



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.

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

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Grand Cayman KY1-1001 CAYMAN ISLANDS - General Office: 345-949-7089 Fax:

345-949-2532 Website: CMRAI Annual Report 2011-12 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.

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MANAGING DIRECTOR S STATEMENT During fiscal year 2011-12, the areas of Cayman s international financial services industry regulated and supervised by the Cayman Islands Monetary Authority (CMRAI) continued to reflect conditions in the external economic environment. Operational areas Banking, Fiduciary Services, Insurance, and Investments and Securities - showed some signs of recovery in the period under review.

INDUSTRY ACTIVITY Banking Supervision In the banking sector, the jurisdiction s global ranking moved up from fifth to fourth, based on the value of cross-border liabilities booked (US\$1.441 trillion). The Cayman Islands retained its sixth- place position measured by international assets booked (US\$1.429 trillion). At 30 June 2012, there were 235 institutions holding banking licences in the jurisdiction. The profitability of Cayman s retail banks has been returning slowly since 2010. While the economic downturn s impact on domestic banking can be seen in the increase in non-performing loans and a decline in profitability, domestic retail banks have done relatively well, despite the high level of exposure to the residential real estate sector. There was an increase in credit of \$0.12 billion from the retail banks to the domestic market as at June 2012. This amounted to \$3.69 billion, as compared to \$3.57 billion as at June 2011. The expansion in credit was primarily fuelled by increases in lending to Households and Other Financial Corporations, which was offset by a reduction in public sector debt, driven mainly by a decline in central government loans, and loans to businesses.

Fiduciary Services The Cayman Islands remains a top international location for the provision of trust services. There are three licence categories and two registration categories for trust businesses. The license categories are: Trust, Trust (Restricted), and Nominee Trust. The registration categories are: Controlled Subsidiary and Private Trust Company. The restricted trust category had been largely used to establish private trust companies, prior to the enactment of legislation in 2008 for the registration of private trust companies. The net decline in restricted trust companies since 2008 is mainly attributable to licence holders choosing to surrender their licences in order to register as private trust companies. As at June 2012, there were a total of 70 private trust companies, with 16 being registered during the fiscal year. This upward movement in registration is expected to continue. As at June 2012, there were 390 companies providing trust services in and from the jurisdiction. This represents an increase over the 371 companies operating at fiscal year-end 2011. Overall, in 2011-12, the sector remained relatively stable. Thirty-six authorisations were issued and 18 cancelled, resulting in a net growth of 4.9%. The net declines in the licensed trust categories were offset by a 31% increase in the number of registered trust companies.

Insurance The insurance industry is dominated by the international segment, which is comprised primarily of captive insurance companies and their service providers. 2012 began with exceptional growth for the Cayman Islands in this sector. A total of 29 applications were submitted during the first two quarters of the year, and 20 licences were issued as at 30 June 2012. In May and June of 2012 alone, a total of 16 applications were received. CMRAI Annual Report 2011-12 2 Cayman received more applications in the first two quarters of 2012 than during the entire year of 2010, and also had more formations in the second quarter of 2012 than during the same period in 2011. This is a good indicator of the recovery in the captive insurance sector and in

the licensing numbers, in the wake of the impact of the US subprime crisis on captives. During fiscal year 2011-12, 40 captive insurance licences were issued, an increase over the previous year. At 30 June 2012, there were 731 captives in the jurisdiction, which generated premiums of US\$8.9 billion and held assets totalling US\$78.9 billion.

Investments and Securities The Cayman Islands has become the leading domicile for funds since the enactment, in 1993, of the Mutual Funds Law (MFL) to create a regulatory framework for the development of the funds industry. There was a decline in the overall number of Cayman-regulated funds in 2008, from over 10,000 in mid-2008 to 9,409 at 30 June 2011. However, the number of master funds that were required to be registered under the amendments to the Cayman Islands MFL (enacted 22 December, 2011) pushed the total number of registered funds to an all-time high of 10,871 as at 30 June 2012. The jurisdiction also continues to surpass other fund domiciles in registrations. Before the new law, master funds benefitted from an exemption from registration if they had no more than 15 investors. CMRAI's quarterly statistics at June 2012 showed the true number of master funds for the first time. Following the new legislation on the registration of hedge funds, 1,732 master funds had been registered at 30 June 2012. Aggregate financial and other statistical information covering all regulated funds is not yet available. However, an indication of the size and profile of the industry can be seen from statistics collated by CMRAI from 6,926 funds that had a financial year end in 2010 and that submitted the required Fund Annual Return form. These funds recorded total assets of US\$2.4 trillion combined and net assets of US\$1.7 trillion.

INTERNATIONAL STANDARDS CMRAI continued its collaboration with regional and international agencies during the period under review, in order to be compliant with new international regulations and standards, in the interest of maintaining the attractiveness of the Cayman Islands as an international financial services jurisdiction. Some of the major undertakings relate to:

CFATF/FATF At its February 2012 Plenary, the Financial Action Task Force (FATF) published its new 40 Recommendations on Combating Money Laundering and the Financing of Terrorism and Proliferation (of weapons of mass destruction). These new Recommendations will form the basis by which jurisdictions are to be assessed during the 4th Round of AML/CFT mutual evaluations. A representative from CMRAI co-chaired the Caribbean Financial Action Task Force (CFATF) Working Group on FATF Issues during the period, keeping abreast of FATF developments and reporting to the CFATF plenary. That representative was also a financial examiner for the 3rd Round Mutual Evaluation on-site visit to Sint Maarten, which took place in March of 2012.

Basel II Framework The Authority 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 category A and B banks that are locally incorporated. During the year, the Banking Division continued to focus its efforts on the implementation of Pillar II of the Basel II framework in the following key areas: Bank Readiness & Governance, and Legislative Changes for the Regulation of Bank Holding Companies.

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AIFMD The Alternative Investment Fund Managers Directive (AIFMD) adopted by the European Parliament in November 2010, introduces a unified regulatory regime for alternative investment fund managers and funds within the European Union from July 2013. CMRAI carried out a gap analysis of Cayman's existing regulatory regime vis-à-vis the specific framework that was passed by the European legislators. The Authority also worked with members of industry to ascertain areas of difficulty in meeting the AIFMD

requirements applicable to Cayman domiciled funds, managers and other service providers. At the end of the financial year, CMRAI had invited private sector representatives to join CMRAI's AIFMD working group to discuss their concerns, and had started preliminary discussions with the European Securities and Markets Authority about the possibility of entering into a cooperation arrangement as required under the AIFMD. FATCA

The Foreign Account Tax Compliance Act (FATCA) is a complex and comprehensive set of rules being implemented by the US Internal Revenue Service designed specifically to limit tax evasion by US persons. FATCA will impact most banks, investment management/administration companies, trust companies and life insurers globally. In order to become compliant, financial institutions will need to review their customer on-boarding processes, make changes to their withholding and reporting engines and remediate millions of customer accounts globally. On 4 May 2012, the Cayman Islands Government's Ministry of Finance issued an Industry Advisory, announcing the formation of a new task force to evaluate the suitability of a government-to-government reporting arrangement for the implementation of FATCA in the Cayman Islands. CMRAI participated in this task force.

ORGANISATIONAL EFFECTIVENESS Compliance - 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 16 formal enforcement actions during 2011-12 (compared to 5 during 2010-11).

Currency in Circulation - At 30 June 2012, currency in circulation (excluding numismatic coins) stood at \$79 million in notes and \$9.7 million in coins, totalling \$88.7 million. This represents a 4.5 % increase over the 30 June 2011 figure of \$84.9 million.

Fees and Income The Authority collected \$79.563 million in fees from regulated entities on behalf of the Government for the 2011-12 fiscal year, compared to \$76.647 million for the previous year. This increase in collections was mainly attributed to the continued growth in Investments and Securities. However, the amount collected was \$1.783 million below the Government's forecasted budget of \$81.346 million. This shortfall is primarily attributed to lower than anticipated collections on Funds, Insurance and Banking. The Authority's net income for the 2011-12 financial year was \$114k (2010-11: \$814k), which was allocated to CMRAI's Capital Expenditures Reserves.

I thank the Board of Directors for their guidance, and Staff of CMRAI for their support and collaboration in effectively carrying out the functions of the Authority over the past fiscal year.

Cindy Scotland

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ORGANISATIONAL CHART AS AT 30 JUNE 2012 CMRAI Annual Report 2011-12 5

BOARD OF DIRECTORS As at 30 June 2012 At 30 July 2012, 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 left to right: Managing Director Cindy Scotland; Chairman George McCarthy, OBE, JP; Director Sara Collins. Standing L- R: Director Raul Nicholson-Coe; Deputy Chairman Linburgh Martin; Director Harry Chisholm; Overseas Director Professor William Gilmore.

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SENIOR OFFICERS

As at 30 June 2012 Managing Director Cindy Scotland Deputy Managing Director General Counsel Langston Sibbles, QC Deputy Managing Director Supervision Howard Blacker Deputy Managing Director Operations Patrick Bodden

SUPERVISORY DIVISIONS

Fiduciary Services Banking Supervision Head Deputy Head

Head Bromfield	Deputy Head Leticia Frederick	Reina Ebanks	Kenton Tibbetts	Rohan
Investments & Securities			Insurance Supervision	
Deputy Head Smith	Gordon Rowell	Pedro Reis	Head Yolanda McCoy	Deputy Head Heather
	CMRAI Annual Report 2011-12	7	NON-SUPERVISORY DIVISIONS	
	Compliance		Policy & Development	
	Legal		Legal Counsel	
Gail Johnson-Goring			Legal Counsel	Angelina Partridge
OPERATIONS			Currency Operations	
	Finance		Head Deborah Ebanks	
Deputy Head	Shan Whittaker	Chief Financial Officer	Gilda Moxam-Murray	
	Human Resources		Information Services	
	MANAGING DIRECTOR S OFFICE		Public Relations Executive	
Henry (up to May 2012)	Head	RJ Berry	Deputy Head	Joan
Head	Mitchell Scott		Francis Arana	Audrey Roe
Deborah Musson	Deputy Head	Tara Abdul-Jabbar	Head	Chuck Thompson
Deputy Head	Scott MacLaren	CMRAI Annual Report 2011-12	8	

I I N N D D U U S S T T R R Y Y O O V V E E R R V V I I E E W W C M R A I
Annual Report 2011-12 9 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 2012 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 licence 1 . There are two licence categories: A and B, with the latter having a sub-category: Restricted. The category A banking licence allows holders to operate both in the domestic and international market. The category B licence permits international banking business and limited domestic activity as set out in section 6(6) of the Banks and Trust Companies Law (2009 Revision). Category B banks are generally used as financial intermediaries to raise funds in the international market in order to provide capital for the financing of cross-border investments by their parent banks or other companies within their group. The domestic segment comprises banks that provide both retail and non-retail services to Cayman Islands residents. Retail services offered to the general public include instalment loans, residential mortgages, equity credit loans, credit card services, deposit services, and individual retirement accounts. All retail banks require a category A licence. Other banks that also hold category A licences generally do so in order to offer principal office/authorised agent services to category B banks that do not have a physical presence in the Cayman Islands and to provide investment banking services. There were 235 institutions holding banking licences in the jurisdiction at 30 June 2012. These comprised seven retail category A banks, eight non-retail category A banks and 220 category B banks. The sole category B restricted licensee cancelled its licence on 29 September 2011. Of the 235 licensees,

1 See Fiduciary Services , beginning on page 16, for further information on trust services. CMRAI Annual Report 2011-12 10 153 were branches, primarily

from the US and Brazil; 63 were subsidiaries, and 19 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 2012 stood at \$1.460 trillion and \$1.528 trillion, respectively, with cross-border and domestic assets of \$1.429 trillion and \$31 billion and liabilities of \$1.472 trillion and \$56 billion. **Cross-border Assets and Liabilities in Domestic and Foreign Currency 2011-2012** As at June 2012, the jurisdiction ranked fourth internationally based on the value of cross-border liabilities booked from the Cayman Islands - US\$1.441 trillion ² (June 2011: \$1.672 trillion ³) - and sixth in terms of cross-border assets booked - US\$1.429 trillion (June 2011: US\$1.661 trillion) ⁴. Of the \$1.472 trillion ⁵ in cross-border liabilities at June 2012, \$1.365 trillion represents cross-border deposit liabilities of which over 60% (\$824 billion) represents inter-bank bookings between onshore banks and their Cayman Islands branches or subsidiaries. This \$1.365 trillion in deposits was used to provide \$1.174 trillion and \$51 billion of cross-border loans to Developed Countries ⁶ and Latin America, 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, 2007-2012** The Cayman Islands banks cross-border assets and liabilities have been declining steadily since June 2008 (see Figure 2). This was likely influenced by the continued tumult in international credit markets, contraction of global economic growth and a reduction in the number of licensed banks.

