013-2014 financial year.

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

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

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

CMRAI Annual Report 2012-13 39

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

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

Enforcement CMRAI's Enforcement Manual 17 describes the policies, procedures and tools for the exercise of its enforcement powers in the event of non-compliance with the regulatory laws. The manual includes a ladder of compliance detailing the steps the Authority will follow in the event of non-compliance. Where appropriate, CMRAI 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 CMRAI's Board of Directors. The Authority initiated 44 formal enforcement actions during 2012-13 (compared to 16 during 2011-12). Table 19: lists the formal enforcement actions initiated 18.

Table 19: Formal Enforcement Actions, 2012-2013

Name of Entity	Type of Authorisation Held	Enforcement Action	Effective Date
Capital Growth Global Fund Ltd.	Registered Fund	Registration Cancelled	Sep 11, 2012
Olympic Gold Fund	Registered Fund	Registration Cancelled	Sep 11, 2012
Korea International Investment Fund Ltd. (IV)	Registered Fund		

Registration Cancelled Sep 11, 2012 Chronos Offshore Fund, Inc. Registered Fund
 Registration Cancelled Sep 11, 2012 Lattanzio International, Ltd. Registered Fund
 Registration Cancelled Sep 11, 2012 Name of Entity Type of Authorisation Held
 Enforcement Action Effective Date AG Intercontinental Fund Ltd. Registered Fund
 Registration Cancelled Sep 11, 2012 Cirrus Multi-Market Fund I Registered Fund
 Registration Cancelled Oct 17, 2012 Burhany Sphinx, Ltd. Registered Fund Registration
 Cancelled Oct 17, 2012 Capitalshare Fund Administered Fund Registration Cancelled Oct
 17, 2012 John Thomas Bridge and Opportunity Fund International Registered Fund
 Registration Cancelled Oct 17, 2012 16 Regulatory Policy
 Assessing Fitness and Propriety: Appendix E3 (page 66) of the Regulatory Handbook
 Appendices. Address: Also see information on Fitness and Propriety at page 28 of the
 Regulatory Handbook - Volume 1 March 2011. Address: 17 The Enforcement
 Manual:Address: 18 See the Regulatory and Enforcement Notices section of CMRAI s
 website. Address: Banking Fiduciary Insurance Investments Total Applications as at 30
 June 2012: 99 95 3 33 230 Applications as at 30 June 2013: 77 97 10 42 226 CMRAI
 Annual Report 2012-13 40 Meritos Global Fund Limited Registered Fund
 Registration Cancelled Oct 17, 2012 Proactive (PA) Capital Management Registered Fund
 Registration Cancelled Oct 17, 2012 The Oracle Global Value Fund Limited Licenced Fund
 Licence Cancelled Oct 17, 2012 Monkton Insurance Services Ltd. Insurance Manager
 Licence Revoked Nov 7, 2012 Atlantis Capital Fund Limited Registered Fund Registration
 Cancelled Dec 4, 2012 GTF Umbrella Fund (C.I.) Ltd Registered Fund Registration
 Cancelled Dec 4, 2012 Antioch Fund Ltd. Registered Fund Registration Cancelled Dec 4,
 2012 Ananda Opportunistic Equity Fund, Ltd. Registered Fund Registration Cancelled Dec
 4, 2012 Global Zip Fund, Ltd. Registered Fund Registration Cancelled Dec 4, 2012 Ananda
 Market Neutral Fund, Ltd. Registered Fund Registration Cancelled Dec 4, 2012 Tensor Fund,
 Ltd. Registered Fund Registration Cancelled Dec 4, 2012 USH Multi-Markets Managed Fund
 SPC Registered Fund Registration Cancelled Dec 4, 2012 Gazelle Partners Fund
 Registered Fund Registration Cancelled Dec 4, 2012 Georgetown Global Fund Registered
 Fund Registration Cancelled Dec 4, 2012 Amber Islands Development Fund Registered
 Fund Registration Cancelled Dec 4, 2012 Keydata International Fund SPC Registered Fund
 Controllers Appointed Dec 5, 2012 Bastion Life Insurance SPC Limited Class B Insurer
 Licence Revoked Dec 10, 2012 Gemstone Fund Registered Fund Registration Cancelled
 Jan 22, 2013 Accord Fund, Ltd. Registered Fund Registration Cancelled Jan 22, 2013
 Caldera Fund Registered Fund Registration Cancelled Jan 22, 2013 Maximus Alternative
 Investment Fund, Limited Administered Fund Registration Cancelled Jan 22, 2013 New
 J&A Fund SPC Registered Fund Registration Cancelled Jan 22, 2013 HSBC Mexico S.A.
 Banking Class B Licence Revoked Feb 27, 2013 The Cubex Investment Fund, Ltd.
 Registered Fund Controllers Appointed Mar 7, 2013 Concord Millennium Fund Administered
 Mutual Fund Registration Cancelled Apr 16, 2013 Concord Special Situations Fund
 Administered Mutual Fund Registration Cancelled Apr 16, 2013 Concord Fund of Funds
 Administered Mutual Fund Registration Cancelled Apr 16, 2013 Wilken U.S.A. Select Fund
 Registered Fund Registration Cancelled Apr 16, 2013 Name of Entity Type of
 Authorisation Held Enforcement Action Effective Date AAA Venture Fund SPC Limited
 Registered Fund Controllers Appointed May 13, 2013 Claremont Europe Fund Registered
 Fund Registration Cancelled Jun 25, 2013 McLean Alternative Enhanced Fund Limited
 Registered Fund Registration Cancelled Jun 25, 2013 McLean Market Neutral Fund Limited
 Registered Fund Registration Cancelled Jun 25, 2013 *Note: Two entities are not publicly

available for disclosure. Litigation: There was no litigation with regards to enforcement actions during the 2012-13 fiscal period. CMRAI Annual Report 2012-13 41

Other Compliance-related Matters Among its duties, the Compliance Division is also tasked with investigating persons or entities that appear to be conducting regulated business without the proper authorisation from the Authority. In addition, in keeping with its mandate to protect the jurisdiction from individuals or entities seeking to reap illegal benefit by false association with the Cayman Islands, the Compliance Division continued updating a list of websites which give Cayman addresses for various businesses which are not registered or licensed in the Cayman Islands. 19 EXECUTION OF COOPERATIVE AND ADVISORY FUNCTIONS CROSS-BORDER COOPERATION The Monetary Authority Law (MAL) lists the provision of assistance to overseas regulatory authorities as one of the principal functions of the Authority. Such international cooperation takes place through the exchange of information, as provided for in the MAL and facilitated through memoranda of understanding (MOUs) and other agreements, as well as through the Authority's active participation in international forums. Memoranda of Understanding While not a prerequisite for the provision of assistance, MOUs and similar agreements establish a framework for mutual assistance and cooperation by CMRAI 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 CMRAI website. 20 During this period, two bi-lateral MOUs were concluded. These are listed in Table 20.

