



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.

1 JULY 2008 30 JUNE 2009 ANNUAL REPORT 2 Cayman Monetary Regulatory Authority
 International PO Box 10052 80e Shedden Road Elizabethan Square Grand Cayman KY1 -
 1001 CAYMAN ISLANDS - General Office: 345-949-7089 Fax: 345-949-2532 The Cayman
 Monetary Regulatory Authority International Year in Review 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) 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. TABLE of
 CONTENTS Managing Director s Statement

.....	5	Directors & Senior
Officers As At 30 June 2009	8	
Industry Overview		
.....	10	
Banking & Related Services		
.....	11	Banking
.....	11	
Money Services, Cooperatives And Building Societies		
.....	14	Fiduciary Services
.....	15	
Insurance		
.....	19	
Investments & Securities		
.....	23	
Organisational Developments		
.....	26	Nature And Scope Of
Activities	27	Strategic
Goals	27	
Execution Of Monetary Functions		
.....	28	Currency Management
.....	28	Execution Of
Regulatory Functions	30	
The Regulatory Regime		
.....	30	Regulatory
Developments	31	
Compliance & Enforcement		
.....	36	Execution Of
Cooperative & Advisory Functions	39	
Cross-Border Cooperation		
.....	39	Local Cooperation
.....	41	Advisory
Activity	42	
Operational Support & Administration		
.....	43	Human Resource
Management & Development	43	
Information Systems		

.....	45	Public
Relations	46	
Freedom Of Information Initiative		
.....	46	Financial Control
.....	47	Annual
Financial Statements	48	

5 MANAGING DIRECTOR S STATEMENT

Regulating in challenging times The unfolding global financial crisis and the responses of markets, governments, regulators and standard setters had their distinct effects on the Cayman Islands during the 2008-09 fiscal year. Developments leading into, and during, the period meant it was not business as usual for the Cayman Monetary Regulatory Authority International. In carrying out our regulatory, monetary, cooperative and advisory functions we acted on several fronts to ensure we continued to meet our obligations, particularly those of promoting and maintaining a sound financial system in the Cayman Islands, and enhancing market confidence, consumer protection and the Islands reputation as an international financial centre. Assessment, adjustment and coordinated action In the wake of the financial crisis, calls by political leaders, international standard setters and regulatory bodies for enhanced regulation and cooperation to prevent future melt-downs were not unexpected. CMRAI s mission has always been to ensure that Cayman is regulated in accordance with international best practices that are relevant to the nature of business conducted in and from this jurisdiction. Thus, in addition to our ongoing review of the regulatory framework we administer, the implementation of adjustments to meet standards that had recently been changed, and assistance to regulatory organisations to maintain or enhance supervisory standards, we spent much time during the year assessing the new resolutions, recommendations and legislative proposals that addressed areas falling within CMRAI s scope of responsibility. Our work in these areas resulted in our execution of several regulatory measures and initiatives. For example, after reviewing our home-host relationship with overseas regulators of institutions which have significant financial business in the Cayman Islands, we developed and issued a policy on consolidated supervision that outlines CMRAI s approach to ensuring effective supervision on a group-wide basis where CMRAI is host or home supervisor for entities that are internationally active. We increased our involvement in supervisory colleges, participating during the year in a number of meetings of international banking regulators of individual banking institutions that have a presence in Cayman. During the year, we fine-tuned and published regulatory policies on: licensing banks, approval of major acquisitions or investments by banks, and approval of applications for audit exemptions for regulated funds, and we issued measures on risk management and market conduct for insurance licensees.

Contributing to international standard-setting Following our longstanding and intensive negotiations with the International Organization of Securities Commissions (IOSCO), and the signing of its multilateral memorandum of understanding (MMoU) concerning consultation, cooperation and the exchange of information on securities matters, we were granted membership in June 2009. At the same time, we continued to contribute to the work of other regulatory organisations of which we were already members. These included the Caribbean Financial Action Task Force, which we assisted by serving as financial examiner in the mutual evaluation of St Kitts and Nevis anti-money laundering and counter terrorist financing regime in October 2008. We continued on several validation teams, and as lead validator in one instance, assessing applications from International Association of 6 Insurance Supervisors (IAIS) member jurisdictions wishing to sign up to the organisation s

MMoU. We also continued reviewing the international standards for insurance supervision, the Insurance Core Principles (ICPs), as a member of the IAIS ICPs Task Force. This was in addition to facilitating the International Monetary Fund's March 2009 update assessment of the regulation and supervision of financial services in Cayman, participating in the UK Government-commissioned independent review of British offshore financial centres by Michael Foot, and executing new memoranda of understanding for information exchange and assistance with two overseas and one local regulatory authority. Heightened vigilance - safe-guarding financial stability

On the supervisory front, the extraordinary circumstances prevailing internationally during the fiscal year caused us to significantly heighten our vigilance over licensees as well as forced us to deal with an increased number of entities in distress. As part of our immediate actions to ensure we were aware of, and could mitigate any potential local shocks arising from the collapse of international banking and other institutions, we implemented the requirement for retail bank licensees to report certain financial details to CMRAI on a weekly basis, in addition to their regular quarterly reporting requirements. Throughout the period both retail and non-retail bank licensees remained solvent. Two external insurance companies operating in the domestic market and having a common ownership experienced increasing difficulties during year as a result of the financial problems of their parent company. This necessitated increasingly stringent enforcement action by CMRAI, culminating in one licensee being placed into controllership and the other being ordered to cease issuing new policies (the latter was also subsequently placed into controllership). These were among nine formal enforcement actions, all involving insurance companies and registered funds, which we took during the fiscal year.

Reduction as well as growth in authorisations

Among the businesses regulated and supervised by CMRAI, the turmoil in international financial markets during 2008-09 was reflected most clearly in reductions in the numbers of registered and administered funds, and fund administrators, which fell two percent and seven percent, respectively, from June 2008. The number of banks declined as well, by six percent. As a result, government revenue from fees that CMRAI collects from regulated entities on behalf of the government fell by \$1.1 million to \$62.3 million for fiscal year 2008-09 (2008-09: \$63.4 million). Nevertheless, there were several areas in which the authorisation of new entities surpassed cancellations, resulting in net increases in authorisation numbers over 2007-08 figures. At 30 June 2009 there were 17 percent more licensed securities investment business (SIB) entities, 13 percent more registered SIB entities and two percent more captive insurance companies than at June 2008. Trust and company manager licenses grew by two percent and five percent, respectively, and, following the creation in the prior year of a new regulatory category to allow registration rather than licensing for trusts meeting the definition of private trusts and controlled subsidiaries, 18 such entities registered. It is a reflection of the continued demand for the quality of services offered by this jurisdiction that at the end of the fiscal year it remained among the top-ranking financial centres internationally, based on the number of regulated funds and captive insurance companies domiciled here; the number of trust licensees and the total value of assets and liabilities booked through Cayman Islands banks.

Protecting the currency reserves

Currency management was another area in which we exercised increased vigilance. In line with the instructions of CMRAI's Board of Directors in the prior year, we continued to reduce the volume of mortgage-backed securities (MBS) in our currency reserve investment portfolio as MBS in the portfolio reached maturity. By 30 June 2009 the total value of the 7 currency reserve assets was C\$100.5 million. Although this was an increase over the 30 June 2008 value of \$99.8m,

growth during 2008-09 was retarded by depressed interest rates. The value of the currency reserve assets at 30 June represented 120 percent of currency in circulation (30 June 2008: 126.5 percent). Enhancing CMRAI's operational efficiency In 2008-09, we continued our efforts to enhance CMRAI's operational efficiency. Steps included implementing improvements to the electronic reporting system for funds, and continuing groundwork for automating manual processes for licence/ registration applications and other submissions. Further work was also carried out on the development of the Monetary Authority Regulatory System (MARS) that will, on completion, replace the supervisory and regulatory functions of the current licensee/registrant database. Initiatives in the human resources area included the completion of a comprehensive job evaluation exercise and the adoption of new job classification and compensation policy. We also streamlined our staff training and development programme by launching a Learning Centre and bringing most of our training programmes in-house. This effectively decreased our training expenditure while increasing the number of employees benefitting from training. Preparing for continued challenge The global financial crisis placed heightened pressure on CMRAI, and the jurisdiction as a whole, during 2008-09. I expect the ongoing spin-off effects will continue to increase the day-to-day demands on CMRAI, while challenging us, and the jurisdiction, to operate more strategically going forward. I am therefore grateful for the continued dedication of our staff, and the support of our board of directors and the government, which enabled, and will enable, us to carry out our mission of fostering a thriving, growing, competitive and internationally recognised financial services industry through appropriate, responsive, cost-effective and efficient supervision and a stable currency.

Cindy Scotland 8 DIRECTORS & SENIOR OFFICERS as at 30 June 2009
Directors and senior officers biographies are available on the CMRAI website at: in the section About CMRAI/Structure and Governance/Directors & Management.

BOARD OF DIRECTORS AS AT JUNE 2009 Seated from left: Managing Director: Cindy Scotland
Chairman: Carlyle McLaughlin, Jr. Director: Adriannie Webb, JP Standing from left: Deputy Chairman: Joel Walton, JP Director: Harry Chisholm, MBE, JP Director: Richard Harris, FCA
Director: Christopher Rose, PhD Director: Bryan Bothwell, MBE Director: Warren Coats, PhD
Director: Professor William Gilmore 9 HEAD OF COMPLIANCE RJ Berry
MANAGING DIRECTOR Cindy Scotland HEAD OF CURRENCY OPERATIONS Deborah Ebanks
CHIEF FINANCIAL OFFICER Gilda Moxam-Murray HEAD OF HUMAN RESOURCES Judy Miller
HEAD OF INFORMATION TECHNOLOGY VACANT HEAD OF FIDUCIARY SERVICES Rohan Bromfield
HEAD OF INVESTMENTS AND SECURITIES Yolanda McCoy HEAD OF BANKING Reina Ebanks
HEAD OF INSURANCE SUPERVISION Gordon Rowell HEAD OF POLICY AND DEVELOPMENT Mitchell Scott
DEPUTY MANAGING DIRECTOR - GENERAL COUNSEL Langston Sibbles DEPUTY MANAGING DIRECTOR,
REGULATORY Howard Blacker DEPUTY MANAGING DIRECTOR, OPERATIONS Vacant
DEPUTY HEAD OF INVESTMENT AND SECURITIES Heather Smith PUBLIC RELATIONS EXECUTIVE
Joan Scott INTERNATIONAL AFFAIRS UNIT SPECIALIST VACANT DEPUTY HEAD OF POLICY AND
DEVELOPMENT Francis Arana DEPUTY HEAD OF INSURANCE SUPERVISION VACANT DEPUTY HEAD OF
CURRENCY OPERATIONS Shan Whittaker DEPUTY HEAD OF BANKING Tricia Thompson
DEPUTY HEAD OF COMPLIANCE Audrey Roe LEGAL COUNSEL Gail Johnson-Goring
LEGAL COUNSEL & FREEDOM OF INFORMATION MANAGER Arnold Todd LEGAL COUNSEL
Sandra Edun-Watler 10 INDUSTRY OVERVIEW The Cayman Islands economy and world financial markets have continued to benefit from the operation

of the financial services industry regulated by the Monetary Authority. Licensing activity and other industry developments are reviewed in the following section.

BANKING & RELATED SERVICES

BANKING

Industry Trends During the 2008-09 fiscal year the Cayman Islands maintained its prominence as an international banking centre, moving up in the rankings to the fourth largest in the world with regards to total liabilities and holding steady at sixth with respect to total assets. The Cayman Islands was not immune to the crisis in international financial markets, and the continued restructuring, consolidation and rationalisation of banking group activities worldwide. There was a six percent decline in the number of Cayman-licensed banks for the 2008-09 fiscal year and a small decline in total assets and total liabilities.