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 Excluding US\$25 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. Annual Report of 2010-2011 reported this amount as \$1.697 trillion. ⁴ Source: Bank for International Settlements (BIS): ⁵ Including US\$31 billion in own issues of debt securities. ⁶ Developed Countries: North America, Developed Europe and Other Developed Countries. Source: BIS CMRAI Annual Report 2011-12 ¹¹ **Domestic ⁷ Assets and Liabilities in Foreign Currency 2011-2012** In addition to the US\$1.441 trillion in cross-border liabilities booked from the Cayman Islands by Cayman-licensed banks as at June 2012, as at the same date, they booked US\$56 billion worth of liabilities in foreign currency in the domestic economy. (see Figure 3). **Figure 3: Domestic Assets and Liabilities of Cayman-licensed Banks, 2008-2012** **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, which includes their operations with their own branches and entities outside of the Cayman Islands and transactions with other non-resident entities. As at June 2012, the sector's Total Assets and Total Deposits reflected a decrease over the prior year of US\$3.9 billion (22%) and US\$4.1 billion (25%), respectively, due mainly to the restructuring of a retail bank. **Table 1: Solo Retail Bank Figures 2008 - 2012 (in \$US)** Year Total Assets Total Loans

o/w Resident Loans Total Deposits o/w Resident Deposits June 2008 \$12.6 billion \$5.5 billion \$2.89 billion \$11.3 billion \$5.90 billion June 2009 \$13.3 billion \$6.6 billion \$3.60 billion \$11.5 billion \$6.78 billion June 2010 \$13.0 billion \$6.5 billion \$3.48 billion \$11.4 billion \$7.28 billion June 2011 \$17.5 billion \$7.5 billion \$3.57 billion \$15.9 billion \$6.42 billion June 2012 \$13.6 billion \$7.6 billion \$3.69 billion \$11.8 billion \$6.25 billion

7 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 2011-12 12 Domestic Credit Credit from the retail banks to the domestic market (i.e., resident loans) increased by \$0.12 billion to \$3.69 billion as at June 2012, as compared to \$3.57 billion as at June 2011. Credit expansion was primarily fuelled by increases in lending to Households and Other Financial Corporations which was offset by a reduction in public sector debt, driven mainly by a decline in central government loans, and loans to businesses. (Refer to Table 2). Table 2: Sectoral Distribution of Credit to the Domestic Market

Sector	June 2010	June 2011	June 2012	Total
Resident Loans of which:	\$3.48 billion	\$3.57 billion	\$3.69 billion	
Public Sector				
of which:	\$0.30 billion	\$0.48 billion	\$0.45 billion	
Central Government	\$0.22 billion	\$0.37 billion	\$0.34 billion	
Public Sector Entities	\$0.08 billion	\$0.11 billion	\$0.11 billion	
Private Sector				of which: \$3.18 billion
Commercial Private Sector	\$3.09 billion	\$3.24 billion	\$3.24 billion	
Households	\$2.01 billion	\$1.98 billion	\$2.24 billion	
Other Financial Corporations	\$0.08 billion	\$0.02 billion	\$0.05 billion	

Financial Soundness of the Domestic Sector The fundamentals of the banking sector remain sound and the industry in general has been relatively resilient in a very challenging market environment. Banks continue to consolidate and restructure in search of cost efficiencies, and improvements in operational risk management and governance. Overall, the domestic retail banks fared relatively well despite the economic downturn in the domestic real economy resulting from the global financial crisis. 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 an increase in unemployment. The impact of the economic downturn in the domestic economy is notable in the increase in banks' non-performing loans (NPLs) and the fall-off in profitability. The profitability of Cayman's retail banks has been returning slowly since 2010. Credit quality and non-interest cost controls are hindering profitability measures. High capitalisation and ample liquidity indicate that the domestic banking system is stable. The Authority continues to monitor these banks, to ensure the safety and soundness of the jurisdiction. Capital Adequacy - The capital adequacy ratio (regulatory capital to risk-weighted assets) for the seven locally incorporated retail banks was an average of 20.63 per cent as at June 2012, compared to 21.5 per cent at June 2011, and 22.9 per cent at the end of June 2010. This capital deterioration is not of significant concern at this time, as Cayman banks remain well capitalised and are still well in excess of the eight per cent minimum requirement set by the Basel Committee on Banking Supervision and the 10 per cent set by Cayman's Banks and Trust Companies Law (2009 Revision). Asset Quality - The ratio of non-performing loans to total gross loans increased from 2.7 per cent at the end of June 2011 to 3.51 per cent at June 2012. The bulk of the non-performing loans for most retail banks have been in the residential mortgages portfolio, which is usually secured by property in Cayman. The overall movement is reflective of the economic environment of the Cayman Islands. Earnings and Profitability - Cayman retail banks have been experiencing some improvements in profitability, albeit the improved returns gained in 2011 by reducing their non-interest expenses to gross income ratio was reversed

in 2012, with the ratio increasing from 50.2 to 56.99 per cent reflecting increased operating costs. Improvements continue with interest margin to gross income measures

CMRAI Annual Report 2011-12 13 reflecting higher rates of interest. As at June 2012, these banks were showing signs that Return on Assets (ROA) and Return on Equity (ROE) have improved from 0.50 and 5.7 per cent at the end of June 2011, to 0.66 and 6.7 per cent at June 2012. Liquidity While liquidity has decreased to 32.2 per cent from 48.1 per cent at the end of June 2011, Cayman's retail banks are still considered to be highly liquid. Table 3 provides a picture of the retail banks' financial soundness as at the end of their financial years 2008 through 2011, and at the end of their second quarter of 2012.

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

Indicator	2008 Year-end	2009 Year-end	2010 Year-end	2011 Year-end	June 2012
Capital adequacy	20.4	20.6	22.9	21.5	20.63
Regulatory capital to risk-weighted assets	8.4	9.0	10.1	10.9	11.41
Asset quality					
Nonperforming loans net of provisions to capital	8.4	9.8	10.4	11.7	12.3
Nonperforming loans to total gross loans	1.9	2.3	2.4	2.7	3.51
Earnings and profitability					
Return on equity (net income to average capital [equity])	15.7	7.4	4.9	5.7	6.78
Return on assets (net income to average total assets)	1.3	0.7	0.5	0.5	0.66
Interest margin to gross income	33.8	41.8	48.2	66.7	76.35
Non-interest expenses to gross income	28.3	42.2	51.3	50.2	56.99
Liquidity					
Liquid assets to total assets (liquid asset ratio)	41.2	38.8	36.2	48.1	32.2

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 over the last five years (see Figure 4). The 235 licences held as at June 2012 represent a six per cent decline from the 250 held as at June 2011. Table 4 shows bank licensing and termination activity for the fiscal year 2011 to 2012. Figure 4: Number of Bank Licences, by Category, Fiscal Year-end 2008-2012

CMRAI Annual Report 2011-12 14 Table 4: Bank Licensing Activity, 2011-2012

Licence Type	Active as at 30 June 2011	Terminated 1 July 2011 - 30 June 2012	Issued 1 July 2011 - 30 June 2012	Active as at 30 June 2012
Category A	16	2	1	15
Category B	233	20	7	220
Category B (Restricted)	1	1	0	0
Total	250	23	8	235

Jurisdictional Comparisons As illustrated in Table 5, the number of banks licensed in the listed jurisdictions declined, apart from Hong Kong and Singapore. Switzerland has seen a significant decrease in licensed banks, with 142 fewer banks than in the previous year, although still maintaining the lead with 256 banks. Hong Kong had the largest increase of five banks. Cayman had its second highest calendar-year decrease over the five years, although still not as significant a decline when compared to main competitor, the Bahamas, which has seen a decline of 18.26 per cent (or 21 in total number) of licensed banks during the past year, the second largest decrease among all listed jurisdictions and its largest decrease over the five-year period. Cayman continues to maintain its position of being the jurisdiction with the second largest number of banks.

Table 5: Bank Licence Numbers - Selected Jurisdictions, 2007-2011 Calendar Year-end*

Jurisdiction	2007	2008 change	2009	2010 change	2011
Cayman	277	0.04%	278	4.32%	266
Bahamas	141**	1.4%	139	2.16%	136
Panama	79	2.53%	77	2.78%	93
Luxembourg	157***	3.2%	152	2.63%	148
Switzerland	337	19.9%	404	1.49%	398
Hong Kong	200	0.5%	199	3.02%	193
Singapore	162	1.9%	165	0.61%	166
Jersey	48**	2.1%	47	4.26%	45

*Statistics from respective authority/central bank's website. **Figures as at Sept 07. ***Figure as at Nov

07. ****This number includes total banks and securities dealers. CMRAI Annual Report 2011-12 15 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 seven as at December 2012. There were eight money service businesses a year earlier. Remittances sent from the Cayman Islands to other jurisdictions through these entities for year 2012 fell to US\$177 million, from US\$185 million in 2010. Figure 5: Total Remittance Outflows, Calendar Year 2008 to 2012

Jamaica remained the largest recipient of remittances from the Cayman Islands in 2012, with 65 per cent of the US\$179 million going to that country (see Figure 6). Remittances coming into the Cayman Islands through money service providers totalled \$1.8 million. Some 21 per cent of this amount was from Jamaica (see Figure 7). Figure 6: Proportion of total Remittance Outflows to various countries, calendar year June 2012 Figure 7: Proportion of Total Remittance Inflows from various countries, calendar year June 2012

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, building societies and development banks supervised by the Banking Division as at June 2012 remained at two, one and one, respectively. CMRAI Annual Report 2011-12 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 (2009 Revision) (BTCL) and the Private Trust Companies Regulations (2011 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 Cayman Islands Monetary Authority. 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 businesses. 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 June 2012. Figure 8 shows the breakdown of trust companies by authorisation type at fiscal year-end, 2008 to 2012. Figure 8: Number of Trust Licences, by Category, Fiscal Year-end 2008-2012

The majority of licensed trust companies in Cayman provide trust services to traditional discretionary family trusts, wherein families use the trust structure to manage and structure their wealth and effect succession and estate planning. Some trusts are set up to allow professionals to efficiently manage significant wealth to benefit families, charities, other persons or causes for numerous generations. Assets settled in trust are usually held in an underlying company and the trust (through the trustee) holds the shares in that company. These structures are

established to be compliant with the laws and CMRAI Annual Report 2011-12 17 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 a related group of 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 used in capital markets and structured finance arrangements, usually by large institutional clients such as institutional asset managers, large investment banks 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: Trust Authorisation Activity, 2011-2012

Authorisation Type	Active as at 30 June 2011	Terminated 1 July 2011	30 June 2012	Issued 1 July 2011	30 June 2012	Active as at 30 June 2012
Trust Company (Licensed)	152	9	146	71	2	71
Nominee Trust (Licensed)	65	5	63	27	0	12
Controlled Subsidiaries (Registered)	27	0	12	39	56	2
Private Trust Companies (Registered)	56	2	16	70	371	18
Total	371	18	36	389		

*Includes transfers from Banking Division Table 6 shows trust authorisation activity for the fiscal year. Overall, the sector remained fairly stable in 2011-12. The 36 authorisations issued and 18 cancelled resulted in a net growth of 4.9%. The net declines in the licensed trust categories were offset by a 31% increase in the number of registered trust companies. 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 70 private trust companies as at June 2012, with 16 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 2007 to 2011 in the Cayman Islands and in other international financial centres for which figures are available. As illustrated, with respect to numbers of licensees, the Cayman Islands has maintained its position relative to the listed international trust services locations. The declines in Cayman's trust licences since 2008 partially reflect the movement of licensees to the new registration categories.