Table 20: International Information Exchange and Cooperation Agreements Concluded, 2012-2013 Agreement	Effective Date	Office of Superintendent of Financial Institutions - Memorandum of Understanding
U.S. Federal Deposit Insurance Corporation - Memorandum of Understanding	27 March 2013	
Assistance to Overseas Regulatory Authorities	21 Jan 2013	

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 CMRAI

19 The complete list can be viewed in the Enforcement/ Information and Alerts section of the website: Address: . 20 International agreements: a_18_108_184_1. Local agreements: 18_110_178_1 CMRAI Annual Report 2012-13 42 divisions, particularly Compliance, to ensure that requests are handled in a timely and efficient manner, and that they conform to the requirements of the MAL. The Procedure - Dealing with Requests for Assistance from an Overseas Regulatory Authority (ORA) 21 sets out the Authority's approach in dealing with these requests. The process includes reviewing and assessing the requests and drafting directions to persons who have information that will assist the ORA in performing its functions. The Compliance Division assists primarily on those requests on which the Authority will be required to issue a direction to obtain the information sought. The division is currently responsible for assessing the request, preparing the direction and serving it on the relevant party, as well as reviewing the information provided by the party to assess whether the party complied with the requirements of the direction, and providing the information to the requesting ORA. The Authority handled a total of 175 requests for assistance from ORAs during the 2012-13 financial year, compared to 119 requests during 2011-12, and 142 during 2010-11. International Initiatives Involving CMRAI Caribbean Financial Action Task Force/Financial Action Task Force (CFATF/FATF) The Deputy Head of the Policy &

Development Division was part of the mutual evaluation team that presented the Sint Maarten Mutual Evaluation Report during XXXVI CFATF Plenary held in the British Virgin Islands in November of 2012. He also demitted the post of co-chair of the CFATF Working Group on FATF Issues (WGFI), after having served in that capacity for two years. Foreign Account Tax Compliance Act (FATCA) The Cayman Islands Government (the Government) established a FATCA Task Force to evaluate the suitability of a government-to-government reporting arrangement with the US. The FATCA Task Force is comprised of representatives from the Office of the Financial Secretary, the Attorney General's Chambers, Ministry of Finance (Financial Services), CMRAI and the Tax Information Authority. The Government announced on 15 March 2013 that they were committed to signing the Model I Intergovernmental Agreement with the U.S. and also noted as part of the same announcement that they would be entering into a similar agreement with UK government. International Association of Insurance Supervisors (IAIS) a. IAIS International Captive Standards Review Subcommittee This new IAIS working group met in Washington D.C. on 7 November 2012 to discuss some of the key areas such as Corporate Governance (ICP 7), Internal Controls (ICP 8), ERM (ICP 16) and Solvency (ICP 17). To assist this group, the Head of Insurance wrote a presentation on the history of captives, risks and regulation and how to construct a feasibility study. This presentation, given by CMRAI's Chief Actuary at the meeting, received many accolades for its content and has now been used as a benchmark for standards development. It can be found on the IAIS website at b. IAIS MMoU - Ukraine In December 2012, the Head of Insurance was contacted by the IAIS to request special assistance in a matter dealing with an MMoU for the Ukraine. c. IAIS Solvency and Actuarial Committee At the special request of the N.A.I.C., who chairs the IAIS Solvency and Actuarial Subcommittee, the IAIS requested permission from CMRAI to create an additional seat on the subcommittee to allow

21 Procedure- Dealing with Requests for Assistance from an Overseas Regulatory Authority: Appendix D1 (page 32) of the Regulatory Handbook Appendices.

Address: CMRAI Annual Report 2012-13 43 the Chief Actuary to join as a special member due to his extensive actuarial knowledge in the field of regulation.

International Banking Regulatory Groups CMRAI is an active member of the Caribbean Group of Bank Supervisors (CGBS) and a member of the CGBS Basel II

Implementation Working Group. During the last quarter of 2013, the Head of Banking Supervision and Chief Analyst attended a CGBS Annual Meeting presenting on Regional Systemically Important Banks.

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

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

ADVISORY ACTIVITY The Monetary Authority Law requires CMRAI to advise the Government on monetary, regulatory and cooperative matters. This includes providing advice as to whether CMRAI's regulatory and co-operative

functions are consistent with those discharged by overseas regulators; whether the regulatory laws are consistent with the legislation of other countries and territories; and advising on the recommendations of international organisations. This law also requires CMRAI 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, CMRAI 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. CMRAI also carries out its own research and assessment, including cost benefit analyses of all new regulatory measures it proposes, and makes recommendations to the Government accordingly. Advice to the Government is provided through meetings, participation in various Government groups and through written reports and submissions, including financial sector legislative proposals (draft bills and regulations) and Cabinet papers. The measures implemented or in development during 2012-13 are covered in the Regulatory Developments section of this report, beginning on page 38. CMRAI Annual Report 2012-13 44

Assistance on TIEA and OECD Matters As part of its advisory and cooperative mandate, CMRAI representatives on the Tax Information Exchange Agreements (TIEA) also participate, along with their Government counterparts, on the Organisation for Economic Cooperation and Development's (OECD) Global Forum on Transparency and Exchange of Information Steering Group and Peer Review Group. Cayman is a member of both groups. Peer Review The Financial Services Secretariat has been considering what legislative amendments, if any, are required to bolster the Cayman Islands AML/CFT legislative framework in regard to Private Trust Companies (PTCs). In January of this year, the Private Trust Companies (Amendment) Regulations, 2013 were passed. In particular, this amendment requires that beneficial information be maintained at the registered office of the private trust company and for a fine of \$5,000 to be imposed for non-compliance to sections 3(2) and 4(2) of the regulations. CMRAI Annual Report 2012-13

45 OPERATIONAL SUPPORT AND ADMINISTRATION HUMAN RESOURCE

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

university graduates. The Authority's staff complement typically remained stable throughout the year with its melting pot of individuals totalling 153 at 30 June 2012 and 168 at 30 June 2013, with 88% being Caymanian. The turnover rate for 2012-13 was 10.08%, and 11.91% for 2011-12. Figure 21: Staff Complement by Country, 30 June 2013 CMRAI

Annual Report 2012-13 46 Table 21: Staff Numbers by Division as at 30 June 2013, with June 2012 Comparisons

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

Employee Services It has been one year since CMRAI implemented the HR document management portal known as SharePoint. This has improved the efficiency of the HR Division.