Figure 1: There were 270 institutions holding banking licences in the jurisdiction at 30 June 2009. These comprised seven retail category A banks, 11 non-retail category A banks and 252 category B banks.

Licence Type	Active as at 30 June 2007	Active as at 30 June 2008	Terminated 1 July 2008 - 30 June 2009	Issued 1 July 2008 - 30 June 2009	Active as at 30 June 2009
Category A Bank & Trust	19	10	1	1	19
Category B Bank & Trust	262	260	16	251	262
Cat B Bank & Trust (Restricted)	11	11	1	11	11
Total	283	280	18	270	270

The Category A banking and trust licence allows holders to operate both in the international and domestic market. The Category B licence permits international banking business and limited domestic activity. There were 270 institutions holding banking licences in the jurisdiction at 30 June 2009. These comprised seven retail Category A banks, 11 non-retail Category A banks and 252 Category B banks.

Figure 2: Active Cayman Islands Bank Licensees, 2004-09

Year	2004	2005	2006	2007	2008	2009
Category A	12	12	12	12	12	12
Category B	270	270	270	270	270	270

The June 2009 figure showed 10 fewer banks than the 280 being regulated as at 30 June 2008, representing a four percent decline. Cancellation of the Category A licence was due to the group's decision to relocate its operations to another region. The cancellation of the Category B licenses was due to mergers or inactivity. In addition, there were five cancellations of nominee companies as a result of their parents' cancellations. Among the 270 banks under regulation at 30 June 2009, there are 176 branches, primarily from the US and Brazil; 75 subsidiaries; 12 privately owned banks, and seven that were affiliated to another bank within the group (see Figure 3). In total, 54 nominee trust licences were held by bank licensees. The jurisdiction continues to attract top tier banking groups from around the world, including from Europe and North America, hosting branches or subsidiaries of over 40 of the world's top 50 banks as ranked by total assets (see Figure 3).

Figure 2: Banks by Region as at June 2009

Region	Count
Europe	79
United States of America	74
South America	44
Asia & Australia	27
Caribbean & Central America	21
Canada & Mexico	14
Middle East & Africa	10

Figure 3: Banks by Category as at June 2009

Category	Count
Branch	176
Subsidiary	75
Affiliate/Private	19

US\$ Billion Total Value of International Assets and Liabilities of Cayman Islands Bank Licensees, 2004-2009

Year	2004	2005	2006	2007	2008	2009
Assets	1,144	1,265	1,413	1,816	1,826	1,734
Liabilities	1,762	1,823	1,768	1,373	1,250	1,109

External Assets US\$ Billion

Year	2004	2005	2006	2007	2008	2009
Assets	200	400	600	800	1,000	1,200
Liabilities	1,400	1,600	1,800	2,000	1,800	1,600

External Liabilities US\$ Billion

13 International assets booked through banks in the Cayman Islands stood at US\$1.73 trillion at 30 June 2009, as compared to US\$1.83 trillion at June 2008 and US\$1.82 trillion at June 2007. Liabilities also fell slightly to US\$1.76 trillion, down from US\$1.82 trillion as at June 2008 and US\$1.77 trillion as at June 2007. 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 (which began retail operations in January 2009). Four are subsidiaries of international banking groups, one is a branch of an international banking group, and the other is owned by a financial group headquartered in the Cayman Islands. The risk adjusted capital adequacy ratio for the six locally incorporated retail banks that have a capital adequacy requirement was an average of 22 percent at June 2009. This is well in excess of the eight percent minimum requirement set by the Basel Committee on Banking Supervision and the 10 percent set by the Banking and Trust Companies Law (2009 Revision). Individual capital adequacy ratios ranged from 13.8 to 39.6 percent. Table 2 shows aggregate deposit, loan and total asset figures for the seven retail banks. Table 2: Aggregate Retail Bank Figures, 2008 & 2009 (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

Impact of International Financial Crisis Since late 2008, the seven retail domestic banks have been required to report to the Authority specific information on a weekly basis in addition to their regular quarterly reporting. This allows for increased monitoring of the financial standing of these banks, in particular the liquidity position, asset quality and capital position of these banks. In addition, the Authority continued to monitor exposures to significant events such as the subprime crisis as well as the Madoff fraud and the alleged Stanford fraud. Responses to date indicate licensees have no overall substantial exposures and most remain well-capitalised. The Authority continues to monitor the possible impact of the international financial crisis on the Cayman Islands banking sector.

Jurisdictional Comparisons As illustrated in Table 3, by 2008 the number of banks licensed in most of the listed jurisdictions had fallen below the numbers reported in 2004. The only exceptions were Switzerland, which increased by 66, and Panama, which increased by three.

2 \$1 trillion = \$1,000,000,000,000 14

Table 3: Bank Licence Numbers in Selected Jurisdictions, 2004-2008

Jurisdiction	2004	% Change (05 v 04)	2005	% Change (06 v 05)	2006	% Change (07 v 06)	2007	% Change (07 v 08)	2008
Cayman	318	5%	301	3%	291	3%	281	1%	278
Bahamas	162	2%	158	13%	137	3%	141*	1.4%	139
Hong Kong	208	3%	202	202	1%	200	200		
Jersey	51	2%	50	1%	45	7%	48*	2.1%	47
Luxembourg	165	5%	157	3%	155	1%	157**	3.2%	152
Panama	73	0%	73	8%	79	79	79		
Singapore	N/A		158	1%	157	3%	162	1.9%	165
Switzerland	338	1%	342	1%	336	1%	337	19.9%	404

*Figures as at Sept 07. **Figure as at Nov 07. MONEY SERVICES CO-OPERATIVES & BUILDING SOCIETIES Money Services Businesses 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 2008 grew to an estimated US\$229 million, from some US\$211 million for the previous year. Table 4 shows the amount of overseas remittances over the last five years. It is estimated that over 67% of overseas remittances were sent to Jamaica in 2008. Table 4: Overseas Remittances, Calendar Year 2004 to 2008

Year	Total Overseas Remittances (In US\$ Millions)
2004	105
2005	207
2006	211
2007	211
2008	229

Credit Unions, Building Societies & Development 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 (2001 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. 15 FIDUCIARY SERVICES Industry Trends The Cayman Islands remains a top international location for the provision of trust services and holds its own among locations from which corporate /company management services are provided (see Tables 6 and 7 for jurisdictional comparisons). At 30 June 2009 there were 261 institutions holding trust 3 , company manager 4 and corporate service provider 5 licences/ registrations, an 11 percent increase over the 236 authorised entities as at 30 June 2008. Table 5: Trust & Company Management Licensing Activity 2008-2009, with June 07 and June 08 Comparisons Authorisation TypeActive as at 30 June 2007 Active as at 30 June 2008 Terminated 1 July 2008 30 June 2009 Issued 1 July 2008 30 June 2009 Active as at 30 June 2009 Trust Company Restricted (Licensed) 86857785 Trust Company Unrestricted (Licensed) 51523353* Nominee Trust (Licensed)2020222* Controlled Subsidiaries (Registered) --099 Private Trust Companies (Registered) --099 Company Manager (Licensed) 72731577 Corporate Service Provider (Licensed) 76006 Total2362361333261 * One trust licence (unrestricted) and four nominee licences were transferred from the Banking Division Trusts CMRAI s Fiduciary Services Division administers licences for those entities that hold trust licences only while the Banking Supervision Division administers licenses for those entities that hold both banking and trust licences. _____ 3 Comprises three licence categories: Trust a licence that allows the holder to carry on the business of acting as trustee, executor or administrator; Trust (Restricted) allows the holder to undertake trust business only for persons listed in any undertaking accompanying the application for the licence; Nominee Trust a licence granted for the holder to act solely as the nominee of a trust licensee, being the wholly-owned subsidiary of that licensee. 4 A Company Manager 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. 5 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). 16 Figure 4: There were 160 active trust licences supervised by the Fiduciary Services Division as at 30 June 2009, a net increase of three over the 157 licences active at 30 June 2008. Twelve licences were cancelled and 10 new licences were issued. The overall net increase in licences resulted from the transfer from the Banking Supervision Division of one restricted trust company licence and the four nominee trusts licences held by that licensee, the holder having surrendered its banking licence. There was no net growth in the number of restricted trust licences. The absence of growth in this category, which had been largely used to establish private trust companies in the past, may be partially attributable to the registration of nine private trust Figure 5: US\$ Billion Active C ompany Manager a nd C orporate S ervice P rovider L icences Company ManagersCorporate Service Providers 69 68 70 69 73 77 5 5 57 6 7 0 10 20 30 40 50 60 70 80 90 Dec-04Dec-05Dec-06Dec-07Dec-08Jun-09 There were 160 active trust licences supervised by the Fiduciary Services Division as at 30 June 2009, a net increase of three Active T rust L icences/Registrations, by C ategory, 2004-09 51 48 5151 54 49 74 78 83 87 87 76 2220 27 21 18 21 9 4 9 0 20 40 60 80 100 120 140 160 180 Dec-04Dec-05Dec-06Dec-07Dec-08Jun-09 UnrestrictedRestricted NomineeControlled Subsidiaries (Registered) Private Trust Cos. (Registered) 17 companies under the Banks and Trust Companies Law (2007 Revision) The Private Trust Companies Regulations, 2008. The regulations, gazetted in September 2008, were created specifically for the purpose of

establishing private trust companies (see page 34, Regulatory Developments Fiduciary). Nine trust entities registered as controlled subsidiaries during the fiscal year, following the implementation of amendments to the Banks and Trust Companies Law (see page 34). Companies Management CMRAI saw an increase in applications for company management licences from applicants wishing to provide independent director services, a trend that continued on from the previous year. Effects of the Global Financial Crisis To date, CMRAI has found no evidence of a critically detrimental impact from the current global credit crisis on the majority of licensed trust companies and corporate services providers. It has been anticipated that institutions that have fee schemes that are affected by the performance of securities may see some decline in their revenue. The first part of 2009 showed a downward trending in the formation of exempt companies. A downward trending in exempt company registrations is strongly suggestive of a contraction in new business, and thus revenues, for the corporate services industry. While not pronounced at this point, over a protracted period of time such a trend may result in smaller service providers having to withdraw from the industry. Jurisdictional Comparisons Tables 6 and 7 show the number of active trust and corporate services licences for calendar years 2004 to 2008 in the Cayman Islands and in other international financial centres for which figures are available.

Table 6: Trust Licence Numbers in Selected Jurisdictions, 2004-2008

Jurisdiction	2004	% Change (05 v 04)	2005	% Change (06 v 05)	2006	% Change (07 v 06)	2007	% Change (08 v 07)	2008
Cayman*	354	1%	352	3%	344	2%	339	2%	336
BVI	236	11%	212	6%	201	1%	203	5%	213
Bahamas	197	3%	191	1%	190	3%	196	3%	271
Bermuda	N/A	-	33	-	33	-	33	-	213
Gibraltar**	80	3%	82	6%	87	1%	86	16%	72
Guernsey**	201	1%	199	3%	205	3%	209	3%	200
Isle of Man	N/A	-	18	428%	95	33%	127	--	
Jersey**	190	4%	184	5%	193	5%	184	5%	152
Panama	15	7%	14	(Jun)-	N/A	-	56	8%	60
Turks and Caicos	19	5%	200	20	5%	190	19	Note	

Figures provided are reported by the jurisdictions regulator. N/A Figures not available * Jersey s figures includes both trust and company business licensed, inclusive of affiliation members. Gibraltar and Guernsey s figures include both trust and company businesses licensed. 18 Cayman s trust figures comprise trust companies that also hold a Banking Licence and are thus supervised by the Banking Division, as well as licences and registrations supervised by the Fiduciary Services Division.