CMRAI Annual Report 2011-12 18 Table 7: Number of Licensed Trusts - Selected Jurisdictions, 2008-2012

Calendar Year	end	Jurisdiction	2007	change	2008	change	2009	change	2010	change	2011
Cayman*	340	2%	332	5%	315	7%	293	14.3%	251	BVI	203
Bahamas	189	16.40%	220	0%	220	4.55%	230	Bermuda	33	545.45%	213
Gibraltar**	86	16.27%	72	6.94%	67	10.4	74	2.7	72	Guernsey**	203
Jersey**	184	4.89%	175	5.14%	184	-	N/A	Panama	52	7.69%	56
Turks & Caicos	19	0%	19	0%	19	5.26%	18	22.2%	14	Singapore	36
Singapore	36	0%	36	2.77	37	29.73	48	4.2	50	Note: Figures for other jurisdictions have been collected from the relevant websites and overseas contacts. * Cayman's figures for 2006 and 2007 are revised as at 12 Sept. 2011. 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.) ** Gibraltar, Guernsey and Jersey's figures 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 97 such companies active at June 2012. Figure 9: Number of Company Manager and Corporate Service Provider Licences, Fiscal Year-end 2008-2012

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. CMRAI Annual Report 2011-12 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 companies management licence allows the holder to provide company management services as listed in section 3(1) of the Companies Management Law (2003 Revision) or any other corporate services as may be prescribed under that section. A corporate services licence allows the holder to provide only the corporate services specified in section 3(1)(a) through (e) of the Companies Management Law (2003 Revision). Licensed trust companies are also authorised to provide corporate services.

Authorisation Activity

Table 8 shows authorisation activity for company managers and corporate service providers for 2011-2012. The 97 licences in effect at 30 June 2012 represent an increase of 6 per cent over June 2011. Table 8: Companies Management Authorisation Activity, 2011-2012

Authorisation Type	Active as at 30 June 2011	Terminated 1 July 2011	30 June 2012	Issued 1 July 2011	30 June 2012	Active as at 30 June 2012
Company Manager (Licensed)	82	4	86			
Corporate Service Provider (Licensed)	9	2	11			
Total	91	6	12	97		

Jurisdictional Comparisons

Table 9 shows the number of active corporate services licences for calendar years 2007 to 2011 in the Cayman Islands and in other international financial centres for which figures are available. Table 9: Corporate Services Licence Numbers - Selected Jurisdictions, 2007-2011

Jurisdiction	2007	change	2008	change	2009	change	2010	change	2011
Cayman	76	5.26%	80	5%	84	0%	84	9.5%	92
BVI	18	11.11%	20	0%	20	5%	21	14.3%	18
Gibraltar	86	16.27%	72	6.94%	67	10.4	74	2.7%	72
Guernsey	203	1.47%	205	1.5%	197	3.55%	190	-	N/A
Isle of Man	184	0%	185	12.97%	209	3.82%	201	10.9%	179
Jersey	184	4.89%	175	5.14%	184	N/A			
Turks & Caicos	41	2.43%	42	2.38%	43	27.90%	31	3.2%	30

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 2011-12 20

INSURANCE

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 two classes of licence for insurance companies: Class A for domestic insurers, Class B for international insurers, reinsurers and special purpose vehicles. The next fiscal year will include Class C and Class D with the enactment of the Insurance Law 2010. CMRAI also regulates insurance managers, brokers and agents 8 .

The International (Captive) Segment Figure 10: Number of Cayman Islands International (Class B) Insurance Licences, 2008-2012 The industry is dominated by the international segment, comprised primarily of captive insurance companies 9 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: 731 at 30 June 2012 (see Figure 10); the premiums generated: US\$8.9 billion total at 30 June 2012, and the assets held: US\$78.9 billion total at 30 June 2012 (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 35 per cent of Cayman s captives covering healthcare risks (see Figure 12), the jurisdiction is the number one domicile for healthcare captives. Other types of coverage provided by Cayman captives include: general and professional liability, workers compensation, property, auto and product liability, and life and annuity.

8 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). 9 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.

CMRAI Annual Report 2011-12 21 Figure 11: Total Premiums & Assets of Cayman Islands Class B Insurance Licensees, Fiscal Year-end 2008-2012 Figure 12: Cayman-Domiciled Captive Insurance Companies by Type of Coverage, 30 June 2012 While the vast majority of companies in the international segment of Cayman s insurance industry are captives of one type or another, a small number are engaged in open market 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 late 1970s with the medical malpractice insurance crisis in the United States. 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. CMRAI Annual Report 2011-12 22 Figure 13: Cayman-Domiciled Captive Insurance Companies by Location of Risks Covered, 30 June

2012 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 (also called Special Purpose Vehicles (SPVs)) 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. The Domestic Segment

Figure 14: Number of Cayman Islands Domestic Insurance Licences, by Category, Fiscal Year-end 2008-2012

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 property; health and life being the top three categories, accounting for approximately 70 per cent of premiums earned by the sector for calendar year 2011 (see Figure 15). CMRAI Annual Report 2011-12 23

Figure 15: Coverage Provided by Class A Insurers, Measured by Net Earned Premiums, 2011 Calendar Year (US\$000)

Industry Activity At 30 June 2012, there were 886 insurance licensees under regulation (June 2011: 883). Of these, 731 were class B (captive), 27 were class A, 32 were insurance managers, 38 were brokers and 58 were agents.

Table 10: Insurance Licensing Activity 2011-2012

Licence Type	Active as at 30 June 2011	Terminated 1 July 2011 - 30 June 2012	Issued 1 July 2011 - 30 June 2012	Active as at 30 June 2012
Class A	29	2	0	27*
Class B	725	30	36	731
Insurance Managers	32	0	0	32
Brokers	37	1	2	38
Agents	60	4	2	58
TOTAL	883	37	40	886

* Revised **

The number of Class A insurance companies writing business at 30 June 2012 was 25 as Class A insurers Motor and General Insurance Company Limited were under controllership.

Captives There was an increase in the number of licences issued during 2011-2012 (40), compared to 2010-11 (36). In particular, 2012 started with tremendous growth for the Cayman Islands, with a total of 29 applications submitted during the first two quarters and 20 licensed as at 30 June 2012. Indeed, a total of 16 applications were received in May and June of 2012 alone. To put this in perspective, Cayman has received more applications in the first two quarters of 2012 than during the entire year of 2010, and has also had more formations in the second quarter of 2012 than during the same period in 2011. This is a very good indicator of the recovery in the captive insurance sector and in the licensing numbers, following the effects of the US subprime crisis on captives. There was a decrease in the number of licences cancelled during 2011-12 (37) 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. CMRAI Annual Report 2011-12

24 Despite the general soft global insurance marketplace, there was continued demand in 2011-12 for the use of captives, primarily in the areas of medical malpractice liability (the primary class of business for 35 per cent of class B licences at 30 June 2012), workers compensation (22 per cent of licences) and property coverage (12 per

cent). The most popular region of origin of Cayman captives continues to be North America, which accounted for 90.83 per cent of captives at fiscal year-end (see Figure 13). This was followed by Latin America and the Caribbean: 3.15 per cent. With 1.92 per cent of companies covering risk in Europe, that region became the third largest risk location, overtaking Africa, Asia and the Middle East which accounted for 0.55 per cent. Pacific Rim: 0.27 per cent, and the rest of the world accounted for a combined 3.28 per cent. Table 11: Captive Insurance Company Statistics by Company Category and Licence Class, 30 June 2012. Among the 731 captives were 125 segregated portfolio companies under the Companies Law, with a total of 643 segregated portfolios operating within them. Open market insurers accounted for four per cent of total class B licences active at 30 June 2012. Jurisdictional Comparisons - Captives As shown in Table 12, between 2010 and 2011 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, 2008-2011-Calendar Year-end

Jurisdiction	2008	2009	2010	2011	% Total Licences
Cayman	777	1%	780	5%	738 - 739
Barbados	229	- N/A	242	- N/A	
Bermuda	960	8%	885	5%	845 2%
BVI	332	14%	285	23%	219 21%
Guernsey	370	1%	355	6%	333 3%
Hawaii	165	- N/A	168	2%	172
S. Carolina	163	2%	147	9%	160 4%
Vermont	557	1%	560	3%	576 2%
Totals	731	100.00%	8,883,201,932		

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: 2011 Survey Top Leading Captive Domiciles. 2011 Source: Captive Review May 2012: 2012 Survey Top Leading Captive Domiciles. N/A Data not available

Category	Total Licences	To date %	Total Premiums	Net Income	Net Worth	Total Assets
Association	50	6.84%	464,667,319	63,163,055	696,567,665	1,799,358,620
Group Captive	76	10.40%	1,019,261,015	233,284,994	1,868,785,595	3,416,299,440
Open Market Insurer	33	4.51%	1,267,956,356	33,115,503	1,801,046,008	27,328,241,048
Pure Captive	414	56.63%	4,948,158,888	1,465,262,829	9,466,799,275	36,787,855,258
Rent-A-Captive	1	0.14%	880,183	869,664	25,590,361	35,599,218
Segregated Portfolio Company	125	17.10%	691,102,653	68,862,518	580,298,676	3,760,502,068
Special Purpose Vehicle	32	4.38%	491,175,518	57,148,838	-11,443,492	5,773,198,944

Totals: 731 100.00% 8,883,201,932 1,921,707,401 14,427,644,088 78,901,054,596

Jurisdiction 2008 Change 2009 Change 2010 Change 2011

Cayman 777 1% 780 5% 738 - 739 Barbados 229 - N/A - 242 - N/A Bermuda 960 8% 885 5% 845 2% 862 BVI 332 14% 285 23% 219 21% 174 Guernsey 370 1% 355 6% 333 3% 343 Hawaii 165 - N/A - 168 2% 172 S. Carolina 163 2% 147 9% 160 4% 153 Vermont 557 1% 560 3% 576 2% 590

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Domestic Activity With the emergence of sub-prime loan losses in 2007 began the deep global economic crisis that affected the entire world economy, including the Cayman Islands economy. Contraction in business activity in the financial services and tourism industries in particular and somewhat of an exodus of expatriate population significantly affected the post-Ivan growth momentum of the domestic insurance industry. Yet, the Cayman Islands domestic insurance industry not only managed to weather the economic storm during this period, but showed remarkable resilience in the face of continuing economic challenges. Between 2005 and 2011, the Cayman Islands domestic insurance market grew from a (GWP) CI\$220 million industry to a (GWP) CI\$380 million industry and in doing so contributed far more to the country's economy than insurance industries of most other countries did to theirs. The year 2011 was an outstanding year for the industry as it recorded the second highest growth in the post-Ivan

period, with total gross written premium (GWP) increasing by 12.5 per cent to CI\$380 million. In the process, the industry achieved a milestone by, for the first time in its history, recording a net income in excess of CI\$110 million. During the year, 8 locally incorporated companies and 15 branch/agency operations of foreign companies engaged in insurance business. The number of Class A licences at the end of the 2011-12 fiscal year was 27, with none issued and two cancelled. During the 2010-11 fiscal year, a review of the licensing requirements for insurance agents as per the Insurance Law (2008 Revision) was conducted and it was determined that a person acting as a representative of a licensed insurance broker does not require an insurance agent s licence to carry on insurance business on behalf of the insurance broker that he/she is contracted with. This contributed to the decline in licensed agents during that fiscal year. In addition to the 12 insurance agent licences issued during 2010-11, 2 more agent licences were issued during 2011-12. These reflect additions to the sales force of class A companies and demonstrate the increased interest by those companies involved in the sale of life insurance in having a dynamic and growing sales force.

