



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.

CMRAI Annual Report 2009-10 ii The Cayman Monetary Regulatory Authority
 International Annual Report was prepared by the Cayman Monetary Regulatory Authority
 International Unless otherwise stated, the currency noted in this publication is expressed in
 Cayman Islands dollars (CI\$1=US\$1.20) Cayman Monetary
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 345-949-2532 Website: CMRAI Annual Report 2009-10 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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2009-10	1 MANAGING DIRECTOR S STATEMENT

Balancing Priorities to Fulfill Our Mission The financial year 2009-2010 was another period of intense activity for the Cayman Islands Monetary Authority as it carried out its responsibilities as Cayman s financial industry regulator. Factors impacting CMRAI and the jurisdiction included the continued work of the world s leading economies to reverse the dislocations of the global financial crisis and to maintain the momentum of developing new standards, legislation and policies to prevent a repeat of the events of 2007-2008. These, accompanied by the economic downturn at home and the continued international focus on the role and regulation of financial centres such as the Cayman Islands, demanded concentrated attention and heightened resources. In discharging its functions of regulating and supervising financial services, managing the Cayman Islands currency, providing international regulatory assistance and cooperation, and advising the Government on related matters, CMRAI is obligated to balance a number of imperatives. These include: acting in the best economic interests of the Islands; promoting and maintaining a sound financial system; promoting and enhancing market confidence, consumer protection and the reputation of the Islands, and recognising the necessity of Cayman maintaining its competitiveness while conforming to international standards that are appropriate to this jurisdiction s circumstances. During 2009-10 all these priorities took centre stage. Regulatory enhancement continued in the wake of the financial crisis and in line with our mandate to keep the industry sectors and practice under review, CMRAI had begun a comprehensive assessment of the local regulatory framework in 2008. This continued into 2009-10. The work resulted in our implementation of added measures to align Cayman with new international standards and requirements, as well as to address our local needs. Examples were the regulatory policy establishing the criteria for CMRAI s approval of stock exchanges, and the introduction of rules, conditions and guidelines for banks to calculate minimum capital requirements under the Basel II capital adequacy framework. The Guidance Notes on the Prevention and Detection of Money Laundering and Terrorist Financing in the Cayman Islands was amended. The changes incorporated guidance for the recently-created regulatory category of private trust companies and additional guidance for mutual funds and fund administrators. The independence and authority of the regulator were enhanced via amendments to the Monetary Authority Law, passed in the Legislative Assembly of the Cayman Islands in March 2010. The changes now allow CMRAI to issue rules, statements of guidance and statements of principle to licensees without the approval of the Cabinet and brought registrants into the net of authorised entities to which these measures can be issued. Among its other modifications, the Monetary Authority (Amendment) Law, 2010, also gave CMRAI power to enter into memoranda of understanding without Cabinet approval, after consultation with the Financial Secretary. Strengthening CMRAI s

independence was among changes recommended by the International Monetary Fund in its report on the assessment of Cayman's financial sector supervision and regulation, released in December 2009. However, these changes were already in progress before the IMF review. There were other CMRAI recommendations, requiring legislative changes, which the Government was still considering or which were in the process of legislative drafting at the end of the fiscal year. Among them were proposed amendments to the Securities Investment Business Law, Mutual Funds Law, and Private Trust Companies Law to allow CMRAI to refuse registration of, or impose conditions on, an entity that has been the subject of a criminal conviction or sanction by an overseas regulatory authority or self-regulatory body. This provision would be consistent with CMRAI's existing power to refuse or impose conditions on licensees. There were some areas, such as the review of the securities investment business regime and consideration of expanding the public information provided on funds, which required more extensive analysis. These were therefore still under our review at the end of the year. CMRAI Annual Report 2009-10

2 International involvement extended to new dimensions. Several of the anticipated international standards and directives that would affect the Cayman Islands were not finalised during the reporting period though they were the subject of much deliberation and, in some cases, publicity. To keep abreast of these and to ensure that as far as possible Cayman had a voice in their development, CMRAI took every opportunity to engage with the bodies initiating, implementing or affected by the initiatives. These included the European Commission, with respect to the Alternative Investment Fund Manager Directive (AIFMD) and the Auditor Oversight initiative; the British Caribbean Overseas Territories Regulators Group and Offshore Group of Banking Supervisors (OGBS), on hedge fund regulation, and the International Association of Insurance Supervisors (IAIS) on the Solvency II initiative, particularly as it relates to captive insurance. We provided assistance to the Government in responding to the various international initiatives impacting the financial services industry and provided representation on various bodies. For example, CMRAI officials were members of Cayman's Tax Information Exchange Agreement Negotiating Team (TIEA) led by CMRAI's Chairman George McCarthy, as well as part of this jurisdiction's representation on the Organisation for Economic Cooperation and Development's (OECD) Global Forum on Transparency and Exchange of Information for Tax Purposes. In addition, CMRAI was heavily involved in the preparatory work for the OECD Peer Review launched in March 2010. As part of our more routine cooperative activity, we received and dealt with an over 50 per cent year-on-year increase in the number of requests for assistance from overseas regulatory authorities. These requests came from most regions with which Cayman does business. Market conditions challenged industry but also showed its strength. During 2009-2010, general market conditions continued to challenge businesses - domestic and international. This was reflected in a contraction in the number of regulated entities in some categories at June 2010, from June 2009. The number of banks was reduced by three per cent, captive insurance companies by three per cent, registered and administered funds by 3.5 per cent combined, licensed trust companies by six per cent, and fund administrators by eight per cent. (The captive insurance and fund administrator categories included cancellations by CMRAI in an administrative clean-out of entities that had ceased business but had not been removed from the system.) The decline in numbers cannot be taken in isolation as it masks some positive trends in these categories. For example, in calendar year 2009, the Cayman Islands reversed an eight-year decline in captive insurance company formations, with a total of 40 formations in industries

including healthcare, financial services, manufacturing and transportation. Those new entities represented a 25 per cent increase in captive formations over calendar year 2008. Although the total number of captive insurers as at June 2010 was smaller than at June 2009, the combined value of assets for captive insurers, at June 2010, represented a five percent increase over the previous June. The number of insurance managers also increased with the addition of seven new licensees. The reduction in trust licences was outstripped by the 178 per cent growth in registrants (private trust companies and controlled subsidiaries). In fact, most of the holders of restricted trust licensees that surrendered their licences did so, not to close their Cayman operations, but to become private trust company registrants. Other areas that either grew or held their own included insurance brokers and agents, which increased by 10 per cent and 26 per cent, respectively. Securities investment business licensees remained unchanged while registrants grew by six per cent; company managers held steady and one additional corporate service provider was licensed. CMRAI-regulated entities contributed some \$74 million to the Government's revenue, in the form of fees collected by the Authority on Government's behalf, during the 2009-10 fiscal year. This compared to \$62.3m for the prior year and partly resulted from fee increases implemented in January 2010. Currency demand lower, asset investment objectives unchanged The year saw a 7 per cent decrease in Cayman Islands currency in circulation, from \$83.6 million at June 2009 to \$78 million at June 2010. This reflected decreased demand, related to the global economic performance and its effects on Cayman. To ensure the continued protection of the reserves backing the Cayman currency, CMRAI maintained a conservative position with respect to the structure and investment objectives of the portfolio. Security continued to be the first priority, with liquidity and CMRAI Annual Report 2009-10 3 income being the second and third objectives. At the end of the fiscal year, the currency reserve assets valued CI\$87 million, some 112 per cent of demand liabilities. Enforcement action taken While most entities operated within the terms of their authorisation, there were a few against which the Authority had to take formal enforcement actions. Among them, two external insurers operating in the domestic market were placed in controllership after the financial difficulties of their parent companies rendered them unable to comply with the terms of their licence and with subsequent conditions imposed by CMRAI. A primary objective for CMRAI in taking these steps was to protect the interests of local policy holders and creditors. This was accomplished in one case by assisting and enabling the sale of the business to two companies, preventing any substantial loss to the policy holders. Subsequent to the end of the financial year, the sale of the second company was also finalised. Formal enforcement action was also taken against a category B bank and five registered funds. Strategic planning update began, while operational efficiency initiatives show early results Given the turbulent environment for the financial services industry, in early 2010 CMRAI began a new strategic planning exercise aimed at updating the framework for the Authority's development and work over the next three years. We identified four strategic priorities: 1) to further modernise and enhance regulation and supervision 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 to ensure that the Authority does its part in ensuring the safety and sound regulation of the international financial system, that Cayman can contribute to the development of international rules and standards that affect this jurisdiction, and to enhance the jurisdiction's reputation; 3) to

facilitate the efforts of Government and the private sector to further develop the Cayman Islands as an International Financial Centre, and 4) to increase the effectiveness and cost-efficiency with which CMRAI operates. The creation of this strategic plan was ongoing at the end of the reporting period. However, as evidenced by the activities described earlier in this statement, much of the work in line with these priorities was already in progress. One of the ongoing areas of work has been CMRAI's efforts to increase operational efficiency, productivity and effectiveness. A major focus was the assessment and reorganisation of the on-site supervision programme. Though this restructuring was still ongoing at the end of the year, the changes implemented during 2009-10 led to an increase in inspections and reduction in time for issue of the inspection report to the relevant licensee. We continued the automation of manual processes, reaching the final stages of testing of two new web-based submission systems one for the on-line submission of applications for CMRAI approvals and the other for submission of financial reports by banks. We implemented Phase 1 of the in-house- designed Monetary Authority Regulatory System (MARS). This replaced the supervisory and regulatory functions of the former licensee/registrant database system, CIISMA, as the main reference and storage point for entity information at the Monetary Authority. A comprehensive upgrading of information systems hardware, software and procedures also took place. In tandem, we increased our staff complement to 158. These initiatives, building on enhancements of the recent past, improved both our oversight of regulated entities and our service to new and existing clients. They also solidified the foundation from which to achieve our mission during 2010-11.

CMRAI Annual Report 2009-10 4 ORGANISATIONAL CHART AS AT 30 JUNE 2010

CMRAI Annual Report 2009-10 5 DIRECTORS & SENIOR OFFICERS AS AT 30 JUNE 2010

THE BOARD OF DIRECTORS 2009-2010 In July 2009, the Governor in Cabinet of the Cayman Islands appointed five new members to the Authority's Board of Directors: Mr. George McCarthy, OBE, JP, as Chairman, succeeding Mr. Carlyle McLaughlin, Jr.; Mr. Linburgh Martin as Deputy Chairman, succeeding Mr. Joel Walton; and, as directors, Mr. Steve Butterworth, Mr. Raul Nicholson-Coe and Ms. Sara Collins. They joined existing directors Mr. Harry Chisholm, Dr. Warren Coats and Professor William Gilmore. 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; Director Professor William Gilmore. Not pictured: Directors Steve Butterworth and Dr. Warren Coats

SENIOR OFFICERS Managing Director Cindy Scotland

Deputy Managing Director General Counsel Langston Sibbles, QC Deputy

Managing Director Supervision Howard Blacker Deputy Managing Director Operations

Patrick Bodden CMRAI Annual Report 2009-10 6 SUPERVISORY

DIVISIONS Banking Supervision

Fiduciary Services Head Reina Ebanks Deputy Head Tricia

Thompson Deputy Head Ryan Bahadur Head Rohan Bromfield

Insurance Supervision Investments & Securities Head

Gordon Rowell Deputy Head William Hagan Deputy Head Dwight Merren

Head Yolanda McCoy Deputy Head Heather Smith NON-SUPERVISORY

DIVISIONS Compliance Policy & Development

Legal Head RJ Berry Deputy Head Audrey Roe Head

Mitchell Scott Deputy Head Francis Arana Legal Counsel Gail

Johnson- Goring Legal Counsel Sandra Edun- Watler
 Legal Counsel Angelina Partridge Legal Counsel Arnold Todd
 OPERATIONS Currency Operations Finance
 Human Resources Information Services Head Deborah Ebanks Deputy
 Head Shan Whittaker CFO: Gilda Moxam-Murray Head Judy Miller Assistant Head
 Tara Abdul-Jabbar Head Chuck Thompson Deputy Head Scott MacLaren
 MANAGING DIRECTOR S OFFICE Public Relations Executive Joan Scott

CMRAI Annual Report 2009-10 7 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 CMRAI Annual Report 2009-10

8 BANKING & 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
 jurisdiction attracts top tier banking groups from around the world, with licensees
 representing some 45 countries and 38 of the world s top 50 banks, as ranked by total
 assets. In terms of assets and liabilities, the Cayman Islands has consistently ranked in the
 top 10 banking centres globally. The jurisdiction s internationally active banks offer various
 types of banking services, including wholesale, investment and commercial. In addition,
 they provide advisory brokerage, investment management, trusts, SPV products, and
 custodial, corporate and other services. Generally, the international banks use their
 branches or subsidiaries licensed in the Cayman Islands to interact with other entities
 within the group or with international clients to set their transactions in the most efficient way
 possible. The purpose varies by region of origin and type of bank but typically the Cayman
 operations are used to raise euro and US dollar deposits to finance foreign currency
 transactions, provide liquidity for the banking group, provide diversified private and
 investment banking services to high net worth individuals, issue debt, conduct asset
 securitisation, and conduct trust services for corporations affiliated with the licensee. The
 largest number of banks is from Europe and North America, followed by South America.