Table 7: Company Services Licence Numbers in Selected Jurisdictions, 2004-2008

Jurisdiction	2004	% Change (05 v 04)	2005	% Change (06 v 05)	2006	% Change (07 v 06)	2007	% Change (08 v 07)	2008
Cayman	74	1%	73	3%	75	1%	76	8%	79
BVI	19	5%	200	20	10%	18	11%	20	
Gibraltar*	80	3%	82	6%	87	1%	86	7%	72
Guernsey	201	1%	199	3%	205	3%	209	200	
Isle of Man	N/A	-	176	2%	173	6%	184	0.5%	183
Jersey*	190	4%	184	5%	193	5%	184	--	
Turks and Caicos	34	8%	37	5%	39	5%	41	2%	42

Note Figures provided are reported by the jurisdictions regulator. N/A Figures not available * Jersey s figures includes both trust and company business licensed, inclusive of affiliation members. Gibraltar and Guernsey s figures include both trust and company businesses licensed.

19 INSURANCE Industry Trends Th e insurance industry in the Cayman Islands has two distinct sectors. Th e domestic market comprises insurance companies (both locally incorporated and branches of foreign companies) and intermediaries (brokers and agents). Th e international market, better known as the captive market, comprises captive insurance companies and insurance managers. Th e International segment dominates the industry, in terms of the number of licensees and the premium income. Th e Cayman Islands remains the domicile of choice for health care organisations in the USA, with 44 percent of the captives covering healthcare risks, and is the leading healthcare captive domicile in the world. Other types of coverage provided by

Cayman captives include: general, auto and product liability, and life and annuity. Domestic insurers also provide various types of coverage to local policyholders with property, health and life being the top three categories, accounting for approximately 80 percent of the total premium. At 30 June 2009 there were 955 insurance licensees under regulation, an overall increase of nine from 30 June 2008. Of these, 787 were class B 6 (captive) licensees. Licensing activity during the financial year fell within the expected range for all categories 7 other than agents, where considerable growth was evidenced (see page 21, Domestic).

Figure 6: _____ 6 Insurance companies operate within the Cayman Islands as Class A Insurers (writing domestic business) or Class B Insurers (writing non-domestic business only and commonly known as captive insurance companies). 7 In addition to Class A and B insurers licences, licences are granted in the following categories: Insurance Manager defined in section 2 of the Insurance Law (2008 Revision) as 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, and 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).

_____ Class B (Captive) Insurance C
 ompanies, 2004-09 693 733 740 765 777 787 640 660 680 700 720 740 760 780 800
 Dec-04Dec-05Dec-06Dec-07Dec-08Jun-09 20 Figure 7: Table 8: Insurance Licensing Activity
 2008-09, with June 07 and June 08 Comparisons Licence Type Active as at 30 June 2007
 Active as at 30 June 2008 Terminated 1 Jul 2008 - 30 June 2009 Issued 1 July 2008 - 30
 June 2009 Active as at 30 June 2009 Class A28280028 Class B7527722035787 Insurance
 Managers25251125 Brokers29301231 Agents899115884 TOTAL9239463746955 Captives
 The market continued to show a high level of activity in 2008-09, with 35 new captive
 licences issued and 20 cancelled. The most popular region of origin of Cayman captives at
 fiscal year-end was North America, from which 89.71 percent of captives originate. This
 was followed by Latin America and the Caribbean: 3.43 percent; Africa, Asia and the Middle
 East: 1.14 percent; Europe: 1.40 percent; Pacific Rim: 0.25 percent, and the rest of the world:
 4.07 percent (see Figure 8). Among the 787 captives were 128 segregated portfolio
 companies under the Companies Law (2008 Revision), with a total of 517 segregated
 portfolios operating within them. Cayman Islands Domestic Insurance Licences, by C
 ategory, 2004-09 27 26 27282828 2325 25 24 26 25 28 3028 30 32 31 66 57 87 88 88 84 0
 20 40 60 80 100 120 140 160 180 200 Dec-04Dec-05Dec-06Dec-07Dec-08Jun-09 Class
 AManagersBrokersAgents 21 Figure 8: Domestic The number of class A licences at the
 end of the fiscal year remained at 28, with none having been issued or cancelled.
 Domestic insurance companies recorded a combined net earned premium of \$184.00
 million for the calendar year ending 31 December 2007, with combined net
 income of \$60.9 million for the same period. Further details are available on the
 CMRAI website. The 12 agent licences issued during the fiscal year reflect additions to the
 sales force of eight companies (class A and broker licensees) and demonstrate the
 increased interest by those companies involved in the sale of life insurance in having
 a dynamic and growing sales force. Table 9: Captive Insurance Company Statistics by
 Company Category and Licence Class as at 1 July 2009 Category Companies Total

Premiums	Net Income	Net Worth	Total Assets	Number	% Alternative Financing	Vehicle
49	6425,573,728	175,782,734	98,148,995	6,479,589,212	Association	577556,244,539
31,937,149	616,367,139	2,021,726,977	Group Captive	7491,080,046,245		85,005,339
1,541,210,943	33,009,783,083	Open Market Insurer	3044	10,255,197		
(99,365,630)	1,227,977,667	4,708,457,688	Pure Captive	446575,013,130,295		851,243,043
5,783,157,857	19,042,257,981	Rent-A-Captive	20981,182	3,744,229		23,576,648
39,484,636	Segregated Portfolio Company	12916500,356,501	84,905,152	536,286,565		4,917,666,094
TOTALS:7871007,986,587,687	1,133,252,016	9,826,725,814	440,218,965,671	Licence Class		
Companies Total Premiums	Net Income	Net Worth	Total Assets	Number	% Restricted	82
10849,653,490	457,364,419	889,363,377	9,261,596,216	Unrestricted	70590	7,136,934,197
675,887,597	8,937,362,437	30,957,369,455	TOTALS:7871007,986,587,687	1,133,252,016	9,826,725,814	440,218,965,671

Domestic The number of class A licences at the end of the fiscal year remained at 28, with none having been issued or cancelled. Domestic insurance companies recorded a combined net earned premium of \$184.00 million for the calendar year ending 31 December 2007, with combined net income of \$60.9 million for the same period. Further details are available on the CMRAI website. The 12 agent licences issued during the fiscal year reflect additions to the sales force of eight companies (class A and Risk Location of Captive Insurance Companies as at 1 July 2009 706 32 27 11 2 9 North America; 90% Worldwide; 4% Caribbean & Latin America; 4% Europe; 1% Africa, Asia & the Middle East; 1% Pacific Rim; 0% 22 Jurisdictional Comparisons Table 10 shows the number of captive insurance licences for calendar years 2004 to 2008 in the Cayman Islands and in other jurisdictions for which figures are available. The figures illustrate the Cayman Islands continued prominence as a captive domicile. Table 10: Captive Insurance Licence Numbers in Selected Jurisdictions, 2004-2008

Jurisdiction	2004	% Change (05 v 04)	2005	% Change (06 v 05)	2006*	% Change (06 v 05)	2007	% Change (08 v 07)	2008
Cayman	693	5%	733	1%	740	3%	765	2%	777
Barbados	N/A		242	3%	235	5%	223	3%	229
Bermuda	1266	1%	1281	989	**	4%	958	0.2%	960
BVI	346	10%	381	383	***	1%	390	15%	332
Guernsey	379	1.8%	372	2%	381	5%	367	1%	370
Hawaii	N/A		158	1%	160	1%	163		
S. Carolina	99	11%	110	33%	146	31%	191	15%	163
Vermont	524	4%	563	1%	567	2%	557	*	

* 2006 - Source: BusinessInsurance, 12 March 2007 edition ** 2006 was the first year Bermuda released data specifically for captives as a licence class. Previously, the figure used was the combined position for all licence classes. *** BusinessInsurance estimate 2007 Source: jurisdictions website or regulators N/A Data not available

23 INVESTMENTS & SECURITIES Industry Trends The continued turmoil in the international financial marketplace during the 2008-09 fiscal year had its direct impact on the Cayman Islands funds industry, with a net two percent decline in the overall number of investment funds under regulation. However the decreases were not as dramatic or overly-alarming as was anticipated given the magnitude of the global crisis. While the most notable areas impacted were fund authorisations and terminations, the numbers of funds under authorisation at 30 June 2009 remained impressive, considering the poor performance of many funds, their liquidity deficiencies, counterparty exposure and the Madoff debacle facing the industry during the year. Moreover, in the securities investment business sector, the numbers of licensees at June 2009 represented a net increase of 17 percent over June 2008 and the number of entities in the excluded person category increased by 13 percent. Table 11: Numbers of Fund and Securities Active as at June 2009, with June 07 and June 08 Comparisons

Authorisation Type	Active as at 30 June 2007	Active as at 30
--------------------	---------------------------	-----------------

June 2008* Active as at 30 June 2009* Funds Registered 830093789189
Administered 560534506 Licensed 112125130 Total Funds 8,97210,0379,825 Mutual Fund
Administrators Full 939997 Restricted 555144 Exempted 542 Total Administrators 153154143
Securities Investment Business Securities - Excluded Persons 1,4572,0082,270 Securities
(Full and Restricted Licenses) 232428 * Numbers of funds in the columns Active as at 30
June 2008 and Active as at 30 June 2009 are those captured on CMRAI's database at 15
July 2008 and 15 July 2009, respectively, and are subject to change due to subsequent
processing of authorisation/termination applications received near the end of the respective
reporting periods. Authorisation and Termination The number of new registrations/
licences processed and approved by CMRAI for the fiscal year ending June 30
2009, was 1,226. Fund terminations totalled 1,359. For the same period, four
new fund administrators were approved and seven terminated. Three new securities
investment business licensees, 376 new excluded person registrations and two
new local audit sign-off applications were also approved. Funds The effects of the
international economic crisis were most marked in the registered funds category.
Globally, hedge funds were faced during the fiscal year with significant increases in
redemption requests and many struggled to meet liquidity needs. Some were forced
to sell assets at distressed prices, leading to a fall 24 in net asset value and
triggering further redemptions. Funds employed a number of techniques to control
liquidity, including suspension of redemptions and restructuring. Figure 9: Administrators Th
e most notable change in administrator licence numbers was in respect of the restricted
administrator category, where licence numbers have been declining steadily. Th e primary
reason for this reduction is that many of these former licence holders opted to register as
Excluded Persons under the Securities Investment Business Law (SIBL) by virtue of the fact
that they provide investment management services and/or advisory services exclusively for
sophisticated persons. Some entities also opted to be licensed as full administrators so as
not to be restricted in the number of funds for which they can provide administration services.
Figure 10: Active Mutual Fund Administrators, by Category, 2004-09

Dec-04	Dec-05	Dec-06	Dec-07	Dec-08	Jun-09
83	61	57	52	49	44
2	4	5	5	7	7
0	20	40	60	80	100
120	140	160	180	200	
5,249	6,429	7,481	8,751	9,231	9,189
616	598	548	543	510	506
105	105	129	67	79	130
0	2,000	4,000	6,000	8,000	10,000
12,000					
25					

Registered Administrated Licensed 25 Securities
Investment Business The number of securities investment business entities registered as
Excluded Persons rose by some 262 during the fiscal year. The majority of SIBL Excluded
Persons are licensed banks. Jurisdictional Comparisons Table 12: Fund Numbers in Selected
Jurisdictions, 2004-2008

Jurisdiction	2004	% Change (05 v 04)	2005	% Change (06 v 05)	2006	% Change (07 v 06)	2007	% Change (08 v 07)	2008
Cayman	5932	20%	7106	14%	8134	16%	9413	5%	9870
Bahamas	838	15%	709	2%	723	8%	782	11%	867
Bermuda	1149	3%	1182	10%	1302	2%	1276	18%	1133
BVI	2138	11%	2372	8%	2571	6%	2731	8%	2941
Dublin	987	2%	964	2%	941	N/A	N/A	N/A	N/A
Jersey	833	16%	965	20%	1157	13%	1311	12%	1472

Table 12 shows the number of active funds for calendar years 2004 to 2008 in the
Cayman Islands and in other international financial centres for which figures are available. As
the figures demonstrate, the number of Cayman Islands-authorized funds is far in excess of
the other jurisdictions and Cayman continues to remain the undisputed leader in fund
domiciliation.