Employees are now able to access HR policies, leave record and payroll information electronically from the web-based portal called MySite. Eventually they will be able to view their own personnel files through the same portal and have control over access to certain other HR related information. The Human Resources Division reviewed and revised its annual performance appraisal process with a view to facilitating a more shared and objective approach between appraiser and appraisee. The new system encourages employees to initiate the review process by recounting their performance against goals and objectives and special/additional projects undertaken for the past 12 months. The manager/supervisor then incorporates his/her observations of performance that then leads to a final meeting and discussion of overall performance before a grade is assigned. This year was also the first year that interim reviews were made mandatory and it provided the appraiser and appraisee the opportunity to assess status of and progress of performance to objectives, as well as an avenue to provide feedback to employees. The Human Resources Division, in conjunction with the Information Systems Division, is working to streamline CMRAI's mail receipting system in the coming year. It is intended to improve efficiency and accuracy, especially during peak periods when CMRAI receives a substantial amount of year-end payments from licensees. As a result, information will be submitted from Human Resources and Finance to their respective divisions allowing the Analyst in charge of the portfolio to commence the work flow that much more quickly. Learning and Development The importance of strengthening the existing staff complement remains paramount with CMRAI's dedication to continuing to maintain and to build on a robust and proactive risk-focused supervisory regime. Upward mobility has been facilitated by the implementation of development plans across the organisation but more so within the regulatory divisions. Not only have these plans served to communicate expectations but they have also assisted staff members to take better shared ownership of their progression within a division and they have enabled succession planning for the organisation. As a consequence of exemplary performance results, a total of 16 staff members were promoted during the period, as listed below.

CMRAI Annual Report 2012-13 47 Table 22: Staff Promotions during 2012-2013

Staff	New Position	Division
Christine Ross	Chief Analyst	Insurance Supervision
Ebony Carey	Analyst	Banking Supervision
Tara Campbell	Chief Analyst	Compliance
Eric Webster	Chief Human Resources Officer	Human Resources
Angeline Manderson	Human Resource Assistant	Human Resources
Ariel Tatum	Chief Analyst	Banking Supervision
Clive Scotland	Senior Systems Engineer	Information Systems
Dana Rankine	Chief Analyst	Banking Supervision
Deandro Dracket	Analyst	Insurance Supervision
Jonelle Ebanks	Junior Analyst	

Fiduciary Services Kara Smith Senior Analyst Banking Supervision Melissa Cummings Analyst Banking Supervision Rachel van der Bol Senior Analyst Banking Supervision Samantha Williams Analyst Insurance Supervision Vashti Bodden Senior Analyst Banking Supervision Charlene LeBlanc Senior Business Analyst Information Systems The Human Resources Division further enhanced its internal training strategy with the launch of a series of risk-based regulatory workshops designed by the Policy & Development Division. The sessions are facilitated by various CMRAI regulatory employees of all levels with a focus on specific technical areas of supervision. Workshops enabled knowledge transfer, built on effective presentation skills and the provision of up-to-date information to colleagues. Employees share the knowledge that has been gained from various fora and are also responsible for updating and maintaining this knowledge for successive workshops. The hiring of a Chief Actuary further enhanced the training programme in the areas of insurance, re-insurance, enterprise risk management, financial risk management and hedge funds. Middle Management at the senior and chief levels attended a twelve-month modular workshop on all aspects of successful leadership designed specifically to the environment of CMRAI. During the workshops, each module was based on a Tell-Show-Do model of concepts, techniques and strategies practised by leading world-wide organisations. The design also incorporated applications of "positive psychology"; a psychology geared to increasing individual productivity and work satisfaction. Self-assessments were conducted to aid in increasing self-awareness that played a significant role in turning management weaknesses into strengths and management strengths into organisational success. Pre-work and post-work between sessions were included to ensure the transfer to the job of newly-acquired skills and knowledge. The course was also open to analysts who were identified as being capable of advancing in the near future. The modules were facilitated by the Professional Management Training Academy.

CMRAI Annual Report 2012-13 48 Table 23:

Learning and Development Programme Statistics, 2012-2013

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

Regional regulatory conferences and training the Head of the Banking Supervision and the Chief Analyst attended a Caribbean Group of Bank Supervisors Annual Meeting, presenting on Regional Systemically Important Banks. In addition, a Chief Analyst and a Senior Analyst presented on issues of Regulatory Oversight to the local money service businesses. The Deputy Head of the Investments and Securities Division attended the Council of Securities Regulators (COSRA), Caribbean Group of Securities Regulators (CGSR) meeting in May 2013. Other conferences and events the Deputy Head of the Investments and Securities Division and an Analyst participated in the International Institute for Securities Market and Development Seminar from 15 April to 25 April 2013 in Washington DC, USA. Student presentations In November, 2012 HR staff held sessions with John Gray High school students to facilitate their career preparations and to inform them about CMRAI. HR staff also participated in Reading Day at the Lighthouse School. Staff Community Involvement Among the Authority's community assistance initiatives was the use of proceeds from events such as dress-down days. Charitable organisations and individuals with special medical needs were the beneficiaries. Recipients included Feed Our Future, the Lions Club of Cayman's annual Delano Hislop Journey for Life Run/Walk and the Cayman Islands Cadets, as well as a young man suffering from Keratoconus who required treatment overseas.