CMRAI Annual Report 2011-12 26 Table 13: Domestic Insurance Company Statistics by Primary Class of Business as at 31 December 2011 (CI\$)

	Motor Property	Liability Casualty	Marine & Aviation	Health Workers' Compensation	Total Non Life
Gross Written Premiums	\$23,677,702	\$114,608,530	\$21,884,989	\$432,903	\$33,476,290
Reinsurance Ceded	\$7,253,769	\$88,090,807	\$21,971,210	\$10,808,192	\$379,696,181
Unearned Premium Adjustment	-\$163,515	-\$700,816	\$1,606,332	\$399,804	\$191,442
NET EARNED PREMIUMS:	\$133,464,494	\$766,435	\$227,646,793	\$17,877,314	\$6,334,564
Commissions Received	\$146,401	\$21,002,785	\$1,410,394	\$20,450,342	\$216,489
TOTAL UNDER-WRITING INCOME:	\$47,668,881	\$20,311,938	\$76,556	\$33,309,249	\$133,699,615
Net Claims Paid	\$1,372,787	\$3,529,371	\$4,941	\$4,636,813	\$110,624,747
Movement in Claim Reserves:	-\$995,639	-\$79,251	-\$5,995,527	-\$9,463	-\$422,223
Commissions Paid	\$8,422,008	\$143,423	\$14,606,035	\$2,938,885	\$1,116,747
Other Expenses	\$26,894	\$3,862,576	\$553,228	\$337	\$66,000
UNDER-WRITING PROFIT:	\$28,552,054	\$14,966,054	\$478,213	\$109,346,265	\$5,914,359
Investment Income	\$22,690	\$885,356	\$6,009,419	\$980,178	\$7,874,953
Administration Expenses:	\$9,006,832	\$640,236	\$402,265	\$30,910	\$28,511
Other Income	\$0	\$713,524	\$12,300,956	\$117,873	\$13,132,353
TOTAL 2011 NET INCOME:	\$18,887,197	\$5,533,961	\$110,357,868	\$27,888,341	\$3,798,263

CMRAI Annual Report 2011-12 27 INVESTMENTS AND SECURITIES FUNDS AND FUND ADMINISTRATORS The Sector Since the enactment, in 1993, of the Mutual Funds Law (MFL) to create a regulatory framework for the

development of the funds industry in the Cayman Islands, the jurisdiction has become the leading domicile for funds. Although 2008 showed a decline in the overall number of Cayman-regulated funds, from 10,037 in mid-2008 to 9,409 at 30 June 2011, the number of master funds that had to be registered under the amendments to the Cayman Islands Mutual Funds Law (enacted 22 December, 2011) pushed the total number of registered funds to an all-time high of 10,871 at 30 June 2012. The jurisdiction also continues to surpass other fund domiciles (Table 13). June 2012 is the first time CMRAI's quarterly statistics include master funds. Before the new law, 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, 1,732 master funds had been registered at 30 June 2012. (See Figure 16). The MFL makes provision for three categories of regulated funds: licensed, administered and registered, and charges the Cayman Monetary Regulatory Authority International 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 US\$100,000 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 \$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. Figure 16: Number of Cayman Regulated Funds, by Category, Fiscal Year-end 2008-2012

CMRAI Annual Report 2011-12 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, which is defined as the provision of any of the following services for a fund: management (including control of the fund's assets), administration, principal office in the Cayman Islands, or the fund's operator (i.e., the director, trustee or general partner). Two categories of mutual fund administrator licence 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, 2008-2012. Figure 17: Number of Mutual Fund Administrators, by Category, Fiscal Year-end 2008-2012 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 6,926 funds that had a financial year end in 2010 and that submitted the required Fund Annual Return form via CMRAI's electronic reporting system. 11 These 6,926 funds had total assets of US\$2.4 trillion combined and net assets of US\$1.7 trillion. Funds requiring a minimum initial subscription of US\$1,000,000 or more accounted for 43 per cent and those remaining between US\$100,000 and \$999,999 for 40 per cent (see Figure 18). Cayman was the primary location from which fund administration services (registrar and transfer (R&T) service and net asset calculation) were provided for these funds, with New York again being the primary location of the investment managers to these funds 12. 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 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

10 A third authorisation category, exempted, which previously existed, has been discontinued. However, administrators already authorised in this category remain. 11 See CMRAI's Investments Statistical Digest 2010, available on CMRAI's website at 12 As determined by the proportion of the Cayman funds' aggregate net assets for which those service providers were responsible. CMRAI Annual Report 2011-12 29 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 2010 Authorisation Activity Funds - Fiscal year to date, 2,704 regulated entities were authorized and 1,177 regulated entities were terminated compared to 1,062 and 1,003, respectively, during the same period in 2011. The total number of regulated funds as at 30 June 2012 was 10,871 (comprising 8,598 registered funds, 1,732 master funds, 418 administered funds and 123 licensed funds) compared to 9,409 for the same period in 2011. Fund registrations spiked in the last two quarters from a low of 226 in January to a high of 1,106 in March, resulting in an unprecedented number of 2,263 funds being registered during the first 6 months of the calendar year 2012. This brisk activity is attributed to the amendment of the Mutual Fund Laws in December 2011 to capture master fund structures. Administrators - The fiscal year 2012 showed an overall decrease with 5 new mutual fund administrators being licensed (2011:7) and 11 being cancelled (2011: 8), for a total of 125 at June 2012, compared to 130 at June 2011. The cancellations comprised 8 full administrator licences and 3 restricted licenses. The decline in fund administration licences can be attributed to corporate downsizing and relocation to more inexpensive jurisdictions, stemming from the global economic crisis. Jurisdictional Comparisons - Funds Table 14 shows the number of active funds for calendar years 2007 to 2011 in Cayman and other financial jurisdictions for which figures are available. As the figures demonstrate, the number of Cayman -authorised funds remains consistently in excess of the other jurisdictions. To date, Cayman remains the leader in fund domiciliation. The decline in

fund numbers across jurisdictions between 2008 and 2010 largely reflects the impact of the US recession and the continued instability in the global financial markets. Table 14: Regulated Fund Numbers - Selected Jurisdictions, 2007-2011 Calendar Year-end *

Jurisdiction	2007	2008 Change	2009	2009 Change	2010	2010 Change	2011	2011 Change
Cayman	9413	5%	9870	4%	9524	1%	9438	1.9%
Bahamas	782	11%	803	1.9%	788	1%	797	- 740
Bermuda	1276	18%	1133	15.5%	1309	10%	1181	11.8%
BVI	2731	8%	2942	6%	2923	1%	2951	11%
Dublin	N/A	N/A	N/A	N/A	N/A	N/A	1121	Jersey
Jersey	1311	12%	1472	12%	1294	2%	1324	2%

Restatement of number due to enhancements made by Regulator. Jurisdiction 2007 Change 2008 Change 2009 Change 2010 Change 2011

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 for 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 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, Fiscal Year-end 2007-2012

Authorisation Activity As of 30 June 2012, there were 3 new securities investment business licences issued and 401 new excluded person registrations were processed during the fiscal year. In total, 380 excluded person registrations and 2 securities investment business licences were cancelled. This brought the totals at 30 June 2012 to 2,035 SIBL excluded person registrations and 32 licences, compared to 1,936 and 31, respectively, for the same period in 2011.

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O O R R G G A A N N I I S S A A T T I I O O N N A A L L

D D E E V V E E L L O O P P M M E E N N T T S S CMRAI Annual Report 2011-12 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 interest 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 During 2010-2011, CMRAI's Board of Directors approved a number of strategic priorities for the Authority to pursue over the next three years. In summary, these 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 2011-12 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 2012, the value of the currency reserve assets was CI\$99.4m (2011: \$95.6m) representing 112.09 per cent (2011: 112.58 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 53 and following). **Issue and Redemption of Currency**

Currency in Circulation - At 30 June 2012, currency in circulation (excluding numismatic coins) stood at \$79 million in notes and \$9.7 million in coins, totalling \$88.7 million. This represents a 4.5 per cent increase over the 30 June 2011 figure of \$84.9 million. Table 15 shows currency in circulation at fiscal and calendar year-end from 2007 to 2012. Figure 20 shows currency in circulation by month from 2007 to 2012. Table 15: Currency in Circulation at Fiscal and Calendar Year-end, 2007-2012 (in CI\$m)

DATE	2007	2008	2009	2010	2011
------	------	------	------	------	------

2012 30 June 76.2 78.9 83.6 78 84.9 88.7 31 December 81.9 83.6 87.5 85.2 89.7 94.0
 New Currency The D series banknotes featuring innovative security measures, which were
 launched in April 2011 with the \$25 and \$5 denominations, were followed with \$50
 and \$1 banknotes in July 2011. 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. CMRAI Annual Report 2011-12 34

Figure 20: Cayman Islands Currency in Circulation by Month: 2008-2012 Counterfeit
 Detection A total of 46 forged banknotes was detected and withdrawn from circulation
 in 2011-12, compared to 114 detected and withdrawn in the prior fiscal year. The
 majority of these notes (42) were detected and withdrawn between July and December 2011,
 with the peak being in September. CMRAI and the Royal Cayman Islands Police
 Service (RCIPS) continue to remind people how to detect forged currency. 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 2012. Table
 16: Counterfeit Cayman Islands Currency Notes Recovered, July 2009- June 2012

Denomination	1 July to 1 January 2010	1 January to 30 June 2010	1 July to 1 January 2011	1 January to 30 June 2011	1 July to 1 January 2012	1 January to 30 June 2012
\$100	8	2	5	8	7	0
\$50	1	1	0	10	5	1
\$25	0	10	0	19	23	1
\$10	2	0	0	7	2	7
\$5	0	0	0	0	0	0
\$1	0	0	0	0	0	0
Total No. of Notes	11	13	5	109	42	4
Total Dollar Value	\$870	\$500	\$500	\$2,945	\$1,595	\$95

Numismatic Coin Programme CMRAI continues to enhance their numismatic coin programme and collectors were able to add to their
 collection a \$5 Silver Coin. This coin was issued in collaboration with the Royal Mint as part
 of their 24 Commonwealth Coin Collection to celebrate the historic event of Queen Elizabeth
 II s Diamond Jubilee. CMRAI was pleased that the theme assigned to this coin was the
 Launch of the Ship featuring the royal yacht Britannia in light of Cayman s rich maritime
 history. A second coin will be issued in early 2013. CMRAI Annual Report 2011-12 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
 Islands Monetary Authority and regulated sectors operated as at 30 June 2012 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. The prudential
 measures issued during the 2011-12 fiscal year are listed in Table 18. Table 17: The
 Cayman Monetary Regulatory Authority International Regulatory Framework (as at 30 June
 2012) Sector/ Entity type CI Law International Standards / Memberships All Monetary
 Authority Law (2011 Revision) Proceeds of Crime Law (2008) Money Laundering
 Regulations (2010 Revision) Terrorism Law (2011 Revision), and amendments Public
 Management and Finance Law (2012 Revision) 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) Companies Management Law (2003 Revision), and regulations Standards: Basel Core Principles for Effective Banking Supervision 13 Trust and Company Service Providers Working Group Statement of Best Practice produced by the Offshore Group of Banking Supervisors 14 Memberships: Group of International Financial Centre Supervisors (formerly Offshore Group of Banking Supervisors) Caribbean Group of Banking Supervisors Association of Supervisors of Banks of the Americas Insurance companies, managers, brokers, agents Insurance Law, 2010 , amendments and regulations Standards: International Association of Insurance Supervisors (IAIS) Core Principles of Insurance Regulation 15 Memberships:

13 As promulgated by the Basel Committee on Banking Supervision 14 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. 15 Issued by the International Association of Insurance Supervisors (The Cayman Islands is a charter member of this association.