26 ORGANISATIONAL DEVELOPMENTS The Cayman Monetary
Regulatory Authority International is a corporate body, wholly owned by the Cayman Islands

Government and established to perform specified functions. CMRAI's functions and strategic goals, and the major developments related to these areas are outlined in the following section.

27 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 organizations.

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;
- be transparent and fair.

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
4. To raise the profile in order to increase understanding of the Monetary Authority both locally and internationally

28 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 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. At 30 June 2009, the value of currency reserve assets was CI\$100.5 million, unaudited, representing 120 percent of currency in circulation. By comparison, at 30 June 2008, total currency reserve assets stood at \$99.8 million representing 126.5 percent of 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 3 of the Notes to the Annual Financial Statements (pages 59-61). Issue and Redemption of Currency Currency in Circulation - At 30 June 2009, currency in circulation (excluding numismatic coins) stood at \$74.6 million in notes and \$8.9 million in coins, totalling \$83.5 million. This represents a six percent increase over the 30 June 2008 figure of \$78.9 million. Table 13 shows currency in circulation at fiscal and calendar year-end from 2004 to 2009. Figure 11 shows currency in circulation by month from 2005-2009. Table 13: Currency in Circulation at Fiscal and Calendar Year-end, 2004-09 (in CI\$m)

DATE 2004 2005 2006 2007 2008 2009 30 June 54.8 72.8 70.5 76.2 78.9 83.5 31

December 74.7 74.2 81.9 83.6 Total notes withdrawn from circulation and destroyed in the 2008-09 financial year equalled \$28.5 million compared to \$21.0 million in the previous year.

New Currency Work continued on the development of a new series of banknotes, which will incorporate new designs and additional safety features. The notes are being designed by De la Rue Currency, the UK company that produces the 29 Cayman Islands banknotes. The new series is expected to be issued in 2010. Arrangements were made to replenish the stock of circulating coins, beginning with the one-cent coin in the beginning of 2008. The other coin denominations were minted during the last half of calendar year 2008. The Authority also commissioned a special numismatic coin issue in commemoration of the Cayman Islands Constitution 2009, to be unveiled in November 2009 with the coming into effect of the new Constitution. The issue comprises a gold \$10 coin and a silver \$5.

Counterfeit Detection There was an overall decrease in the number of counterfeits detected and withdrawn from circulation in 2008-09, compared to the prior fiscal year. Table 14 below shows the numbers of counterfeit banknotes, by denomination, that were withdrawn from circulation from 2006 to 30 June 2009. Table 14: Recovered Counterfeit Banknotes as at 30 June 2009

Denomination	2006	2007	2008	As at 30 June 2009
\$100	331	462	212	\$506
\$50	612	140	\$25-29	92
\$10-21	63	\$5-100	\$1-100	Total No. of Notes
395	910	117	Total Dollar Value	\$3,600
\$2,751	\$7,285	\$1,280		

The Authority believes that educating the public on the security features of the banknotes is the best means of combating the counterfeit problem. As such CMRAI continues to cooperate with the Royal Cayman Islands Police Service (RCIPS), the banking sector and other entities in the crackdown on counterfeiting.

CI\$ Million Currency in Circulation by Month, January 2005 - June 2009

Month	2005	2006	2007	2008	2009
January	68,240,135	67,727,533	73,108,345	70,818,347	70,804,597
February	72,822,604	69,822,588	66,570,079	67,698,351	66,446,814
March	69,163,154	74,167,555	66,514,764	70,591,953	69,971,802
April	68,076,535	71,442,727	70,558,404	69,710,678	68,720,867
May	68,983,528	69,764,270	73,972,559	78,188,789	71,760,112
June	72,742,844	74,078,677	73,414,533	75,434,235	76,205,264
July	72,564,069	74,232,085	75,729,086	74,066,552	76,357,887
August	81,931,771	77,063,437	76,080,285	75,843,396	75,896,783
September	78,752,167	78,897,508	79,824,222	83,792,437	77,410,063
October	80,367,906	82,575,102	83,704,219	82,483,289	82,522,208
November	82,744,396	83,127,430	83,645,117	83,640,733	020406080100
December	2005	2006	2007	2008	2009

Figure 11: 30 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

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 2009 are shown in Table 15. 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 2008-09 fiscal year are listed in Table 16.

Table 15: Framework Under Which the Cayman Monetary Regulatory Authority International Operates

Sector/ Entity type	CI Law/International Standards / Memberships
All	Monetary Authority Law (2008 Revision)
Proceeds of Crime	Law (2008 Revision)
Money Laundering	Regulations (2009)
Terrorism	Law, 2009
Public Management and Finance	Law (2005 Revision)
Companies	Law (2009 Revision), and amendment
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 (2007 Revision)
Money Services	Law (2003 Revision), and regulations
Cooperative Societies	Law (2001 Revision), and regulations
Building Societies	Law (2001 Revision)
Development Bank	Law (2004 Revision)
Companies Management	Law (2003 Revision), and regulations
Standards:	Basel Core Principles for Effective Banking Supervision 9
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 10
Memberships:	OGBS Caribbean Group of Banking Supervisors Association of Supervisors of Banks of the Americas.

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.

31 Insurance companies, managers, brokers, agents

Insurance Law (2008 Revision)

Standards: International Association of Insurance Supervisors (IAIS) Core Principles of Insurance Regulation 11

Memberships: IAIS

Offshore Group of Insurance Supervisors 12

Mutual funds, fund administrators, securities investment businesses (market makers, broker-dealers, securities arrangers, securities advisors and securities managers)

Mutual Funds Law (2007 Revision)

Securities Investment Business Law (2004 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. The Authority issued two rules, one statement of guidance (SOG), and four regulatory policies during the year under review. These measures are listed in Table 16 and can be viewed in their entirety on the CMRAI website ¹⁰. An update to the Regulatory Handbook - Volume 1 ¹¹ was issued in March 2009. _____ ¹⁰ Rules

and SOGs can be viewed at: Policies and procedures can be viewed in the Regulatory Framework/ Regulatory Handbook section of the website at:

regulatoryframework/sub/default.aspx?section=PD&id=71 ¹¹ See link to Regulatory Handbook at note 13 above. ³² Table 16: List of Regulatory Measures Issued in 2008-2009

When Issued	Type of Standard	Title	Description
All Licensees	March 2009	Regulatory Policy	Consolidated Supervision This policy outlines that where the Authority acts as home or host supervisor with respect to licensees, that licensees and all affiliated entities in a group structure are subject to effective consolidated supervision.
Banking	Oct 2008	Regulatory Policy	Regulatory Policy Licensing Banks Sets out the Authority's criteria on licensing banks pursuant to Section 6 of the Banks and Trust Companies Law. The Policy outlines what is required on application and guides the applicant to the required information and documents. If further explain the classification of home and host regulated banks.
Nov 2008	Regulatory Policy	Regulatory Policy	Major Acquisition or Investments by Banks Sets out the manner in which the Authority will exercise its powers of approval pursuant to section 14(2) of the Banks and Trust Companies Law (2007 Revision).
Insurance	March 2009	Rule	Rule Market Conduct Class A Insurers, Agents and Brokers Sets out criteria that all licensed insurers must follow to ensure best practice in conducting business with customers.
March 2009	Rule	Rule Risk Management for Insurers	Sets out criteria which all licensed insurers must follow to ensure robust risk based framework is maintained in order to mitigate core risks facing the insurer.
March 2009	SOG	Statement of Guidance	Market Conduct Class A Insurers, Agents and Brokers To provide guidance on the requirement imposed on licensees by the Rule on Market Conduct. To provide a standard of best practice to insurance licensees in conducting business with customers.
Investments & Securities	August 2008	Regulatory Policy	Regulatory Policy Exemption from Audit Requirement for a Regulated Mutual Fund To set out conditions where the Authority may exempt a regulated mutual fund from the annual audit requirement

³³ OTHER REGULATORY DEVELOPMENTS Authority-Wide Responding to the International Financial Crisis CMRAI spent considerable time during the fiscal year closely monitoring the global financial crisis and assessing the potential impact on the Cayman Islands, and took a number of actions both in response to the unfolding situation and in anticipation of further developments. With the US sub-prime mortgage sector crash leading to the collapse of several major banking institutions world-wide, CMRAI instituted a requirement for Cayman-licensed retail banks to report more frequently and provide additional specified information for the Authority to monitor their health. All bank

licensees, and entities supervised by the Investments and Securities Division were asked to report on exposures to the Madoff fraud and, subsequently, the alleged Stanford fraud (see the Industry Overview section beginning on page 10). CMRAI also hosted meetings with industry representatives to be informed on industry impacts and responses, to inform on CMRAI's actions and to exchange perspectives on the way forward. After reviewing a number of reports by international standard setting organisations and government bodies that assessed causes of the crisis and recommended actions to prevent similar future occurrences, CMRAI undertook a review of local regulatory standards to assess whether any adjustments were needed. Particular attention was paid to factors seen as critical to the functioning of financial institutions and which had been identified as areas of focus by international standard setters, including liquidity, risk management, valuation, transparency, failure resolution and supervisory practices. These reviews continued throughout the year as other reports, publications and resolutions were issued by the international community. These actions resulted in CMRAI making a number of recommendations that were incorporated into measures implemented during the period (see Table 16 above) or which were under consideration at the end of the year. The Authority also further increased joint initiatives with overseas regulators to enhance cross-border supervision (see, for example, Banking - Supervisory Colleges below). In addition, CMRAI had to deal with an increase in problem entities, and was forced to take formal enforcement action against a number of entities that were unable to meet compliance requirements (see page 36, Enforcement). Banking Basel II During the period, CMRAI continued the process towards implementing the new Basel II framework in the Cayman Islands, with implementation 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 2010 and 2012. Further consideration will be given to the more advanced approaches thereafter. Work during the 2008-09 fiscal year entailed: policy and guideline development on market risk, credit risk, and operational risks; development of a new supervisory review structure; industry consultation; development of business requirements and validation rules for new reporting forms; and training.

12

Basel II is a new set of standards for establishing minimum capital requirements for banking organizations. It was developed by the Basel Committee on Banking Supervision, a group of central banks and bank supervisory authorities in the G10 (Group of 10 Industrialised Countries). Basel II takes into account innovations in banking markets, risk management and banks' internal processes since the first capital framework, commonly known as Basel I or the Basel Concordat, was introduced in 1988. Basel II is a more risk-sensitive approach to capital regulation. It is being implemented in G10 countries and a number of non-Basel member jurisdictions are also implementing Basel II as a requirement for banks operating in their jurisdiction. 34 Supervisory Colleges Periodically, international banking regulators meet to discuss the operations, and risk posed by banks with an international presence. The purpose is to share a holistic perspective of the institution and to co-ordinate a global supervisory approach that leverages on common experiences to address the most significant concerns. CMRAI participated in a number of supervisory colleges during the 2008-09 fiscal year covering a total of six banks. The colleges included one hosted by the Caribbean Group of Banking Supervisors during their annual conference held in May 2009. This college covered four banking entities licensed in Cayman and throughout the Caribbean. There were two colleges held in September 2009; one hosted by the Office of the Superintendent of

Financial Institutions in Canada (OSFI) which covered one bank and another hosted by the Bundesanstalt für Finanzdienstleistungsaufsicht in Germany (BaFin) which covered one bank.