INFORMATION SERVICES The goal of the Information Systems (IS) Division

is to facilitate CMRAI's business practices in a secure and resilient manner, utilising information and communications technology. System uptime and service goals for the 2012-2013 year again exceeded the Industry Standards and were above the 99.8% realm. The division continued to provide high availability, security, and reliability of information technology systems and services during 2012-2013. Overall primetime availability averaged across all systems was an astonishing 99.857% and 99.949% on a 24-hour basis. This is comfortably ahead of the industry benchmark for small to medium businesses. Major Initiatives During 2012-2013 Disaster Recovery Our tests for business continuity were completed prior to the annual hurricane season and proved very successful. All systems seem to be well balanced and performing satisfactorily. CMRAIConnect Enhancements are continually being made to this product as we strive to automate more requests from Industry in order to improve turnaround time on licensee applications. VoIP PBX telephone system The Authority now uses a more cost-efficient Voice-Over Internet- Protocol PBX telephone system which takes advantage of the lower costs available. International CMRAI Annual Report 2012-13 49 calls are far less expensive utilizing these routes compared to the normal public service telephone networks. This system has delivered direct results by reducing CMRAI telephone costs. Network Security Security continues to be a primary focus of the Division with several enhancements made to existing systems for threat management and the inclusion of additional tiers of firewall protection. Additional layers of , network and web security have been added, with work continuing in this area. Business Intelligence A series of SQL cubes have been designed and developed for our divisional analysts to monitor their respective data. As time goes on and more data is captured the data patterns will be more visible and the analysts will become more comfortable with the tool. This will help with the Risk Management initiative.

COMMUNICATION AND PUBLIC RELATIONS

The Public Relations (PR) Unit, a part of the Managing Director's Office, provides communications support to, and on behalf of, CMRAI in order to help the Authority execute its functions and enhance relationships with stakeholders. These efforts are augmented by the activities of CMRAI's management, the Human Resources Division and other divisions, as well as through staff-led initiatives. Events FSB RCGA Meeting In May 2013, CMRAI hosted the Fourth Meeting of the Regional Consultative Group for the Americas (RCGA) of the Financial Stability Board (FSB). The FSB has been established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies in the interest of financial stability. The PR Unit was an active partner with the HR Division in disseminating information about the RCGA meeting and the FSB to internal and external audiences. Participants from throughout the Americas were updated on the FSB's policy priorities and work plan. An area of focus in the discussion on regulatory reforms was the FSB Key Attributes of Effective Resolution Regimes for Financial Institutions. This included the methodology being developed by the FSB for assessing the consistency of national resolution regimes with the Key Attributes, which will guide jurisdictions in their implementation. Members also discussed effective ways of sharing information for resolution purposes, and shared experiences in the region in implementing the reforms to the global over-the-counter derivatives market agreed in the G20. The Cayman Islands is represented on the FSB's RCGA by CMRAI's Managing Director and the Honourable Financial Secretary. Gender training In June

2013, in conjunction with the HR Division, the PR Unit helped to organize and host a formal training session for its entire staff on the Gender Equality Law, 2011, in a bid to become an outstanding Gender Equal workplace. External Publications and Media Liaison CMRAI's work, regulatory developments in Cayman, perspectives regarding international regulatory changes, and financial industry developments were all communicated to a wide cross-section of local and international audiences through articles that PR staff prepared on behalf of, and in conjunction with, members of senior management. Among the internationally-circulated publications that commissioned and published articles from CMRAI were: Euromoney Yearbooks Global Banking and Financial Policy Review and Cayman Funds 2013. CMRAI Annual Report 2012-13 50 The unit also provided data that contributed to the rankings in The Banker Magazine's International Financial Centres Survey 2012 (published in July 2012), and Captive Review magazine's 2012 Top 20 Captive Domicile Survey (published in July 2012). Data was also provided for Captive Review's Cell Company Handbook, and information on CMRAI was updated in international financial and regulatory directories, including the Centre for Latin American Monetary Studies listings, the Central Banking Directory, EuropaWorld Yearbook, the Tax Directory, Health Care Captive Insurance and the Bankers Almanac. In response to media queries, PR staff researched and provided information to journalists representing several local and international news outlets. CMRAI Publications The Investments and Securities Division and the PR Unit collaborated on the production of the sixth edition of the Investments Statistical Digest, and the PR Unit continued to produce and disseminate news releases and notices; the quarterly issues of CMRAI's newsletter, The Navigator, and the Authority's annual report, all covering CMRAI developments and activities.

Communication Support for new CMRAI Services and Products The PR Unit worked with the Currency Division to disseminate a news release on the issue of a new numismatic coin commemorating the 10th Anniversary of Heroes Day in January 2013. In May 2013, the unit also assisted with the announcement of a second Diamond Jubilee Coin in the Royal Mint's Commonwealth 24 Coin Collection, which marked the 60th anniversary of the Coronation of Her Royal Majesty Queen Elizabeth II. Direct Public Information and Assistance The PR Unit provided information and other assistance on a regular basis to interested members of the public, Cayman government agencies, and persons in industry who contact the Authority. The unit maintained CMRAI's website, which remains a primary source of public information on the Authority. Internal Support In addition, PR staff monitored, collected, and disseminated internally, relevant external information (especially media coverage) on market, regulatory and political developments taking place locally and internationally.

FREEDOM OF INFORMATION INITIATIVE The Freedom of Information (FOI) Law, came into effect across the Cayman Islands Public Service in January 2009, giving members of the public a general right of access to government records, with some exemptions and exclusions that are specified in the law. Because of the nature of CMRAI's work, the FOI Law (in section 3(1)(c)) specifically excludes the release of records and information protected by section 50 of the Monetary Authority Law (2010 Revision). Between July 2012 and June 2013, six FOI requests were received and processed. Full access was granted to two of the requests. Partial access was granted to one of the requests because part of that request was excluded under various sections of the FOI Law. Two requests were denied under section 3(1)(c) of the FOI Law, and one request was granted in full after an Internal Review by the Authority's Managing Director.

FINANCIAL CONTROL Finance Division The Finance Division has

responsibility for all financial matters relating to budget, fee collection, payroll, and accounts payable, and is responsible for preparation of CMRAI's financial statements and the CMRAI Annual Report 2012-13. 51 Purchase & Ownership Agreements between the Cabinet and the Authority. The division's objectives are essentially created by the financial requirements of CMRAI and its stakeholders and the resources available to it.