Figure 1: Region of Origin of Cayman-licensed Banks, June 2010

CMRAI, through its Banking Supervision Division, regulates and supervises all banking
 entities operating in and from 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 further
 divided into restricted and unrestricted licences. The category A banking licence allows
 holders to operate both in the international and domestic market. The category B licence
 permits international banking business and limited domestic activity. The domestic segment
 comprises banks that provide both retail and non-retail services to Cayman Islands residents.
 Retail services offered to the general public include installment loans, residential
 mortgages, equity credit loans, credit card services, deposit services, and individual
 retirement accounts. All retail banks require a category A licence. There are other banks
 that also hold category A licenses in order to represent category B banks that do not have a
 physical presence in the Cayman Islands.

1 See Fiduciary Services , beginning on page 13, for further information on trust services. Europe
 29% USA 28% Caribbean & Central America 9% Asia & Australia 10% Canada & Mexico
 5% South America 16% Middle East & Africa 3% CMRAI Annual Report 2009-10 9

Industry Activity 2009-2010 As at June 2010 the jurisdiction ranked fifth
 internationally based on the value of liabilities booked in the Cayman Islands - US\$1.798
 trillion (June 2009: \$1.76 trillion) - and sixth in terms of assets booked - US\$1.728
 trillion (June 2009: US\$1.734 trillion) 2 . Figure 2: Total Value of International Assets and

Liabilities of Cayman Islands Bank Licensees, 2005-2010 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. This led to a three per cent decline in the number of banking licences in force as at June 2010, compared with June 2009. Figure 3: Active Cayman Islands Bank Licensees, by Category, 2006-2010 There were 266 institutions holding banking licences in the jurisdiction at 30 June 2010 (June 2009: 274). These comprised seven retail category A banks, 10 non-retail category A banks and 249 category B banks (inclusive of two restricted category B banks).

2 Source: Bank for International Settlements: 1,265 1,413 1,816 1,826 1,734 1,728 1,250 1,373 1,768 1,823 1,762 1,798 0 200 400 600 800 1,000 1,200 1,400 1,600 1,800 2,000 Jun-05 Jun-06 Jun-07 Jun-08 Jun-09 Jun-10 External Assets US\$Billion External Liabilities US\$Billion 19 20 19 18 17 277 266 261 256 249 0 50 100 150 200 250 300 350 Jun-06 Jun-07 Jun-08 Jun-09 Jun-10 Category B Category A CMRAI Annual Report 2009-10

10 Table 1: Bank Licensing Activity 2009-2010, with June 2008 and June 2009 Comparisons Licence Type Active as at 30 June 2008 Active as at 30 June 2009 Terminated 1 July 2009 - 30 June 2010 Issued 1 July 2009 - 30 June 2010 Active as at 30 June 2010 Category A Bank & Trust 19 18 1 0 17 Category B Bank & Trust 260 254 8 1 247 Category B Bank & Trust (Restricted) 1 2 0 0 2 Total 280 274 9 1 266 Active figures include licences in process of terminating Among the 266 banks under regulation at 30 June 2010, there are 170 branches, primarily from the US and Brazil (June 2009: 175); 76 subsidiaries (June 2009: 75), and 20 banks privately owned or affiliated to another bank within their group (June 2009: 19) (see Figure 4). Figure 4: Number of Banks by Type, June 2010

The Domestic Market The domestic market continued to be serviced by seven retail banks: Butterfield Bank (Cayman) Limited, Cayman National Bank, Fidelity Bank (Cayman) Limited, FirstCaribbean International Bank (Cayman) Limited, Royal Bank of Canada, Scotiabank & Trust (Cayman) Ltd., and HSBC Financial Services (Cayman) Limited. Five are subsidiaries of international banking groups, one is a branch of an international banking group, and the seventh is owned by a financial group headquartered in the Cayman Islands. The risk adjusted capital adequacy ratio for the six locally incorporated retail banks was an average of 20.55 per cent as at June 2010 (June 2009: 22 per cent). This is 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 Banking and Trust Companies Law (2009 Revision). For the same period, individual capital adequacy ratios ranged from 14.20 to 31.23 per cent (June 2009: 13.8 to 39.6 per cent). The liquidity ratios for the retail banks ranged from 16.7 per cent to 83 per cent as at June 2010, with most banks ratio higher than 30 percent. Total nonperforming loans, as a percentage of total retail lending, was 3.14 per cent, reported as at the end of June 2010. 168 63 18 2 13 2 0 20 40 60 80 100 120 140 160 180 Branches Subsidiaries Privates & Affiliates Category A Category B CMRAI Annual Report 2009-10

11 Table 2 shows aggregate deposit, loan and total asset figures for the seven retail banks. Table 2: Aggregate Retail Bank Figures, 2008 - 2010 (in \$US) Year Total Assets Total Loans Total Deposits June 2008 \$ 12.6 billion \$ 5.5 billion \$11.1 billion June 2009 \$ 13.3 billion \$ 6.6 billion \$11.5 billion June 2010 \$13.0 billion \$6.5 billion \$11.4 billion Impact of International Financial Crisis A strengthening in global financial systems led to an improvement in financial institutions access to liquidity and capital. In light of this,

CMRAI lifted the requirement for the seven retail banks to submit weekly reports in addition to their regular quarterly reporting. The weekly reporting had been in place since late 2008, to allow for detailed monitoring of the banks financial standing, particularly their liquidity and capital positions, and asset quality. Restrictions on the payment of dividends remained in force. Overall, the local banking sector fared relatively well during the crisis. While profitability was affected for some, general capital and liquidity levels remained strong for many. A number of banks decreased lending activities to decrease risk. A number of the international banks (category B) saw a return to profitability and stabilisation of market conditions, triggering increased activity. Due to the large diversification of Cayman's banking industry, with respect to type of business and jurisdictions in which banks offer services, there was wide variation in the degree of business growth during the year. Jurisdictional Comparisons As illustrated in Table 3, with the exception of Jersey and Singapore, the number of banks licensed in all of the listed jurisdictions fell below the numbers reported in 2008. This is indicative of the general economic decline outside of Asia and the relative stability of Jersey. Table 3: Bank Licence Numbers in Selected Jurisdictions, 2004-2009 (Calendar Year)

Jurisdiction	2004	Change (05 v 04)	2005	Change (06 v 05)	2006	Change (07 v 06)	2007	Change (07 v 08)	2008	Change (08 v 09)	2009												
Cayman	318	5%	301	3%	291	3%	281	1%	278	4.32%	266												
Bahamas	162	2%	158	13%	137	3%	141*	1.4%	139	2.16%	136												
Hong Kong	208	3%	202	-202	1%	200	-200	0.5%	199	Jersey	51	2%	50	1%	45	7%	48*	2.1					
Luxembourg	165	5%	157	3%	155	1%	157**	3.2%	152	2.63%	148	Panama	73	0%	73	8%	79	-79	-79	2.53%	77		
Singapore	N/A	-	158	1%	157	3%	162	1.9%	165	0	165	Switzerland	338	1%	342	1%	336	1%	337	19.9%	404	1.49%	398

*Figures as at Sept 07. **Figure as at Nov 07. MONEY SERVICES, COOPERATIVES AND BUILDING SOCIETIES

Money services businesses, cooperative societies and building societies cater primarily to the domestic market. The number of licences in effect for money services business in the Cayman Islands held steady at seven during the year. Overseas remittances through these entities for calendar year 2009 fell to US\$208 million, from US\$229 million in 2008. Table 4 shows the amount of overseas remittances over the five years from 2005 to 2009. Jamaica was the largest recipient of remittances from the Cayman Islands in 2009, with 65% of remittances going to that country (see Figure 5). CMRAI

Year	Total Overseas Remittances (US\$ Millions)
2005	207
2006	211
2007	211
2008	229
2009	208

Cooperative societies, building societies and development banks are not required to be licensed. However cooperative societies carrying on credit union business must be registered by CMRAI, along with building societies and development banks, in order for CMRAI to supervise these entities, as required by the Cooperative Societies Law (2001 Revision), Building Societies Law (2010 Revision), and Development Bank Law (2004 Revision), respectively. The number of cooperative credit unions, building societies and development banks also remained stable, at two, one and one, respectively. Figure 5: Proportion of Total Remittances Sent to Various Countries, Calendar Year 2009

Jamaica	65%
Honduras	7%
Philippines	8%
Other	20%

CMRAI Annual Report 2009-10 13 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, 2008 (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; Trust (Restricted) 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 359 companies providing these services in and from the jurisdiction as at June 2010. Figure 6 shows the breakdown of trust companies by authorisation type at fiscal year-end, 2006 to 2010. Figure 6: Number of Trust Companies, by Category, 2006-2010

Year	Private Trust Cos. (Registered)	Controlled Subsidiaries (Registered)	Nominee Trust Licence	Restricted Trust Licence	Trust Licence
Jun-06	183	175	168	160	158
Jun-07	81	86	85	85	78
Jun-08	97	84	82	83	73
Jun-09	9	14	9	36	0
Jun-10	100	150	200	250	300

CMRAI Annual Report 2009-10 14 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.

Industry Activity 2009-2010 Of the 359 trust companies existing at 30 June 2010, the Fiduciary Services Division had responsibility for 149 licensees and 50 registrants (those licensee/registrants that did not have a related banking licence), while the Banking Supervision Division had responsibility for 160 licensees. Table 5: Trust Authorisation Activity - 2009-2010, with June 2008 and June 2009 Comparisons

Authorisation Type	Trust Companies supervised by Fiduciary Services Division	Active under Banking Division as at 30 June 2010	Total Active Trust Companies as at 30 June 2010
Trust Companies supervised by Fiduciary Services Division	149	50	199
Active under Banking Division as at 30 June 2010	160	160	160
Total Active Trust Companies as at 30 June 2010	309	160	469

2008 Active as at 30 June 2009 Terminated 1 July 2001 30 June 2010 Issued 1
 July 2009 30 June 2010 Active as at 30 June 2010 Trust Company (Licensed) 52 53 4 1
 50 108 158 Trust Company Restricted (Licensed) 85 85 9 2 78 0 78 Nominee Trust
 (Licensed) 20 22 1 0 21 52 73 Controlled Subsidiaries (Registered) - 9 2 7 14 0 14
 Private Trust Companies (Registered) - 9 3 39 36 0 36 Total 157 178 19 39 199 160 359

Overall, the sector remained fairly stable in 2009-10, with the net decline in the licensed trust categories being offset by a sharp increase in the number of registered trust companies.

Prior to the enactment of legislation in 2008 for the registration private trust companies, the restricted trust category had been largely used to establish private trust companies. The

net decline in restricted trust companies from 85 at June 2009 to 78 at June 2010 is mainly attributable to licence holders choosing to surrender their licences in favour of

registering as private trust companies. A total of 39 private trust companies registered during the fiscal year. It is anticipated that there will continue to be an upward movement in

registration of private trust companies. Jurisdictional Comparisons Table 6 shows the number of active trust entities for calendar years 2004 to 2009 in the Cayman Islands and in

other international financial centres for which figures are available. The Cayman Islands remains ahead of the major international trust services locations and in calendar year

2009 reversed marginal declines in the number of trusts that had taken place over the previous few years. CMRAI Annual Report 2009-10 15 Table 6: Trust

Licence Numbers in Selected Jurisdictions, 2004-2009 (Calendar Year) Jurisdiction 2005 Change (06 v 05) 2006 Change (07 v 06) 2007 Change (08 v 07) 2008 Change (09 v 08) 2009

Cayman 352 3% 344 2% 339 2% 336 4.4% 351 BVI 212 6% 201 1% 203 5% 213 1.8% 217 Bahamas 191 1% 190 3% 196 3% 271 3% 226 Bermuda

33 0 33 0 33 - 213 - 32 Gibraltar* 82 6% 87 1% 86 16% 72 6.9% 67 Guernsey* 199 3% 205 3% 209 3% 200N/A Isle of Man 18 428% 95 33% 127 - N/A - 131 Jersey* 184

5% 193 5% 184 5% 152 - N/A Panama 14 (Jun) - N/A - 56 8% 60 2% 59 Turks and Caicos 20 0% 20 5% 19 0% 19 0 19 Note: Figures provided are reported by the

jurisdictions regulator. N/A: Figures not available * Jersey, Gibraltar and Guernsey s figures include both trust and company businesses licensed, inclusive of affiliation members.