Fiduciary New Authorisation Categories Changes in the Banks and Trust Companies Law, which came into effect just prior to, and in the first quarter of, 2008-09, created two new classes of trust entities that are not required to be licensed by CMRAI but are instead required to be registered. Controlled Subsidiaries: The Banks and Trust Companies Law was amended in 2007 and again in 2008 to allow for the establishment of controlled subsidiaries. A controlled subsidiary is an entity that has been registered with the Authority as being established as a wholly owned subsidiary of a licensed trust company and is deemed to not require a Trust Licence for the purpose of carrying on the business of issuing debt instruments or carrying on trust business connected with the trust business of its parent. Private Trust Companies Regime: The Banks and Trust Companies Law (2007 Revision) the Private Trust Companies Regulations, 2008, was gazetted in September 2008. These regulations created a new regime for companies that the regulations define as private trust companies. Private Trust Companies are locally incorporated companies that engage in trust business in respect of connected persons only. (A connected person has a familial or other defined relationship.) Amendment to Biannual Reporting Form The Fiduciary Services Division, in conjunction with the Policy and Banking Supervision divisions, continued to progress revisions to the biannual reporting form during the year. The form, a revision of the existing biannual form for licensees under the Companies Management Law, is intended to extend to trust companies licensed under the Banks and Trust Companies Law, including those that hold bank licences. It seeks to capture statistical and regulatory information thought necessary to enhance the regulation of trust and corporate services licensees. Consideration is now being given to the collection of data from the form electronically. Revisions to the form had been first drafted in the previous year. That draft underwent pre-consultation via a sample of members of the trust and companies management industries and was revised in light of comments received. At the end of the fiscal year the new draft was still under CMRAI's consideration. 35 Insurance Amendments to the Insurance Law In June 2008, The Insurance Law (2008 Revision) was gazetted, consolidating the Insurance Law (2007 Revision) and the Insurance (Amendment) Law, 2007. The law is currently being updated, primarily as a result of recommendations made by the International Monetary Fund following the organisation's March 2009 review of the jurisdiction. The updated law is expected to be passed during the 2009-10 fiscal year. Investments and Securities E-Reporting The electronic submission of funds audited accounts along with the Funds Annual Return (FAR) continued in its second year. The Investments and Securities Division's E-Reporting/FAR Enhancement Team continued to identify improvements to the FAR form in order to increase the amount of valuable information that can be collected from each fund and compiled to show statistical trends and concentrations within the data, such as fund market segment demographics and locations from which assets are physically being managed and administered. In addition, a team began examining ways in which the E-reporting platform can be expanded to facilitate increased automation of other work processes to improve the overall efficiency of the division. Using data gathered from the FARs, the Investments and Securities Division created the second edition of the Investments Statistical Digest, which provides aggregate statistics on the financial position, structure, investment strategies, subscription activity, fund administration and investment management services of Cayman Islands-regulated funds. For the first time, the Digest included comparative tables that captured the changes that occurred

from 2006 to 2007, highlighting certain trends occurring within the hedge fund industry. The digest was released in May. Data Enhancement Initiative Among the issues considered during CMRAI's review of regulatory standards across all sectors following the onset of the international financial crisis, were the concerns of international leaders, standard setters and investors regarding disclosure, transparency and their role in mitigating any systemic risks hedge funds pose to the global financial markets. The Authority began to look in 2008 at how Cayman could deepen transparency in the hedge funds industry without compromising the jurisdiction's competitiveness. One initiative under consideration at the end of the fiscal year was the expansion of information accessible from CMRAI's database to include name and addresses of funds' service providers (Registered Office, Fund Administrator, Investment Manager, Custodian, Auditors and Directors). In keeping with CMRAI procedure, industry consultation and cost-benefit analysis will be undertaken before a final recommendation is put forward on this issue. Securities Investment Business Law (SIBL) Working Group In February 2009, the Authority formed an internal working group to review the regulatory framework governing the securities investment business sector in the Cayman Islands and to make recommendations to CMRAI's management and Board of Directors on necessary changes to enhance the securities investment business regime. The internal working group comprises of the Head, Deputy Head and a Chief Analyst from the Investments and Securities Division, the General Counsel or in his absence a Legal representative, the Head of Policy and Development and the Head of Compliance. The working group is taking into account existing and proposed international standards along with any recommendations made by the International Monetary Fund following its assessment of the jurisdiction in March 2009. Any recommendation for changes in the current 36 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 goal of the Group will be the enhancement of the Securities and Investments Business regime in the Cayman Islands.

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 13 and Procedure Assessing Fitness and Propriety 14. The Compliance Division, which is tasked with conducting due diligence on applicants that the regulatory divisions refer to it, received 264 such applications during the 2008-09 fiscal year. This compares to 170 during 2007-08 and 211 during 2006-07. The breakdown of the applications for 2008-09, by division, is shown in Table 17.

Table 17: Due Diligence Applications Referred to the Compliance Division for 2008-09, with 2007-08 comparison

Banking	Fiduciary	Insurance	Investments	Other	Total
47	14	7	56	50	264
16	1	2	45	10	170
16	1	2	45	10	211

Applications as at 30 June 2009: 471475650264
Applications as at 30 June 2008: 161027450170

ENFORCEMENT CMRAI's Enforcement Manual 15 describes the policies, procedures and tools for the exercise of its enforcement powers in the event of non-compliance with the regulatory laws. The manual includes a ladder of compliance detailing the steps the Authority will follow in the event of non-compliance. Where appropriate, CMRAI will work with the licensee or registrant in an attempt to resolve regulatory issues prior to the exercise of enforcement action. The Authority took nine formal enforcement actions during 2008-09, the same number as in 2007-08 and two more than in 2006-07. Four of the enforcement actions taken in 2008-09 were on behalf of the Insurance Division, and the other five on behalf of the

Investments & Securities Division (ISD). The actions comprised three revocations/cancellations for ISD, three Appointment of Controllers (two for ISD, one for Insurance), and three Cease and Desist orders on behalf of the Insurance Division. Table 18 lists the formal enforcement actions taken by CMRAI's Compliance Division for 2008-2009.

13 Available online at:

[Procedures/General/GuidelinesFitnessAndPropriety.pdf](#) 14 Available online at:

[Appendices%20I%20%2015Mar2006%20EC%20.pdf](#) 15 Available online at:

[EnforcementManualJune%2006.pdf](#) 37

Table 18: Formal Enforcement Actions Taken by

CMRAI's Compliance Division for 2008-2009: Name of Entity Enforcement Action Taken

Effective Date Type of Authorisation Held Ft Japan Small Equity FundRegistration

CancelledSeptember12, 2008Registered Fund Proteus Capital CorpRegistration

CancelledFebruary 18, 2009Registered Fund MAK Global Fund, Ltd. Registration

CancelledFebruary 18, 2009 Registered Fund Colonial life Insurance Company (Trinidad)

Limited trading as CLICO (Cayman) Ltd. Cease and Desist from issuing New Policies with

Investment Features March 2, 2009 Class A External Insurer Licence Colonial life Insurance

Company (Trinidad) Limited trading as CLICO (Cayman) Ltd Cease and Desist from issuing

insurance policies of any kind April 8, 2009 Class A External Insurer Licence Sextant

Strategic Global Water Fund Offshore Ltd. Controllers Appointed May 15, 2009Registered

Fund Sextant Strategic Hybrid2Hedge Resource Fund Offshore Ltd. Controllers Appointed

May 15, 2009Registered Fund Colonial life Insurance Company (Trinidad) Limited trading as

CLICO (Cayman) Ltd Controllers Appointed May 15, 2009 Class A External Insurer Licence

British American Insurance Company Limited Cease and Desist from issuing insurance

policies of any kind June 29, 2009 Class A External Insurer Licence Litigation The Legal

Division conducts enforcement and cooperative action involving litigation, with the

Compliance Division's assistance. During the 2008-09 fiscal year, the following legal actions

were taken: CLICO (Cayman) Ltd The Authority placed CLICO (Cayman) Ltd. in

controllership on 15th May 2009. The Grand Court of the Cayman Islands recognised

the controllership upon the application of the controllers on 4th June 2009. Sextant

Strategic Global Water Fund Offshore Ltd. - CMRAI appointed controllers over Sextant

Strategic Global Water Fund Ltd. on 15th May 2009. The Grand Court of the

Cayman Islands recognised the appointed upon application by the controllers on 16th

June 2009. Sextant Strategic Hybrid2Hedge Resource Fund Offshore Ltd - CMRAI

appointed controllers over Sextant Strategic Global Water Fund Ltd. on 15th May 2009.

The Grand Court of the Cayman Islands recognised the appointed upon application by the

controllers on 16th June 2009. 38 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. 16 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

16 The complete list can be viewed via

the following link: [Websites With Cayman Addresses Not Registered Nor Licensed in the](#)

[Cayman Islands](#) 39 EXECUTION OF COOPERATIVE & ADVISORY FUNCTIONS

CROSS-BORDER COOPERATION The Monetary Authority Law (2008 Revision) (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), as well as through the Authority's active participation in international forums. Memoranda of Understanding 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.

17 During 2008-09, CMRAI added two bilateral MOUs and one multi-lateral MOU to the growing list of formal information- exchange and cooperation agreements with overseas regulators to facilitate cross-border financial services supervision. Table 19 shows the agreements and their effective date:

Table 19: International Information Exchange and Cooperation Agreements Concluded in 2008-09	Title	Effective Date
International Organization of Securities Commissions	Multilateral MOU Concerning Consultation, Cooperation and the Exchange of Information	24 March 2009
MOU with the Securities Commission of Brazil (Comiss o de Valores Mobili rios (CVM))		26 February 2009
MOU with the Malta Financial Services Authority		18 February 2009

Meanwhile, the Legal Division continued negotiations with the Agency of the Republic of Kazakhstan on Regulation and Supervision of Financial Markets and Financial Organisations; the US Federal banking agencies comprising of the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Office of Thrift Supervision and the Federal Deposit Insurance Corporation; the National Banking and Securities Commission of Mexico and the Financial Services Commission of Turks and Caicos. 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,

17 40 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) 18 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. Requests for assistance handled by the Compliance Division in 2008-09 were in connection with investigations into allegations of suspected insider trading, market manipulation, violation of anti-fraud provisions, misrepresentation of fund performance and other violations of securities laws. The Legal Division directly handles requests that are more routine in nature. These include obtaining information to allow the ORA to carry out its day to day functions of approval of licences, approval of persons subject to regulation and registration of applicants. The Authority received and dealt with a total of 113 requests for assistance from ORAs during 2008-09, compared to 163 requests during 2007-08 and 156 during the 2006-07 financial year.

International Initiatives Involving CMRAI International Organization Of Securities Commissions (IOSCO) Membership - CMRAI's highly anticipated acceptance to the

International Organization of Securities Commissions (IOSCO) was obtained on 10 June 2009 at the meeting of the Presidents Committee during IOSCO's 34th Annual Conference in Aviv, Israel. CMRAI was formally admitted as an ordinary (i.e., full) member of the group, the principal global standard setting body for the regulation of securities markets.

International Monetary Fund (IMF) Jurisdictional Assessment During the year, the Authority facilitated the IMF assessment of the supervision and regulation of the Cayman Islands financial sector, and hosted the on-site component of the assessment from 2-13 March 2009. The review was an update on the 2003 IMF assessment of the Cayman Islands, which was published in 2005. However, it did not include a separate review of Cayman's anti-money laundering regime as this had been done by the Caribbean Action Task Force (CFATF) in 2007 and the summary of that report would be included as part of the IMF's report. The IMF report was expected to be available during the 2009-10 fiscal year. At the end of the IMF's March visit the team and CMRAI conducted a joint workshop for CMRAI, other regulatory personnel and industry representatives on the topic How to conduct stress testing. Independent Review of British Offshore Financial Centres (the Foot Review)

Members of CMRAI's senior management met with Mr. Michael Foot and his assistant as part of the Foot Review on 17 March 2009. 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.