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

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

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

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

The Authority's net income for the 2012-13 financial year was \$587k (2011-12: \$114k), which was allocated to CMRAI's Capital Expenditures Reserves. Details of CMRAI's financial position for the year ending 30 June 2013 can be seen in the Audited Financial Statements that follow.

CMRAI Annual Report 2012-13 52

ANNUAL FINANCIAL STATEMENTS For Year Ending 30 June 2013

CMRAI Annual Report 2012-13 53 CMRAI Annual Report

2012-13 54 CMRAI Annual Report 2012-13 55 CMRAI Annual Report
 2012-13 56 CMRAI Annual Report 2012-13 57 Note20132012

\$000\$000 INCOME Services Provided to The Cayman Islands Government11a14,86517,350

CMRAI Transactional Fees3,012 - Investment Income445587 Commission Income375473

TOTAL INCOME18,69718,410 EXPENSES Salaries and Benefits11,82811,425 Other

Operational Expenses11d, 122,2372,499 Accomodation10891916 Pension

Expenses9884963 Depreciation6648670 Utilities472441 Professional Fees354307 Official

Travel307294 Loss on Numismatic Items301190 Training and Conferences188591 TOTAL

EXPENSES18,11018,296 TOTAL NET INCOME FOR THE YEAR587114 Cayman Monetary

Regulatory Authority International STATEMENT OF COMPREHENSIVE INCOME For the year ended 30 June 2013 (in Cayman Islands Dollars)

The accompanying

notes form an integral part of these financial statements CMRAI Annual Report 2012-13

58 The accompanying notes form an integral part of these financial

statements General Reserve Currency Issue Reserve Capital Expenditures Reserve

Operational Expenditures Reserve Contributed Capital General Reserve Currency

Issue Reserve Capital Expenditures Reserve Operational Expenditures Reserve

Contributed Capital \$000\$000\$000\$000\$000\$000\$000\$000\$000\$000 BALANCE AT 01

JULY 201217,2183752,5093462,32816,7433752,8183982,328 Transfers in : From Net

Income587114 From Capital Expenditures Reserve190423 From Operational Expenditures

Reserve4352 Transfers out : To Capital Expenditures Reserve Currency Inventory Issued

Fixed Assets Purchased(190)(423) Operational Expenses(43)(52) BALANCE AT 30 JUNE

2013 17,4513752,9063032,32817,2183752,5093462,328 Cayman Monetary Regulatory

Authority International STATEMENT OF CHANGES IN RESERVES AND CONTRIBUTED

CAPITAL For the year ended 30 June 2013 (in Cayman Islands Dollars) 20132012 CMRAI

Annual Report 2012-13 59 20132012 \$000\$000 CASH FLOWS FROM
 OPERATING ACTIVITIES Net Income for the year587114 Adjustments for:
 Depreciation648670 Loss on Defined Benefits Assets63144 Loss on Disposal of Fixed
 Assets- 1 Decrease / (Increase) in Investments1,768(3,298) (Increase) in
 Interest Receivable - Currency Reserve Assets(31)(26) (Increase) in Accounts
 Receivable(1,189)(2,729) Decrease /(Increase) in Other Receivables and Prepayments1(21)
 (Decrease) / Increase in Other Liabilities and Payables(164)300 Decrease in Stocks636397
 (Decrease) / Increase in Demand Liabilities(1,467)3,775 NET CASH PROVIDED BY
 OPERATING ACTIVITIES852(673) CASH FLOW FROM INVESTING ACTIVITIES Acquisition
 of Fixed Assets(190)(423) NET CASH USED BY INVESTING ACTIVITIES(190)(423) CASH
 FLOWS FROM FINANCING ACTIVITIES Contribution Paid to CI Government-
 (425) NET CASH USED IN FINANCING ACTIVITIES(425)
 INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS 662(1,521) CASH AND
 CASH EQUIVALENTS, BEGINNING OF THE YEAR 13,41114,932 CASH AND CASH
 EQUIVALENTS, END OF THE YEAR14,07313,411 Cayman Monetary Regulatory Authority
 International STATEMENT OF CASH FLOWS For the year ended 30 June 2013 (in Cayman
 Islands Dollars) The accompanying notes form an integral part of these

financial statements CMRAI Annual Report 2012-13 60 1. Organisation and
 Objectives The Cayman Monetary Regulatory Authority International (the Authority) was
 established under the Monetary Authority Law, 1996 on 1 January 1997. Under the
 Monetary Authority Law (2011 Revision) (the Law (2011 revision)), the primary functions
 of the Authority are: - To issue and redeem currency notes and coins and to manage the
 Currency Reserve To regulate and supervise the financial services business To provide
 assistance to overseas regulatory authorities, and To advise the Cayman Islands
 Government on regulatory matters. As at 30 June 2013 the Authority has 168
 employees (2012: 153). The Authority is located in Elizabethan Square, George Town,
 Grand Cayman, Cayman Islands. 2. Significant Accounting Policies The principal
 accounting policies applied in the preparation of these financial statements are set out
 below. These policies have been consistently applied to all the years presented, unless
 otherwise stated. a) Basis of preparation. The financial statements of the Authority are
 prepared in accordance with International Financial Reporting Standards (IFRS), on the
 accrual basis under historical cost convention. b) Foreign currency. The reporting
 currency is Cayman Islands Dollars. Foreign currency transactions are recorded at the
 exchange rates prevailing on the date of the transactions. Gains and losses resulting from
 the settlement of such transactions and from the translation of monetary assets and
 liabilities denominated in foreign currencies are recognised in the Statement of
 Comprehensive Income. Assets and liabilities are translated at the exchange rate in
 effect at the date of these financial statements c) Use of Estimates. The preparation of
 financial statements, in conformity with IFRS, requires management to make estimates and
 assumptions that affect the reported amounts of assets and liabilities and disclosure of
 contingent assets and liabilities at the date of the financial statements and the reported
 amounts of revenue and expenses during the reporting period. Actual results could differ
 from those estimates. d) Financial Instruments. Classification A financial asset is any
 asset that is cash, a contractual right to receive cash or another financial asset,
 exchange financial instruments under conditions that are potentially favourable or an
 equity instrument of another enterprise. Financial assets comprise cash and cash
 equivalents, long and short-term investments, accounts and interest receivable, and other

receivables and prepayments. A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable. Financial liabilities comprise accounts payable and accrued expenses. Recognition. The Authority recognises financial instruments on its balance sheet on the date it becomes a party to the contractual provisions of the instrument.