CMRAI Annual Report 2011-12 36 IAIS Offshore Group of Insurance Supervisors

16 Mutual funds, fund administrators, securities investment businesses (market makers, broker-dealers, securities arrangers, securities advisors and securities managers) Mutual Funds Law (2012 Revision), 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 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. During previous fiscal year 2010-11, the Authority issued a comprehensive set of standards implementing the International Convergence of Capital Measurement and Capital Standards (Basel II Accord). These became effective on 1 January 2011. The Authority also issued a new regulatory Rule on Regulatory Reporting Standards that applies to all regulated entities. Implementation of this measure was subsequently deferred. The measures and their descriptions are listed in Table 18.

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Annual Report 2011-12 37 Table 18: List of Regulatory Measures Issued in 2010-2011

When Issued	Type of Standard	Title	Description	All Licensees	Jan. 2011
Rules, Policies & Guidance	Rules, Conditions and Guidelines	Minimum Capital Requirements (Pillar I)	This suite of rules, policies and guidance on the minimum capital requirements relating to the International Convergence of Capital Measurement and Capital Standards (Basel II Accord) came into effect 1 January 2011. It requires all locally-incorporated banks, with and without a physical presence, to calculate their minimum capital requirement under the Basel II framework. Branches of foreign banks are excluded from this requirement.		
March 2011	Rule	Rule on Regulatory Reporting Standards	This rule sets the reporting standard for all the regulatory reports listed in the Authority's reporting schedule and implements administrative penalties for late or erroneous reports. The Rule was gazetted in March 2011. In May 2011 it was decided to defer the effective date of this Rule until further notice.		

Other Regulatory Developments

Basel II Implementation CMRAI completed the first part of its implementation of the Basel II 17 framework in the Cayman Islands on 1 January 2011 when Pillar 1 18 became effective. The Basel II framework applies to both category A and B banks that are locally incorporated in the Cayman Islands. During the year under review, the Banking Division continued to focus its efforts on the implementation of Pillar II of the Basel II framework in the following key areas:

Bank Readiness & Governance: The Banking Division has completed significant steps to inform the industry about the upcoming changes due to the implementation of the second pillar of the Basel II regulatory regime. Effective 1 December 2013, the Pillar II of the Basel II framework is expected to be implemented. This involves an Internal Capital Adequacy Assessment Process (ICAAP) that must be undertaken annually by all locally incorporated banks in the Cayman Islands and also a new supervisory review process to be carried out by the Banking Division. The Pillar II document is currently being revised following the feedback from the Cayman Islands Bankers Association Basel II Working Committee and procedures manuals have been drafted to assist Banking Analysts in carrying out the supervisory review process.

Legislative Changes for the Regulation of Bank Holding Companies: The Cayman Islands Government's Legislative Drafting Department has produced the first draft of the revisions proposed for the Banks and Trust Companies Law. The Banking Supervision and Legal Divisions have reviewed and discuss the revisions and will be making recommendations for changes to the Cayman Islands Government's Legislative Drafting Department to ensure the objectives of the revisions are appropriately captured.

Regulation of Master Funds In December 2011, the Honourable Cabinet approved the revision of the Mutual Funds Law to allow for the registration of certain Master Funds. As a result, the Authority drafted a new Form MF4 to be the

proposed form to be used for the registration of new Master Funds. The Authority conducted a consultation with industry associations on the draft Form MF4 in efforts to ensure a smooth transition

17 Basel II is the set of standards for establishing minimum capital requirements for banking organisations, developed by the Basel Committee on Banking Supervision, a group of central banks and bank supervisory authorities in the Group of 10 Industrialised Countries. Basel II is a more risk-sensitive approach to capital regulation. Pillars 2 and 3 address the supervisory review process and market discipline, respectively. 18 Pillar 1 addresses minimum capital requirements, specifically focused on regulatory capital for three major components of bank risk: credit-, market-, and operational risk. Pillars 2 and 3 address the supervisory review process and market discipline, respectively. CMRAI Annual Report 2011-12 38

once the registration process commenced in January 2012. As at June 2012, there were 1732 Master Funds registered with the Authority. Insurance Law, 2010 The Insurance Law, 2010, was passed by the Legislative Assembly in September 2010. However its implementation was deferred to coincide with the issuing of the supporting regulations. CMRAI continued to provide input to the Government's Legislative Drafting Department on the draft regulations. The Insurance Law, 2010, includes stricter reporting requirements for class A (i.e., domestic) insurers, a restructuring of class B insurers into three categories depending on the amount of related party business, a new class of insurer for reinsurance companies and a new class for special purpose vehicles. Additionally, it provides a new definition of insurance broker, harmonisation of enforcement provisions with other Cayman regulatory laws, and more minor administrative adjustments. Securities Investment Business Law The Authority embarked on a comprehensive review of the Securities Investment Business Law, with a view of enhancing the regime. As certain aspects of the Alternative Investment Fund Managers Directive can potentially impact the current Securities Investment Business Law, the Authority will form a working group to garner views on how to improve the securities investment business framework in the Cayman Islands. Regulation of Pension Plans and Administrators CMRAI continued to assist the Cayman Islands Government in reorganising the framework for oversight of the Cayman Islands private pension system, subsequent to Government's announcement of its intention to have CMRAI assume the regulation of pension plans and plan administrators. The process involves changes to legislation and regulations. During 2011-12 CMRAI was actively involved in advising the Ministry of Education, Training and Employment on the redrafting of the National Pensions Law and the drafting of subsidiary regulations. Once the amendments are finalised, the Authority will be able to determine its resource requirements for this additional area of regulation. Alternative Investment Fund Managers Directive (AIFMD) In November 2010 the European Parliament passed the AIFMD, which introduces a unified regulatory regime for alternative investment fund managers and funds within the European Union from July 2013. Building on its work since the AIFMD was first proposed in 2009, CMRAI carried out a gap analysis of Cayman's existing regulatory regime vis- -vis the specific framework that was passed by the European legislators. The Authority also worked with members of industry to ascertain areas of difficulty in meeting the AIFMD requirements applicable to Cayman domiciled funds, managers and other service providers. At the end of the financial year, CMRAI had invited representatives from the private sector to join CMRAI's AIFMD working group to discuss their concerns with the AIFMD. As at the end of the year, the Authority had started preliminary discussions with the European Securities and Markets

Authority about the possibility of entering into a cooperation arrangement as required under the AIFMD. Corporate Governance During the fiscal year, the Authority reviewed its Corporate Governance standards, with the objective of enhancing the current framework in place. Given the level of attention the subject of Corporate Governance has garnered globally over the past two years, it is envisaged that the Authority will solicit views from industry on policy recommendations and changes to the standards, not only by way of Private Sector Consultation, but also by an industry survey. Anti-Money Laundering On 16 February 2012, the FATF officially released the new 40 Recommendations on Combating Money Laundering and the Financing of Terrorism and Proliferation. The FATF's Methodology on how to interpret and comply with the new Recommendations is to be issued in early 2013. The Authority has taken preliminary steps to identify gaps in the regulatory framework governing the anti-money laundering and terrorist financing framework for financial services providers in the Cayman Islands in the interim. Once CMRAI Annual Report 2011-12 39 the Methodology has been issued, a full assessment will take place in conjunction with the Anti-Money Laundering Steering Group. CMRAI has developed an Action Plan for the implementation of the new Recommendations, including the revisions to the Guidance Notes and amending supervisory procedures/practises. In May 2012, the Authority made Recommendations to the Honourable Cabinet for India and the People's Republic of China to be added as an Authority to the Third Schedule of the Money Laundering Regulations (2010 Revision). Addition to the Third Schedule signifies that the jurisdiction is recognised by the Cayman Islands as having an equivalent AML/CFT regime to that of the Cayman Islands. Reliance may therefore be placed by a Cayman Islands Financial Service Provider on application of the regulatory regime of that jurisdiction by those subject to such regulation.

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

Due Diligence In carrying out due diligence, the Authority follows its Regulatory Policy Assessing Fitness and Propriety 19. The Compliance Division, which is tasked with conducting due diligence on applicants that the regulatory divisions refer to it, received 230 such applications during the 2011-2012 fiscal year. This compares to 375 during 2010-11. The breakdown of the applications for 2011-12 and 2010-11, by division, is shown in Table 19. Table 19: Due Diligence Applications Referred to the Compliance Division, 2011-12, with 2010-11 Comparison

Enforcement CMRAI's Enforcement Manual 20 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 16 formal enforcement actions during 2011-12 (compared to 5 during 2010-11). Table 20 lists the formal enforcement actions initiated 21.

19 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: 20

The Enforcement Manual:Address: 21 See the Regulatory and Enforcement Notices section of CMRAI s website. Address: Banking Fiduciary Insurance Investments Other Total Applications as at 30 June 2011: 109 182 1 83 0 375 Applications as at 30 June 2012: 99 95 3 33 0 230 CMRAI Annual Report 2011-12 40 Table 20: Formal Enforcement Actions, 2011-2012 Name of Entity Type of Authorisation Held Enforcement Action Effective Date Europa Funds, Ltd Registered Fund Registration Cancelled Nov 28, 2011 Highfield Leveraged Arbitrage Fund, Ltd Registered Fund Registration Cancelled Nov 28, 2011 West End Fixed Income Partners (Cayman) Ltd Registered Fund Registration Cancelled Nov 28, 2011 NewMargin Fund Management Company Limited Companies Management Revocation Jan 26, 2012 Seven (7) Entities Class B Insurer Required the licensee to substitute a director Feb 10, 2012 Monkton Insurance Services, Ltd. Insurance Manager Controller Appointed Feb 14, 2012 Wroxton Fidelity SPC Registered Fund Registration Cancelled May 30, 2012 MP Biopharmaceutical Fund, Ltd Registered Fund Registration Cancelled May 30, 2012 RC Global Opportunities Fund Limited Registered Fund Registration Cancelled May 30, 2012 OZ Special Funding Ltd. Registered Fund Registration Cancelled May 30, 2012 Litigation: There was no litigation with regards to enforcement actions during the 2011-12 fiscal period. Other Compliance-related Matters Among its duties, the Compliance Division is also tasked with investigating persons or entities that appear to be conducting regulated business without the proper authorisation from the Authority. In addition, in keeping with its mandate to protect the jurisdiction from individuals or entities seeking to reap illegal benefit by false association with the Cayman Islands, the Compliance Division continued updating a list of websites which give Cayman addresses for various businesses which are not registered or licensed in the Cayman Islands. 22

22 The complete list can be viewed in the Enforcement/ Information and Alerts section of the website:

Address: . CMRAI Annual Report 2011-12 41 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. 23 One multi-lateral information exchange and cooperation agreement was concluded during 2011-12 listed in Table 21. Table 21: International Information Exchange and Cooperation Agreements Concluded, 2011-2012 Agreement Effective Date US Securities & Exchange Commission 09 March 2012 Assistance to Overseas Regulatory Authorities An on-going 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 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) 24 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 119 requests for assistance from ORAs during the 2011-12 financial year, compared to 142 requests during 2010-11, and 171 during 2009-10.

23 International agreements:

108_184_1. Local agreements: 0_178_1 24 Procedure- Dealing with Requests for Assistance from an Overseas Regulatory Authority: Appendix D1 (page 32) of the Regulatory Handbook Appendices. Address: CMRAI Annual Report 2011-12 42

International Initiatives Involving CMRAI Caribbean Financial Action Task Force/Financial Action Task Force (CFATF/FATF) At its February 2012 Plenary, the FATF published its new 40 Recommendations on Combating Money Laundering and the Financing of Terrorism and Proliferation (of weapons of mass destruction) (AML/CFT/CFP). These new Recommendations will form the basis by which jurisdictions are to be assessed during the 4th Round of AML/CFT mutual evaluations. A representative from CMRAI co-chaired the CFATF Working Group on FATF Issues (WGFI) during the period, keeping abreast of FATF developments and reporting to the CFATF plenary. That representative was also a financial examiner for the 3rd Round Mutual Evaluation on-site visit to Sint Maarten, which took place in March of 2012. Foreign Account Tax Compliance Act (FATCA) The Foreign Account Tax Compliance Act (FATCA) is a complex and comprehensive set of rules being implemented by the US Internal Revenue Service (IRS) designed specifically to limit tax evasion by US persons. FATCA will impact most banks, investment management/administration companies, trust companies and life insurers globally. In order to become compliant, financial institutions will need to review their customer on-boarding processes, make changes to their withholding and reporting engines and remediate millions of customer accounts globally. On 4 May 2012, the Cayman Islands Government Ministry of Finance issued an Industry Advisory, announcing the formation of a new task force to evaluate the suitability of a government-to-government reporting arrangement for the implementation of the U.S. Foreign Account Tax Compliance Act (FATCA) in the Cayman Islands. The work of this Cabinet appointed task force will commence immediately and coordination of the views of the local financial services industry will be facilitated through the Financial Services Council. IAIS Tri-Annual Meeting Cayman Islands The International Association of Insurance Supervisors (IAIS) gathered more than 150 Members and Observers in the Cayman Islands during the week of 18-21 June for the tri-annual Global Seminar and Committee meetings. Now in its 5th year, the Global Seminar afforded insurance supervisors and industry representatives a unique opportunity to discuss globally significant matters currently impacting the insurance sector, as well as gain knowledge on current international standards. This year's programme included panels on financial stability, ComFrame (Group Supervision), Revisions to the IAIS Insurance Core Principles (ICPs), and access to insurance. Desmond Smith, President of the International Actuarial Association (IAA), delivered a presentation on the IAA and its

development of International Standards of Actuarial Practice, and the IAA signed an MOU with the IAIS. One of the primary purposes of hosting the IAIS was to familiarize the IAIS (and observers) with the quality of both the Monetary Authority and the Private Sector, as there remain large misconceptions about the nature of regulation in offshore (international) territories. From this perspective, the meetings were a tremendous success both from the perspective of organization and relationship building. On the former, many emails have been received complimenting the MD and her staff on the professional organization of the meetings. On the latter, it afforded CMRAI the opportunity to form permanent bonds with various jurisdictions in the area of cooperation and joint licensing e.g. reinsurance.

International Banking Regulatory Groups The Authority was nominated to the seat of Deputy Chairman of the Group of International Finance Centre Supervisors (GIFCS, previously named the Offshore Group of Bank Supervisors (OGBS)). The appointment took effect in late 2011. CMRAI is an active member of the Caribbean Group of Bank Supervisors (CGBS) and a member of the CGBS Basel II Implementation Working Group as well as a member of the Association of Supervisors of Banks of the Americas (ASBA).

CMRAI Annual Report 2011-12 43 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 4 suspicious activity reports (SARs) with the Financial Reporting Authority (FRA) during 2011-12, compared to none being filed during 2010-11. The FRA made 29 onward disclosures to the Authority pursuant to the MOU between the FRA and CMRAI. This compares to 22 made by the FRA during 2010-11. CMRAI assesses all onward disclosures to determine if further investigation and regulatory action is 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 2011-12 are covered in the Regulatory Developments section of this report, beginning on page 36. Assistance on TIEA and OECD Matters As part of its advisory and cooperative mandate, CMRAI representatives on the Tax Information Exchange Agreement (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). The review of this particular area comes as the jurisdiction prepares for the second phase of the OECD's peer review process. CMRAI Annual Report 2011-12 44 A group met on 12 July 2012, to discuss a draft amendment to the PTC Regulations. The purpose of the amendment is to address concerns highlighted by the Global Forum on Transparency and Exchange of Information In Tax Matters (the Global Forum) in its Phase 1 report. The Fiduciary Division had the opportunity to review and comment on the draft amendments to the regulations. The amendments largely address the need for PTCs to maintain for seven years and have available beneficial ownership information for the parties to trusts under administration. CMRAI Annual Report 2011-12 45

OPERATIONAL SUPPORT AND ADMINISTRATION HUMAN RESOURCE MANAGEMENT & DEVELOPMENT

Human Resources Division The Human Resources (HR) Division comprises five functional areas: 1) Employee Services (which includes employee relations, compensation & contract administration, benefit plan administration, attendance, and liaison with the Government's Immigration and Employee Relations departments); 2) Recruitment; 3) Learning and Development (performance management & reward); 4) Mail, Courier and Reception, and 5) Facilities/Security (covering all facility-related issues, parking, security, conferences and special event planning).

Staffing and Recruitment The Authority's staff complement typically remains stable at a level of 155 at 30 June 2011 and 153 at 30 June 2012, with 84 per cent being Caymanian. The turnover rate for 2011-12 was 11.91 per cent, and 12 per cent for 2010-11. Table 22: Staff Numbers by Division at 30 June 2012, with June 2011 Comparisons

Division	Actual staff numbers at 30 June 2011	Actual staff numbers at 30 June 2012
Banking	23	20
Compliance	11	12
Currency Operations	7	7
Fiduciary Services	9	10
Insurance	20	19
Investments and Securities	34	33
Legal	7	8
Managing Director's Office	9	6
Finance, Information Systems and Human Resources (Operations)	25	26
Policy & Development	10	12
TOTAL	155	153

As a consequence of exemplary performance results, a total of 16 staff members were promoted during the period, as listed in Table 23: Table 23: Staff Promotions, 2011-2012

Staff	New Position	Division
Leticia Fredrick	Deputy Head	Fiduciary
Pedro Reis	Deputy Head	Insurance
Kenton Tibbetts	Deputy Head	Banking
Tara Abdul-Jabbar	Deputy Head	Human Resources
Joelee Powell	Chief Analyst	Compliance
Tara Parsons	Chief Analyst	Compliance
Talia Woods	Chief Analyst	Insurance
Jaron Leslie	Senior Analyst	Fiduciary
Regina Forman	Senior Analyst	Fiduciary
Anthony Ramoon	Senior Analyst	Investments & Securities
Colin Forster	Senior Analyst	Investments & Securities
Kara Ebanks	Senior Analyst	Insurance
Vanessa Bush	Senior Analyst	Insurance
Miguel Arias-Sobrado	Senior Accounts Officer	Finance
Ronette Johnson-Jurn	Statistician	Policy & Development
Kimari Fletcher-Barrett	Analyst	Investments & Securities

Employee Services The implementation of the New

Employee Online Orientation Programme has proven very effective in the orientation of new employees as they are able to easily access information on the entire organization from the convenience of their desks. This resource has also proven beneficial for current employees. The implementation of the HR document management portal known as SharePoint has improved the efficiency of the HR Division, as employees are able to access their HR and Payroll information electronically from a web base known as My Site instead of having to make inquiries of these matters from HR. The accuracy of staff information has also been enhanced as employees are now able to update HR whenever there are any changes or corrections to personal information. In conjunction with the Information System Division, HR launched its electronic leave management system in February 2012 which eliminated the majority of the submission of the paper leave forms. This system has allowed for leave requests to be expedited with greater efficiency and accuracy and has enhanced reporting capabilities and the audit trail for HR.

Learning and Development The in-house learning and development programme is designed to enable and sustain a culture of collaborative learning, change management and development of leaders, their teams and all employees to ensure that employees and CMRAI equally share the responsibility of gaining and maintaining the required knowledge, skills and competencies to remain competitive in the international financial services industry. This also facilitates an increase in knowledge transfer to ensure that employees at CMRAI are receiving consistent information whenever applicable and they are also provided with the opportunity to facilitate informative sessions of their own. The following is a breakdown of CMRAI's learning and development statistics for the 2011-12 calendar year: Table 24: Learning and Development Programme Statistics, 2011-2012

Course Type	Total Held	Total Attendance	Internal Lunch	n	Learn Courses
Internal Courses	26	260	6	65	21
External Presenters	6	65	21	331	28
Internal Web Seminar Courses	28	260	18	37	
External Local Events	18	37			

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. The division again surpassed its goals for availability, security, and reliability of information technology systems and services during 2011-2012. At the end of the fiscal year, availability of all production CMRAI Annual Report 2011-12 47 systems stood at 99.99 per cent during both prime time (8 a.m. to 6 p.m. on work days) and 24 hour availability. This exceeded the self-imposed guideline of 99.8 per cent and far surpassed the industry-accepted standard of 98 per cent. CMRAI's main web site once again maintained 100 per cent availability during this period. Our systems handled and processed just under one million emails during the year. Major Initiatives During 2011-2012 Disaster Recovery - 2011-2012 saw the inclusion of Cayman Brac as the third leg of our disaster recovery plan. Using VMware Site Recovery Manager and our existing data replication software, we are now in a position where all identified critical systems (web sites, accounting, MARS, etc.) are being replicated in real time to Cayman Brac. This will permit us to transfer all processing from Grand Cayman to Cayman Brac in a very short period of time either in preparation for an impending event or in response to a natural disaster. CMRAIConnect This is now in full-time use and has been mandated as the only acceptable method for new Fund applications. Enhancements were made to support Master Funds and additional enhancements and fixes are underway.

Electronic Content Management The Human Resources side of this project is now complete with the release of the employee MySite giving each individual a view into

all of their HR details including payroll and benefit history. The Homepage portal has also been launched which leverages this ECM initiative and extends indexing, searching and retrieval of not just the name of the document but the information contained inside the body of all documents stored on our systems to all Divisions within CMRAI. 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. Monetary Authority Regulatory System (MARS) - The division continued to upgrade the Monetary Authority Reporting System (MARS), which had been implemented during 2009-2010, in response to divisional requests. Among the capabilities added to MARS were: the option to search for an entity based on its previous name; increased data filtering functionality to reduce the time required to find relevant records, and the ability to edit attachments previously saved in the system. More interaction with CMRAIConnect is on-going and will provide for fewer manual entries in the future. Other Projects An automated process for auditors to request an extension for submitting Fund Annual Returns (FAR) was designed, developed and implemented by the in-house Development Team. This handles approximately 8,000 requests annually and reduces the burden on the Investment and Securities Division to process these manually. A technique to re-use older PC equipment and extend their useful life has been beneficial in reducing costs for the division and speeding up user access as well. The XEN Server takes on the processing utilizing its own memory and high speed processors and the PC is just used as a terminal device for input and output. This has resulted in faster access times to all users that have switched over to it. This technology minimizes our PC budget as we no longer have to keep up with having to have the fastest PCs on the market and we get longer than the typical 3-year life span from them on the depreciation scale. A new project called WhiteSands (formerly ERCI) was approved by the board that will help realize many of the Key Objectives in the Strategic Plan. This initiative will also result in achieving CMRAI's goal of receiving all correspondence including licensee applications, prudential reports/financial filings, regulatory filings and monetary payments (i.e. fees and penalties) through online web applications. This initiative is related to the priorities of modernizing our regulation, enhancing supervision, enhancing international co-operation, and enhancing internal effectiveness and cost-efficiency. The current systems CMRAI Annual Report 2011-12 48 that are in use are very segmented and rely on several external vendors to modify, maintain and add further development functionality to them. The vendor costs are high and the time frames to complete the requested tasks are usually not favourable to CMRAI. The vision for WhiteSands is to reduce the amount of external vendor involvement and bring more of the development work in-house so that we can control the costs and manage the deadlines more accurately. An RFP is being created in order to solicit responses from potential vendors who have built these all-encompassing development packages, some of which have been demonstrated already.