18 On the CMRAI website: 41

Overseas Territories Regulators Group Working Group on Hedge Fund Regulations in context of IOSCO Principles. CMRAI held the chairmanship of this group from November 2007 to February 2009. During the fiscal year, legal representatives from CMRAI, the Bermuda Monetary Authority and the BVI Financial Services Commission continued work on developing avenues of cooperation to support business continuity among the group's member jurisdictions (including consideration of the legislative and other arrangements needed to facilitate this). This work was ongoing at the end of the fiscal year. Participation in CFATF One of CMRAI's chief policy analysts participated as the financial examiner on the CFATF team of assessors that carried out the Mutual Evaluation Assessment of St Kitts and Nevis anti-money laundering and counter terrorism financing regime in October 2008. This followed CMRAI's participation in the CFATF mutual evaluation of the British Virgin Islands in February of 2008. The final reports for the British Virgin Islands, St. Lucia and St. Kitts and Nevis were finalised at the November 2008 Plenary held in St. Kitts. Offshore Group of Insurance Supervisors and International Association of Insurance Supervisors (OGIS, IAIS) - CMRAI continued its involvement as a member of the IAIS's 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. The Authority hosted the OGIS/IAIS workshop for captive insurance supervisors from 15-18 September 2008. The workshop was organised and funded by OGIS and IAIS with additional funding from the Caribbean Regional Technical Assistance Centre (CARTAC) and was for OGIS and IAIS members and observers. Thirty-one delegates from 17 jurisdictions attended, predominantly from the Caribbean, and Samoa and Vanuatu. The workshop covered the requirements of the Insurance Core Principles (ICPs), including corporate governance, internal controls and risk assessment and management; the role of directors of the insurer and, for captives, their insurance

manager; the regulatory risks that arise when insurers and insurance managers outsource key functions; and management of insurance and investment activities.

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 (2003 Revision). The MLRO filed 11 suspicious activity reports (SARs) with the Financial Reporting Authority (FRA) during 2008-09, compared to six filed during 2007-08, and six filed during 2006-07. The FRA made 25 onward disclosures to the Authority pursuant to the MOU between the FRA and CMRAI. This compares to eight made by the FRA during 2007-08. CMRAI assesses all onward disclosures to determine if further investigation and regulatory action is required.

42 Local Memoranda of Understanding One local agreement was brought into effect during the 2008-09 fiscal year: a Memorandum of Understanding with the Cayman Islands Stock Exchange on 12 February 2009.

ADVISORY ACTIVITY The Monetary Authority Law (2008 Revision) 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 Financial Secretary and the Cabinet as well as through meetings with the Financial Secretary and the Cabinet. The measures implemented or in development during 2008-09 are covered in the Regulatory Developments section of this report, beginning on page 31.

43 **OPERATIONAL SUPPORT & ADMINISTRATION** **HUMAN RESOURCE MANAGEMENT & DEVELOPMENT** Following a revision of its role and responsibilities during the previous year, the Human Resources Division reorganised itself in October 2008 into five functional areas: 1) Employee Services (which includes employee relations, contract administration, benefit plan administration, attendance, Immigration/Department of Employee Relations, etc.); 2) Recruitment and Selection; 3) Learning and Development; 4) Mail, Courier and Reception, and 5) Facilities/Security (covering all facility-related issues, parking, security and special event planning). There is one functional area left to create and that is Employee Wellness/Occupational Health and Safety. The changes were designed to enhance

service, improve practices and to facilitate a change in organisational culture and structure to support the Authority's quest to achieve its mission.

Staffing and Recruitment The Authority's staff complement rose from 122 at 30 June 2008 to 139 at 30 June 2009. Senior management recruits during the year were the new Head of Currency Deborah Ebanks, Head of Insurance Gordon Rowell & the Deputy Managing Director Supervisory Howard Blacker.

Table 20 shows the breakdown of staff by division. Table 20: Staff numbers by division at 30 June 2009, with June 2008 Comparison

Division	Actual staff numbers at 30 June 2008	Actual staff numbers at 30 June 2009
Banking	212	222
Compliance	89	89
Currency Operations	57	57
Fiduciary Services	89	89
Insurance	14	18
Investments and Securities	25	31
Legal	77	77
Managing Director's Office	46	46
Operations (Accounts, Information Systems & Human Resources)	23	23
Policy & Development	77	77
TOTAL	122	139

44 Following the creation of the recruitment unit, the recruitment process was revised and the new process standardised across the Authority. A policy documenting the procedures was in draft form at the end of the fiscal year. Six staff members were promoted during the period:

Staff	Division	New Position
Danna Ebanks	Currency	Senior Currency Officer
Ruwan Jayasekara	Insurance	Chief Analyst- Insurance
Bobette Bodden	Legal	Paralegal
Rayford Britton	Banking	Chief Analyst- Banking
Tammy Nixon	Insurance	Junior Analyst - Insurance
Francis Arana	Policy & Development	Deputy Head - Policy & Development

Job Classification and Compensation The Authority adopted a new job classification and compensation policy in June 2009 following completion of a job evaluation exercise begun in early 2008. The project had encompassed an examination of CMRAI's structure and compensation scheme to determine their effectiveness and efficiency; an evaluation of all jobs within the organisation according to criteria, including skills sets required and the relative value of the jobs; market pricing of those jobs, and review of the salary structure. Based on the outcome of the job evaluation and a market comparison of salaries, the salaries for some posts were rebalanced. The policy requires a formal comparison every two years and allows for more flexibility in the employee advancement process. It is anticipated to enhance the organisation's retention of staff.

Training During the first half of the financial year, the HR Division developed an in-house training programme to provide more specific training to more employees for less money. The programme was launched in April 2009 when CMRAI acquired and outfitted space for its new Learning Centre. The Learning and Development unit offers a variety of courses led by CMRAI staff members with specialised knowledge, as well as by international instructors who provide regulatory-specific training to teams of employees. Having on-site training has decreased considerably the time away from work since employees do not have to travel overseas for training. In addition, the costs of flights, accommodation and registration have been reduced and/or eliminated. A total of 248 staff members attended the courses between the launching of the Learning Centre and the end of the fiscal year. Five web seminars were held during that time with a total of 47 attendees.

Accommodation During 2008-09, CMRAI was able to lease an additional 1,979 square feet of office space, bringing total square footage to 25,574. The additional office space was provided for the Insurance Division, the Basel II project office, and for the Learning Centre.

INFORMATION SYSTEMS The major information and communications technology initiatives during 2008-09 are outlined below.

IT Governance Framework Work continued on implementing the internationally-accepted COBIT information technology governance framework. Following approval of the COBIT Vision and Implementation Roadmap in the prior fiscal year, the IT Governance Group was created in August 2009. The group comprises 10 members representing a cross section of divisions. It was mandated to develop

and manage the IT strategic and tactical plan, set and manage IT policies and standards, prioritise IT initiatives based on corporate strategy, monitor performance, manage risks, and serve as a secondary escalation point for unresolved IT issues/requests. Monetary Authority Regulatory System (MARS) Working within the COBIT governance framework, the MARS working group was initiated during the year to facilitate the development and implementation of MARS. It is planned that MARS will replace the supervisory and regulatory functions of the current CIISMA licensee/registrant database system as the main reference and storage point for entity information at the Monetary Authority. The goals of the project are to develop a system that has flexibility to meet changing business needs and regulations; promote data integrity, security, ownership and auditability, and enable ease of integration. Work was ongoing at the end of the year.

E-Reporting and Further Automation The Information Systems Unit implemented additional enhancements to the electronic-reporting system for funds (see page 35, Investments and Securities E-Reporting). Near the end of the year an action team comprising representatives from the Information Systems Unit, Investments and Securities Division and Legal Division was created to expedite the automation of manual processes undertaken in the Investments and Securities Division. Such automation, viewed as the next phase of e-reporting, is to enhance efficiency in the processing of the large numbers of applications and other submissions that the division handles. The team was tasked with identifying an automation system that would also be suitable for use by other divisions in CMRAI.

Basel II Implementation Project Work continued on the Basel II implementation project under the guidance of the Banking Division. Two members of the Information Systems Unit participated in the internal Basel II training being given to Banking staff to allow for the IT requirements to be more efficiently addressed. The IS unit assisted in the scoping and estimation of work and in the creation of tenders for the technology requirements of the Basel II implementation.

Other Projects Other projects undertaken by the Information Systems Unit during the 2008-09 fiscal year included the installation of 46 pieces of equipment for the Learning Centre; the engagement of a second local telecommunications provider to augment the Authority's existing telephone service; upgrading/replacement of staff desktop computer equipment and software and purchase of additional business equipment including photocopiers and scanners.

PUBLIC RELATIONS 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. Among its work during the year, the unit produced and disseminated some 34 news releases and notices; the quarterly issues of CMRAI's newsletter, The Navigator, which is distributed to over 300 local and overseas recipients; the 2007-08 CMRAI Year in Review; and quarterly and other reports to the Portfolio of Finance and Economics. The unit assisted the Investments and Securities Division in the production and release of the second edition of the Investments Statistical Digest, and updated CMRAI information in several external publications. Assistance was also provided to assisted senior CMRAI officials in the preparation of articles at the request of external publishers and in the preparation of speeches/presentations to local and overseas conferences, meetings and other functions. The major presentations delivered by CMRAI officials, as well as the releases and publications mentioned are available in the Media Centre and Publications sections of CMRAI's website (The unit also facilitated some 17 media interviews between CMRAI officials and local and overseas reporters, and the provision of information and other assistance on a daily basis to members of the public, Cayman government agencies, and

media representatives. 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. The unit maintained CMRAI's existing public website, coordinating with the Information Systems and other divisions, and continued work on the development a new website. In recognition of the importance of the website as one of the main tools for providing access to CMRAI information, the new site has been designed to be more client-focussed, easier to navigate and to give greater prominence to some of the previously underemphasised aspects of CMRAI's work.

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 January and June 2009, 20 FOI requests were received and processed. Full access was granted for four of the requests, one request was granted partial access, information for 47 three requests was already in the public domain, no records were found for one request, 10 requests were either excluded or exempted, and one request was withdrawn.

FINANCIAL CONTROL The Finance Division has responsibility for all financial matters relating to budget, annual licence 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 unit's objectives are essentially created by the financial requirements of the organisation and its stakeholders and the resources available to it. 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 008-09 for a total of \$14 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

The division collected approximately \$62.3 million in fees from regulated entities on behalf of the Government for the 2008-09 fiscal year, compared to \$63.4m for the prior year. A surplus of C\$1,185,903 for the 2007-08 financial year was paid over to the Government. Details of CMRAI's financial position for the year ending 30 June 2009 can be seen in the Audited Financial Statements that follow.

48 ANNUAL FINANCIAL STATEMENTS Cayman Monetary Regulatory Authority International 30 June 2009 49 50 51 52

NOTE20092008	\$\$ ASSETS	Currency Reserve Assets	Current Assets	Call Deposits	3b4,510,9983,086,014	Short-Term Investments	3a90,610,23482,417,627
		Fixed Deposits	3b1,527,6641,495,132	Interest Receivable, Deposits	4,910104,257	Stocks	71,711,8152,021,876
		Non-Current Assets	Long-Term Investments		3a2,080,22610,692,227	Total Currency Reserve Assets	100,445,84799,817,133
		Operating Assets	Current Assets	Current and Call Deposits	3b10,633,7779,769,830	Accounts Receivable	52,148,521263,371
		Interest Receivable	733,033	Other Receivables and Prepayments	317,663148,983	Non-Current Assets	Fixed Assets
		61,032,291941,942	Retirement Benefit Assets	10485,000422,000	Total Operating Assets	14,617,32511,549,159	TOTAL ASSETS
		115,063,172111,366,292	LIABILITIES, RESERVES AND CAPITAL	Liabilities	Demand Liabilities, Currency in Circulation	8a83,640,73378,897,508	Payable to The Cayman Islands Government
		-1,185,903	Other Liabilities and Payables	8b1,028,5751,198,528	Total Liabilities	84,669,30881,281,939	Reserves And Capital

Reserves General Reserve 9a, 1313,896,00113,056,514 Currency Issue Reserve
 9b435,107435,107 Capital Expenditures Reserve 9d5,304,5845,664,712 Operational
 Expenditures Reserve 9d758,1721,000,000 Total Reserves 20,393,86420,156,333
 Contributed Capital 9c, 1310,000,0009,928,020 Total Reserves and Capital
 30,393,86430,084,353 TOTAL LIABILITIES, RESERVES and CAPITAL
 115,063,172111,366,292 NOTE20092008 \$\$ INCOME Services Provided to The Cayman
 Islands Government12a14,000,00013,918,135 Investment Income1,191,8364,510,530
 Commission Income568,806582,636 Numismatic Income2h17,710323,371 Other
 Income506346 TOTAL INCOME15,778,85819,335,018 OPERATING EXPENSES Salaries
 and Other Benefits8,710,1137,934,244 General and Administrative12d2,737,6072,170,648
 Lease Rental11844,535634,635 Pension Contributions10676,184691,903 Professional
 Fees661,608339,167 Depreciation6504,429482,982 Staff Training and Recruitment
 340,952384,562 Loss on Numismatic Items2h198,989- Official Travel194,499175,872
 Conferences and Seminars183,571254,714 Directors Fees12b156,583225,000 Management
 and Custody Fees3a148,452147,661 Realised Loss on Investments108,884303,891 Loss on
 Disposal of Fixed Assets2,941- TOTAL OPERATING EXPENSES15,469,34713,745,279 NET
 INCOME309,5115,589,739 ALLOCATION OF NET INCOME Net Income for the
 year309,5115,589,739 Transfer to General Reserve-(403,836) Transfer to Contributed
 Capital(71,980)- Transfer to Capital Expenditures Reserve(237,531)(3,000,000) Transfer to
 Operational Expenditures Reserve-(1,000,000) Payable to the Cayman Islands
 Government-(1,185,903) -- Cayman Monetary Regulatory Authority International
 STATEMENT OF FINANCIAL POSITION 30 June 2009 (Expressed in Cayman Islands
 Dollars) The accompanying notes are an integral part of these financial statements 53
 NOTE20092008 \$\$ INCOME Services Provided to The Cayman Islands
 Government12a14,000,00013,918,135 Investment Income1,191,8364,510,530 Commission
 Income568,806582,636 Numismatic Income2h17,710323,371 Other Income506346 TOTAL
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 STATEMENT OF COMPREHENSIVE INCOME For the year ended 30 June 2009 (Expressed
 in Cayman Islands Dollars) The accompanying notes are an integral part of these financial
 statements 54 Cayman Monetary Regulatory Authority International STATEMENT OF
 CHANGES IN RESERVES AND CAPITAL At 30 June 2009 (in Cayman Islands Dollars) The
 accompanying notes are an integral part of these financial statements 20092008 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 Balance At

01 July

13,056,514,435,1075,664,7121,000,0009,928,02011,430,790435,1072,833,718010,944,902
Transfers in : From Net Income 237,53171,980403,8363,000,0001,000,000 From
Contributed Capital 1,016,882 From Capital Expenditures Reserve 597,659169,006 From
Operational Expenditure Reserve 241,828 Change in Retirement Benefits Assets
36,000 Transfers out: To General Reserve (1,016,882) Cost of Fixed Assets
Purchased (597,659)(169,006) Cost of Operational Expenses (241,828) Balance at 30
June

13,896,001435,1075,304,584758,17210,000,00013,056,514435,1075,664,7121,000,0009,928,020

15% of Demand Liabilities 12,546,11011,834,626 55 Cayman Monetary Regulatory
Authority International STATEMENT OF CASH FLOWS For the year ended 30 June 2009 (in
Cayman Islands Dollars) The accompanying notes are an integral part of these financial
statements 20092008 \$\$ CASH FLOWS FROM OPERATING ACTIVITIES Net Income for the
year309,5115,589,739 Adjustments to reconcile Net Income to Net Cash Provided By
Operating Activities: Depreciation504,429482,982 Loss on disposal of Fixed Assets2,941-
(Gain) on Defined Benefits Assets(63,000)- 753,8816,072,721 Net change in Working Capital
Decrease in Investments419,3944,842,620 Decrease in Interest Receivable - Currency
Reserve Assets99,347184,889 Decrease/(Increase) in Interest Receivable - Operating
Assets2,959(3,033) (Increase)/Decrease Accounts Receivable(1,885,150)3,698,761 Increase
in Other Receivables and Prepayments(168,680)(66,961) Increase in Other Liabilities and
Payables(169,952)(104,315) Decrease/(Increase) in Stocks310,061(258,182) Cash (used
by)/generated from Operations(638,140)14,366,500 Increase in Demand
Liabilities4,743,2252,692,244 NET CASH PROVIDED BY OPERATING

ACTIVITIES4,105,08517,058,744 CASH FLOW FROM INVESTING ACTIVITIES Acquisition
of Fixed Assets(597,659)(169,006) Net proceeds on disposal of Fixed Assets(60)- NET
CASH USED BY INVESTING ACTIVITIES(597,719)(169,006) CASH FLOWS FROM
FINANCING ACTIVITIES Contribution paid to The Cayman Islands

Government(1,185,903)(6,782,067) NET CASH USED IN FINANCING

ACTIVITIES(1,185,903)(6,782,067) INCREASE IN CASH AND CASH EQUIVALENTS
2,321,46310,107,671 CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR
14,350,9764,243,305 CASH AND CASH EQUIVALENTS, END OF THE

YEAR16,672,43914,350,976 56 Cayman Monetary Regulatory Authority International
STATEMENT OF COMMITMENTS AND CONTINGENT LIABILITIES For the year ended 30
June 2009 (in Cayman Islands Dollars) The accompanying notes are an integral part of these
financial statements TYPE One year or Less \$ One Year to Five Years \$ Over Five Years \$
Total \$ CAPITAL COMMITMENTS Land & Buildings---- Other Fixed

Assets1,897,595156,030-2,053,625 Other Commitments---- TOTAL CAPITAL
COMMITMENTS 1,897,595156,030-2,053,625 OPERATING COMMITMENTS

Non-cancellable accommodation leases942,922686,192-1,629,114 Other non-cancellable
leases - Business303,079669,047-972,126 Non-cancellable supply of goods and services----
Other operating commitments25,00050,000-75,000 TOTAL OPERATING COMMITMENTS
1,271,0011,405,239-2,676,240 TOTAL COMMITMENTS 3,168,5961,561,269-4,729,865 57

Cayman Monetary Regulatory Authority International NOTES TO THE FINANCIAL
STATEMENTS For the year ended 30 June 2009 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 2009 the Authority has 139 employees (2008: 122). 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 Authority made a decision to implement early adoption of IAS 1 (Revised) and the changes are reflected in the 30 June 2009 Financial Statements.

b) Basis of preparation. The Financial Statements of the Authority are prepared on the accrual basis under historical cost convention and are in accordance with International Financial Reporting Standards (IFRS). The reporting currency is Cayman Islands Dollars.

c) Investments. 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.

d) Foreign currency. 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 58 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 Statement of Financial Position date.

e) Revenue recognition. The Authority depends on the services it provides to the Cabinet of the Government of the Cayman Islands, as its main source of income to meet its obligations. 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.

f) Fixed Assets. Fixed Assets are stated at historical cost less accumulated depreciation. 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.

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. (See also note 7).

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 2009 is \$14,546,997 (2008: \$14,579,618). 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) Cash and Cash Equivalents. For the purposes of the Statement Cash Flows, cash and cash equivalents consist of current and call deposits and fixed deposits maturing within 90 days from the date of acquisition. (See also Note 3 b).

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. 59 A defined benefit plan is one that defines an amount of benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation. The asset or liability in respect of defined benefit plans is the difference between the present value of the defined benefit obligation at the Statement of Financial Position date and the fair value of plan assets, adjusted for unrecognised actuarial gains/losses and past service cost. Where a pension asset arises, the amount recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in future contributions to the plan. The pension costs are assessed using the Projected Unit Credit Method. Under this method the cost of providing pensions is charged in the Statement of Comprehensive Income so as to spread the regular cost over the service lives of employees in accordance with advice of the actuary, (who is due to carry out a full valuation of the plans every year). The pension obligation is measured at the present value of the estimated future cash outflows using discount estimated rates based on market yields on high quality corporate bonds at the time of the accounting date which have terms to maturity approximating the terms of the related liability. Obligations for contributions to defined contribution and defined benefits pension plans are recognized as salary and other benefits expense in the Statement of Comprehensive Income as incurred. (See also note 10). 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 2009 is \$223,954 (2008: \$230,019) and is included in the other liabilities and payables. l) Accounts Receivable. The receivables are stated at original invoice amount less provision for doubtful debts. (See also note 5). m) Accounts Payable. The payables are stated at historical cost. n)

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. 3. 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 also 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 also 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 percent of demand liabilities) and local assets (not to exceed ten percent of Demand Liabilities). As at 30 June 2009, the value of Currency Reserve Assets was \$100,445,847 (2008: \$99,817,133) representing 120% (2008: 126.51%) of total demand liabilities. The value of external assets equated to 115.36% (2008: 121.85%) while the value of local assets as at 30 June 2009 equated to 4.73% (2008: 4.67%) 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 Islands Monetary Authority, 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 15/05/2012. 2009/2008 Range of Maturities: \$1 5 Years 2,080,226,179,176 6 10 Years 8,513,051 \$2,080,226 \$10,692,227 Short-term Investments. US Treasury Bills and Cash Management Bill with maturity dates ranging between 02/07/09 and 17/12/09, GSE Securities with maturity dates ranging between 02/07/09 and 17/12/09, and the Federal Reserve Repurchase Agreement with a maturity date 01/07/09. 2009/2008 \$ \$ U.S. Treasury Note 2,947,542 US Treasury Bills/Cash Management Bill 61,192,080 24,152,213 GSE Securities Maturing 1,487,114,186,730 AAA CP/Note 11,631,142 Federal Reserve Repurchase Agreement at 0.01 % 29,416,667 29,500,000 Total Short-term Investments, at amortized cost 90,610,234 \$ 82,417,627 Fair Value of Short-term Investments 90,610,234 \$ 82,414,211 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 2009, domestic deposits represent 3.84% (2008: 3.55%) of Demand Liabilities. 61 Holding 2009/2008 Currency \$ \$ i) Operating Assets Current KYD (1,277,162) (197,151) Savings KYD 5,191,449 4,338,414 Call USD 6,718,789 5,627,867 CI Cash on Hand KYD 700 700 Current and Call Deposits 10,633,776 9,769,830 ii) Currency Reserve Assets Domestic Deposits Call GBP 4,671 5,642 Savings KYD 443,077 112,483 Call USD 1,235,536 1,190,050 Foreign Deposits - Federal Reserve Bank USD 140,481 122,790 Investment Portfolio USD 2,687,233 1,655,049 Total Call Deposits - Currency Reserve 4,510,998 3,086,014 Domestic - Fixed Deposits USD 1,527,664 1,495,132 Total Operating Cash and Cash Equivalent 16,672,438 14,350,976 Interest earned on domestic call accounts at rates ranging from 0.03125% to 0.5% during the year ended 30 June 2009 (2008: 0.5% to 2.0%). The domestic fixed deposits earned interest at rates ranging from 0.3669% to 3.2918% during the year ended 30 June 2009 (2008: 2.18%). 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 2009 interest earned was \$6,043 (2008: \$129,243). 4. Financial Instruments 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). Financial assets that potentially subject the Authority to credit risk consist

principally of current, call and fixed deposits, long and short-term investments, accounts and interest receivable, and other receivables and prepayments. The Authority's current, call, and fixed deposits are placed with high credit quality institutions. Credit risk with respect to long and short-term investments, accounts and interest receivable, and other receivables and prepayments is limited because the Authority only transacts business with counterparts it believes to be reputable and capable of performing their contractual obligations. Accordingly, the Authority believes it has no significant concentrations of credit risk.