Significant Accounting Policies (continued) Financial Instruments (continued)

Measurement. Financial instruments are measured initially at cost, which is the fair value of the consideration given or received. The financial assets classified as cash and cash equivalents, accounts and interest receivable, and other receivables and prepayments are carried at historical cost, which is considered to approximate to fair value due to the short-term or immediate nature of these instruments. Short-term investments are valued, on a monthly basis at their amortised cost. Long term investments are valued at quoted market value. Unrealised gains or losses are recorded in the Statement of Comprehensive Income. The Authority's financial liabilities are carried at historical cost, which is the fair value of the consideration expected to be paid in the future for goods and services received whether or not billed to the Authority, due to their short-term maturities.

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

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

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

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

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

j) Employee Benefits. Pension Plans. The Authority makes pension contributions for its eligible employees to the Public Service Pensions Fund, which is administered by the Public Service Pensions Board. The Fund has both a defined benefit and a defined contribution element. There are a small number of employees who participate in other private plans, which are all defined contribution schemes. Under defined contribution plans, the Authority pays fixed contributions and has no obligation to pay further contributions if the fund does not have sufficient assets to pay employee benefits relating to employee service in the current and prior periods. The Authority recognises

contributions to a defined contribution plan when an employee has rendered services in exchange for those contributions. CMRAI Annual Report 2012-13

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

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

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

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

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

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

Expenditures Reserve will fund the operating costs associated with these key projects.

CMRAI Annual Report 2012-13 63 Significant Accounting Policies (continued)

o) Contributed Capital. The authorised capital of the Authority is \$100 million; with The Cayman Islands Government being the sole subscriber. In 1998, the Government made a commitment to increase the Contributed Capital of the Authority to a minimum of \$10 million by yearly transfers of approximately \$0.5 million from Operating Surplus. In December 2009, Section 7 (5) of the Monetary Authority Law (2008 Revision) was amended by the Monetary Authority (Amendment Law, 2009), to allow Cabinet to vary the amount of paid-up capital held by the Authority, and where the capital is reduced any excess shall be transferred by the Authority to the Government. In June 2011 the Cayman Islands Government withdrew \$8.25 million. Contributed Capital as at 30 June 2013 was \$2.328 million (2012: \$2.328 million). p) Revenue recognition. The Authority's main source of income is derived from the services it provides to the Government of the Cayman Islands. Commencing in 2012-13, Output funding to CMRAI was reduced; this reduction was supplemented by reclassifying as Entity revenue, CMRAI Transactional Fees charged for administrative services provided by the Authority to the Financial Services Industry. In addition, the Authority's other sources of income are generated from its investments, bank balances, and other currency transactions. The Authority recognises revenue in the period in which it is earned. q) Leases. Those in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Payments made under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the period of the lease. 2.1 Changes in Accounting Standards/IFRS Standards issued but not yet effective up to the date of issuance of the Authority's financial statements are listed below. This listing of standards and interpretations issued are those that the Authority reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date.

The Authority intends to adopt these standards when they become effective. i. IAS 19 - Employee Benefits (Amendment) (effective for periods beginning on or after January 1, 2013) - The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Authority is currently assessing the full impact of the amendments. ii. IFRS 9 Financial instruments (effective for periods beginning January 1, 2013) addresses classification and measurement of financial instruments and replaces portions of IAS 39. Financial instruments can only be measured at amortized cost or fair value. Equity securities can only be recorded at fair value. An entity can record unrealized and realized gains or losses in other comprehensive income on an instrument by instrument basis and the election to do so is at initial recognition and this election is irrevocable. Dividend income on these equity securities can be recorded in profit and loss. Debt securities can only be recorded at amortized cost if the objective is to hold financial assets for the collection of contractual cash flows and the contractual cash flows represent solely payments of principal and interest, otherwise debt securities must be carried at fair value. iii. An entity can still designate a financial instrument at fair value through profit and loss however, this is an irrevocable election and the entity has to be consistent with this basis from year to year. The Authority currently does not have any equity or debt securities; however, an assessment will have to be made prior to the issuance of the standard in 2013, where applicable.

CMRAI Annual Report 2012-13 64 3. Financial Risk Management a) Credit risk.

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

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

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

4. Currency Reserve Assets Sections 32(8) of the Law (2011 revision) mandates the preservation of Currency Reserve Assets, separately from all other assets of the Authority. These assets are to be used to fund the Authority's currency redemption obligations. (See Note 8.) They shall not be used to satisfy liabilities arising from any other business of the Authority. After all Demand Liabilities are extinguished, any surplus Currency Reserve Assets would form, in part, the assets of the General Reserve. (See Note 2 I.) Under the Law (2011 revision), sections 32(2) and 32(6) respectively, the Currency Reserve Assets consist of external assets (not less in value than an amount equivalent to ninety percent of Demand Liabilities) and local assets (not to exceed ten percent of Demand Liabilities). As at 30 June 2013, the value of Currency Reserve Assets was \$97,930k (2012:\$99,417k) representing 112.27% (2012: 112.09%) of total Demand Liabilities. The value of external assets equated to 105.66% (2012: 105.41%) while the value of local assets as at 30 June 2013 equated to 6.61% (2012: 6.68%) of Demand Liabilities. Currency Reserve Assets comprise the following:

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

CMRAI Annual Report 2012-13 65 Currency Reserve Assets (continued) Investments (continued) Long-term Investments. US Treasury Notes, AAA Corporate Bond and U.S. Government Sponsored Enterprise (GSE) stated at market value, with interest rates ranging from 0.38% to 2.625% and maturity dates between 31 July 2014 and 20 October 2042. Included in long-investments are eight securities

totalling \$14,603k (2012: seven totalling \$8,653k) with maturity dates over ten years. These securities are of the class for which the average life shall be used in place of maturity, under the investment guidelines. These securities are not intended to be held until maturity, and as such would be classified under IFRS 7 as available-for-sale . Short-term Investments. US Treasury Bills, AAA Corporate Bonds and US Treasury Notes with maturity dates ranging between 15 August 2013 and 28 April 2014, and the Federal Reserve Repurchase Agreement with a maturity date 01 July 2013.