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 and other members of the public. 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

IAIS Tri-Annual Meeting

In June 2012 CMRAI hosted the International

Association of Insurance Supervisors (IAIS) with over 150 members and observers for the 5th tri-annual Global Seminar and Committee meetings. The unit coordinated invitations and organized a press conference with local media for this event as well as provided photography. The press conference culminated with the signing of an MOU the International Actuarial Association (IAA) and the IAIS. One of the primary purposes of hosting the IAIS was to familiarize the IAIS (and observers) with the quality of both the Monetary Authority and the Private Sector, as there remain great misconceptions about the nature of regulation in offshore (international) territories. CMRAI was complemented on the professional organization of the meetings and formed permanent bonds with various jurisdiction in the area of cooperation and joint licensing e.g. reinsurance.

CMRAI also attended IAIS Committee and Subcommittee meetings in South Africa, Switzerland, South Korea and USA. Regional regulatory conferences and training The Head of Fiduciary made a presentation at the STEP Caribbean Conference held at the Ritz-Carlton Grand Cayman in May 2012 and CMRAI staff attended the Caribbean Group of Banking Supervisors (CGBS): Technical Working Group Meeting Basel II Implementation held in Barbados and the Annual General meeting in Guyana. Banking staff attended various Supervisory Colleges, the CGBS XXX Annual Conference and the Toronto Center International Banking Program held in Toronto, Canada. Other conferences and events - In addition to presentations made at the above events, senior CMRAI officials delivered addresses and chaired or participated in panel discussions at local and overseas conferences, meetings and other occasions, including the SEC's 2012 International Institute for Securities Market Development Conference, Campbell's Cayman Fund Focus, Cayman Captive Forum and the 2012 AIMA Japan Hedge Fund Forum, where the Investments and Securities Division Head and Deputy visited with numerous stakeholders and the Japan FSA. Student presentations - Secondary and tertiary students were among those who learned more about the Authority's work and Cayman's financial services sectors. Regulatory Chief Analysts presented to Elon University, North Carolina, about CMRAI's role in the local financial services industry and Banking staff presented to International College of the Cayman Islands professional students about Delivering Negative Routine Messages. Additionally, HR staff held a session with John Gray High School life skills students on Introduction to Human Resources (Recruitment Perspective).

CMRAI Annual Report 2011-12 49 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 2012. 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.

PR staff researched and provided information in response to media queries and

facilitated interviews between CMRAI officials and journalists representing several local and international news outlets. During 2011-12, these included general and industry-specific publications and outlets based in the USA and UK. Among them were: Reuters, Hedge Funds Review, HFM Week, COO Connect and IFI Global.

CMRAI Publications The Investments and Securities Division and PR Unit collaborated on the production of the fifth edition of the Investments Statistical Digest, released in May 2012, 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 PR worked with the Currency Division to disseminate a news release introducing into circulation the redesigned \$50 and \$1 D series notes.

Direct Public Information and Assistance The PR Unit provided information and other assistance on a daily basis to members of the public, Cayman government agencies, and persons in industry who contact the Authority. CMRAI's website, which continues to be a primary source of public information on the Authority, was maintained by the unit.

Staff Community Involvement Among the Authority's community assistance initiatives was the creation of a school lunch fund. Participating staff members made monthly monetary donations to assist with the provision of lunches for needy primary school children. Four schools benefitted from these disbursements. Through events such as dress-down days and the donation of goods, staff also contributed to various organisations and programmes, and to individuals with special medical needs. Recipients included the Special Needs Foundation of Cayman, Cayman Heart Fund, Lions Club of Tropical Gardens for Breast Cancer Awareness Month, the Department of Children and Family Services and Adopt a Child for Lunch. The staff social committee was involved in several of the above-mentioned activities. The group also re-started its Green initiative with a programme of on-going recycling of aluminium products (which are dispatched to the Department of Environmental Health) and newspapers (which were donated to the Humane Society).

Internal Support Through the joint effort of the Human Resources Division and PR Staff, CMRAI officially rolled out its new employee orientation multi-media presentation in December 2011, which featured video clips explaining divisional roles.

CMRAI Annual Report 2011-12 50 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. The unit served as a mediator for staff and Information Systems Division with the website updating process from live server to staging server.

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 2011 and June 2012, seven FOI requests were received and processed. Full access was granted for four of the requests, one request was partially granted because part of the request was excluded under section 3(1)(c) of the FOI Law, one request was denied under section 3(1)(C) of the FOI Law and one request was still being processed at the end of the year.

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 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. Supply of Outputs 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 2011-12, for a total of \$17.350m were: The Regulation of the Cayman Islands Currency The Collection of Fees The Regulation of the Financial Services Industry Assistance to Overseas Regulatory Authorities Policy Advice & Ministerial Services CMRAI's other sources of income are the income from investments, commission and the sale of numismatic items. FEE COLLECTION The Authority collected \$79.563 million in fees from regulated entities on behalf of the Government for the 2011-12 fiscal year, compared to \$76.647 million for the prior year. This increase in collections was mainly attributed to the continued growth in Investments and Securities. The amount collected was \$1.783m below the Government's forecasted budget of \$81.346m. This shortfall is primarily attributed to collections on Funds, Insurance and Banking being lower than anticipated.

CMRAI Annual Report 2011-12 51 INCOME The Authority's net income for the 2011-12 financial year was \$114k (2010-11: \$814k), which was allocated to CMRAI's Capital Expenditures Reserves. Details of CMRAI's financial position for the year ending 30 June 2012 can be seen in the Audited Financial Statements that follow. CMRAI Annual Report 2011-12 52

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CMRAI Annual Report 2011-12 54 CMRAI Annual Report 2011-12 55 CMRAI Annual Report 2011-12 56

Note 2012 2011 \$000 \$000 ASSETS Currency Reserve Assets Current Assets Call Deposits 4b3,738,858 Short-Term Investments 4a70,420 77,484 Fixed Deposits 4b1,535 1,533 Interest Receivable, Deposits 5630 Stocks 72,889 3,286 Non-Current Assets Long-Term Investments 4a20,779 10,417 Total Currency Reserve Assets 99,417 95,608 Operating Assets Current Assets Current and Call Deposits 4b8,138 10,541 Accounts Receivable 52,927 198 Other Receivables and Prepayments 143 122 Non-Current Assets Fixed Assets 61,960 2,208 Employee Pension Plan 9-48 Total Operating Assets 13,168 13,117 TOTAL ASSETS 112,585 108,725 LIABILITIES, RESERVES and CONTRIBUTED CAPITAL Liabilities Demand Liabilities, Currency in Circulation 8a88,696 84,921 Defined Asset Pension Liability 996- Other Liabilities and Payables 8b1,017 1,142 Total Liabilities 89,809 86,063 Reserves General Reserve 17,218 16,743 Currency Issue Reserve 375 375 Capital Expenditures Reserve 2,509 2,818 Operational Expenditures Reserve 346 398 Total Reserves 20,448 20,334 Contributed Capital 2,328 2,328 TOTAL LIABILITIES, RESERVES and CONTRIBUTED CAPITAL 112,585 108,725 Approved on 31 October 2012 Cindy Scotland Gilda Moxam-Murray Managing Director Chief Financial Officer Cayman Monetary Regulatory Authority International Cayman Monetary Regulatory Authority International STATEMENT OF FINANCIAL POSITION At 30 June 2012 (in Cayman Islands Dollars) Cayman Monetary Regulatory Authority International The accompanying notes form an integral part of these financial statements CMRAI Annual Report 2011-12 57

Note 2012 2011 \$000 \$000 INCOME Services Provided to The Cayman Islands Government 11a17,350 16,850 Investment Income 587 522 Commission Income 473 558

Numismatic Income-557 TOTAL INCOME18,41018,487 EXPENSES Salaries and Benefits11,42511,143 Other Operational Expenses11d, 122,4992,267 Pension Expenses99631,103 Accomodation10916854 Depreciation6670655 Training and Conferences591553 Utilities441457 Professional Fees307326 Official Travel294315 Loss on Numismatic Items190- TOTAL EXPENSES18,29617,673 TOTAL NET INCOME FOR THE YEAR114814 Cayman Monetary Regulatory Authority International STATEMENT OF COMPREHENSIVE INCOME For the year ended 30 June 2012 (in Cayman Islands Dollars)

The accompanying notes form an integral part of these financial statements CMRAI Annual Report 2011-12 58 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 201116,7433752,8183982,32815,8904203,5435261,939 Transfers in : From Net Income114389 From Capital Expenditures Reserve423725 From Operational Expenditures Reserve52128 Transfers out : To Capital Expenditure Reserve Currency Inventory Issued(45) Fixed Assets Purchased(423)(725) Operational Expenses(52)(128) BALANCE AT 30 JUNE 2012 17,2183752,5093462,32816,7433752,8183982,328 Cayman Monetary Regulatory Authority International STATEMENT OF CHANGES IN RESERVES AND CONTRIBUTED CAPITAL For the year ended 30 June 2012 (in Cayman Islands Dollars)

20122011 The accompanying notes form an integral part of these financial statements CMRAI Annual Report 2011-12 59 20122011 \$000\$000 CASH FLOWS FROM OPERATING ACTIVITIES Net Income for the year114814 Adjustments for: Depreciation670655 Loss on Defined Benefits Assets144258 Loss on Disposal of Fixed Assets1- (Increase) in Investments(3,298)(6,469) (Increase) / Decrease in Interest Receivable - Currency Reserve Assets(26)63 (Increase) / Decrease in Accounts Receivable(2,729)2,727 (Increase) / Decrease in Other Receivables and Prepayments(21)612 Increase / (Decrease) in Other Liabilities and Payables300(15) Decrease / (Increase) in Stocks397(1,694) Increase in Demand Liabilities3,7756,936 (Decrease) in Currency Issue Reserve Cost of Currency Notes Reprint-(45) NET CASH PROVIDED BY OPERATING ACTIVITIES(673)3,842 CASH FLOW FROM INVESTING ACTIVITIES Acquisition of Fixed Assets(423)(725) NET CASH USED BY INVESTING ACTIVITIES(423)(725) CASH FLOWS FROM FINANCING ACTIVITIES Contribution Paid to CI Government(425) - NET CASH USED IN FINANCING ACTIVITIES(425) - (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS (1,521)3,117 CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR 14,93211,815 CASH AND CASH EQUIVALENTS, END OF THE YEAR13,41114,932 Cayman Monetary Regulatory Authority International STATEMENT OF CASH FLOWS For the year ended 30 June 2012 (in Cayman Islands Dollars) The accompanying notes form an integral part of these financial statements CMRAI Annual Report 2011-12 60

Cayman Monetary Regulatory Authority International NOTES TO THE FINANCIAL STATEMENTS year ended 30 June 2012 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 2012 the Authority has 153 employees (2011: 155). 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.

CMRAI Annual Report 2011-12 61 Cayman Monetary Regulatory Authority International NOTES TO THE FINANCIAL STATEMENTS year ended 30 June 2012 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 90 days 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 2012 is \$14,502k (2011: \$14,500k). 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 Bank Note Sorting Machine calculated at 15% and DRC Equipment calculated at 33.33%); and 25% to 33.33% per annum for Computer Hardware and Software. 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 CMRAI Annual Report 2011-12 62 Cayman Monetary Regulatory Authority International NOTES TO THE FINANCIAL STATEMENTS year ended 30 June 2012 defined contribution plan when an employee has rendered services in exchange for those contributions. Significant Accounting Policies (continued) Employee Benefits (continued). A defined benefit plan is one that defines an amount of benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation. The asset or liability in respect of defined benefit plans is the difference between the present value of the defined benefit obligation at the Statement of Financial Position date and the fair value of plan assets, adjusted for unrecognised actuarial gains/losses and past service cost. Where a pension asset arises, the amount recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in future contributions to the plan. The pension costs are assessed using the Projected Unit Credit Method. Under this method the cost of providing pensions is charged in the Statement of Comprehensive Income so as to spread the regular cost over the service lives of employees in accordance with advice of the actuary, (who is due to carry out a full valuation of the plans every year). The pension obligation is measured at the present value of the estimated future cash outflows using discount estimated rates based on market yields on high quality corporate bonds at the time of the accounting date which have terms to maturity approximating the terms of the related liability. Obligations for contributions to defined contribution and defined benefits pension plans are recognized as salary and other benefits

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 2012 is \$105k (2011: \$138k) 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 2012, the General Reserve was \$17,218 (2011: \$16,743k) equating to 19.41% (2011: 19.72%) of Demand Liabilities.

m) Currency Issue Reserve. The Currency Issue Reserve will be adjusted as the stock of notes printed prior to 2003 is 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 2011-12 63 Cayman Monetary Regulatory Authority International NOTES TO THE FINANCIAL STATEMENTS year ended 30 June 2012 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 2012 was \$2.328 million (2011: \$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. 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 Relevant Standards and amendments issued prior to 30 June 2011 but not effective until future periods and are predicted to have an impact on the Authority. Amendments to IFRIC 14 IAS 19: Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011). These amendments apply in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendments permit such an entity to treat the benefit of such an early payment as an asset. Amendments to IFRS 7: Financial Instruments: Disclosures (amended and effective for annual periods beginning on or after 1 January 2011). This amendment is expected to provide additional disclosures in the financial statements in succeeding years.