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). 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. The

sector has seen steady growth over the last several years (see Figure 7), with 84 such companies active at June 2010. Figure 7: Company Manager and Corporate Service

Provider Licences, 2006-2010 All providers of corporate services are required to be licensed by CMRAI. 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 service provider licence allows the holder to provide only the corporate services specified in section 3(1)(a) through

(e) of the Companies Management Law (2003 Revision). Licensed trust companies are also authorised to provide corporate 71 72 73 7777 5 7 6 6 7 60 65 70 75 80 85

Jun-06 Jun-07 Jun-08 Jun-09 Jun-10 Company Managers Corporate Service Providers CMRAI
 Annual Report 2009-10 16 services. The Fiduciary Services Division has
 regulatory/supervisory responsibility for corporate services providers. Authorisation
 Activity 2009-2010 The Fiduciary Services Division supervised 84 licensed company
 managers and corporate services providers. Table 7 shows authorisation activity for
 2009-2010. Table 7: Companies Management Authorisation Activity 2009-2010, with June
 2008 and June 2009 Comparisons Authorisation Type Active as at 30 June 2008
 Active as at 30 June 2009 Terminated 1 July 2001 30 June 2010 Issued 1 July 2009
 30 June 2010 Active as at 30 June 2010 Companies Manager (Licensed) 73 77 5 5 77
 Corporate Service Provider (Licensed) 6 6 0 1 7 Total 79 83 5 6 84 Jurisdictional
 Comparisons Table 8 shows the number of active corporate services licences for calendar
 years 2005 to 2009 in the Cayman Islands and in other international financial centres for
 which figures are available. Table 8: Corporate Services Licence Numbers in Selected
 Jurisdictions, 2005-09 (Calendar Yr.) Jurisdiction 2005 Change (06 v 05) 2006 Change (07 v 06)
 2007 Change (08 v 07) 2008 Change (09 v 08) 2009 Cayman 73 3% 75 1% 76 8% 79 5% 83
 BVI 20 0% 20 10% 18 11% 20 - 20 Gibraltar* 82 6% 87 1% 86 7% 72 6.9% 67
 Guernsey* 199 3% 205 3% 209 - 200 N/A Isle of Man 176 2% 173 6% 184 0.5% 183 14% 209
 Jersey* 184 5% 193 5% 184 - N/A - N/A Turks and Caicos 37 5% 39 5% 41 2% 42 2% 43
 Note: Figures provided are reported by the jurisdictions regulator. 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 2009-10 17

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, and class B, for international insurers, reinsurers and special purpose vehicles. Other insurance entities that CMRAI regulates are insurance managers, brokers and agents 3. The International (Captive) Segment Figure 8: Cayman Islands International (Class B) Insurance Licences, 2006-2010 Figure 9: Total Premiums and Assets of Cayman Islands Class B Insurance Licensees, 2006-2010

The industry is dominated by the international segment, comprised primarily of captive insurance companies 4 and their service providers (hence the popular reference to this segment as the captive 3 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). 4 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

	737	752	772	787	760	710	720	730	740	750	760	770	780	790	800
June 2006															
June 2007															
June 2008															
June 2009															
June 2010															
Total Premiums	7,284,303,833	7,489,030,659	7,633,886,131	7,986,587,687	7,496,373,064										
Total Assets	29,214,103,144	32,300,849,165	36,447,267,233	40,218,965,671	42,275,666,893	0									
	5,000,000,000	10,000,000,000	15,000,000,000	20,000,000,000	25,000,000,000										
	30,000,000,000	35,000,000,000	40,000,000,000	45,000,000,000											

US\$ CMRAI Annual Report 2009-10 18 market). The size of this market is evidenced by the number of insurance companies: 760 at 30 June 2010; the premiums generated: US\$7.5 billion total at June 2010, and the assets held: US\$42.3 billion total at June 2010. 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 37 per cent of Cayman s captives covering healthcare risks, 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. Figure 10: Cayman-Domiciled Captive Insurance Companies by Type of Coverage, 30 June 2010

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 11). Figure 11: Cayman-Domiciled Captive Insurance Companies by Location of Risks Covered, 30 June 2010

	related to
providing insurance or reinsurance to other parties.	Automobile P.D. & Liability 18 (2%)
Credit Life 15 (2%)	General Liability 69 (9%)
Life 18 (2%)	Medical Malpractice Liability 266 (35%)
Professional Liability 64 (9%)	Property 111 (15%)
Workers' Compensation 158 (21%)	Other 41 (5%)
Africa, Asia & Middle East 5 (1%)	Caribbean & Latin America 25 (3%)
Europe 13 (2%)	North America 684 (90%)
Pacific Rim 2 (0.3%)	Worldwide 31 (4%)

CMRAI Annual Report 2009-10 19 The captive industry in Cayman began in the late 1970 s 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. 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 12: Cayman Islands Domestic Insurance Licences, by Category, 2006-2010 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 74 per cent of premiums earned by the sector for calendar year 2009 (see figure 13). Figure 13: Coverage Provided by Class A Insurers As Measured by Net Earned Premiums, 2009 Calendar Year

Category	2006	2007	2008	2009	2010
Motor	\$16,311,016	7.9%	Property	\$21,834,914	10.6%
Liability	\$17,949,007	8.7%	Casualty	\$12,777	0.01%
Health	\$111,791,433	54.4%	Workers' Compensation	\$911,951	0.4%
Annuity & Other	\$3,023,955	1.5%	Life	\$18,415,415	9.0%

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 Industry Activity 2009-2010 At 30 June 2010, there were 861 insurance licensees under regulation (June 2009: 955). Of these, 760 were class B (captive), 29 were class A, 32 were insurance managers, 34 were brokers and 106 were agents. Table 9: Insurance Licensing Activity 2009-10, with June 2008 and June 2009 Comparisons

Licence Type	Active as at 30 June 2008	Active as at 30 June 2009	Terminated 1 July 2009 - 30 June 2010	Issued 1 July 2009 - 30 June 2010	Active as at 30 June 2010
Class A	28	28	1	2	29
Class B	772	787	55	28	760
Insurance Managers	25	25	0	7	32
Brokers	30	31	0	3	34
Agents	91	84	5	27	106
TOTAL	946	955	61	67	961

Captives The decline in the number of licences issued during 2009-2010, compared to 2008-09, is reflective of a number of international factors, particularly: the lingering effects of the US subprime crisis on mid-size corporations and the corresponding continued absence of credit facilities, e.g. letters of credit or insurance trusts; the global downturn in captive formations due to the low insurance premium rates in the commercial insurance market, and the constraints on parent company cash flows which make captive formation expensive. The increase in the number of licences cancelled during 2009-10, compared to 2008-09, was not only due to the factors outlined above. It is also 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 include SPVs which have completed their one-year policy cycle. Despite the general soft global insurance marketplace, there was continued demand in 2009-10 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 2010), workers compensation (21 per cent of licences) and property coverage (15 per cent). The most popular region of origin of Cayman captives continues to be North America, which accounted for 89.87 per cent of captives at fiscal year-end (see Figure 11). This was followed by Latin America and the Caribbean: 3.29 per cent. With 1.71 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 0.66 per cent. Pacific Rim: 0.26 per cent, and the rest of the world accounted for a combined 4.08 per cent. Table 10: Captive Insurance Company Statistics by Company Category and Licence Class, 30 June 2010

Category	Total Licences	To date % Total Premiums (\$US)	Net Income (\$US)	Net Worth (\$US)	Total Assets (\$US)
Association	52	6.84%	363,114,027	72,989,917	640,768,759
Group Captive	74	9.74%	1,006,392,400	-14,298,497	1,750,097,027

1,426,641,494 2,669,597,253 Open Market Insurer 32 4.21% 371,677,371 259,134,680
 1,152,736,140 8,887,859,943 Pure Captive 425 55.92% 4,876,447,275 1,102,254,003
 5,694,389,918 17,665,569,933 Rent-A-Captive 1 0.13% 1,414,331 168,567 23,440,584
 35,076,519 Segregated Portfolio Company 121 15.92% 500,682,880 83,516,535
 598,950,167 5,542,259,482 Special Purpose Vehicle 55 7.24% 376,644,780 -157,959,167
 -28,504,776 5,725,202,736 Totals: 760 100.00% 7,496,373,064 1,345,806,038

9,508,422,286 42,275,662,893 CMRAI Annual Report 2009-10 21 Among
 the 760 captives were 121 segregated portfolio companies under the Companies Law
 (2008 Revision), with a total of 534 segregated portfolios operating within them. Open
 market insurers accounted for four per cent of total class B licences active at June 2010.

Jurisdictional Comparisons - Captives As shown in Table 11, between 2008 and 2009 most
 of the jurisdictions for which figures are available experienced a decline in licences,
 evidence of the extremely soft commercial insurance markets. Nevertheless, the
 Cayman Islands continued prominence as a captive domicile is evidenced. Table 11:

Captive Insurance Licence Numbers - Selected Jurisdictions, 2005-09-Calendar Year *

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

jurisdictions websites or regulators Domestic Activity The number of class A licences

at the end of the 2009-10 fiscal year was 29, with two having been issued and one

cancelled. Two class A companies that were approved external insurers were placed

under controllership during the fiscal year due to financial difficulties experienced by

their home companies. The controllership that had been instituted in the prior year for

a third such insurer continued. Thus the number of class A insurers actively writing

business at 30 June 2010 was 26. Domestic insurance companies recorded an estimated

combined net earned premium of \$205.33 million for the calendar year ended 31

December 2009, with an estimated combined net income of \$74.61 million for the same

period. The 106 agent licences issued during 2009-10 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.

Jurisdiction 2005 Change (06 v 05) 2006* Change (06 v 05) 2007 Change (08 v

07) 2008 Change (09 v 08) 2009 Cayman 733 1% 740 3% 765 2% 777 (1%)

780 Barbados 242 3% 235 5% 223 3% 229 - No data Bermuda 1281 989 **

4% 958 0.2% 960 (8%) 885 BVI 381 383 *** 1% 390 15% 332 (14%) 285

Guernsey 372 2% 381 5% 367 1% 370 (1%) 355 Hawaii 158 1% 160 1% 163

1% 165 - No data S. Carolina 110 33% 146 31% 191 15% 163 (2%) 147 Vermont

542 4% 563 1% 567 2% 557 (1%) 560 CMRAI Annual Report 2009-10 22

INVESTMENTS & SECURITIES The Sector Funds and Fund Administrators

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 the continued

challenges in the international financial marketplace since 2008 have led to a marginal

decline in the overall number of Cayman-regulated funds, from over 10,000 in mid-2008 to

9,486 at 30 June 2010, the jurisdiction still surpasses other fund domiciles (see Figure 14

and Table 13) 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. 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. 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.

Figure 14: Number of Cayman Regulated Funds, by Category, 2006-2010

Year	Registered	Administered	Licensed	CMRAI Annual Report
2006	7161	8300	9378	9189
2007	8929	587	560	534
2008	506	427	97	108
2009	125	130	0	2000
2010	4000	6000	8000	10000

June 2006 June 2007 June 2008 June 2009 June 2010 Registered Administered Licensed CMRAI Annual Report 2009-10 23

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 15, Mutual Fund Administrators by Category, 2006-2010. 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 7,325 funds that had a financial year end in 2008 and that submitted the required Fund Annual Return form via CMRAI's electronic reporting system.⁶ These 7,325 funds had total assets of US\$2.5 trillion combined and net assets of US\$1.7 trillion. Forty-four per cent of the funds required a minimum initial subscription of US\$1,000,000 or more (see Figure 16) and 38 per cent required between US\$100,000 and \$999,999. Cayman was the primary location from which fund administration services (registrar and transfer (R&T) service and net asset value (NAV) calculation) were provided for these funds, while New York was the primary location of the investment managers to these funds.⁷

Figure 16: Minimum Initial Investment Required by Cayman-Regulated Funds Filing a Fund Annual Return for 2008

In addition to the factors that facilitate financial services generally from the Cayman Islands, investors

⁵ A third authorisation category, exempted, which previously existed, has been discontinued. However, administrators already authorised in this category remain. ⁶ See CMRAI's Investments Statistical Digest 2008, available on CMRAI's website at [www.cmraicm.com](#). ⁷ As determined by the proportion of the Cayman funds' aggregate net assets for which those service providers were responsible.

Investment Range	Percentage
8%	10%
28%	10%
32%	9%
3%	3%
0%	5%
10%	15%
20%	25%
30%	35%
Less	

than \$50,000 \$50,000-\$99,999 \$100,000-\$499,999 \$500,000-\$999,999
 \$1,000,000-\$4,999,999 \$5,000,000-\$9,999,999 Greater than \$10,000,000 2008 US\$ Figure
 15: Mutual Fund Administrators, by Category, 2006-2010 86 93 99 97 92 58 55 51 44 37 7
 5 4 2 2 0 20 40 60 80 100 120 140 160 180 June 2006 June 2007 June 2008 June 2009 June
 2010 Full Restricted Exempted CMRAI Annual Report 2009-10 24 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 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. Securities Investment Business 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 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 grown considerably. 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 SIB licences in order to
 provide securities investment services to their customers. Figure 17: Number of Licensed
 Securities Investment Business Entities, 2006-2010 Figure 18: Number of Entities
 Registered as Excluded Persons under SIBL, 2006-2010 25 23 24 28 28 0 5 10 15 20 25
 30 June 2006 June 2007 June 2008 June 2009 June 2010 1,209 1,457 2,008 2,270 2,414 0 500
 1,000 1,500 2,000 2,500 3,000 June 2006 June 2007 June 2008 June 2009 June 2010
 CMRAI Annual Report 2009-10 25 Industry Activity 2009-2010 Table 12:
 Funds, Administrators and Securities Entities Numbers at June 2010, with June 2008 and
 2009 Comparisons Authorisation Type 30 June 2008 30 June 2009 30 June 2010 Funds
 Registered 9,378 9,189 8,929 Administered 534 506 427 Licensed 125 130 130 Total
 Funds 10,037 9,825 9,486 Fund Administrators Full 99 97 92 Restricted 51 44 37
 Exempted 4 2 2 Total Administrators 154 143 131 Securities Investment Business
 Securities Excluded Persons 2,008 2,270 2,414 Securities (Full and Restricted Licences)
 24 28 28 Funds - The number of new registrations/licences processed and approved by
 CMRAI for the fiscal year ending 30 June 2010, was 1,168 (June 2009: 1,226). Fund
 terminations totalled 1,415 (June 2009: 1,359). This brought the total number of regulated
 funds at 30 June 2010 to 9,486, a net 3.5 per cent decline from June 2009. Nevertheless,
 fund authorisation activity was brisk, with an average of 97 funds per month being authorised
 during the fiscal year (authorisations ranged from a low of 55 in December to a high of 158
 in January). The local funds regime remains healthy and feedback from the local
 practitioners has been positive with many observing a pick-up in new business.

Administrators - For the fiscal year, 15 mutual fund administrators licences were cancelled (2008-09: seven) and three were issued (2008-09: four). The cancellations comprised eight full administrator licenses and seven restricted licences. The main reason for the surrender of the full administrator licences was restructuring of the entities due to economic challenges. One licensee cancelled in order to transfer operations to Asia. Among the restricted licenses cancelled, five of the seven were revoked by the Authority as part of an administrative clean-up exercise to remove entities that had evidently ceased doing business and had been struck from the Register of Companies, but which had remained on CMRAI's records books as they had not yet met the termination requirements (such as payment of outstanding fees). Despite the challenging global business environment during 2009, fund administrators reported an increase in new business during the last half of the fiscal year (January to June 2010) and were working on adding new clientele and on new fund launches.

Securities Investment Business - One new securities investment business licence and 344 new excluded person registrations were approved during the fiscal year. In total, 219 excluded persons cancelled their registrations. There were no licence cancellations.

Jurisdictional Comparisons Table 13 shows the number of active funds for calendar years 2005 to 2009 in Cayman and other international financial centres for which figures are available. As the figures demonstrate, the number of Cayman Islands-authorized funds has consistently been far 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 2009 largely reflects the impact of the US recession and international financial crisis.

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Table 13: Fund Numbers in Selected Jurisdictions, 2005-2009 Calendar Year

Jurisdiction	2005	Change (06 v 05)	2006	Change (07 v 06)	2007	Change (08 v 07)	2008	Change (09 v 08)	2009
Cayman	7106	14%	8134	16%	9413	5%	9870	-4%	9524
Bahamas	709	2%	723	8%	782	11%	803	-1.9%	788
Bermuda	1182	10%	1302	2%	1276	18%	1133	.5%	1309
BVI	2372	8%	2571	6%	2731	8%	2942	-6%	2937
Dublin	964	2%	941	N/A	N/A	N/A	N/A	N/A	N/A
Jersey	965	20%	1157	13%	1311	12%	1472	-12%	1294

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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

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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, 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 2009-2010, CMRAI strived to fulfil four strategic goals: 1. to maintain a high-quality and effective regulatory environment to attract users and providers of financial services; 2. to operate the Monetary Authority in the most efficient way possible; 3. to preserve the value and integrity of the Cayman Islands currency, and 4. to raise the profile in order to increase understanding of the Monetary Authority both locally and internationally. CMRAI Annual Report 2009-10

29 EXECUTION OF MONETARY FUNCTIONS CURRENCY MANAGEMENT

The Monetary Authority, through its Currency Operations Division, is the sole issuing authority for Cayman Islands currency. The division is responsible for the issue, re-issue, and withdrawal of Cayman Islands currency notes and coins against the United States dollar, dealing with the local retail banks: Fidelity Bank, FirstCaribbean International Bank, Butterfield Bank International (Cayman) Ltd., Cayman National Bank, Scotiabank, the Royal Bank of Canada and HSBC. The division also administers the sale and redemption of numismatic coins to and from local and overseas collectors. Currency Reserve 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 2010, the value of the currency reserve assets was CI\$87,202,232 (2009: \$100,445,847) representing 111.82 per cent (2009: 120.09 per cent) of total demand liabilities (i.e., currency in circulation). Full details on the currency reserve assets, including specifics on the performance of the investments and cash and cash equivalent deposits that comprise the currency reserve assets, can be found at note 4 of the Notes to the Annual Financial Statements (page 57 and following). Issue and Redemption of Currency Currency in Circulation - At 30 June 2010, currency in circulation (excluding numismatic coins) stood at \$68.9 million in notes and \$9.1 million in coins, totalling \$78 million. This represents a 6.7 per cent decrease over the 30 June 2009 figure of \$83.6 million. Table 14 shows currency in circulation at fiscal and calendar year-end from 2005 to 2010. Figure 19 shows currency in circulation by month from 2006- 2010. Table 14: Currency in Circulation at Fiscal and Calendar Year-end, 2005-10 (in CI\$m)

DATE	2005	2006	2007	2008	2009	2010
30 June	72.8	70.5	76.2	78.9	83.6	78
31 December	74.2	78.2	81.9	83.6	87.5	

The reduction in currency in circulation was seen as related to the weaker global economic performance during the 2010 calendar year. New Currency Work progressed on the development of a new series of banknotes, which will incorporate new designs and additional safety features. This series, as with previous ones, is produced by De La Rue Currency of the United Kingdom. The new series is expected to be issued during the 2010- 11 fiscal year. The Authority released a special numismatic coin issue, in commemoration of the Cayman Islands Constitution 2009, in November 2009 with

the coming into effect of the new Constitution. The issue comprises a gold CI\$10 coin and a silver CI\$5 coin.

19: Cayman Islands Currency in Circulation by Month: 2006-2010

Counterfeit Detection Twenty-four forged banknotes were detected and withdrawn from circulation in 2009-10, a 48 per cent decrease from the 46 detected and withdrawn in the prior fiscal year. Table 15 shows the numbers of counterfeit banknotes, by denomination, which were withdrawn from circulation from 2007 to 30 June 2010. Table 15: Counterfeit Banknotes Recovered from Calendar Year 2007 through 30 June 2010

Denomination	2007	2008	2009	as at 30 June 2010
\$100	14	62	18	2
\$50	12	14	1	1
\$25	29	9	2	10
\$10	2	16	3	0
\$5	1	0	0	0
\$1	1	0	0	0
Total No. of Notes	59	101	24	13
Total Dollar Value	\$2,751	\$7,285	\$1,930	\$550

CMRAI continued to collaborate with the Royal Cayman Islands Police Service (RCIPS) the banking sector and other entities in the crackdown on counterfeiting. In June, CMRAI was a partner, with the Chamber of Commerce and the RCIPS, in two one-day fraud prevention seminars, one for the business community and the other law enforcement officers. Presenters from the United States Secret Service and De La Rue participated alongside local experts. CMRAI and the RCIPS also collaborated on the issuing of public notices regarding forged notes.

	2006	2007	2008	2009	2010
60,000,000	65,000,000	70,000,000	75,000,000	80,000,000	85,000,000
90,000,000					

CMRAI Annual Report 2009-10 31 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 2010 are shown in Table 16. 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 2009-10 fiscal year are listed in Table 17. Table 16: Framework Under Which the Cayman Monetary Regulatory Authority International Operates (as at 30 June 2010)

Sector/ Entity type	CI Law	International Standards / Memberships
All	Monetary Authority Law (2008 Revision), and amendments	Proceeds of Crime Law (2008) Money Laundering Regulations (2009 Revision) Terrorism Law (2009 Revision) Public Management and Finance Law (2005 Revision), and amendments
	Companies Law (2010 Revision)	Standards: Financial Action Task Force Forty Recommendations on Money Laundering and Nine Special Recommendations on Terrorist Financing
	Memberships: Caribbean Financial Action Task Force (CFATF)	Banks, trusts, money services businesses, credit unions, building societies, corporate services providers, company managers
	Banks and Trust Companies Law (2009 Revision) Private Trust Companies Regulations, 2008	Money Services Law (2003 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 8	Offshore Group of Banking Supervisors (OGBS) Trust and Company Service Providers Working Group
	Statement of Best Practice produced by the of the Offshore Group of Banking Supervisors	9

9

Memberships: OGBS Caribbean Group of Banking Supervisors Association of Supervisors of Banks of the Americas Insurance companies, managers, brokers, agents Insurance Law (2008 Revision), and regulations Standards: International Association of Insurance Supervisors (IAIS) Core Principles of Insurance Regulation 10 Memberships: IAIS Offshore Group of Insurance Supervisors 11

8 As promulgated by the Basel Committee on Banking Supervision 9 The working group comprised representatives of various offshore financial centres, the FATF, IMF and OECD as well as representatives of four G7 countries. The Statement was disseminated to the fiduciary sector via the Society of Trust and Estate Practitioners (STEP) and the Company Managers Association, and was accepted locally. 10 Issued by the International Association of Insurance Supervisors (The Cayman Islands is a charter member of this association. CMRAI Annual Report 2009-10 32 Mutual funds, fund administrators, securities investment businesses (market makers, broker-dealers, securities arrangers, securities advisors and securities managers) Mutual Funds Law (2009 Revision), and regulations Securities Investment Business Law (SIBL) (2010 Revision) Standards: International Organization of Securities Commissions (IOSCO) - Applied to SIBL licensees 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 ongoing supervision of licensees/registrants, and make recommendations for enhancements to the supervisory regime where appropriate. Supervision of licensees is carried out off-site and on-site. Off-site supervision is continuous, involving the analysis of quarterly prudential returns and annual audited statements, supplemented with prudential meetings. On-site supervision involves limited scope and full-scope inspections both in the Cayman Islands and overseas. The objectives of the inspection process are to understand the licensee's business activities and operating environment, to detect problems of compliance with the relevant laws and/or regulations, and to gather information on matters identified as requiring policy considerations.

REGULATORY DEVELOPMENTS Rules, Guidelines and Policies The Policy and Development Division spearheads the development, documentation and issuing of guidance for the financial industry. The division is responsible for researching industry and regulatory topics, for drafting policy and for co-ordinating the development of instruments applicable to, and for the benefit of, financial services providers. It works in conjunction with the supervisory divisions, the Compliance Division and in consultation with industry. During the year under review, the Authority issued one new regulatory policy that applies to all regulated entities. This new regulatory measure is listed in Table 16 and can be viewed in its entirety on CMRAI's website under the Index of Measures 12 or the Regulatory Handbook 13. In March 2010, the Authority also revised the Guidance Notes on the Prevention and Detection of Money Laundering and Terrorist financing in the Cayman Islands 14. Table 17: List of Regulatory Measures Issued in 2009-2010

Description	All Licensees	When Issued	Type of Standard	Title
Exchanges This policy sets out criteria to determine which exchanges should receive approved status for the purposes of the Mutual Funds Law (MFL), the Banks and	March 2010	Regulatory Policy	Approved	Stock Exchanges

Trust Companies Law (BTCL), the Securities Investment Business Law (SIBL), the Insurance Law (IL) and the Companies Management Law (CML) (also known as the regulatory laws).