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

2013	2012	Range of maturities	\$000	\$000	1-5 years	23,576	12,126	6-10 Years-	-
		Over 10 Years	14,603	38,653					
						38,179	20,779		
			2013	2012	\$000	\$000	US Treasury Bills	16,248	29,412
							Federal Reserve Repurchase Agreement at 0.01 %	24,333	25,500
							US Treasury Notes	8,615	14,257
							AAA Corporate Bonds	2,056	1,251
							Total Short-term Investments	51,252	70,420

CMRAI Annual Report 2012-13 66 Currency Reserve Assets (continued) b) Cash and Cash Equivalents. The Authority maintains current, call and fixed term deposits with domestic and foreign banks; the fixed deposit account has a maturity date of three months. Under the Law (2011 revision), domestic deposits (as part of the Currency Reserve Assets) cannot exceed 10% of Demand Liabilities. As at 30 June 2013, domestic deposits represent 5.02% (2012: 4.77%) of Demand Liabilities. Holding 2013 2012 Currency \$000 \$000 i) Operating Assets Current KYD(255)(526) Savings KYD7,422 8,035 Savings USD742 628 CI Cash on Hand KYD51 Current and Call Deposits 7,914 8,138 Holding 2013 2012 ii) Currency Reserve Assets Currency \$000 \$000 Domestic Deposits Savings GBP88 Savings KYD1,483 1,421 Savings USD1,350 1,267 Foreign Deposits Federal Reserve Bank USD256 259 Investment Portfolio USD1,521 783 Total Call Deposits - Currency Reserve 4,618 3,738 Domestic - Fixed Deposits USD1,541 1,535 14,073 13,411 Total Cash and Cash Equivalent Interest was earned on domestic call accounts at a rate of 0.01% during the year ended 30 June 2013 (2012: 0.01%). The domestic fixed deposit earned interest at rates ranging between 0.2755% to 0.4520% during the year ended 30 June 2013 (2012: 0.1200% to 0.4658%). The Federal Reserve call account balance is non-interest bearing; however, the excess balances are invested daily in a repurchase agreement. Interest is calculated on the average daily balance of the foreign investment call account. During the year ended 30 June 2013 no interest was earned (2012: \$0).

2012-13	67	5. Accounts Receivable	Aged profile of Trade Receivables
---------	----	------------------------	-----------------------------------

There was \$10K in bad debt expense included in the statement of comprehensive income. \$5k was recovered during the year in relation to 2 individuals, 1 operating debt from an earlier period; full provision had been made. 6. Fixed Assets Furniture & Fixtures Leasehold Improvement Computer Equipment Office Equipment WIP Motor Vehicle Total Original Cost \$000 \$000 \$000 \$000 \$000 \$000 \$000 Balance as at 30/06/12 719 881 3,761 673 802 36,137 Additions 414 518 231 90 Transfer to asset register Disposals (10)(15)(25) Balance as at 30/06/13 723 871 3,891 691 103 236,302 Accumulated Depreciation Balance as at 30/06/12 69 888 12,145 433 204,177 Depreciation for the year 45 806 13 648 Relieved on disposals (10)(15)(25) Balance as at 30/06/13 70 287 12,710 494 - 234,800 Net Book Value as at 30/06/13 21-1,181 197 103- 1,502 Net Book Value as at 30/06/12 21-1,616 240 803 1,960 2013 2012 \$000 \$000 Trade Receivables, C.I. Government 4,116 2,892 Other Receivables 255 5 Provision for doubtful accounts (25)(20) Accounts Receivable,

net4,1162,927 20132012 Period Outstanding Days\$000\$000 1-301,6131,446
 31-601,4541,446 61-9000 91-1202200 >1208290 4,1162,892 CMRAI Annual Report
 2012-13 68 7. Stocks 20132012 \$000\$000 External Bullion from the
 melt-down of coins550773 Coins awaiting melt-down4964 Coins for resale204269 Museum
 items7091 8731,197 Local Inventory of unissued currency notes and coins1,3801,692 Total
 Stocks2,2532,889 The inventory of unissued currency notes and coins are stated at cost of
 production. All associated cost such as shipping, handling and insurance are expensed
 immediately. The Bullion stocks are stated at year-end market values for gold and silver
 bullion. 8. Liabilities a) Demand Liabilities. Demand Liabilities represents the value
 of currency notes and coins in circulation. These liabilities are fully funded by the
 Currency Reserve Assets. Total Demand Liabilities comprise: 20132012 \$000\$000
 Currency notes in circulation77,25079,015 Currency coins in circulation9,9799,681 Total
 Demand Liabilities87,22988,696 b) Other Liabilities. 20132012 \$000\$000 Annual Leave
 accrual136105 Other accruals679739 Accounts Payable38173 8531,017 As at 30 June
 2013, Other Liabilities included unsettled investment management and custody fees of \$19k
 (2012:\$24k). CMRAI Annual Report 2012-13 69 9. Public Service
 Pension Plan Pension contributions for eligible employees of the Authority are paid to the
 Public Service Pensions Fund (the Fund). The Fund is administered by the Public Service
 Pensions Board (the Pensions Board) and is operated as a multi-employer plan. Prior to 1
 January 2000 the Fund operated as a defined benefit plan. With effect from 1 January
 2000 the Fund had both a defined benefit and a defined contribution element, with
 participants joining after 1 January 2000 becoming members of the defined contribution
 element only. Using the projected Unit Credit method of measuring costs and obligations,
 the actuarial assessment for the Authority assessed the minimum normal annual
 contribution to be 13 % in his Actuarial Valuation as of January 1, 2005 for the
 purposes of establishing required contribution rates towards the Public Service
 Pensions Fund. This rate included a 1% for the cost of all of the benefits that are provided
 over and above those related to the participant s total account balance. The Authority pays
 this 1% for all employees. In addition, for some employees in the defined benefit plan, the
 Authority pays both the employer and employee contributions. The Plans are funded at
 rates of: - The Actuary to the Pensions Board has valued the Fund as at 30 June 2012.
 The defined contribution part of the Fund is not subject to actuarial valuation due to the
 nature of the benefits provided therein. The total amount recognised as a pension expense
 for the year ended 30 June 2013 was \$821k (2012: \$819k). The actual amount of pension
 expense relating to the defined benefits for staff should also include the effect of any
 changes in the actuarial determined liability. Management is unable to determine the
 impact on the recorded expense for the year ended 30 June 2013, as the Actuary has not
 provided this information. Pension expense is the expense under IAS 19, inclusive of
 Company Service Cost, amortisations and net Interest. Company Service represents
 the pension cost to the Authority associated with the financial year benefit accruals
 and is net of participant contributions. The actuarial position is as follows:
 20132012201120102009 \$000\$000\$000\$000\$000 Net Present Value of Funded
 Obligation(6,894)(6,250)(5,283)(4,902)(4,120) Fair Value of Plan
 Assets6,2895,5485,0543,9193,501 Funded Status(605)(702)(229)(983)(619) Unrecognised
 Actuarial Loss4466722831,3061,143 Net (Liability)/Asset(159)(30)54323524 The amount of
 the defined benefit liability as at 30 June 2013 is as per the Actuary s projected funded status
 report. 20132012 %% Defined Contribution Plans Employee66 Employer77