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 counter party must attain. The Authority's current, call, and fixed deposits are placed with high credit quality institutions. Credit risk with respect to long and short-term investments, accounts and interest receivable, and other receivables and prepayments is limited as the Authority only transacts business with counterparties it believes to be reputable and capable of performing their contractual obligations. CMRAI Annual Report 2011-12 64 Cayman Monetary Regulatory Authority International NOTES TO THE FINANCIAL STATEMENTS year ended 30 June 2012

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. Financial Risk Management (continued)

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 2012, the value of Currency Reserve Assets was \$99,417k (2011: \$95,608k) representing 112.09% (2011: 112.58%) of total

Demand Liabilities. The value of external assets equated to 105.41% (2011: 105.59%) while the value of local assets as at 30 June 2012 equated to 6.68% (2011: 6.99%) 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.

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 0.250% to 5.00% and a maturity dates between 31August 2012 and of 20 July 2041.

2012	2011	Range of maturities	\$000	\$000
		1-5 years	12,126	10,417
		6-10 Years--		
		Over 10 Years	8,653	-
				20,779

CMRAI Annual Report 2011-12 65 Cayman Monetary Regulatory Authority International NOTES TO THE FINANCIAL STATEMENTS year ended 30 June 2012 Currency Reserve Assets (continued) Investments (continued) Short-term Investments. US Treasury Bills, AAA Bands and US Treasury Notes with maturity dates ranging between 12 July 2012 and 15 May 2013, and the Federal Reserve Repurchase Agreement with a maturity date 02 July 2012.

b) Cash and Cash Equivalents. The Authority maintains current, call and fixed term deposits with domestic and foreign banks. Under the Law (2011 revision), domestic deposits (as part of the Currency Reserve Assets) cannot exceed 10% of Demand Liabilities. As at 30 June 2012, domestic deposits represent 4.77% (2011: 4.81%) of Demand Liabilities.

2012	2011	\$000	\$000
		US Treasury Bills	29,412
		Federal Reserve Repurchase Agreement at 0.01 %	25,500
		US Treasury Notes	14,257
		AAA Bonds	1,251
		Total Short-term Investments, at amortized cost	70,420
		The fair value of the short term investments equates cost. Holding	70,420

2012 2011 Currency \$000 \$000 i) Operating Assets Current KYD(526)(197)

Savings KYD	8,035	10,370
Savings USD	628	367
CI Cash on Hand KYD	11	
Current and Call Deposits	8,138	10,541
Holding 2012 2011 ii) Currency Reserve Assets Currency \$000 \$000		
Domestic Deposits Savings GBP	88	
Savings KYD	1,421	522
Savings USD	1,267	2,021
Foreign Deposits Federal Reserve Bank USD	259	218
Investment Portfolio USD	783	389
Total Call Deposits - Currency Reserve	3,738	2,858
Domestic - Fixed Deposits USD	1,535	1,533

13,411 14,932 Total Operating Cash and Cash Equivalent CMRAI Annual Report 2011-12

66 Cayman Monetary Regulatory Authority International NOTES TO THE FINANCIAL STATEMENTS year ended 30 June 2012 Currency Reserve Assets (continued) Cash and Cash Equivalents (continued) Interest was earned on domestic call accounts at a rate of 0.01% during the year ended 30 June 2012 (2011: 0.01%). The domestic fixed deposits earned interest at a rate of 0.4658% during the year ended 30 June 2012 (2011: 0.1200%).

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 2012 no interest was earned (2011: \$0).

5. Accounts Receivable There was no bad debt expense included in the statement of comprehensive income. \$2.7k was recovered during the year in relation to an individual operating debt from an earlier period for which a full provision had been made.

2012	2011	\$000	\$000
		Cayman Islands Government	2,892
		Other Receivables	554

Provision for doubtful accounts(20)(23) Accounts Receivable, net2,927198 Furniture & Fixtures Leasehold Improvement Computer Equipment Office Equipment WIP Motor Vehicle Total Original Cost \$000 \$000 \$000 \$000 \$000 \$000 \$000 Balance as at 30/06/117098813,599694 - 235,906 Additions2318613480 423 Transfer to asset register Disposals(13)(24)(155)(192) Balance as at 30/06/127198813,76167380236,137 Accumulated Depreciation Balance as at 30/06/117098811,547546-153,698 Depreciation for the year2621425670 Relieved on disposals(13)(23)(155)(191) Balance as at 30/06/126988812,145433 - 204,177 Net Book Value as at 30/06/12 2101,6162408031,960 Net Book Value as at 30/06/11 - - 2,052148 - 82,208 CMRAI Annual Report 2011-12 67 Cayman Monetary Regulatory Authority International NOTES TO THE FINANCIAL STATEMENTS year ended 30 June 2012 7. Stocks 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: b) Other Liabilities. As at 30 June 2012, Other Liabilities included unsettled investment management and custody fees of \$24k (2011:\$30k). 20122011 \$000\$000 External Bullion from the melt-down of coins773983 Coins awaiting melt-down6481 Coins for resale269278 Museum items9188 1,1971,430 Local Inventory of unissued currency notes and coins1,6921,856 Total Stocks2,8893,286 20122011 \$000\$000 Currency notes in circulation79,01575,638 Currency coins in circulation9,6819,283 Total Demand Liabilities88,69684,921 20122011 \$000\$000 Due to Cayman Islands Government-425 Basel II Project-157 Annual Leave accrual105138 Other Accruals739335 Accounts Payable17387 1,0171,142 CMRAI Annual Report 2011-12 68 Cayman Monetary Regulatory Authority International NOTES TO THE FINANCIAL STATEMENTS year ended 30 June 2012 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: - 20122011 %% Defined Contribution Plans Employee66 Employer77 Defined Benefit Plans Employee66 Employer77 The Actuary to the Pensions Board has valued the Fund as at 30 June 2011. 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 2012 was \$819k (2011: \$845k). 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 2012, 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:

	2012	2011	2010	2009	2008	\$000	\$000	\$000	\$000	\$000
Net Present Value of Funded Obligation	(6,649)	(5,283)	(4,902)	(4,120)	(2,791)					
Fair Value of Plan Assets	5,415	5,054	3,919	3,501	3,522					
Funded Status	(1,234)	(229)	(983)	(619)	731					
Unrecognised Actuarial Loss/(Gain)	1,138	283	1,306	1,143	(246)					
Net (Liability)/Asset	(96)	543	235	244	485					

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The amount of the defined benefit asset as at 30 June 2012 is as per the Actuary's projected funded status report. CMRAI Annual Report 2011-12 70 Cayman Monetary Regulatory Authority International NOTES TO THE FINANCIAL STATEMENTS year ended 30 June 2012

Public Service Pensions Plan (continued) Pension Expense for fiscal year ending 30 June 2011 30 June 2010 \$000 \$000

	2011	2010	\$000	\$000
Company Service Cost	284	240		
Interest Cost	270	237		
Expected Return on Assets (net)	(241)	(216)		
Recognition of Net Loss	63	56		
Total Pension Expense	376	317		

Reconciliation of Defined Benefit Asset/(Liability) 30 June 2011 30 June 2010 \$000 \$000

	2011	2010	\$000	\$000
Previous Year Defined Benefit Asset	323	524		
Net Pension Expense for Fiscal Year	(376)	(317)		
Employer Contributions	107	116		
Defined Benefit Asset	543	23		

Change in Defined Benefit Obligation over year ending 30 June 2011 30 June 2010 \$000 \$000

	2011	2010	\$000	\$000
Defined Benefit Obligation at end of Prior Year	4,902	4,120		
Company Service Cost	284	240		
Interest Cost	270	237		
Plan Participant Contributions	98	99		
Net Actuarial (Gain)/Loss	(271)	431		
Transfers between other participating Entities	(225)			
Defined Benefit Obligation at End of Year	5,283	4,902		

Change in Plan Assets over year ending 30 June 2011 30 June 2010 \$000 \$000

	2011	2010	\$000	\$000
Fair Value of Plan Assets as at End of Prior Year	3,919	3,501		
Employer Contributions	107	116		
Plan Participant Contributions	98	99		
Transfers between other participating entities	(225)			
Expected Return on Assets net of expense	241	216		
Asset Gain	68	92		
Fair Value of Plan Assets as at End of Year	5,054	3,919		

Change in Unrecognised Net Actuarial Loss/(Gain) 30 June 2011 30 June 2010 \$000 \$000

	2011	2010	\$000	\$000
Unrecognised Net Actuarial Loss	1,306	1,143		
Amortisation (Cost) For Year	(63)	(56)		
Liability (Gain)/Loss	(271)	431		
Asset (Gain)	(689)	(212)		
Unrecognised Net Actuarial Gain	283	1,306		

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Public Service Pensions Plan (continued) Allocation of Assets The Distribution of the Plan Assets, as at 30 June 2011 and 2010, based on the share of the total Fund allocated to the Authority was as follows: - 30 June 2011 30 June 2010 % %

	2011	2010	%	%
Equity Investments	61	55		
Bond Investments	32	37		
Property	33			
Cash/Other	45			
Total	100	100		

Actuarial Assumptions The principal Actuarial Assumptions used to Determine Benefit Obligations at 30 June 2011 and 2010 are as follows: % %

	2011	2010	%	%
Discount Rate	5.50	5.50		
Expected Long-Term Return on Plan Assets	6.00	6.00		
Rate of Salary Increase	3.50	4.00		
Rate of Price Inflation	2.50	2.50		
Rate of Pension Increases	2.50	2.50		

The economic assumptions used to determine Net Periodic Benefit Cost for the year ending 30 June 2011 and 2010 are as follows: 30 June 2011 30 June 2010 % %

	2011	2010	%	%
Discount Rate	5.50	5.50		
Expected Long-Term Return on Plan Assets	6.00	6.00		
Rate of Salary Increase	4.00	4.00		
Rate of Price Inflation	2.50	2.50		
Rate of Pension Increases	2.50	2.50		

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

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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 for a five year period. Other Operating Commitment - relates to the Thomas Jefferson Memorial Scholarship. One year or less One to five years \$000\$000 Disaster Recovery Leases 317280 Total Operating Lease Comitments 317280 Scholarship 25 - CMRAI Annual Report 2011-12 73

Cayman Monetary Regulatory Authority International NOTES TO THE FINANCIAL STATEMENTS year ended 30 June 2012 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 2012. The fees of \$144k (2010- 11:\$153k) 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 14 in 2011-12 (2010-11: 14) and salaries & other short term benefits expensed in 2011-12 was \$2,055k (2010- 11: \$2,043k). 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 2011-12 in the amount of \$691k (2010-11: \$400k). 12. Other Operating Expenses 20122011 \$000\$000 Maintenance and software licences 658388 Currency Stock issues 373461 Business Continuity 340332 Directors Fees 144153 Management and Custody Fees 5049 Realised loss on investments 407308 Other expenses 527576 Total 2,492,267