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 Reserves Assets are, in order, security liquidity, income. Accordingly, the Authority believes that it is not exposed to any significant level of liquidity risk.

62 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 3. 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 3. 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.

5. Accounts Receivable 2009/2008 \$ \$ Services provided to the Cayman Islands Government 2,004,551 257,383 Other Receivables 180,994 53,812 Provision for doubtful accounts (37,024) (47,824) Total Accounts Receivable, net 2,148,521 \$ 263,371

6. Fixed Assets Furniture & Fixtures
Leasehold Improvement Computer Equipment Office Equipment Motor Vehicle Total
Original Cost \$ \$ \$ \$ \$ \$ Balance as at
01/07/08 668,045 694,341 1,701,951 532,379 47,200 3,643,916 Additions
37,634 177,760 238,673 143,593 597,660 Disposals
(10,351) (438,544) (5,040) (24,600) (478,535) Balance as at 30/06/09
695,328 872,101 1,502,080 670,932 22,600 3,763,041 Accumulated Depreciation Balance as at
01/07/08 532,172 536,244 1,226,912 381,018 25,628 2,701,974 Charges for the
year 51,843 75,266 300,758 72,042 4,520 504,429 Relieved on
disposals (7,470) (438,543) (5,040) (24,600) (475,653) Balance as at
30/06/09 576,545 611,510 1,089,127 448,020 5,548 2,730,750 Net Book Value as at 30/06/09
118,783 260,591 412,953 222,912 17,052 1,032,291 Net Book Value as at 30/06/08
135,873 158,097 475,039 151,361 21,572 941,942

63 7. Stocks 2009/2008 \$ \$ External Bullion from the melt-down of coins 387,322 495,647 Coins awaiting melt-down 355,243 428,310 Coins for resale 169,427 174,851 Museum items 52,235 53,078 964,227 1,151,886 Local Inventory of unissued currency notes and coins 747,588 869,990 Total stocks 1,711,815 \$ 2,021,876 The values stated in the financial statements as at 30 June 2008 for bullion from the melt-down of coins (\$504,473), coins awaiting melt down (\$428,322) and coins for resale (\$166,013) have been re-classified. The value of museum items (\$53,078) and total value of bullion held (\$1,151,886) did not change.

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: 2009/2008 \$ \$ i) Currency notes in circulation 74,698,380 70,197,270 ii) Currency coins in circulation 8,942,353 8,700,238 Total Demand Liabilities 83,640,733 \$ 78,897,508

b) Other

liabilities. As at 30 June 2009, Other Liabilities included unsettled investment management and custody fees of \$36,531 (2008: \$131,111).

9. Reserves and Capital 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; the amount due for the year ended 30 June 2009 is \$0 (2008: \$1,185,903).

64 a) 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. Reserve assets are held predominantly in United States Dollars, with minimal holdings in Cayman Islands Dollars and British Pound Sterling.

b) Currency Issue Reserve. Prior to 1 January 2003 the cost of printing of notes or minting of coins (unissued and issued) was recorded against the Currency Issue Reserve (2002: \$250,501). The Currency Issue Reserve was set at a level deemed necessary to meet an estimated future printing or minting cost. This effectively expensed the cost of printing or minting in that period. After 1 January 2003 the cost of printing and minting was set up as a stock of unissued currency and only the cost of currency issued into a circulation is expensed. As a result of this change the Currency Issue Reserve was adjusted as at 1 January 2003 by \$314,959 (the cost of currency notes printed prior to 1 January 2003 but on hand as at 1 January 2003). 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 \$375,000.

c) Capital. The authorised capital of the Authority is \$100,000,000. The Cayman Islands Government is the sole subscriber and has contributed \$10,000,000 as at 30 June 2009 (2008: \$9,928,020). The Cabinet of the Cayman Islands Government had made a commitment to increase the Contributed Capital of the Authority to a minimum of \$10,000,000 by yearly transfers of approximately \$500,000 from Operating Surplus.

d) Capital and Operational Expenditures Reserve. 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 projects such as E-Reporting, Basel II, Document Management and a Currency Vault at the new Government Administration Building. This Reserve will also be used to acquire other assets to provide for the increase in the staff count and replacement and/or upgrade of existing assets. The Operational Expenditures Reserve will fund the operating cost associated with these key projects, and other operating expenses such as the outsourcing of on-site inspections, where there is a shortfall in income in any given year.

10. Pensions Pension contributions are paid for all eligible employees on their pensionable emoluments. The majority of the employees are participants in the Public Service Pensions Plan, with a small number participating in other private plans, which are all defined contribution schemes. Public Service Pensions 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 65 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 2008-09 (2007-08: 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 those employees in the defined benefit plan, the Authority pays both the employer and employee contributions. The Plans are funded at rates of: - 2009/2008 Defined Contribution Plans Employee 6% Employer 7% Defined Benefit Plans Employee 6% Employer 7% The Actuary to the Pensions Board has valued the Fund as at 30 June 2008. 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 2009 was \$676,184 (2008: \$691,903). 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 2009, 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:

	2008	2007	2006
Net Present Value of Funded Obligation	(2,791)	(2,810)	(2,768)
Fair Value of Plan Assets	3,522	3,564	3,224
Defined Benefit Asset	731	754	456
Unrecognised Actuarial Gains	(246)	(332)	(70)
Defined Net Benefit Asset in the Balance Sheet	485	422	386

The amount of the defined benefit asset as at 30 June 2009 cannot be determined by management at this time, as there has been no update to the actuary's report since 30 June 2008.

	30 June 2008	30 June 2007	\$000	\$000
Pension Expense for fiscal year ending				
Company Service Cost	197	182		
Interest Cost	176	173		
Expected Return on Assets (net)	(261)	(240)		
Recognition of Net Loss-- Total Pension Expense	112	115		
Reconciliation of Defined Benefit Asset/(Liability)			30 June 2008	30 June 2007
Defined Benefit Asset	422	386		
Net Pension Expense for Fiscal Year	(112)	(115)		
Employer Contributions	175	151		
Defined Benefit Asset	485	422		
Change in Defined Benefit Obligation over year ending:				
30 June 2008	30 June 2007	\$000	\$000	
Defined Benefit Obligation at end of Prior year	2,810	2,768		
Company Service Cost	197	182		
Interest Cost	176	173		
Plan Participant Contributions	150	174		
Net Actuarial Gain	(542)	(177)		
Transfers between other participating Entities-	(310)			
Defined Benefit Obligation at End of Year	2,791	2,810		
Change in Plan Assets over year ending				
30 June 2008	30 June 2007	\$000	\$000	
Fair Value of Plan Assets as at End of Prior Year	3,564	3,224		
Employer Contributions	175	151		
Plan Participant Contributions	150	174		
Transfers Between Other Participating Entities-	(310)			
Expected Return on Assets (net)	261	240		
Asset Gain	(628)	166		
Other-	(81)			
Fair Value of Plan Assets as at End of Year	3,522	3,564		
Change in Unrecognised Net Actuarial Loss/(Gain)				
30 June 2008	30 June 2007	\$000	\$000	
Unrecognised Net Actuarial Gain	(332)	(70)		
Amortisation Cost for Year-- Liability Gain	(542)	(177)		
Asset Loss / (Gain)	628	(85)		
Unrecognised Net Actuarial Gain	(246)	(332)		

67 Allocation of Assets The Distribution of the Plan Assets, as at 30 June 2008 and 2007, based on the share of the total Fund allocated to the Authority was as follows: - 30 June 2008/30 June 2007 %%

	2008	2007
Global Equities	46	59
Bond Investments	43	34
Property	5	-
Cash/Other	6	7

Total 100100 Actuarial Assumptions The principal Actuarial Assumptions used to Determine Benefit Obligations at 30 June 2008 and 2007 are as follows: 30 June 2008 30 June 2007 % Discount Rate 6.75 6.25 Rate of Salary Increase 4.00 4.00 Rate of Price Inflation 2.50 2.50 Rate of Pension Increases 2.50 2.50 The Economic Assumptions used to Determine Net Periodic Benefit Cost for the Year ending 30 June 2008 and 2007 are as follows: 30 June 2008 30 June 2007 % Discount Rate 6.25 6.25 Expected long-term Return on Plan Assets 7.00 7.00 Expected long-term Return on reimbursement rights-- Salary increase 4.00 4.00 Rate of Inflation 2.50 2.50 Pension Increases 2.50 2.50 Other Assumptions Mortality Standard U.S. mortality rates Retirement Age completion of age 57 and 10 years of service Asset Valuation Fair (Market) Value 68 11.

11. Commitments a) Capital Commitments. The Authority has 3 contracts for the implementation of the Basel II project, which has a scheduled completion date of December 2010, totalling CI\$1,955,875. In addition there is a contract for Vault Management for CI\$97,750. 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. Of this space 24,774 is renewal and 2,159 is new space. ii. There is 1 lease agreement for 800 square feet (renewal) effective 1 July 2009 for 12 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\$17,000. ii. An agreement with the Brac Informatics Centre (renewed) effective 1 April 2009 at a monthly cost of US\$13,308.45 for a five year period. Rental payments under operating leases are charged to the Statement of Comprehensive Income in equal installments over the period of the leases. Other Operating Commitment - relates to the Thomas Jefferson Memorial Scholarship.

12. 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 the annual license fees (these fees do not form a part of the Authority's revenue) and the regulator and supervisor of the financial services business. These services form a part of the Outputs purchased by Government. 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 nine directors as of 30 June 2009. The fees of \$156,583 (2007-8: \$225,000) relates to payments made to the nine directors only. 69 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 13 in 2008-9 (2007-8: 13) and salaries & other short term benefits expensed in 2008-9 was \$1,554,681 (2007-8: \$1,467,609). d) Government Departments. The following Cayman Islands Government departments/entities provided services to the Authority during the year ended 30 June 2009:

i. Office of the Auditor General at a cost of \$46,000 (2007-8: \$41,000); ii. Internal Audit Office; iii. Computer Services Department; iv. Legal Department; v. Public Service Pension Board (see Note 10); vi. Public Works Department; vii. Department of Environmental Health; viii. Post Office; ix. Lands and Survey Department; x. Government Information Services; xi. The Royal Cayman Islands Police Service; xii. Cayman Islands Investment Bureau

13. Prior Period Adjustment In prior years, adjustments relating to Retirement Benefit Asset (IAS 19 -adopted in the June 2006 financial statements) and Capital Expenditures Reserves spending (in the June 2007 and 2008 financial years) were made through the Contributed Capital account. In 2009, adjustments have been made to reflect these prior period entries through the General Reserve which acts as a quasi retained earnings for the Authority, in a manner consistent with IAS 8 Changes in Accounting Errors. The amounts adjusted are as follows:- i. An adjustment of \$422,000 for Retired Benefit Asset (up to June 2008) transferred to the General Reserves; and ii. An adjustment of \$799,888 for Capital Expenditure (funded from the Capital Expenditures Reserve) undertaken in 2007 and 2008 These adjustments brought Contributed Capital at June 2008 to \$9,928,020. 70 71