11 12 Rules and SOGs can be viewed at: 13 Regulatory Handbook: . 14 Guidance Notes on the Prevention and Detection of Money Laundering and Terrorist Financing can be viewed at: CMRAI Annual Report 2009-10 33

March 2010 Guidance Notes Guidance Notes on the Prevention and Detection of Money Laundering and Terrorist Financing in the Cayman Islands An amendment to sector specific guidance for mutual funds and fund administrators (Section 8 of the Guidance Notes) includes a segment on Compliance Officer, Money Laundering Reporting Officer and Internal Audit Procedures. It outlines ways by which mutual funds and fund administrators may comply with the requirements of regulation 5(1)(e) of the Money Laundering Regulations (2009 Revision). Additions and amendments to section 3 and section 8 of the Guidance Notes incorporate private trust companies into the Guidance Notes. These amendments provide guidance that is in line with the addition of registered offices of private trust companies to the second schedule of the Money Laundering Regulations (2009 Revision). Banking Feb 2010 Rules, Conditions and Guidelines Minimum Capital Requirement (Pillar 1) Rules, conditions, and guidelines for banks to calculate the minimum capital requirements (Pillar 1) relating to the International Convergence of Capital Measurement and Capital Standards (also referred to as the Basel II Accord). Other Regulatory Developments Amendment to the Monetary Authority Law The independence of CMRAI was further enhanced when, in March, the Legislative Assembly enacted the Monetary Authority (Amendment) Law, 2010. This extended CMRAI's ability to issue Rules, Statements of Guidance and Statements of Principles not only to licensees but to all regulated entities without the approval of the Cabinet of the Cayman Islands. Prior to this, the power to issue these measures was subject to Cabinet approval and limited only to licensees. The amendments also allow CMRAI to enter into memoranda of understanding with overseas regulatory authorities for the purpose of consolidated supervision without the need for Cabinet approval, as was previously required, following consultation with the Financial Secretary. In addition, the amendments allow for CMRAI to apply for a warrant to obtain documents in pursuance of providing assistance to an overseas regulatory authority to address those limited circumstances in which CMRAI's existing powers of direction under section 34 of the Monetary Authority Law may not be sufficient or appropriate.

Enhancement of the On-site Inspection Process The regulatory divisions undertook a review and reorganisation of the on-site inspection process in order to enhance the number, quality and timeliness of inspections. The initiative included: reassessing institutions and prioritisation of inspections based on their risk profile; streamlining the scope of inspections to ensure that aspects examined were relevant to the purpose of inspection; creation of dedicated on-site inspection teams within the Fiduciary and Investments and Securities divisions, and, for divisions without dedicated teams, extension of the time that inspectors are allocated to complete post-inspection reports before undertaking other duties. This resulted in an increase in the number of inspections during 2009-10 and a reduction in the turn-around time of inspection reports to within the 35-day target. The initiative is ongoing. Basel II Implementation During the period, CMRAI continued the process towards implementing the Basel II 15 framework in the Cayman Islands, with implementation of Pillar 1 16 expected to be effective

from 1 January 2011. The first phase of the programme requires Cayman-incorporated banks to put in place the standardised approaches under Pillar 1, with a staged implementation of Pillars 2 and 3 between 2011 and 2012. Further consideration will be given to the more advanced approaches thereafter. Some 100 banks incorporated in the Cayman Islands will be affected by the local implementation of Basel II. Branches are excluded from implementing the framework.

15 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. 16 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 2009-10 34

Work during the 2009-10 fiscal year entailed: completion and publication of the applicable policies, rules, guidance and forms 17, which were developed in consultation with the banking sector through the joint CMRAI / CI Bankers Association Basel II Working Committee; development, implementation and testing of CMRAI's web-based electronic reporting portal through which banks will submit quarterly prudential returns and Basel II reporting forms as of January 2011; and training of relevant staff of CMRAI.

New Insurance Law The Insurance Law was extensively revised and updated as a result of recommendations made by the International Monetary Fund following the organisation's March 2009 review of the jurisdiction. The revisions include 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; a new definition of insurance broker; harmonisation of enforcement provisions with other Cayman regulatory laws, and more minor administrative adjustments. The updated law, the Insurance Law 2010, was subsequently passed by the Legislative Assembly in September 2010. To complement the Insurance Law, new Insurance Regulations were also drafted to amend application forms, annual return forms and capital, solvency and admissible assets requirements. These were under review at the end of the fiscal year.

Automated Entity Authorisation Application System The development on an online system to facilitate the submission and processing of licence/registration applications and other requests for approval to CMRAI got underway during the year and was far advanced at year's end. The focus of initial development was for the system's use for submission of applications for authorisation of investment funds. (See page 42, Online Submission System, under Information Services, for more information.)

Securities Investment Business Law (SIBL) Working Group The internal SIBL working group formed in February 2009 progressed with its review of the regulatory framework governing the securities investment business sector in the Cayman Islands. The team completed its preliminary deficiency analysis of the SIBL, review of relevant international standards and IMF recommendations, and comparative analysis of securities regimes of other jurisdictions. The group's work was ongoing at the end of the year. Any recommendation for changes in the current Securities Investment Business Law will be subject to the broader consultation process mandated by the Monetary Authority Law with final approval for amendments being made by the Cabinet. The ultimate aim of the exercise is the

enhancement of the securities and investments business regime in the Cayman Islands. Proposal for Creation of New Mutual Fund Administrator Licence Category A review of the regulatory framework for mutual funds administrators (MFAs) was undertaken and a proposal was developed for the amendment of the Mutual Funds Law to create an additional category of MFA licence to conduct registrar and transfer services. There is no provision in the Mutual Funds Law to allow an applicant to apply for a mutual fund administrators licence in order to conduct partial business. Therefore, potential licensees wanting to conduct registrar and transfer services are forced to do so by either meeting the net worth requirement of an unrestricted licensee or being limited to servicing ten in-house funds with a restricted licence. The proposal was being reviewed by government, prior to industry consultation, at the end of the fiscal year. Proposal for Legislative Changes to Allow the Authority to Refuse Registration A review of the regulatory framework governing registered entities raised concerns that the Authority cannot prevent entities that could harm consumers of financial services or damage the reputation of the jurisdiction from obtaining the status of registrant under the Securities Investment Business Law, Mutual Funds Law or Private Trust Companies Regulations. Legislative amendments were proposed to give the Authority the discretion to refuse to register an applicant or to impose conditions on a registration if the applicant was the subject of, inter alia, a criminal conviction or sanction by an overseas regulatory authority or self-regulatory organisation. At the end of June 2010, the proposed legislative amendments were at the drafting stage.

17 Basel II documents can be viewed in the Regulated Sectors/Banking/Basel II section of CMRAI's website at: CMRAI Annual Report 2009-10

35 Pensions Regulations The Cayman Islands Government has been carrying out a process of reorganisation of the regulatory functions of the Cayman Islands private pension system. Part of this proposal involves moving the regulation of pension plans and plan administrators to CMRAI. During the last six months of the 2009-10 fiscal year, CMRAI liaised with government representatives and other key stakeholders in providing recommendations on the revised pensions legislation as well as to agree on CMRAI's regulatory responsibilities within the new framework. After the passage of the relevant legislation, it is proposed that CMRAI will assume the regulation of pension plans and plan administrators. Public Auditor Oversight Regime The Cabinet of the Cayman Islands approved the establishment of an independent auditor oversight body. This new initiative is largely to satisfy international auditor oversight standards, in particular the 8th European Union Company Law Directive. The directive requires foreign auditors carrying out audits of entities listed on EU stock exchanges to be subject to a system of independent public oversight that is equivalent to that of the EU in order to be exempted from the registration and regulation requirements of the individual member states. It is anticipated that some of the functions of the public oversight body would be delegated to an internationally recognised auditor oversight body. In this regard, CMRAI has been in discussions with a foreign auditor oversight agency, negotiating the general principles that would govern the working relationship between the local oversight body and this foreign agency. During the fiscal year, an external consultant was also retained to assist CMRAI in developing an appropriate framework for this initiative. Enabling legislation was drafted and a delegation of CMRAI and Government representatives met with officials from the European Commission to discuss some of the specific requirements of the directive, including the criteria for judging equivalency, and their application to Cayman.

COMPLIANCE & ENFORCEMENT As part of its regulatory functions, the

Authority conducts due diligence on persons who have applied to act as directors, shareholders, managers, officers and controllers of licensed entities; investigates serious breaches of the regulations, and where necessary, takes enforcement action. Due Diligence In carrying out due diligence, the Authority is guided by its Guidelines - Fitness and Propriety 18 and Procedure 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 200 such applications during the 2009-10 fiscal year. This compares to 264 during 2008-09. The breakdown of the applications for 2009-10 and 2008-09, by division, is shown in Table 18. Table 18: Due Diligence Applications Referred to the Compliance Division for 2009-10, with 2008-09 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 18

See page 28 of the Regulatory Handbook: 19 See page 67 of the Regulatory Handbook Appendices: 20 The Enforcement Manual: Banking Fiduciary Insurance Investments Other Total Applications as at 30 June 2009: 47 147 5 65 0 264 Applications as at 30 June 2010: 53 104 2 41 0 200 CMRAI Annual Report 2009-10 36 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 11 formal enforcement actions during 2009-10 (compared to nine during 2008- 09). Four of these actions involved litigation brought by CMRAI. Table 19 lists the formal enforcement actions initiated. Table 19: Formal Enforcement Actions for 2009-2010

Name of Entity	Type of Authorisation Held	Enforcement Action	Effective Date
British American Insurance Company Limited	Class A External Insurer Licence	Controllers Appointed	Sept 11, 2009
Motor & General Insurance Company Limited	Class A External Insurer Licence	Imposed Requirements	January 26, 2010
Banco Privado Portugues (Cayman) Ltd	Category B Banking Licence	Controllers Appointed	May 27, 2010
Sextant Strategic Global Water Fund Offshore Ltd.	Registered Fund	Petitioned for the appointment of Joint Provisional Liquidators	31 May 2010
Sextant Strategic Hybrid2Hedge Resource Fund Offshore Ltd.	Registered Fund	Petitioned for the appointment of Joint Provisional Liquidators	31 May 2010
Motor & General Insurance Company Limited	Class A External Insurer Licence	Controllers Appointed	June 22, 2010
Camel Investments International Ltd.	Registered Fund	Registration Cancelled	June 29, 2010
Platinum Financial	Registered Fund	Registration Cancelled	June 29, 2010
Platinum Financial L.P.	Registered Fund	Registration Cancelled	June 29, 2010
Sextant Strategic Global Water Fund Offshore Ltd.	Registered Fund	Petitioned for the appointment of Joint Official Liquidators	25 June 2010
Sextant Strategic Hybrid2Hedge Resource Fund Offshore Ltd.	Registered Fund	Petitioned for the appointment of Joint Official Liquidators	25 June 2010

Litigation: The Grand Court petitions brought by CMRAI on 31 May 2010 for the appointment of provisional liquidators for Sextant Strategic Global Water Fund Offshore Ltd. and Sextant Strategic Hybrid2Hedge Resource Fund Offshore Ltd. (referred to as the Sextant Funds) were deferred by the Court in light of the decision to hear the petitions for the winding up of the Sextant Funds and the appointment of official liquidators the following month. Upon the Grand Court granting similar petitions brought by creditors of the Sextant Funds

(whose application was filed and heard first in time), CMRAI subsequently withdrew its petitions for the appointment of official liquidators. The funds were placed into official liquidation on 25 June 2010. Other Compliance-related Matters In keeping with its mandate to protect the jurisdiction from individuals or entities seeking to reap illegal benefit by false association with the Cayman Islands, the Compliance Division has continued updating a list of websites which give Cayman addresses for various businesses which are not registered or licensed in the Cayman Islands.²¹ 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.

²¹ The complete list can be viewed in the Enforcement/ Information and Alerts section of CMRAI's website: . CMRAI Annual Report 2009-10 37

EXECUTION OF COOPERATIVE & 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.²² No formal information-exchange and cooperation agreements were concluded during 2009-10. However, negotiations with the State of Florida Office of Insurance Regulation and with four US banking regulators were at an advanced stage and were subsequently implemented in July and August 2010, respectively. Assistance to Overseas Regulatory Authorities An ongoing activity for the Legal Division is advising on, and coordinating responses to, requests for assistance from overseas regulatory authorities (ORAs). The division works closely with other 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)²³ 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 171 requests for assistance from ORAs during the 2009-10 financial year, compared to 113 requests during 2008-09 and 163 during 2007-08. New and supplemental requests came from regulatory authorities in Europe, Asia, Australia, the USA, Canada, South America and the UK. International Initiatives Involving CMRAI Association of Supervisors of Banks of the Americas (ASBA) CMRAI became the Caribbean Group of Banking

Supervisors representative on the Board of ASBA in November 2009. The appointment lasts for two years. The CGBS representative seat on ASBA Board is rotated alphabetically among members of the CGBS on a biennial basis. 22 International

agreements: 108_184_1 Local agreements: 0_178_1 23 On the CMRAI website: Appendix D1 of the Regulatory Handbook Appendices (This is located in the section Regulatory Framework / Handbook of Policies and Procedures). CMRAI Annual Report 2009-10 38 International Monetary Fund (IMF) Jurisdictional Assessment Report The IMF released the report of its March 2009 assessment of the Cayman Islands financial services regulatory and supervisory regime in December. It noted the jurisdiction's substantial progress in implementing the recommendations arising from the Fund's 2003 assessment. Progress areas identified included changes to legislation, rules and guidance to meet international standards; increases in the Cayman Islands Monetary Authority's (CMRAI) independence, resources and efficiency, as well as increased transparency of the funds sector arising from the implementation of CMRAI's electronic reporting system. The report made recommendations for enhancements in 10 areas covering CMRAI's independence and capacity, supervisory approach and best practices, contingency planning, and reporting, disclosure and sanctions. However the report acknowledged that these recommendations are broadly consistent with the priorities already identified by the authorities and in most cases where policy action is already underway. Independent Review of British Offshore Financial Centres (the Foot Review) The review conducted by Mr. Michael Foot on behalf of the United Kingdom Chancellor of the Exchequer was published in October 2009 24. Members of CMRAI's senior management had met with Mr. Foot earlier in the year as part of the information gathering phase of the review. This review was focused on issues of financial supervision and transparency, financial crisis management and resolution arrangements, international cooperation and taxation in relation to financial stability, sustainability and future competitiveness. Overseas Territories Regulators Group CMRAI continued its involvement in the Overseas Territories Regulators Group and its Working Group on Hedge Fund Regulation that had been formed in February 2009 with the objective of influencing, and taking the initiative on, the development of international standards on hedge fund regulation. During the year the working group developed and gained approval on a discussion paper on principles for the regulation of hedge funds. This was submitted to the Offshore Group of Banking Supervisors (OGBS) for onward presentation to the International Organization of Securities Commissions (IOSCO) of which CMRAI is also a member. CFATF AML/CFT Typologies for Trust and Corporate Services CMRAI representatives were part of a multi-jurisdictional team of Caribbean Financial Action Task Force (CFATF) and Financial Action Task Force (FATF) members that undertook a study of how trust and corporate service providers (TCSPs) apply existing international anti-money laundering and counter terrorist financing (AML/CFT) standards. The group, from seven jurisdictions, was tasked with: evaluating how effective current practice is in deterring the use of trust and corporate vehicles for money laundering and terrorist financing, and assessing whether the existing international AML/CFT standards are adequate for TCSPs or whether sector-specific standards and requirements would be more appropriate. As part of their work, the group also examined the nature, size and operation of the trust and corporate services sector across jurisdictions. The exercise was set to conclude in September 2010 with the submission of a report to the CFATF. International Association of Insurance Supervisors (IAIS) - CMRAI continued its involvement

as a member of the IAIS task force reviewing the Insurance Core Principles (which are the international standards for insurance supervision), and continued on several teams validating applications from IAIS member jurisdictions wishing to sign up to the organisation's multilateral memorandum of understanding. CMRAI also became a member of the IAIS Market Conduct sub-committee which involves developing a framework and principles for market conduct.

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 (2009 Revision).

24 The report is available on:

treasury.gov.uk/d/foot_review_main.pdf CMRAI Annual Report 2009-10 39

The MLRO filed two suspicious activity reports (SARs) with the Financial Reporting Authority (FRA) during 2009-10, compared to 11 filed during 2008-09. The FRA made 32 onward disclosures to the Authority pursuant to the MOU between the FRA and CMRAI. This compares to 25 made by the FRA during 2008-09. CMRAI assesses all onward disclosures to determine if further investigation and regulatory action is required.

Local Memoranda of Understanding One local agreement was brought into effect during the 2009-10 fiscal year: a Memorandum of Understanding with the National Pensions Office on 15 October 2009. This brought to six the number of MOUs and protocols that CMRAI has in place with local organisations. 25

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 written reports and submissions, including financial sector legislative proposals (draft bills and regulations) and Cabinet papers/notes/briefings to the Cabinet as well as through meetings with the Financial Secretary and the Cabinet. The measures implemented or in development during 2009-10 are covered in the Regulatory Developments section of this report, beginning on page 32. As part of its advisory and cooperative mandate, CMRAI representatives participated in the work of the Government's Tax Information Exchange Agreement (TIEA) negotiating team. The team

s activities during the year included negotiations with several jurisdictions, which culminated in the signing of nine bilateral agreements during the year. CMRAI representatives on the TIEA also participated, 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. The Cayman Islands is a member of both groups.

25 On CMRAI's website: 0_178_1 CMRAI Annual Report 2009-10 40 OPERATIONAL SUPPORT & ADMINISTRATION HUMAN RESOURCE MANAGEMENT & DEVELOPMENT Human Resources Division The Human Resources (HR) Division comprises five functional areas: 1) Employee Services (which includes employee relations, contract administration, benefit plan administration, attendance, Immigration/Department of Employee Relations,); 2) Recruitment; 3) Learning and Development; 4) Mail, Courier and Reception, and 5) Facilities/Security (covering all facility-related issues, parking, security and special event planning). Staffing and Recruitment The Authority's staff complement rose from 139 at 30 June 2009 to 158 at 30 June 2010, with 82 per cent being Caymanian. The turnover rate for 2009-10 was five per cent, a reduction from 17 per cent for 2008-09. Senior management recruits during the year were: Deputy Managing Director, Operations - Mr. Patrick Bodden Head, Information Services Division - Mr. Charles Chuck Thompson Deputy Head, Information Services Division - Mr. Scott McLaren Table 20: Staff Numbers by Division at 30 June 2010, with June 2009 Comparison Division Actual staff numbers at 30 June 2009 Actual staff numbers at 30 June 2010 Banking 22 23 Compliance 9 11 Currency Operations 7 7 Fiduciary Services 9 10 Insurance 18 21 Investments and Securities 31 35 Legal 7 7 Managing Director's Office 6 8 Finance)) Information Services) Finance, IS & HR, formerly: Operations Division) 23 27 Human Resources)) Policy & Development 7 9 TOTAL 139 158 The end-of-year staff complement brought CMRAI closer to meeting staffing levels recommended by the International Monetary Fund and, along with the automation of a number of services, enhanced CMRAI's ability to keep abreast of the increasing challenges and obligations on financial services regulators. A recruitment policy, documenting the recruitment process and procedures revised and standardised across the Authority during the prior year, was completed. Thirteen staff members were promoted during the period, as listed in Table 21: Table 21: Staff Promotions, 2009-2010 Staff New Position Division Ryan Bahadur Deputy Head Banking William Hagan Deputy Head Insurance Dwight Merren Deputy Head Insurance CMRAI Annual Report 2009-10 41 Theresa Christian Chief Analyst Banking Kenton Tibbetts Chief Analyst Banking Risa Cooper-Ebanks Senior Analyst Insurance Vanessa Gilman Senior Analyst Investments & Securities Elaine Humphreys Senior Analyst Banking Dana Rankine Senior Analyst Banking Ariel Tatum Senior Analyst Banking Russell Haley Software Development Team Leader Information Services Michelle Lloyd Finance Manager Finance Steven Rabey Senior Business Analyst Information Services Employee Services During the fiscal year, the division enhanced the performance management programme by revising position descriptions and advertisements; improving the management of the probationary period for new staff; improving the performance appraisal process; developing or streamlining policies, procedures and forms, and training the management team to enhance consistency in implementing the programme. The division implemented a new automated HR information system to streamline the payroll and HR reporting processes. Work was started on creating a comprehensive set of policies and procedures to assist

managers and employees in understanding the terms and conditions of the workplace and ensuring the policies are applied consistently, fairly and equitably across the divisions.

Learning and Development The in-house learning and development programme is designed to create a learning and development culture where 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. The following is a breakdown of CMRAI's learning and development statistics for the 2009-10 calendar year: Total Internal Courses - 38 Total Attendees - 976 Total Webinar/Teleconferences - 14 Total Attendees - 167

INFORMATION SYSTEMS The goal of the Information Systems Division is to facilitate CMRAI's business practices in a secure and resilient manner, utilising information and communications technology. **Major Initiatives During 2009-10** **Monetary Authority Regulatory System (MARS)** The division implemented Phase 1 of the in-house-designed Monetary Authority Regulatory System. This replaced the supervisory and regulatory functions of the former licensee/registrant database system, CIISMA, as the main reference and storage point for entity information at the Monetary Authority. Among the benefits of the new system is the management of data on an entity basis rather than on an individual licence/registration basis. This allows CMRAI's analysts to have a more consolidated view of an entity that is licensed/registered in more than one line of business, where the different licences/registrations are overseen by different divisions. Analysts are able to more easily see pertinent information concerning different lines of business under the same entity. It also reduces the duplication of tasks required for individual licences/registrations held by the same entity. The full switch-over to MARS followed a parallel run with CIISMA to ensure accuracy and the identification of any issues in the new system. Phase 2, the addition of workflow to automate specific processes within MARS, was underway at the end of the fiscal year. CMRAI Annual Report 2009-10 42

General Ledger System - A new general ledger system, Great Plains Dynamics, was installed to more effectively manage CMRAI's human resources data and payroll processing in its first phase. **Online Submission System** - The development of an online application submission system was far advanced at the end of the fiscal year and the system was subsequently implemented under the name CMRAIConnect. The system allows licensees/registrants to submit applications through a secure internet portal and automates and streamlines much of the manual tasks involved in processing such applications. Initial development focused on the Investments and Securities Division, to enable authorised service providers to submit requests and documentation for the registration or licensing of new funds online. The system is to be extended to other divisions. The technology platform on which the system was built was supplied by local information technology company Brac Informatics Centre. **Expansion of Electronic Reporting to Basel II Implementation Project** - The division implemented additional enhancements to the electronic-reporting system to allow on-line submission of Basel II and quarterly prudential reporting forms by banks. The system vets the forms during the on-line submission process, accepts or rejects the form depending on whether or not it has the required information, and generates a notification to the bank. At the end of the fiscal year, the system had completed beta testing and was in preparation for implementation in test mode in the first quarter of 2010-2011. Full implementation was on target for January 2011. **Disaster Recovery** Work was begun during the fiscal year to improve the overall reliability of the organisation's computer network and to ensure that reliable,

provable, disaster recovery procedures were in place. At the end of the fiscal year the hardware infrastructure was in place to allow CMRAI to operate its network as a private cloud between the main site and the disaster recovery site. Work was well underway to virtualise servers to operate in this cloud and to move all production data from the fixed fibre channel disks in the main site to the new distributed data storage array. The first phase of this project, which will see all production servers and data operating in this new environment, is expected to be complete by the end of the second quarter of 2010-2011. The second phase will involve extending the private cloud concept to CMRAI's third disaster recovery site on Cayman Brac.

Other Projects Other projects undertaken by the Information Systems Division during the 2009-10 fiscal year included upgrading all server-level operating systems software to the most current versions. This included the base operating systems of the servers themselves, along with core applications such as the exchange () server, the SQL server, Blackberry, and others. Backup hardware and procedures were upgraded while software and procedures to standardise user logins and device mappings were put in place. Network monitoring software was also installed and in the initial phases of configuration by the end of the 2010 fiscal year. Help desk software was identified and installed to better track user issues and to ensure timely resolutions to problems. This software is available on all users' desktops to allow them to report issues directly. The Electronic Content Management (ECM) project was moved forward during this period with several meetings being held to discuss potential solutions. A decision was made to have Human Resources as the first department to be automated and the project plan started, with actual work on the project slated for the third quarter of 2010-2011.

PUBLIC RELATIONS Public Relations Unit The Public Relations unit, a part of the Managing Director's Office, continued to provide communications support to, and on behalf of, CMRAI in order to help the Authority execute its functions and enhance relationships with stakeholders. The unit directed the completion and launching of CMRAI's new public website in November. The Authority has always provided an extensive range of information via the site; the new site CMRAI Annual Report 2009-10 43 expanded that information and reorganised the presentation and navigation in a more client-focused way. The new site provides greater exposure to some of the previously underemphasised aspects of CMRAI's work such as enforcement. To further facilitate and contribute to the international dialogue on financial reform, CMRAI partnered with the Financial Times to stage the Global Finance Forum in London, England, on 18 September. The forum was themed: Challenges in developing a new financial architecture in the wake of the financial crisis and drew some 100 persons representing the government and private sectors of approximately 27 countries/jurisdictions. The PR Unit assisted in the organisation of this event. The unit also assisted the Investments and Securities Division in the production and release of the third edition of the Investments Statistical Digest and in the branding of the new online application submission system that was under development during the year. Among its routine work, the unit produced and disseminated news releases and notices; the quarterly issues of CMRAI's newsletter, The Navigator, and the annual report. Staff facilitated media interviews between CMRAI officials and news reporters, and provided information and other assistance on a daily basis to members of the public, Cayman government agencies, and media representatives. CMRAI information in several external publications was reviewed and updated, while senior CMRAI officials were aided in the preparation of articles for publication and speeches/presentations delivered at local and

overseas conferences, meetings and other occasions. The major presentations delivered by CMRAI officials, as well as the releases and publications produced are available in the News and Current Developments and Publications sections of CMRAI's website (). In addition, PR staff monitored, collected, and disseminated to directors, management and staff, relevant external information (especially media coverage) on market, regulatory and political developments taking place locally and internationally.

Human Resources The Authority's efforts to engage stakeholders and the broader community extended beyond its formal public relations activities. The Human Resources Division provided organising and administrative services for two training workshops hosted by CMRAI in partnership with external regulatory bodies in order to upgrade regional regulators' skills. Through the division, educational presentations were made to local high school students to facilitate their career preparations and to inform about aspects of CMRAI's work. In addition, HR staff coordinated staff participation in Reading Day at various local schools.

Staff Community Involvement Reflecting their community spirit, CMRAI's employees participated in several initiatives organised by the Authority's staff social committee, or by individuals and divisions, to assist the community. Gifts of cash and kind provided food, toys, safety gear, school supplies and equipment, and other necessities for families, schools and individuals at Christmas. For the first time, members of staff also organised a Saturday morning community prayer and praise session in National Heroes Square, partnering with local ministers and community members to intercede for the country. Employees also visited residents of the Pines Retirement Home, donated to the Haiti earthquake relief effort and the local Meals on Wheels fundraising and hunger awareness campaigns, among their charitable activities during 2009-2010.

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 Law (in section 3(1)(c)) specifically excludes the release of records and information protected by section 50 of the Monetary Authority Law (2008 Revision). CMRAI handles FOI requests through its Legal Division. Between July 2009 and June 2010, 12 FOI requests were received and processed. Full access was granted for four of the requests, one request was granted partial access, information for one request was not available, no records were found for one request, and five requests were either excluded or exempted.

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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 2009-10, for a total of \$15.75 million, were: The Regulation of Currency The Collection of Fees The Regulation of the Financial Services Industry Assistance to Overseas Regulatory Authorities Policy Advice & Ministerial Services Fee Collection The Authority collected approximately \$74.22 million in fees from regulated entities on behalf of the Government for the 2009-10 fiscal year, compared to \$62.3m for the prior year. The amount collected was \$3.6m below the amount forecasted for the budget (\$77.84m), mainly due to certain new

revenue measures being implemented later than had been budgeted. Income The Authority s net income for the 2009-10 financial year was \$189,031 (2008-09: \$310,000). This amount was allocated to the Contributed Capital of the Authority. Details of CMRAI s financial position for the year ending 30 June 2010 can be seen in the Audited Financial Statements that follow.

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The accompanying notes form an integral part of these financial statements

CMRAI Annual Report 2009-10 50 Note20102009 \$000\$000 INCO ME Services Provided to The Cayman Islands Government11a15,75014,000 Investment Income4711,192 Commission Income671569 Numismatic Income21018 TO TAL INCO ME17,10215,779 EXPENSES Salaries and Benefits10,7859,141 Other Operational Expenses11d, 121,8362,523 Pension Expenses91,006676 Accomodation10891845 Depreciation6656504 Training and Conferences549400 Utilities438440 Professional Fees423745 Official Travel329195 TO TAL EXPENSES16,91315,469 TO TAL NET INCO ME FO R THE YEAR189310 Cayman Monetary Regulatory Authority International STATEMENT OF COMPREHENSIVE INCOME for the year ended 30 June 2010 (in Cayman Islands Dollars)

The accompanying notes form an integral part of these financial statements CMRAI Annual Report 2009-10 51 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 200913,8964355,30575810,00013,0564355,6651,0009,928 Transfers in : From Net Income18923872 From Capital Expenditures Reserve1,762598 From Operational Expenditures Reserve232242 Transfers out : Capital Withdrawal(8,250) Currency Inventory Issued(15) Fixed Assets Purchased(1,762)(598) Operational Expenses(232)(242) BALANCE AT 30 JUNE 2010 15,8904203,5435261,93913,8964355,30575810,000 Cayman Monetary Regulatory Authority International STATEMENT OF CHANGES IN RESERVES AND CONTRIBUTED CAPITAL For the year ended 30 June 2010 (in Cayman Islands Dollars) 20102009 The accompanying notes form an integral part of these financial statements

CMRAI Annual Report 2009-10 52 20102009 \$000\$000 CASH FLOWS FROM OPERATING ACTIVITIES Net Income for the year189310 Adjustments for: Depreciation656504 Loss on disposal of Fixed Assets- 3 Loss/ (Gain) on Defined Benefits Assets179(63) Decrease in Investments11,258420 (Increase) / Decrease in Interest Receivable - Currency Reserve Assets(87)99 Decrease in Interest Receivable - Operating Assets- 3 (Increase) in Accounts Receivable(777)(1,885) (Increase) in Other Receivables and Prepayments(416)(169) (Decrease) in Other Liabilities and Payables(296)(170) Decrease in Stocks120310 (Decrease)/ Increase in Demand Liabilities(5,656)4,743 (Decrease) in Currency Issue Reserve Cost of Currency Notes Reprint(15)- NET CASH PROVIDED BY OPERATING ACTIVITIES5,1554,105 CASH FLOW FROM INVESTING ACTIVITIES Acquisition of Fixed Assets(1,762)(598) NET CASH USED BY INVESTING ACTIVITIES(1,762)(598) CASH FLOWS FROM FINANCING ACTIVITIES Contribution paid to the Cayman Islands

Government- (1,186) Capital withdrawal by the Cayman Islands
Government(8,250)- NET CASH USED IN FINANCING
ACTIVITIES(8,250)(1,186) (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS
(4,857)2,321 CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR 16,67214,351
CASH AND CASH EQUIVALENTS, END OF THE YEAR11,81516,672 Cayman Monetary
Regulatory Authority International STATEMENT OF CASH FLOWS for the year ended 30
June 2010 (in Cayman Islands Dollars) The accompanying notes form an integral
part of these financial statements CMRAI Annual Report 2009-10 53 Cayman
Monetary Regulatory Authority International NOTES TO THE FINANCIAL STATEMENTS
year ended 30 June 2010 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 (2008
Revision) (the Law (2008 revision)), the primary functions of the Authority are: - To issue
and redeem currency notes and coins and to manage the Currency Reserve To regulate and
supervise the financial services business To provide assistance to overseas regulatory
authorities, and To advise the Cayman Islands Government on regulatory matters. As at
30 June 2010 the Authority has 158 employees (2009: 139). The Authority is located in
Elizabethan Square, George Town, Grand Cayman, Cayman Islands. 2. Significant
Accounting Policies The principal accounting policies applied in the preparation of these
financial statements are set out below. These policies have been consistently applied to all
the years presented, unless otherwise stated. a) Early Adoption of IAS 1 (Revised)
International Accounting Standard (IAS) 1 (Revised), Presentation of Financial
Statements and IAS 1 (Amendment) Presentation of Financial Statements (effective for
annual periods beginning on or after 1 January 2009). IAS now requires recognised
income and expenses to be presented in a single statement (a Statement of
Comprehensive Income) separately from owner changes in equity. The balance sheet
will be referred to as the Statement of Financial Position and the cash flow
statement is referred to as the Statement of Cash Flows . The Cayman Monetary Regulatory
Authority International made a decision to implement early adoption of IAS 1 (Revised)
beginning with the 30 June 2009 Financial Statements. b) 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.
c) 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 d) 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. e) 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.

CMRAI Annual Report 2009-10 54 Cayman Monetary Regulatory Authority International NOTES TO THE FINANCIAL STATEMENTS year ended 30 June 2010 Significant Accounting Policies (continued) Financial Instruments (continued)

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.

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.

f) 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.

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

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

i) Numismatic Coins in Circulation. The total nominal value of numismatic coins outstanding as at 30 June 2010 is \$14,506k (2009: \$14,547k). No liability for redeeming numismatic coins is recognised in the financial statements, since the amount of redemption cannot be reasonably estimated and the probability of material redemption is remote. Redemption costs and sales proceeds are recorded in the Statement of Comprehensive Income as incurred.

j) 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.

CMRAI Annual Report 2009-10 55 Cayman Monetary Regulatory Authority International NOTES TO THE FINANCIAL STATEMENTS year ended 30 June 2010 Significant Accounting Policies (continued)

k) Employee Benefits. Pension Plans. The Authority makes pension contributions for its eligible employees to the Public Service Pensions Fund, which is administered by the Public Service Pensions Board. The Fund has both a defined benefit and a defined

contribution element. There are a small number of employees who participate in other private plans, which are all defined contribution schemes. Under defined contribution plans, the Authority pays fixed contributions and has no obligation to pay further contributions if the fund does not have sufficient assets to pay employee benefits relating to employee service in the current and prior periods. The Authority recognises contributions to a defined contribution plan when an employee has rendered services in exchange for those contributions. A defined benefit plan is one that defines an amount of benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation. The asset or liability in respect of defined benefit plans is the difference between the present value of the defined benefit obligation at the Statement of Financial Position date and the fair value of plan assets, adjusted for unrecognised actuarial gains/losses and past service cost. Where a pension asset arises, the amount recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in future contributions to the plan. The pension costs are assessed using the Projected Unit Credit Method. Under this method the cost of providing pensions is charged in the Statement of Comprehensive Income so as to spread the regular cost over the service lives of employees in accordance with advice of the actuary, (who is due to carry out a full valuation of the plans every year). The pension obligation is measured at the present value of the estimated future cash outflows using discount estimated rates based on market yields on high quality corporate bonds at the time of the accounting date which have terms to maturity approximating the terms of the related liability. Obligations for contributions to defined contribution and defined benefits pension plans are recognised 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 2010 is \$198k (2009: \$224k) and is included in the other liabilities and payables. l) Allocation of profits. Under Section 9 and 10 of the Law (2008 revision), the net profits of the Authority, after provision for all expenditure and reserves, shall be allocated such that the Currency Reserve Assets represent at least 100% of Demand Liabilities and the General Reserve represents at least 15% of Demand Liabilities. Any surplus not allocated in accordance with the above shall be transferred to the General Revenue of the Cayman Islands Government. m) General Reserve. The Authority maintains a General Reserve in accordance with Section 8 of the Law (2008 revision), to provide additional funding if necessary for Demand Liabilities and obligations arising from other business of the Authority. In accordance with section 8 of the Law (2008 revision) the General Reserve shall represent at least 15% of Demand liabilities. As at 30 June 2010, the General Reserve was \$15,890k (2009: \$13,896k) equating to 20.38% (2009:16.61%) of Demand Liabilities. n) Currency Issue Reserve. The Currency Issue Reserve will be adjusted as these notes are issued until the stock is exhausted. The Currency Issue Reserve will then remain at \$375k. During the year notes costing \$15k were issued, leaving a Reserve of \$420k (2009: \$435k). CMRAI Annual Report 2009-10

56 Cayman Monetary Regulatory Authority International NOTES TO THE FINANCIAL STATEMENTS year ended 30 June 2010 Significant Accounting Policies (continued) o) Capital and Operational Expenditures Reserves. Under Section 9 of the Law (2008

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

p) Contributed Capital. The authorised capital of the Authority is \$100 million; with The Cayman Islands Government being the sole subscriber. In 1998, the Government made a commitment to increase the Contributed Capital of the Authority to a minimum of \$10 million by yearly transfers of approximately \$0.5 million from Operating Surplus. In December 2009, Section 7 (5) of the Monetary Authority Law (2008 Revision) was amended by the Monetary Authority (Amendment Law, 2009), to allow Cabinet to vary the amount of paid-up capital held by the Authority, and where the capital is reduced any excess shall be transferred by the Authority to the Government. In June 2010 the Cayman Islands Government withdrew \$8.25 million, leaving Contributed Capital at \$1.939 million at 30 June 2010 (2009: \$10 million).

q) Revenue recognition. The Authority's main source of income is derived from the services it provides to the Government of the Cayman Islands. The Authority's other sources of income are generated from its investments, bank balances, and other currency transactions. The Authority recognises revenue in the period in which it is earned.

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

2.1 Changes in Accounting Standards/IFRS Relevant Standards and amendments issued prior to 30 June 2010 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 Reserves Assets which establishes counterparty concentration limits and minimum standards that each counter party must attain. The Authority's current, call, and fixed deposits are placed with high credit quality institutions.

counterparties it believes to be reputable and capable of performing their contractual obligations.

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

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

4. Currency Reserve Assets

Sections 32(8) of the Law (2008 revision) mandates the preservation of Currency Reserve Assets, separately from all other assets of the Authority. These assets are to be used to fund the Authority's currency redemption obligations. (See 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 9a.) Under the Law (2008 revision), sections 32(2) and 32(6) respectively, the Currency Reserve Assets consist of external assets (not less in value than an amount equivalent to ninety per cent of demand liabilities) and local assets (not to exceed ten per cent of Demand Liabilities). As at 30 June 2010, the value of Currency Reserve Assets was \$87,202k (2009: \$100,446k) representing 111.82% (2009: 120.09%) of total demand liabilities. The value of external assets equated to 106.21% (2009: 115.36%) while the value of local assets as at 30 June 2010 equated to 5.61% (2009: 4.73%) 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 (2008 Revision). Management fees are calculated based on the market value of the portfolio and are payable quarterly in arrears. Either party may terminate the agreement with thirty days notice.

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

2010	2009	Range of maturities
\$000	\$000	1-5 years
2,122,080	2,122,080	6-10 Years
-	-	

CMRAI Annual Report 2009-10 58 Cayman Monetary Regulatory Authority International NOTES TO THE FINANCIAL STATEMENTS year ended 30 June 2010

Currency Reserve Assets (continued) Investments (continued) Short-term Investments. US Treasury Bills and US Treasury Notes with maturity dates ranging between 29 July 2010 and 28 February 2011, and the Federal Reserve Repurchase Agreement with a maturity date 01 July 2010.

b) Cash and Cash Equivalents. The Authority maintains current, call and fixed term deposits with domestic and foreign banks. Under the Law (2008 revision), domestic deposits (as part of the Currency Reserve Assets) cannot exceed 10% of Demand Liabilities. As at 30 June 2010, domestic

deposits represent 4.70% (2009: 3.84%) of Demand Liabilities.

Holding 20102009 Currency\$000\$000 i) Operating Assets

CurrentKYD(160)(1,277) SavingsKYD1,8425,191 Call USD6,0466,718 CI Cash on HandKYD11 Current and Call Deposits7,72910,633 Holding 20102009 ii) Currency Reserve AssetsCurrency\$000\$000 Domestic Deposits Call GBP75 Savings KYD477443 CallUSD1,6511,236 Foreign Deposits- Federal Reserve Bank USD247140 Investment PortfolioUSD1732,687 Total Call Deposits - Currency Reserve2,5554,511 Domestic - Fixed DepositsUSD1,5311,528 11,81516,672Total Operating Cash and Cash Equivalent 20102009 \$000\$000 US Treasury Notes39,320 - US Treasury Bills24,57361,192 GSE Securities Maturing - 1 Federal Reserve Repurchase Agreement at 0.01 %15,41729,417 Total Short-term Investments, at amortized cost79,31090,610 The fair value of the short term investments equates cost. CMRAI Annual Report 2009-10 59 Cayman Monetary Regulatory Authority International NOTES TO THE FINANCIAL STATEMENTS year ended 30 June 2010 Currency Reserve Assets (continued) Cash and Cash Equivalents (continued) Interest earned on domestic call accounts at rates ranging from 0.03125% to 0.01% during the year ended 30 June 2010 (2009: 0.03125% to 0.5%). The domestic fixed deposits earned interest at rates ranging from 0.2343% to 0.1200% during the year ended 30 June 2010 (2009: 0.3669% to 3.2918%). 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 2010 no interest was earned (2009: \$6k).

5. Accounts Receivable There was no bad debt expense included in the statement of comprehensive income. \$8k was recovered during the year in relation to an individual operating debt from an earlier period for which a full provision had been made.

6. Fixed Assets 20102009 \$000\$000 Cayman Islands Government2,9182,005 Other Receivables37181 Provision for doubtful accounts(29)(37) Accounts Receivable, net2,9262,149 Furniture & Fixtures Leasehold Improvement Computer Equipment Office Equipment WIP Motor Vehicle Total Original Cost \$000 \$000 \$000 \$000 \$000 \$000 Balance as at 30/06/096958721,502671 - 233,763 Additions16935645 1,336 - 1,762 Disposals(3) - (231)(110) - - (344) Balance as at 30/06/107088811,6276061,336235,181 Accumulated Depreciation Balance as at 30/06/095766121,089448 - 62,731 Depreciation for the year82157299113 - 5656 Relieved on disposals(3) - (231)(110) - (344) Balance as at 30/06/106557691,157451 - 113,043 Net Book Value as at 30/06/10 531124701551,336122,138 Net Book Value as at 30/06/09 119260413223 - 171,032 CMRAI Annual Report 2009-10 60 Cayman Monetary Regulatory Authority International NOTES TO THE FINANCIAL STATEMENTS year ended 30 June 2010 Fixed Assets (continued) Included in Work in Progress is \$1,248k for the Basel II project and \$88k for the Vault Management System. There is an additional \$454k contractual commitment for the Basel II project for the year to 30 June 2011.

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: 20102009 \$000\$000 Currency notes in circulation68,89774,699 Currency coins in circulation9,0888,942 Total Demand Liabilities77,98583,641 b) Other liabilities. As at 30 June 2010, Other Liabilities included unsettled investment management and custody fees of \$11k (2009: \$37k).

20102009 \$000\$000 External Bullion from the melt-down of coins526387 Coins awaiting melt-down36355 Coins for resale250170 Museum items7052 882964 Local

Inventory of unissued currency notes and coins 710748 Total Stocks 1,5921,712 CMRAI
Annual Report 2009-10 61 Cayman Monetary Regulatory Authority International
NOTES TO THE FINANCIAL STATEMENTS year ended 30 June 2010 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 2009-10 (2008-09: 13%). This rate included a 1% for the cost of all of the
benefits that are provided over and above those related to the participant's total
account balance. The Authority pays this 1% for all employees. In addition, for some
employees in the defined benefit plan, the Authority pays both the employer and employee
contributions. The Plans are funded at rates of: - 20102009 % Defined Contribution Plans
Employee66 Employer77 Defined Benefit Plans Employee66
Employer77 The Actuary to the Pensions Board has valued the Fund as at 30 June 2009.
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 2010 was \$827k (2009: \$739k). 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 2010, 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:
2010200920082007 \$000\$000\$000\$000 Net Present Value of Funded
Obligation(4,683)(4,120)(2,791)(2,810) Fair Value of Plan Assets4,1723,5013,5223,564
Defined Benefit Asset(511)(619)731754 Unrecognised Actuarial
(Gain)/Loss8171,143(246)(332) Net Asset306524485422 The amount of the defined
benefit asset as at 30 June 2010 is as per the Actuary's projected funded status report.
CMRAI Annual Report 2009-10 62 Cayman Monetary Regulatory Authority
International NOTES TO THE FINANCIAL STATEMENTS year ended 30 June 2010
Public Service Pensions Plan (continued) Pension Expense for fiscal year ending30 June
200930 June 2008 \$000\$000 Company Service Cost153197 Interest Cost188176 Expected
Return on Assets (net)(258)(261) Recognition of Net Loss - - Total Pension Expense 83112
Reconciliation of Defined Benefit Asset/(Liability)30 June 200930 June 2008 \$000\$000
Previous Year Defined Benefit Asset485422 Net Pension Expense for Fiscal Year(83)(112)
Employer Contributions121175 Other-Adj. to prior year's employer contribution allocation1 -
Defined Benefit Asset524485 Change in Defined Benefit Obligation over year ending30
June 200930 June 2008 \$000\$000 Defined Benefit Obligation at end of Prior Year 2,7912,810
Company Service Cost153197 Interest Cost188176 Plan Participant Contributions103150
Net Actuarial Gain885(542) Transfers between other participating Entities - - Defined Benefit
Obligation at End of Year 4,1202,791 Change in Plan Assets over year ending30 June
200930 June 2008 \$000\$000 Fair Value of Plan Assets as at End of Prior Year3,5223,564

Employer Contributions 121175 Plan Participant Contributions 103150 Expected Return on Assets (net) 258261 Asset (Loss)/Gain (575)(628) Other 72 - Fair Value of Plan Assets as at End of Year 3,5013,522 Change in Unrecognised Net Actuarial Loss/(Gain) 30 June 2009 30 June 2008 \$000\$000 Unrecognised Net Actuarial Gain (246)(332) Liability Gain 885(542) Asset Loss /(Gain) 503628 Other-Adj. to prior year's employer contribution allocation 1 - Unrecognised Net Actuarial Gain 1,143(246) CMRAI Annual Report 2009-10 63 Cayman Monetary Regulatory Authority International NOTES TO THE FINANCIAL STATEMENTS year ended 30 June 2010 Public Service Pensions Plan (continued) Allocation of Assets The Distribution of the Plan Assets, as at 30 June 2009 and 2008, based on the share of the total Fund allocated to the Authority was as follows: - 30 June 2009 30 June 2008 % Global Equities 4446 Bond Investments 4943 Property 35 Cash/Other 46 Total 100100 Actuarial Assumptions The principal Actuarial Assumptions used to Determine Benefit Obligations at 30 June 2009 and 2008 are as follows: 30 June 2009 30 June 2008 % Discount Rate 5.756.75 Expected Long-Term Return on Plan Assets 6.007.00 Rate of Salary Increase 4.004.00 Rate of Price Inflation 2.502.50 Rate of Pension Increases 2.502.50 The economic assumptions used to determine Net Periodic Benefit Cost for the year ending 30 June 2009 and 2008 are as follows: 30 June 2009 30 June 2008 % Discount Rate 5.756.75 Expected Long-Term Return on Plan Assets 6.007.00 Rate of Salary Increase 4.004.00 Rate of Price Inflation 2.502.50 Rate of Pension Increases 2.502.50 Other Assumptions: Mortality Standard U.S. mortality rates Retirement Age attainment of age 57 and at least 10 years of service Asset Valuation Fair (Market) Value CMRAI Annual Report 2009-10 64 Cayman Monetary Regulatory Authority International NOTES TO THE FINANCIAL STATEMENTS year ended 30 June 2010 10. Commitments a) Capital Commitments. The Authority has 2 contracts for the implementation of the Basel II project, which commenced in 2009-10 and has a scheduled completion date of December 2010, and remaining capital commitment of \$454k. b) Operating Lease Commitments. Accommodation Leases The Authority leases the premises used for its operations at Elizabethan Square from Montpelier Properties. i. There are 11 lease agreements totaling 26,933 square feet, effective 1 July 2009 for 21 months, at costs ranging from \$28 to \$29 per sq. ft. per annum. ii. There is 1 lease agreement for 800 square feet effective 1 July 2010 for 9 months at \$30 per sq. ft. per annum. iii. All leases carry a Common Area Maintenance charge cost of \$5 per sq. ft. per annum. Business Continuity Leases As a part of its Business Continuity Plan the Authority has 2 lease agreements. i. An agreement with the Disaster Recovery Centre (Cayman Islands) Limited effective 1 July 2008 for a period of three years at a monthly cost of US\$17k. ii. An agreement with the Brac Informatics Centre effective 1 April 2009 at a monthly cost of US\$13k 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 Accommodation Leases 7070 Disaster Recovery Leases 303366 Total Operating Lease Comitments 1,010 366 Scholarship 25 50 CMRAI Annual Report 2009-10 65 Cayman Monetary Regulatory Authority International NOTES TO THE FINANCIAL STATEMENTS year ended 30 June 2010 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 licence 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 eight directors as of 30 June 2010. The fees of \$266k (2008- 9:\$157k) relates to payments made to the eight 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 2010 (2008-09: 13) and salaries & other short term benefits expensed in 2009-10 was \$2,002k (2008-09: \$1,705k).

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 2009-10 in the amount of \$280k (2009:\$275k).

12. Other Operating Expenses

2010	2009	\$000	\$000	Currency Stock issues	369	702	Business Continuity	308	414	Directors Fees	266	157	Maintenance and software licences	252	215	Management and Custody Fees	481	148	Realised loss on investments	481	109	Other expenses	545	778	Total	1,836	2,523
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