Defined Benefit Plans Employee66 Employer77 CMRAI Annual Report
2012-13 70 Public Service Pensions Plan (continued) Pension Expense for
fiscal year ending30 June 201230 June 2011 \$000\$000 Company Service Cost263284
Interest Cost289270 Expected Return on Assets (net)(308)(241) Recognition of Net Loss63
Total Pension Expense 244376 Reconciliation of Defined Benefit Asset/(Liability)30 June
201230 June 2011 \$000\$000 Previous Year Defined Benefit Asset54323 Net Pension
Expense for Fiscal Year(244)(376) Employer Contributions160107 Defined Benefit
Asset(30)54 Change in Defined Benefit Obligation over year ending30 June 201230 June
2011 \$000\$000 Defined Benefit Obligation at end of Prior Year 5,2834,902 Company Service
Cost263284 Interest Cost289270 Plan Participant Contributions10598 Net Actuarial
Loss/(Gain)347(271) Transfers between other participating Entities(37)- Defined Benefit
Obligation at End of Year 6,2505,283 Change in Plan Assets over year ending30 June
201230 June 2011 \$000\$000 Fair Value of Plan Assets as at End of Prior Year5,0543,919
Employer Contributions160107 Plan Participant Contributions10598 Transfers between other
participating entities(37)- Expected Return on Assets net of expense308241 Asset
Gain(42)689 Fair Value of Plan Assets as at End of Year5,5485,054 Change in
Unrecognised Net Actuarial Loss/(Gain)30 June 201230 June 2011 \$000\$000 Unrecognised
Net Actuarial Loss2831,306 Amortisation (Cost) For Year-(63) Liability Loss/(Gain)347(271)
Asset Loss/(Gain)42(689) Unrecognised Net Actuarial Gain672283 CMRAI Annual
Report 2012-13 71 Public Service Pensions Plan (continued) Allocation of
Assets The Distribution of the Plan Assets, as at 30 June 2012 and 2011, based on
the share of the total Fund allocated to the Authority was as follows: - 30 June 201230
June 2011 %% Equity Investments6461 Bond Investments3232 Property33 Cash/Other14
Total 100100 Actuarial Assumptions The principal Actuarial Assumptions used to
Determine Benefit Obligations at 30 June 2012 and 2011 are as follows: 30 June 201230
June 2011 %% Discount Rate5.505.50 Expected Long-Term Return on Plan Assets 6.006.00
Rate of Salary Increase3.503.50 Rate of Price Inflation2.502.50 Rate of Pension
Increases2.502.50 The economic assumptions used to determine Net Periodic Benefit
Cost for the year ending 30 June 2012 and 2011 are as follows: 30 June 201230 June
2011 %% Discount Rate5.255.50 Expected Long-Term Return on Plan Assets 7.006.00 Rate
of Salary Increase3.504.00 Rate of Price Inflation2.502.50 Rate of Pension Increases
2.502.50 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

CMRAI Annual Report 2012-13 72 10. Commitments Operating
Commitments. Business Continuity Leases As a part of its Business Continuity Plan the
Authority has 2 lease agreements. i. An agreement with the Disaster Recovery Centre
(Cayman Islands) Limited effective 1 July 2011 for a period of three years at a monthly cost
of US\$17k. ii. An agreement with the Brac Informatics Centre effective 1 April 2009 at a
monthly cost of CI\$12k to 30 September 2013, amended to \$9.840k to 31 March 2014 iii. An
agreement with the Brac Informatics Centre effective 1 April 2014 at a monthly cost of
CI\$4.9k for a five year period. iv. An agreement with the Disaster Recovery Centre
(Cayman Islands) Limited effective 1 September 2013 for a period of five years at a monthly
cost of US\$3.3k to US\$6.3k. 20132012 \$000\$000 Business Continuity Leases315547
315547 11. Related Party Transactions a) Services Provided to the Cayman Islands
Government. The Authority acts as the Government s custodian of the Cayman Islands
currency as well as collector of license and other fees (these fees do not form a part of the
Authority s revenue) and the regulator and supervisor of the financial services business.

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

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

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

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

CMRAI Annual Report 2012-13 73 12. Other Operating Expenses

	2013	2012	\$000	\$000
Maintenance and software licences	632	658		
Currency Stock issues	328	373		
Business Continuity	340	340		
Directors Fees	144	144		
Management and Custody Fees	485	50		
Realised loss on investments	184	407		
Other expenses	56	152		
Total	2,237	2,499		

Copyright 2013 by the Cayman Islands Monetary Authority. All texts, designs, graphics and other works in this document are the copyrighted works of the Cayman Islands Monetary Authority. All rights reserved. Any redistribution or reproduction, in whole or in part, without the permission of the Cayman Islands Monetary Authority, is strictly prohibited.

Cayman Monetary Regulatory Authority International PO Box 10052 80 Shedden Road Elizabethan Square Grand Cayman KY1-1001 CAYMAN ISLANDS - General Office: 345-949-7089 Fax: 345-949-2532 Website: