CAYMAN ISLANDS MONETARY AUTHORITY

ANNUAL REPORT

1 JULY 2010 – 30 JUNE 2011

The Cayman Islands Monetary Authority Annual Report was prepared by the
Cayman Islands Monetary Authority

Unless otherwise stated, the currency noted in this publication is expressed in Cayman Islands dollars
(CI$1=US$1.20)

Where referenced in this publication:
$1 trillion = $1,000,000,000,000
$1 billion = $1,000,000,000

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CIMA'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

The Cayman Islands achieved a number of positive milestones in its development as a competitive, well-regulated, and recognised international financial services centre during fiscal year 2010-2011. In carrying out its role as the jurisdiction's main financial services regulator, the Cayman Islands Monetary Authority was able to contribute significantly to the process.

Strong industry activity

Despite the lingering global economic recession and the challenges this brought internationally and locally, institutions and individuals from across the world continued to demonstrate their confidence in the Cayman Islands through high levels of financial business activity. The continued strength of the financial services industry and its importance to global economic activity can be seen in several sectoral indicators.

As global banking institutions continued to consolidate, the number of Cayman-licensed banks stood at 250 at 30 June 2011, six per cent below the number of banks under licence at same date in 2010. Nevertheless, with the banks' international liabilities totalling US$1.697 trillion as at June 2011, the Cayman Islands ranked as the fifth largest banking centre (measured by international liabilities) among the 42 jurisdictions reporting statistics to the Bank for International Settlements. In terms of international assets, Cayman ranked sixth, with these assets standing at US$1.656 trillion.

Some 94 per cent (or US$1.59 trillion) of the banks' liabilities were used to provide capital to developed countries ($1.5 trillion) and Latin America ($87 billion), revealing more clearly the role of the Cayman Islands as an intermediary facilitating the provision of capital for cross-border investments.

Cayman retained its long-established place as the second largest domicile worldwide for captive insurance companies, and the largest for health care captives, with a total of 725 and 254 such companies, respectively, under licence at June 2011. While the total number of captives declined four per cent over the prior year, the assets of these companies reached US$57.405 billion – a 36 per cent jump over the prior fiscal year-end figure. CIMA issued 36 captive licences in 2010-11, eight more than in 2009-10, underscoring the continued demand for the use of Cayman captives, especially for medical malpractice and workers compensation coverage.

The number of regulated funds (registered, administered and licensed) totalled 9,409 at 30 June 2011, which kept the jurisdiction far ahead of other fund domiciles. As was the case in most fund jurisdictions, the number of Cayman-regulated funds at June 2011 was less than the number at June 2010. However, this was a marginal decline (totalling 0.8 per cent) and was considerably smaller than the 3.5 per cent reduction recorded the previous year.

The Cayman Islands also remained a leading jurisdiction from which trust and company management services are provided. The number of trust licenses and registrations in effect showed a net growth of 2.5 per cent, from 362 to 371. Company managers and corporate service provider licences increased by eight per cent to 91.

In the local market, the number of insurance providers remained stable, with 29 domestic insurance licences in effect at the end of the year. This followed one cancellation and one addition. Net earned premiums stood at $CI226.45 million (audited) for calendar year 2010 and estimated net income was CI$76.96 million for the same period.

The number of retail banks remained unchanged at seven. Total credit from the retail banks to the local market increased by 2.6 per cent, to $3.57 billion. This was comprised mainly of credit to the public sector, while credit to the commercial private sector remained steady and credit to households decreased marginally. The retail banks remained relatively sound. The capital adequacy ratio of the six locally incorporated banks averaged 22 per cent as at June 2011, far in excess of both the eight per cent minimum set by the Basel Committee on Banking Supervision, and the 10 per cent set by Cayman's Banks and Trust Companies Law. While the banks saw a slight deterioration in asset quality, with the ratio of nonperforming loans to capital increasing from 10.4 per cent to 11.7 percent, earnings, profitability and liquidity all improved.

Cayman Islands currency, issued by CIMA, in circulation at 30 June 2011 reached $84.9 million, up roughly nine per cent above June 2010. At fiscal year's end, the reserve assets, which back the currency, valued 112.58 percent of total demand liabilities, underscoring the health of the local currency.

Emerging prominence in the international standard-setting community

The jurisdiction's efforts over the past several years to adapt to, and adopt, new and evolving standards governing cross border financial services, to increase engagement and cooperation with the international community, and to be acknowledged as a jurisdiction of quality bore useful fruit as the Cayman Islands gained increasing recognition among leading international standard setters. As a result, additional doors were opened during 2010-11 to allow Cayman deeper involvement and influence in the work of these bodies.

In September 2010, the Global Forum on Transparency and Exchange of Information for Tax Purposes adopted the report on its Peer Review of the Cayman Islands. The Phase 1 review, carried out in the first half of 2010, assessed the quality of the jurisdiction's legal and regulatory framework for the exchange of information for tax purposes. Cayman was found to have in place all but one of the nine essential elements assessed. A year later, the Global Forum would acknowledge in its supplementary report on Cayman, that the jurisdiction now had all nine elements in place.

Preparations for the peer review were spearheaded by Cayman's International Tax Cooperation Team, which also piloted the activities to implement recommendations from the exercise and the preparation of Cayman's supplementary report (submitted in July 2011) that formed the basis of the revised assessment adopted by the Global Forum in September 2011. As part of its advisory and cooperative functions, CIMA has been integrally involved in this work. The team is led by CIMA's Chairman George McCarthy, OBE, and includes CIMA's Deputy Managing Director – General Counsel Langston Sibblies QC, and myself, alongside Cayman's Attorney General, Tax Information Authority and Ministry of Finance representatives.

During 2010-11, the team also added four new bilateral tax information exchange agreements to the 20 that were already in place, and continued to represent the Cayman Islands on the Global Forum's Steering Committee and Peer Review Committee. This included involvement in the process of revising the peer review methodology, and preparations to host the Peer Review Group meeting in Cayman in July 2011.

CIMA maintained its involvement on several international regulatory bodies and participated in international forums and initiatives. Our aim was to ensure that Cayman's perspectives could be heard, to contribute to standard setting and to demonstrate the high quality of regulation. Included in this work was our continued participation in several teams organised within the International Association of Insurance Supervisors (IAIS) to develop revisions to the Core Principles of Insurance Supervision. The revised Core Principles were formally adopted in September 2011. In June 2011, we acceded to the IAIS

Multi-lateral Memorandum of Understanding (one of six that we concluded during the fiscal year) and continued to serve as assessors for other MMOU applicants.

In November 2010 we began the second year of our two-year appointment as the Caribbean Group of Banking Supervisors' representative on the Board of the Association of Supervisors of Banks of the Americas (ASBA).

The work of the Cayman Islands, and CIMA, on the international stage during 2010-11 resulted in several appointments that became effective shortly after the fiscal year's end. Among these was Cayman's appointment as a member of the Financial Stability Board (FSB) Regional Consultative Group of the Americas; CIMA's appointment to the newly created post of Deputy Chairman of the Group of International Financial Centre Supervisors and to the IAIS Executive Committee.

Refined strategic priorities

In August 2010 CIMA's Board of Directors formally approved and adopted a set of medium-term strategic priorities to guide CIMA's work for the next two-to-three years. These priorities, which had been in development from the prior financial year, were determined within the context of CIMA's existing statutory functions of financial sector regulation and supervision, currency management, international cooperation and the provision of advice to the Government, as well as CIMA's obligations, as listed in the Monetary Authority Law. They also came out of an assessment of the prevailing global and local economic challenges and the importance of the financial services industry to Cayman's all-round development, threats to Cayman's international reputation, and CIMA's own operations, supervisory processes and use of resources.

The priorities adopted were: 1) modernise regulation, 2) enhance supervision, 3) intensify international cooperation and involvement, 4) facilitate further development of the Cayman Islands as an international financial services centre, and 5) increase CIMA's effectiveness and cost-efficiency.

To a large extent these priorities were interdependent, and several of the initiatives undertaken during the year aimed to fulfil a number of the objectives at the same time. For example, in developing the framework for an independent oversight body for Cayman auditors, and preparing to implement the Alternative Investment Manager Oversight Directive, we intensified our international involvement, demonstrated to external authorities such as the European Securities and Markets Authority the quality and scope of regulation, and extended Cayman's ability to provide financial services to the European market despite the increasingly stringent requirements of that market.

Another example: CIMA was instrumental in drafting the new Insurance Law, which was passed in the Legislative Assembly in September 2010, and in the development and refinement of supporting regulations. This provided a modern framework for the regulation of insurance, which meets international standards, incorporating, as it does, recommendations made by the IMF. It provides for enhanced supervision of the sector by introducing stricter reporting requirements for domestic insurers, and the subdivision of international insurers into three categories so as to more closely align regulatory and supervisory requirements to the type of business. At the same time, the changes facilitate expansion of the sector by creating new classes for reinsurance companies and special purpose vehicles.

The Authority successfully launched *CIMAConnect* in October 2010, allowing authorised representatives of investment funds to submit applications for CIMA approvals through a secure internet portal and automating the initial processing of the applications. In addition, we extended the electronic reporting technology, which that had been in use in the Investments and Securities Division, to enable banks to submit reports electronically as part of the implementation of the Basel II supervisory framework in Cayman. With the implementation of Pillar 1 of the framework from January 2011, banks were required to electronically file their quarterly prudential reports and Basel II reports through the new Basel II reporting portal as of that date. These were among initiatives that increased CIMA's effectiveness and cost-efficiency while enhancing supervision.

We created a Statistics Unit within the Policy and Development Division during the year. This, along with the supporting information technology infrastructure, enabled the Authority to carry out more detailed data analysis and reporting, enhancing our ability to monitor the financial system's soundness, while increasing the industry's transparency. These expanded statistics are published throughout the Industry Overview section of this annual report, as well as on CIMA's website.

Managing ongoing activities

Throughout the year, CIMA continued with the regulation and ongoing supervision of authorised entities, which numbered over 13,000 licensees and registrants by June 2011. Our routine activities involved receiving and making determinations on requests for authorisation and termination of licences and registrations, and for other CIMA approvals such as director and beneficial owner changes; conducting due diligence; processing fee payments for the Government; reviewing statutory reports, carrying out prudential meetings and on-site inspections to monitor licensee/registrant compliance; dealing with non-compliant entities and initiating and managing enforcement action as needed.

Five formal enforcement actions against four regulated entities (one bank and three registered funds) were initiated, while two insurance companies remained under controllers appointed by CIMA in the prior year. At the same time, we continued to assist, and receive assistance from, overseas regulatory authorities for routine supervision and non-routine matters. We handled a total of 143 requests for assistance during the fiscal year from regulatory authorities in Asia, Canada, the Caribbean and Bermuda, Europe, the UK, and the USA.

In addition, the Authority collected $76.647 million in fees from regulated entities on behalf of the Government for the 2010-11 fiscal year, approximately three per cent above the $74.222 million for the prior year.

On the currency management side, fiscal year 2010-11 also saw the release of a new and completely redesigned family of banknotes, the D series, which incorporated many of the latest banknote security features available. While the main objective of the release was to maximize protection against counterfeiting, the D series represented a milestone as it was the first complete redesign of Cayman's currency since it was first issued in 1972. The initial set of denominations went into circulation in April 2011.

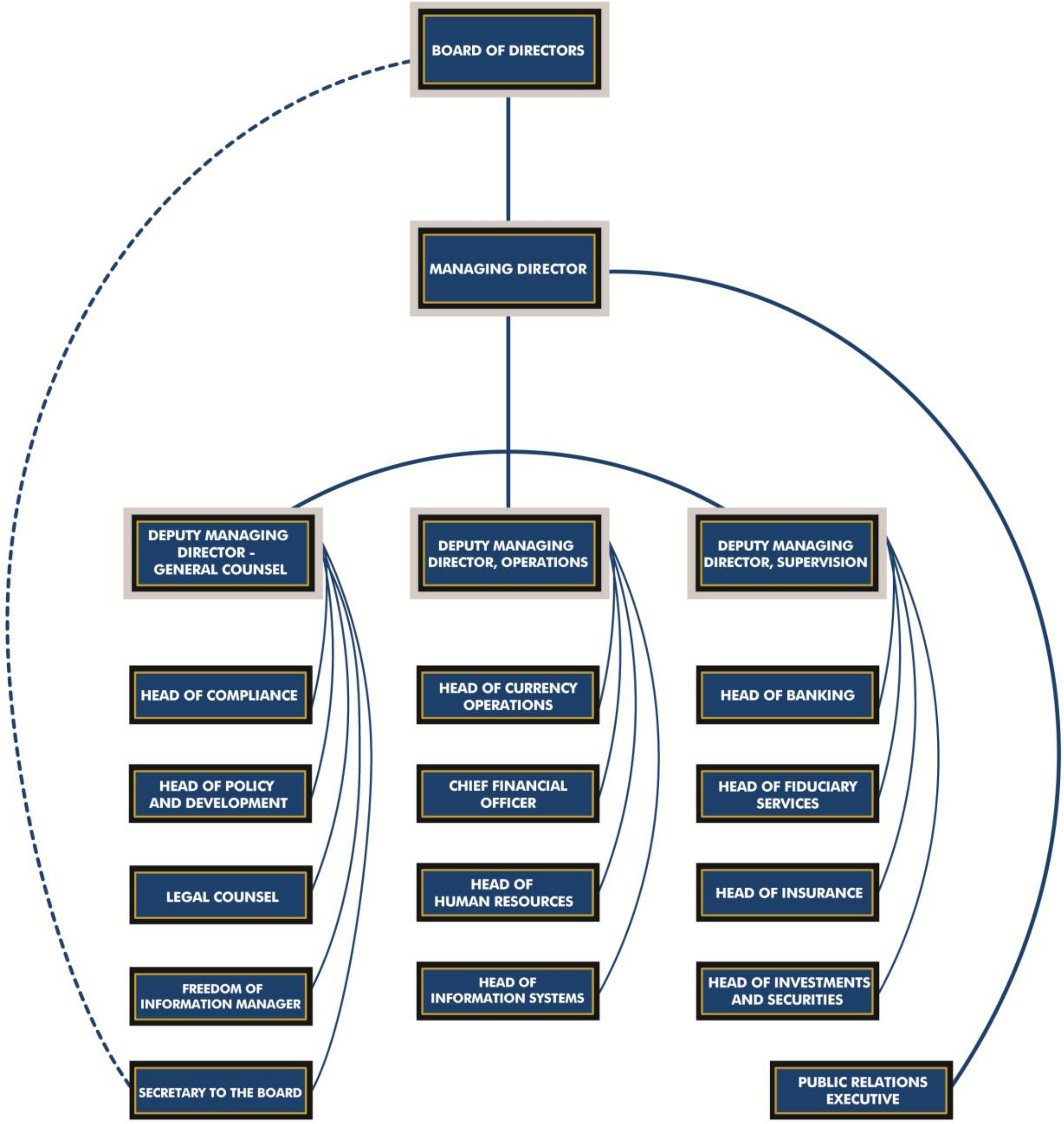
CIMA received $16.85 million in funding from the Government for 2010-11 for the provision of its regulatory, monetary, cooperative and advisory services and the collection of fees. Through increased efficiencies and the additional income realised from investments, commission and the sale of numismatic items, the Authority's net income for the 2010-11 fiscal year was $814,318. This was significantly above the $189,031 netted for 2009-10. Of this, $389,318 was allocated to the Contributed Capital of the Authority and $425,000 to the Cayman Islands Government.

CIMA's accomplishments during the financial year could not have been achieved without the dedication of our staff and the support of the Board of Directors. I here record my thanks to them as we continue to focus on fulfilling the Authority's mission of enhancing the Cayman Islands' economic wealth and reputation by fostering an thriving, growing, competitive and internationally recognised financial services industry through appropriate, responsive, cost effective and efficient supervision and a stable currency.

Cindy Scotland

ORGANISATIONAL CHART

AS AT 30 JUNE 2011



BOARD OF DIRECTORS

As at 30 June 2011

At 30 July 2011, the Board of Directors of the Cayman Islands Monetary Authority comprised seven members:

Mr. George McCarthy, OBE, JP, Chairman
Mr. Linburgh Martin, Deputy Chairman
Mrs. Cindy Scotland, Managing Director
Mr. Harry Chisholm, Director
Ms. Sara Collins, Director
Professor William Gilmore, Overseas Director
Mr. Raul Nicholson-Coe, Director

Former overseas directors Mr. Steve Butterworth and Dr. Warren Coats resigned, Mr. Butterworth effective 30 June 2010 and Dr. Coats effective 31 December 2010.

Seated left to right: Managing Director Cindy Scotland; Chairman George McCarthy, OBE, JP; Director Sara Collins. Standing L-R: Director Raul Nicholson-Coe; Deputy Chairman Linburgh Martin; Director Harry Chisholm; Overseas Director Professor William Gilmore.

SENIOR OFFICERS

As at 30 June 2011

Managing Director Cindy Scotland

Deputy Managing Director
General Counsel
Langston Sibblies, QC

Deputy Managing Director
Supervision
Howard Blacker

Deputy Managing Director
Operations
Patrick Bodden

SUPERVISORY DIVISIONS

Banking Supervision

Head
Reina Ebanks

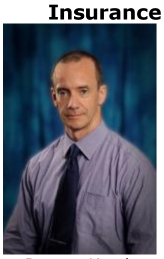
Deputy Head
Tricia Thompson

Fiduciary Services

Head
Rohan Bromfield

Insurance Supervision

Head
Gordon Rowell



Deputy Head
William Hagan

Deputy Head
Dwight Merren

Investments & Securities

Head
Yolanda McCoy

Deputy Head
Heather Smith

Deputy Head
James
Whittaker

NON-SUPERVISORY DIVISIONS

Compliance

Head
RJ Berry

Deputy Head
Audrey Roe

Policy & Development

Head
Mitchell Scott

Deputy Head
Francis Arana

Legal

Legal Counsel
Gail Johnson-Goring

Legal Counsel
Sandra Edun-Watler

Legal Counsel
Arnold Todd

OPERATIONS

Currency Operations

Head
Deborah Ebanks

Deputy Head
Shan Whittaker

Finance

Chief Financial Officer
Gilda Moxam-Murray

Human Resources

Head
Judy Miller

Assistant Head
Tara Abdul-Jabbar

Information Services

Head
Chuck Thompson

Deputy Head
Scott MacLaren

MANAGING DIRECTOR'S OFFICE

Public Relations Executive
Joan Henry

INDUSTRY OVERVIEW

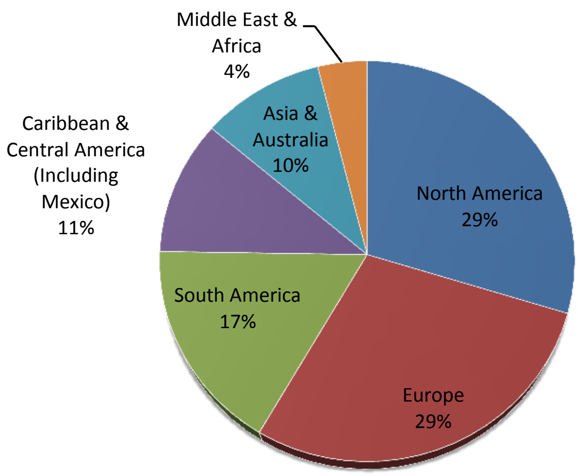
BANKING AND RELATED SERVICES

BANKING

The Sector

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

Figure 1: Region of Origin of Cayman-licensed Banks, June 2011



CIMA, through its Banking Supervision Division, regulates and supervises all banking entities operating in and from the Cayman Islands, along with those trust entities that have a banking licence[1]. There are two licence categories: A and B, with the latter having a sub-category: Restricted.

The category A banking licence allows holders to operate both in the domestic and international market. The category B licence permits international banking business and limited domestic activity as set out in section 6(6) of the Banks and Trust Companies Law (2009 Revision). Category B banks are generally used as financial intermediaries to raise funds in the international market in order to provide capital for the financing of cross-border investments by their parent banks or other companies in their group.

The domestic segment comprises banks that provide both retail and non-retail services to Cayman Islands residents. Retail services offered to the general public include instalment loans, residential mortgages, equity credit loans, credit card services, deposit services, and individual retirement accounts. All retail banks require a category A licence. Other banks that also hold category A licences generally do so in order to offer principal office / authorised agent services to category B banks that do not have a physical presence in the Cayman Islands and to provide investment banking services.

There were 250 institutions holding banking licences in the jurisdiction at 30 June 2011. These comprised seven retail category A banks, nine non-retail category A banks and 234 category B banks (inclusive of one restricted category B bank). Of the 250 licensees, 163 were branches, primarily from

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

the US and Brazil; 66 were subsidiaries, and 21 were banks privately owned or affiliated to another bank within their group.

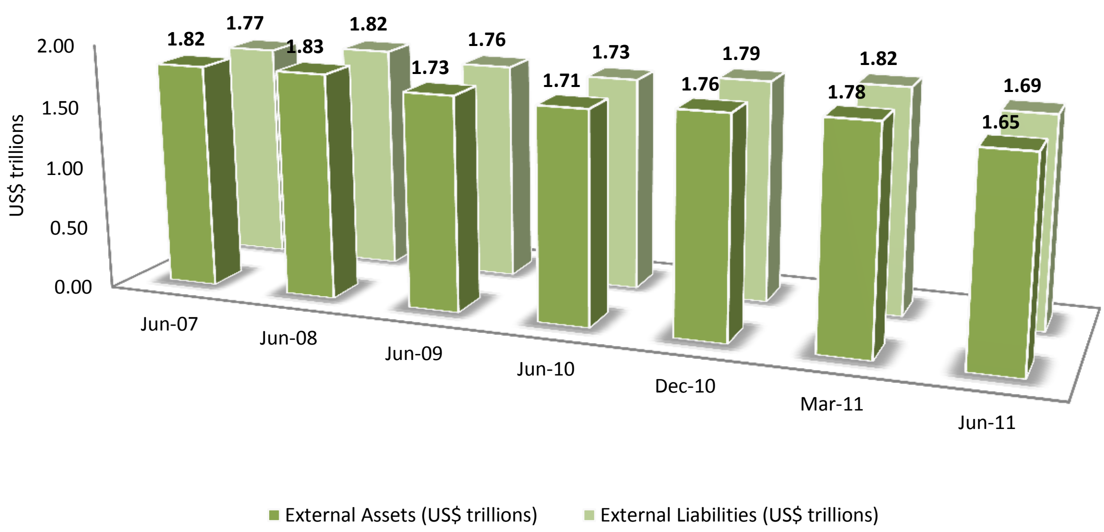
Banking Activity

Cross-border Assets and Liabilities in Domestic and Foreign Currency 2010-2011

As at June 2011, the jurisdiction ranked fifth internationally based on the value of cross-border liabilities booked from the Cayman Islands - US$1.697 trillion (June 2010: $1.735 trillion) - and sixth in terms of international assets booked - US$1.656 trillion (June 2010: US$1.711 trillion)[2].

Of the $1.69 trillion in cross-border liabilities at June 2011, $1.59 trillion represent international deposits of which over 55% ($718 billion) represent inter-bank bookings between onshore banks and their Cayman Islands branches or subsidiaries. This $1.59 trillion in international deposits was used to provide $1.5 trillion and $87 billion of capital to Developed Countries[3] and Latin America, respectively, highlighting the role of the Cayman Islands as a financial intermediary providing capital for cross-border investments.

Figure 2: Total Value of Cross-border Assets and Liabilities of Cayman Islands Bank Licensees, 2007-2011



The Cayman Islands banks' cross-border assets and liabilities had been recovering steadily since June 2010. However, the second quarter of 2011 saw a significant decline of 7.0% and 6.8% respectively (see Figure 2). This was likely influenced by the increased tumult in international credit markets during the second quarter, arising from issues such as fears of credit ratings downgrades, and international regulatory changes affecting Cayman-licensed banks.

Domestic Assets and Liabilities in Foreign Currency 2010-2011

In addition to the US$1.697 trillion in cross-border liabilities booked from the Cayman Islands by Cayman-licensed banks as at June 2011, as at the same date they booked US$60 billion worth of local liabilities in foreign currency. Of this US$60 billion, US$29 billion was booked as local assets in the domestic economy, an increase of $4.1 billion over the previous quarter of March 2011, reflecting an increase in domestic activity (see Figure 3).

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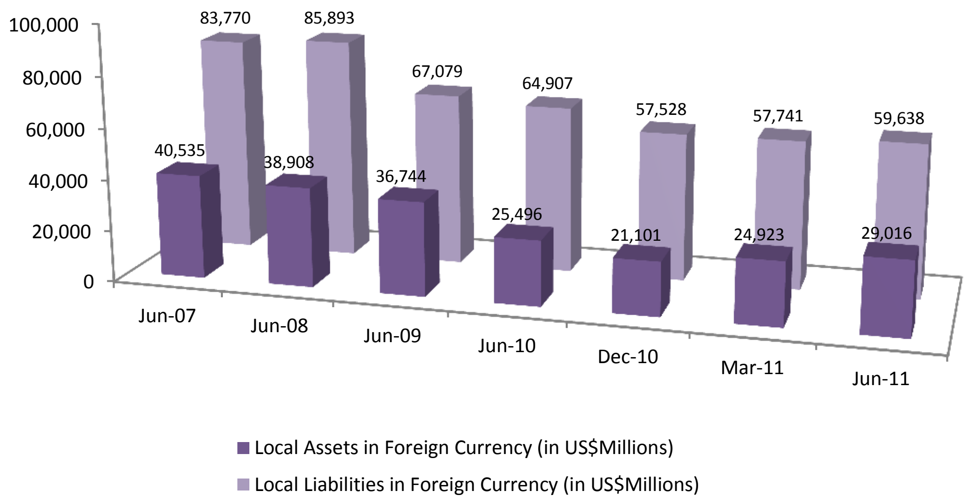
[2] Source: Bank for International Settlements (BIS): http://www.bis.org/statistics/bankstats.htm

[3] Developed Countries: North America, Developed Europe and Other Developed Countries. Source: BIS

Figure 3: Domestic Assets and Liabilities of Cayman-licensed Banks, 2007-2011



Activity in the Domestic Segment

The domestic market continued to be serviced by seven retail banks: Butterfield Bank (Cayman) Limited, Cayman National Bank Ltd., Fidelity Bank (Cayman) Limited, FirstCaribbean International Bank (Cayman) Limited, HSBC Bank (Cayman) Limited, Royal Bank of Canada, and Scotiabank & Trust (Cayman) Ltd. Five are subsidiaries of international banking groups, one is a branch of an international banking group, and the seventh is owned by a financial group headquartered in the Cayman Islands.

Table 1 shows total assets, deposits and loans for the seven retail banks on a consolidated basis which includes their operations with their own branches and entities outside of the Cayman Islands and transactions with other non-resident entities. The sector's total assets and liabilities increased by $4.5 billion (35%) as at June 2011, mainly driven by an increase in non-resident deposits from a group bank and other financial corporations.

Table 1: Consolidated Retail Bank Figures 2008 – 2011 (in $US)

Year	Total Assets	Total Loans	o/w Resident Loans	Total Deposits	o/w Resident Deposits
June 2008	$12.6 billion	$5.5 billion	$2.89 billion	$11.3 billion	$5.90 billion
June 2009	$13.3 billion	$6.6 billion	$3.60 billion	$11.5 billion	$6.78 billion
June 2010	$13.0 billion	$6.5 billion	$3.48 billion	$11.4 billion	$7.28 billion
June 2011	$17.5 billion	$7.5 billion	$3.57 billion	$15.9 billion	$6.42 billion

Domestic Credit

Credit from the retail banks to the domestic market (i.e., resident loans) increased by $0.09 billion to $3.57 billion as at June 2011 as compared to $3.48 billion as at June 2010. Credit expansion was primarily fuelled by Government's increased budgetary requirement, while commercial private sector growth and household credit remained stable with a marginal decrease in loans. (See Table 2)

Table 2: Sectoral Distribution of Credit to the Domestic Market

Sector	June 2010	June 2011
Total Loans *of which:*	$3.48 billion	$3.57 billion
Public Sector	$0.30 billion	$0.48 billion
Commercial Private Sector	$1.09 billion	$1.09 billion
Households	$2.01 billon	$1.98 billion
Other Financial Corporations	$0.08 billion	$0.02 billion

Financial Soundness of the Domestic Sector

Overall, the domestic retail banks fared relatively well despite the economic downturn in the domestic real economy resulting from the global financial crisis. The declines that Cayman's retail banks have experienced have been marginal, considering the high level of exposure to the residential real estate sector and an increase in unemployment. The impact of the economic downturn in the domestic economy is notable in the increase in banks' non-performing loans (NPLs) and the fall-off in profitability.

The profitability of Cayman's retails banks has been returning slowly since 2010. Credit quality and non-interest cost controls are improving profitability measures. High capitalisation and ample liquidity indicate that the domestic banking system is stable. The Authority continues to monitor these banks, despite the improvement in liquidity, to ensure that the jurisdiction is not compromised.

Capital Adequacy - The capital adequacy ratio for the six locally incorporated retail banks (one bank is a branch which is not required to hold separate capital) was an average of 22 per cent as at June 2011, compared to 20 per cent at June 2010, and 23 per cent at the end of 2010. This is well in excess of the eight per cent minimum requirement set by the Basel Committee on Banking Supervision and the 10 per cent set by Cayman's Banks and Trust Companies Law (2009 Revision).

Asset Quality - The ratio of nonperforming loans (net of provisions) to capital increased from 10.4 per cent at the end of 2010 to 11.7 per cent at June 2011. This capital deterioration is not of significant concern at this time, as Cayman banks remain well capitalised.

Earnings and Profitability - Cayman retail banks' profitability contracted significantly over the two year period from 2008 to 2010, reflecting lower interest income and higher operating costs. As at June 2011, these banks were showing signs of improved returns by reducing their non-interest expenses to gross income ratio slightly and significantly improving their interest margin to gross income measure. Return on Assets (ROA) and Return on Equity (ROE) have improved from 0.50 and 4.90 per cent at the end of 2010 to 0.61 and 5.7 per cent at June 2011.

Liquidity - Liquidity has improved for Cayman's retail banks in aggregate - from 36.2 per cent at end-2010 to 48.1 per cent at June 2011.

Table 3 provides a picture of the retail banks' financial soundness as at the end of their financial years 2007 through 2010, and at the end of their second quarter 2011.

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

Indicator	2007 Year-end	2008 Year-end	2009 Year-end	2010 Year-end	June 2011
Capital adequacy					
Regulatory capital to risk-weighted assets	19.8	20.4	20.6	22.9	21.5
Capital to assets	8.3	8.7	9.0	10.1	10.9
Asset quality					
Nonperforming loans net of provisions to capital	8.6	8.4	9.8	10.4	11.7
Nonperforming loans to total gross loans	1.7	1.9	2.3	2.4	2.7
Earnings and profitability					
Return on equity (net income to average capital [equity])		15.7	7.4	4.9	5.7*
Return on assets (net income to average total assets)	1.8	1.3	0.7	0.5	0.61*
Interest margin to gross income	33.0	33.8	41.8	48.2	66.7*
Non-interest expenses to gross income	21.3	28.3	42.2	51.3	50.2*
Liquidity					
Liquid assets to total assets (liquid asset ratio)	50.3	41.2	38.8	36.2	48.1

* *June 2011 earnings and profitability figures represent first and second quarters annualised for comparative purposes.*

Authorisation Activity

Banks continue to consolidate and restructure in search of cost efficiencies, and improvements in operational risk management and governance. This is reflected in a decline in the number of bank licences over the last few years (see Figure 4). The 250 licences held as at June 2011 represent a six per cent decline from the 266 held as at June 2010. Table 4 shows bank licensing and termination activity for the fiscal year 2010 to 2011.

Figure 4: Number of Bank Licences, by Category, Fiscal Year-end 2007-2011

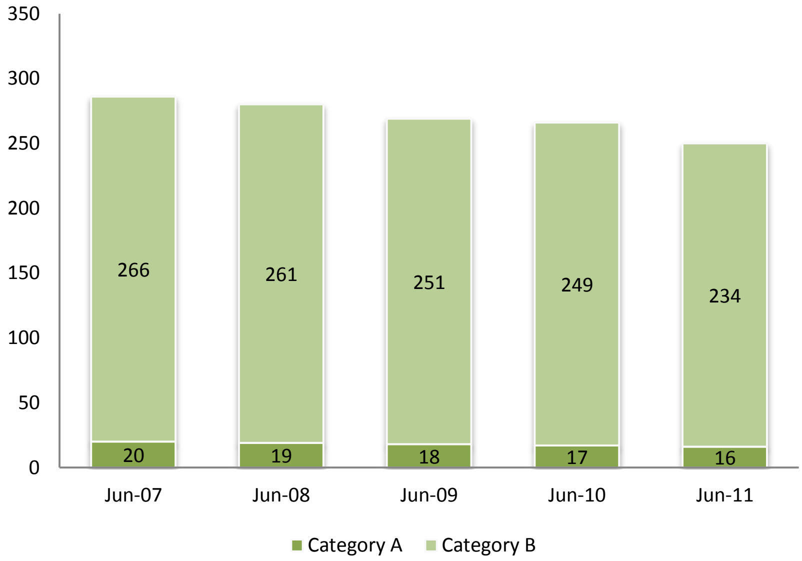


Table 4: Bank Licensing Activity, 2010-2011

Licence Type	Active as at 30 June 2010	Terminated 1 July 2010 - 30 June 2011	Issued 1 July 2010 – 30 June 2011	Active as at 30 June 2011
Category A	17	1	0	16
Category B	247	20	6	233
Category B (Restricted)	2	1	0	1
Total	**266**	22	6	**250**

Jurisdictional Comparisons

As illustrated in Table 5, the number of banks licensed in the listed jurisdictions declined, apart from Panama, Luxembourg and Singapore. Panama actually had a significant increase in licensed banks with 16 more banks than in the previous year. Luxembourg had an increase of 11 banks and Singapore with one additional bank. Cayman has seen quite a significant decline when compared to previous years, however it has not been as significant as one of our main competitors, the Bahamas, which has seen a decline of 15.44% in total number of licensed banks during the past year. In addition, Hong Kong, also experienced a significant decline in the number of licensed banks with 45 less licences granted in 2010 than in the prior year.

*Table 5: Bank Licence Numbers - Selected Jurisdictions, 2006-2010 Calendar Year-end**

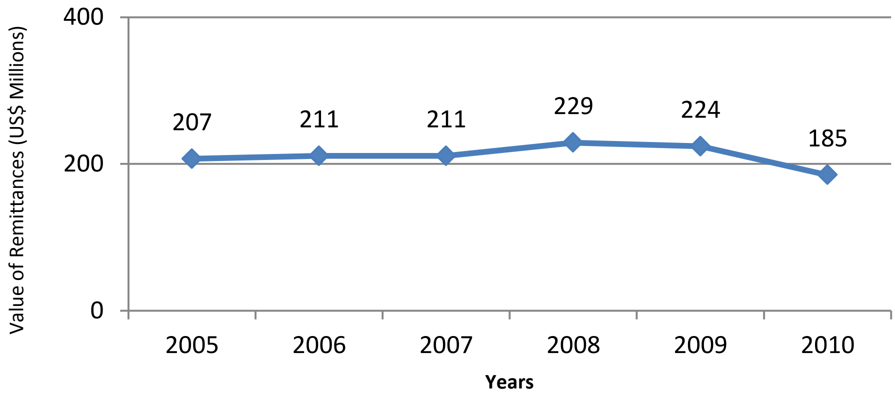
Jurisdiction	2006	change	2007	change	2008	change	2009	change	2010
Cayman	288	↓4%	277	↑0.04%	278	↓4.32%	266	↓6.02%	250
Bahamas	137	↑3%	141**	↓1.4%	139	↓2.16%	136	↓15.44%	115
Panama	79	0%	79	□□□0%	79	↓2.53%	77	↑20.78%	93
Jersey	45	↑7%	48**	↓2.1%	47	□0%	47	↓4.26%	45
Luxembourg	155	↑1%	157***	↓3.2%	152	↓2.63%	148	↑7.43%	159
Switzerland	336	↑1%	337	↑19.9%	404	↓1.49%	398	0%	398****
Hong Kong	202	↓1%	200	□□□0%	200	↓0.5%	199	↓22.61%	154
Singapore	157	↑ 3%	162	↑1.9%	165	□0%	165	↑0.61%	166

*Statistics from respective authority/central bank's website.
**Figures as at Sept 07.
***Figure as at Nov 07.
****This number includes total banks and securities dealers.

MONEY SERVICES, COOPERATIVES AND BUILDING SOCIETIES

Money services businesses cater primarily to the domestic market and must be licensed by CIMA. The number of these licences in effect increased to eight as at June 2011, from seven a year earlier. Remittances sent from the Cayman Islands to other jurisdictions through these entities for calendar year 2010 fell to US$185 million, from US$224 million (revised figure) in 2009.

Figure 5: Total Remittance Outflows, Calendar Year 2005 to 2010



Jamaica was the largest recipient of remittances from the Cayman Islands in 2010, with 66 per cent of the US$185 million going to that country (see Figure 6). Remittances coming into the Cayman Islands through money service providers totalled $8.7 million. Some 37 per cent of this amount was from Jamaica (see Figure 7).

Figure 6: Proportion of Total Remittance Outflows to Various Countries, Calendar Year 2010

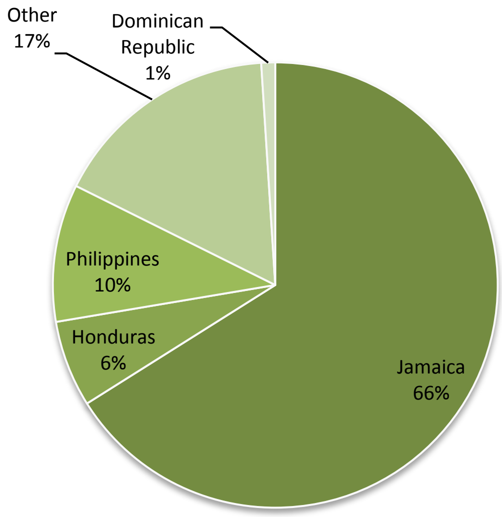
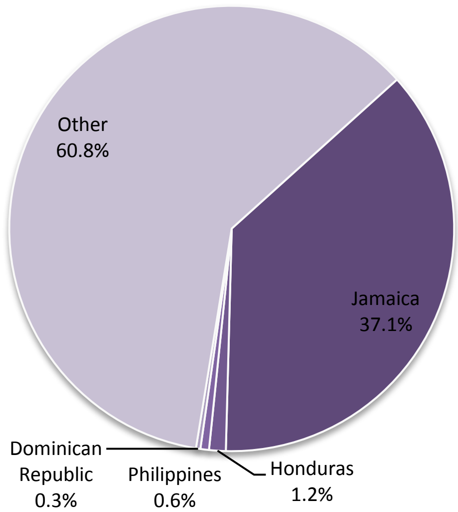


Figure 7: Proportion of Total Remittance Inflows from Various Countries, Calendar Year 2010



Cooperative societies carrying on credit union business, building societies and development banks are not required to be licensed but must be registered by CIMA. The number of cooperative credit unions, building societies and development banks supervised by the Banking Division as at June 2011 remained at two, one and one, respectively.

FIDUCIARY SERVICES

TRUSTS

The Sector

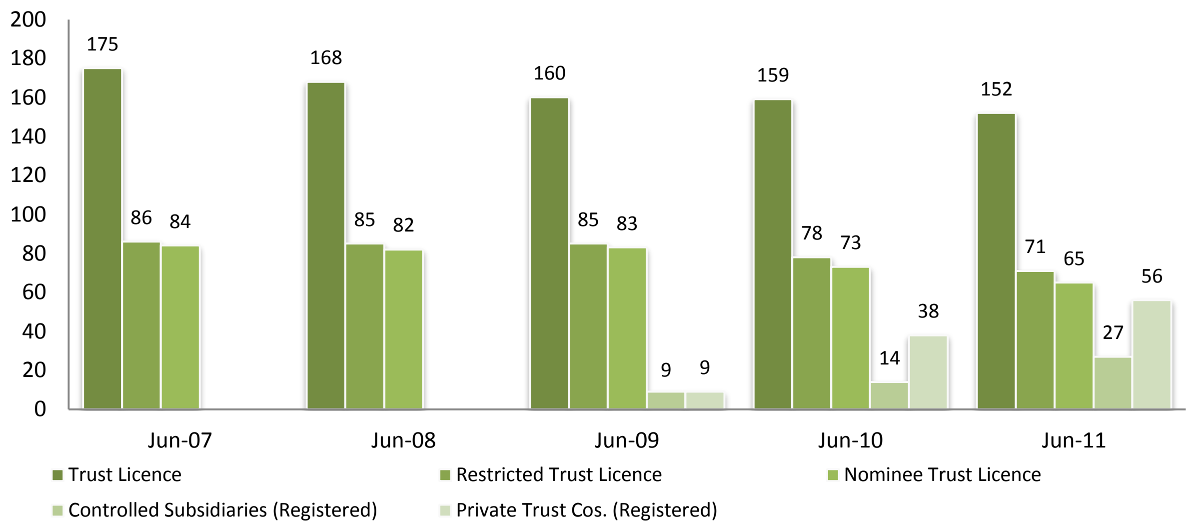
Corporate trust business carried out in and from the Cayman Islands is regulated pursuant to the Banks and Trust Companies Law (2009 Revision) (BTCL) and the Private Trust Companies Regulations, 2008 (PTCR). The BTCL defines trust business as "the business of acting as trustee, executor or administrator", and no company is allowed to carry on such business unless it is licensed or registered by the Cayman Islands Monetary Authority. CIMA's Fiduciary Services Division has regulatory and supervisory responsibility for trust companies that do not have a banking licence. Those that have a banking licence are regulated and supervised by the Banking Division.

There are three licence categories and two registration categories for trust businesses. These are:

- Trust – the licensee is authorised to carry on the business of acting as trustee, executor or administrator;
- Trust (Restricted) – the licensee is authorised to undertake trust business only for persons listed in any undertaking accompanying the application for the licence;
- Nominee Trust – the licensee is authorised to act solely as the nominee of a trust licensee, being the wholly-owned subsidiary of that licensee;
- Controlled Subsidiary **-** the registrant is authorised to provide trust services including the issuing of debt instruments or any other trust business connected with the trust business of its parent that holds a trust licence, and
- Private Trust Company **-** the registrant is authorised to provide trust services to "connected persons" as defined in section 2(2) of the PTCR.

The Cayman Islands has been a top international location for the provision of trust services and remains so, with 371 companies providing these services in and from the jurisdiction as at June 2011. Figure 8 shows the breakdown of trust companies by authorisation type at fiscal year-end, 2007 to 2011.

Figure 8: Number of Trust Licences, by Category, Fiscal Year-end 2007-2011



The majority of licensed trust companies in Cayman provide trust services to traditional discretionary family trusts wherein families use the trust structure to manage and structure their wealth and effect succession and estate planning. Some trusts are set up to allow professionals to efficiently manage significant wealth to benefit families, charities, other persons or causes for numerous generations.

Assets settled in trust are usually held in an underlying company and the trust (through the trustee) holds the shares in that company. These structures are established to be compliant with the laws and rules of all applicable jurisdictions whilst affording the client the comfort and the peace of mind that the settled assets are safe and will be managed in accordance with the agreed terms of the trust deed.

Private trust companies are those companies established for the sole purpose of engaging in trust business for assets settled by a related group of persons meeting very specific criteria (mainly familial relationship). This type of arrangement is often used in planning and managing the wealth of high net worth families.

Trusts and trust companies are used in capital markets and structured finance arrangements, usually by large institutional clients such as institutional asset managers, large investment banks etc. These institutions see the benefit of structuring in Cayman because the jurisdiction is creditor friendly. The jurisdiction has innovative legislation that is beneficial to the efficiency of transactions and Cayman vehicles are well reputed, recognised and respected worldwide.

Authorisation Activity

Table 6: Trust Authorisation Activity, 2010-2011

Authorisation Type	Active as at 30 June 2010	Terminated 1 July 2010 – 30 June 2011	Issued 1 July 2010 – 30 June 2011	Active as at 30 June 2011
Trust Company (Licensed)	159*	11	4	152
Trust Company – Restricted (Licensed)	78	11	4	71
Nominee Trust (Licensed)	73	9	1	65
Controlled Subsidiaries (Registered)	14	4	17	27
Private Trust Companies (Registered)	38*	0	18	56
Total	362	35	44	**371**

**Revised*

Table 6 shows trust authorisation activity for the fiscal year. Overall, the sector remained fairly stable in 2010-11. The 44 authorisations issued and 35 cancelled resulted in a net growth of 2.5 per cent. The net declines in the licensed trust categories were offset by a 47 per cent increase in the number of registered trust companies.

Prior to the enactment of legislation in 2008 for the registration of private trust companies, the restricted trust category had been largely used to establish private trust companies. The net decline in restricted trust companies since 2008 (see Figure 8) is mainly attributable to licence holders choosing to surrender their licences in order to register as private trust companies. There were a total of 56 private trust companies as at June 2011, with 18 being registered during the fiscal year. It is anticipated that this upward movement in registration will continue.

Jurisdictional Comparisons

Table 7 shows the number of licensed trust entities for calendar years 2006 to 2010 in the Cayman Islands and in other international financial centres for which figures are available.

As illustrated, with respect to numbers of licensees, the Cayman Islands has maintained its position relative to the listed international trust services locations. The declines in Cayman's trust licences since 2008 partially reflect the movement of licensees to the new registration categories.

Table 7: Number of Licensed Trusts - Selected Jurisdictions, 2006-2010 Calendar Year-end

Jurisdiction	2006	change	2007	change	2008	change	2009	change	2010
Cayman*	347	↓3%	340	↓2%	332	↓5%	315	↓7%	293
BVI	201	↑0.99%	203	↑4.92%	213	↑1.88%	217	↑1.84%	221
Bahamas	190	↓0.52%	189	↑16.40%	220	0%	220	↑4.55%	230
Bermuda	33	0%	33	↑545.45%	213	↓84.97%	32	↓3.12%	31
Gibraltar**	82	↑4.87%	86	↓16.27%	72	↓6.94%	67	↑10.4	74
Guernsey**	205	↓0.97%	203	↑0.98%	205	3.90%	197	↑1.01%	199
Isle of Man	95	↑33.68	127	↓5.51	120	↑9.16%	131	↓0.76	130
Jersey**	193	↓4.66%	184	↓4.89%	175	↑5.14%	184	-	N/A
Panama	49	↑6.12%	52	↑7.69%	56	↑7.14%	60	↑3.33%	64
Turks & Caicos	20	↓5%	19	0%	19	0%	19	↓5.26%	18
Singapore	N/A	-	36	0%	36	↑2.77	37	↑29.73	48

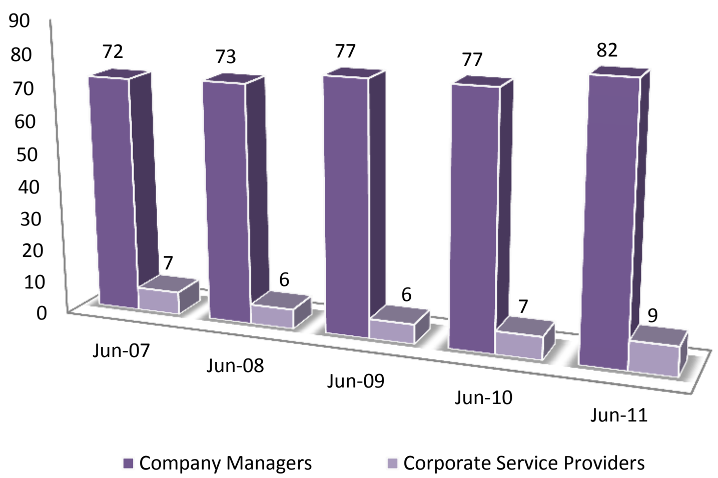
Note: Figures for other jurisdictions have been collected from the relevant websites and overseas contacts.
* Cayman's figures for 2006 and 2007 are revised as at 12 Sept. 2011. Cayman's figures do not include registered private trust companies and registered controlled subsidiaries that are wholly owned subsidiaries of licensed trust companies. These were introduced as authorisation categories in 2008. (Note that the figures for 2008 and 2009 that were published in the CIMA Annual Report 2009-10 inadvertently included registered private trust companies and registered controlled subsidiaries.)
** Gibraltar, Guernsey and Jersey's figures include both trust and company businesses licensed, inclusive of affiliation members.
N/A: Figures not available

CORPORATE SERVICES

The Sector

The Cayman Islands holds its own among locations from which corporate/company management services are provided (see Table 8 for jurisdictional comparisons) and the sector has seen steady growth over the last several years (see Figure 9), with 91 such companies active at June 2011.

Figure 9: Number of Company Manager and Corporate Service Provider Licences, Fiscal Year-end 2007-2011



The services, provided mainly to institutions, include: company incorporation – forming a company and having it duly constituted; registered office – providing a statutory address and a place where process can be served; directorship – providing qualified directors to sit on the board of a Cayman company; and nominee shareholder – acting as shareholder on a client's behalf. Corporate services are used in conjunction with the majority of the trust structures established in the jurisdiction.

All providers of corporate services are required to be licensed by CIMA and the Authority's Fiduciary Services Division has regulatory/supervisory responsibility for these licensees.

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

Authorisation Activity

Table 7 shows authorisation activity for company managers and corporate service providers for 20010-2011. The 91 licences in effect at 30 June 2011 represent an increase of eight per cent over June 2010.

Table 8: Companies Management Authorisation Activity, 2010-2011

Authorisation Type	Active as at 30 June 2010	Terminated 1 July 2010 –30 June 2011	Issued 1 July 2010 – 30 June 2011	Active as at 30 June 2011
Company Manager (Licensed)	77	5	10	82
Corporate Service Provider (Licensed)	7	0	2	9
Total	**84**	**7**	15	**91**

Jurisdictional Comparisons

Table 8 shows the number of active corporate services licences for calendar years 2006 to 2010 in the Cayman Islands and in other international financial centres for which figures are available.

Table 9: Corporate Services Licence Numbers - Selected Jurisdictions, 2006-2010 Calendar Year-end

Jurisdiction	2006	change	2007	change	2008	change	2009	change	2010
Cayman	75	*↑1.33%*	76	*↑5.26%*	80	*↑5%*	84	0%	84
BVI	20	*↓10%*	18	*↑11.11%*	20	*↑0%*	20	↑5%	21
Gibraltar	82	*↑4.87%*	86	*↓16.27%*	72	*↓6.94%*	67	↑10.4	74
Guernsey	205	*↓0.97%*	203	*↓1.47%*	205	*↓1.5%*	197	↓3.55%	190
Isle of Man	173	*↑6.35%*	184	0%	185	*↑12.97%*	209	↓3.82%	201
Jersey	193	*↓4.66%*	184	*↓4.89%*	175	*↑5.14%*	184		N/A
Turks & Caicos	39	*↑5.12%*	41	*↑2.43%*	42	*↑2.38%*	43	*↓27.90%*	31

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

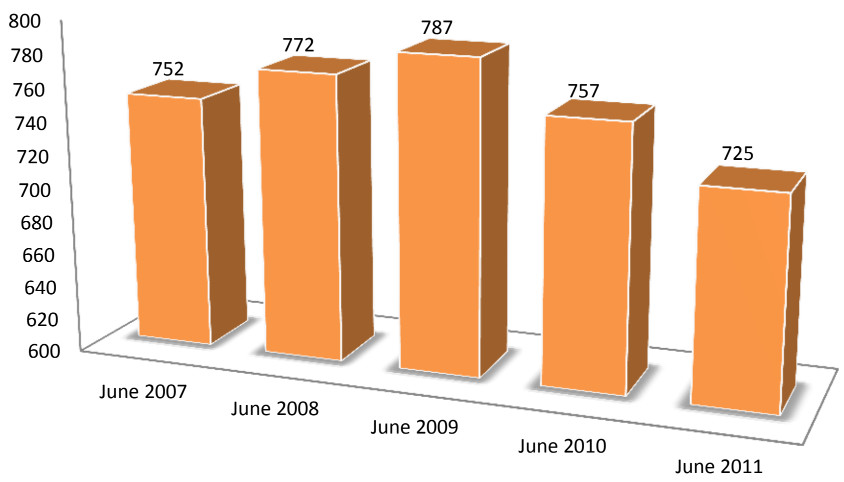
INSURANCE

The Sector

The insurance industry in the Cayman Islands has two distinct sectors: the domestic market, which provides insurance of local risks by locally incorporated or registered insurers, and the international market, which provides insurance of foreign risks by insurers from within the Cayman Islands. CIMA, through its Insurance Supervision Division, regulates and supervises all insurance entities operating in and from the Cayman Islands. The Authority provides two classes of licence for insurance companies: class A, for domestic insurers, and class B, for international insurers, reinsurers and special purpose vehicles. Other insurance entities that CIMA regulates are insurance managers, brokers and agents[4].

The International (Captive) Segment

Figure 10: Number of Cayman Islands International (Class B) Insurance Licences, Fiscal Year-end 2007-2011



The industry is dominated by the international segment, comprised primarily of captive insurance companies[5] and their service providers (hence the popular reference to this segment as the 'captive' market). The size of this market is evidenced by the number of insurance companies: 725 at 30 June 2011 (see Figure 10); the premiums generated: US$9 billion total at June 2011, and the assets held: US$57.4 billion total at June 2011 (Figure 11).

With these figures, the segment also claims a major share of the global insurance market. Worldwide, the Cayman Islands is the second largest domicile for captive insurance companies. Moreover, with 35 per cent of Cayman's captives covering healthcare risks (see Figure 12), the jurisdiction is the number one domicile for healthcare captives. Other types of coverage provided by Cayman captives include:

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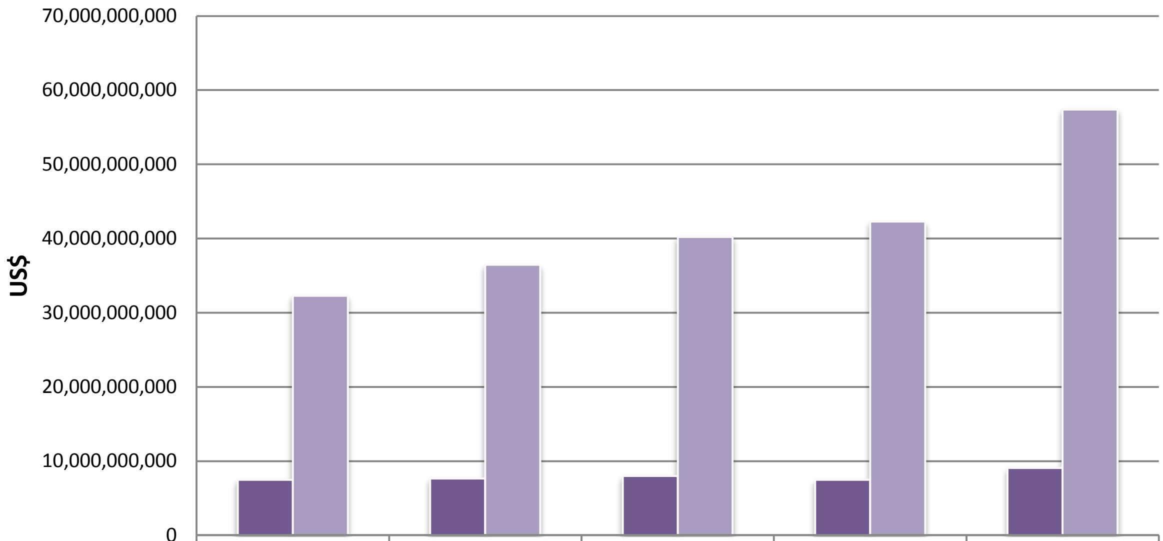
[4] Insurance Manager – "a company operating in and from within the [Cayman] Islands which provides insurance expertise to and for insurers and which has in its bona fide employment a person who" fits the criteria outlined in section 2; Insurance Agent - "a person (not being an insurer) who solicits directly, or through representatives, advertising or other means, domestic business on behalf of not more than one insurer"; Insurance Broker - "a person (not being an insurer) who negotiates directly or through representatives or other means, contracts of insurance or of reinsurance on behalf of more than one insurer, or for placement with insurers or reinsurers" (Insurance Law (2008 Revision) s.2).

[5] The International Association of Insurance Supervisors has defined a captive insurer as "an insurance or reinsurance entity created and owned, directly or indirectly, by one or more industrial, commercial or financial entities, other than an insurance or reinsurance group entity, the purpose of which is to provide insurance or reinsurance cover for risks of the entity or entities to which it belongs, or for entities connected to those entities and only a small part if any of its risk exposure is related to providing insurance or reinsurance to other parties."
http://www.iaisweb.org/index.cfm?pageID=47&vSearchLetter=c##

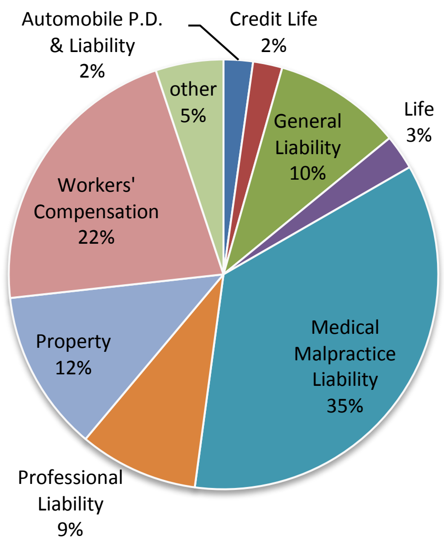
general and professional liability, workers' compensation, property, auto and product liability, and life and annuity.

Figure 11: Total Premiums & Assets of Cayman Islands Class B Insurance Licensees, Fiscal Year-end 2007-2011



	June 2007	June 2008	June 2009	June 2010	June 2011
Total Premiums	7,489,030,659	7,633,886,131	7,986,587,687	7,496,373,064	9,065,474,537
Total Assets	32,300,849,165	36,447,267,233	40,218,965,671	42,275,666,893	57,405,638,842

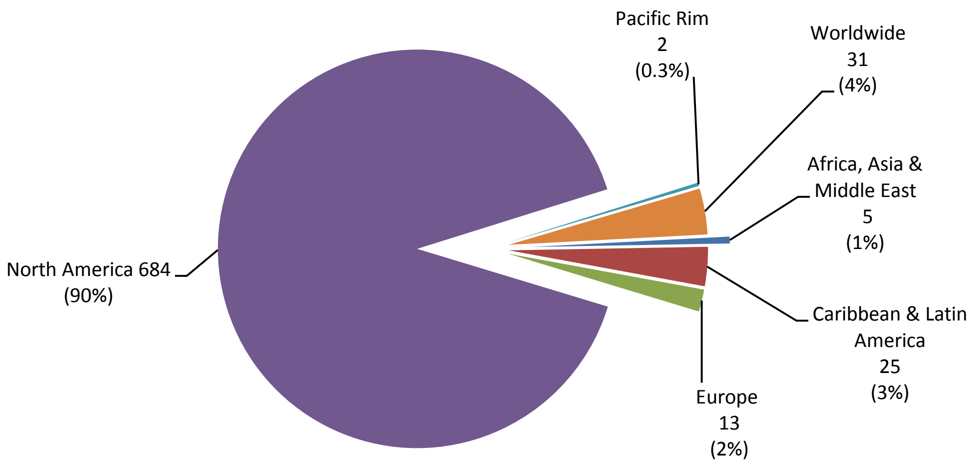
Figure 12: Cayman-Domiciled Captive Insurance Companies by Type of Coverage, 30 June 2011



While the vast majority of companies in the international segment of Cayman's insurance industry are captives of one type or another, a small number are engaged in open market operations, providing insurance or reinsurance coverage to non-related entities. Along with insurance companies, the international segment comprises insurance managers. The international insurers originate mainly from North America, with the next largest geographical source being the Caribbean and Latin America, collectively (see Figure 13).

The captive industry in Cayman began in the late 1970's with the medical malpractice insurance crisis in the United States. Unable to obtain commercial insurance, healthcare organisations began to form captives in Cayman to provide for their risk management needs. As a result, Cayman has developed particular expertise in this area.

Figure 13: Cayman-Domiciled Captive Insurance Companies by Location of Risks Covered, 30 June 2011

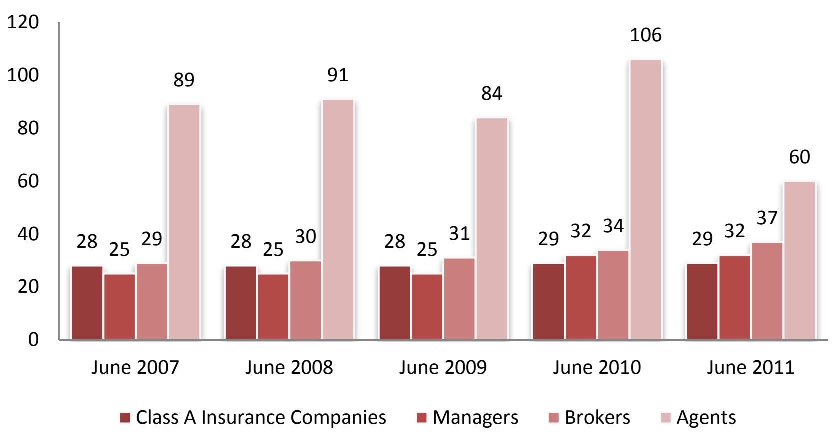


Over the years, corporations have made increasingly extensive use of captives as part of their overall risk management function, reducing the premium they pay for commercial coverage by insuring a portion of their risk through a captive insurance programme. In addition to expanded coverage availability and flexibility, and better risk management, reasons for the formation of captives include cost reduction and stabilisation, improved cash-flow, and access to the reinsurance market which otherwise is unavailable if self-funding retained risk. (The reinsurance market generally provides better rates and conditions than the direct market.)

More recently, Alternative Financing Vehicles (also called Special Purpose Vehicles (SPVs)) have been formed to allow reinsurers access to capital markets for catastrophe cover. Segregated Portfolio Companies (SPCs), also called Protected Cell Companies that typically provide captive products for smaller organisations, are also a significant part of the market.

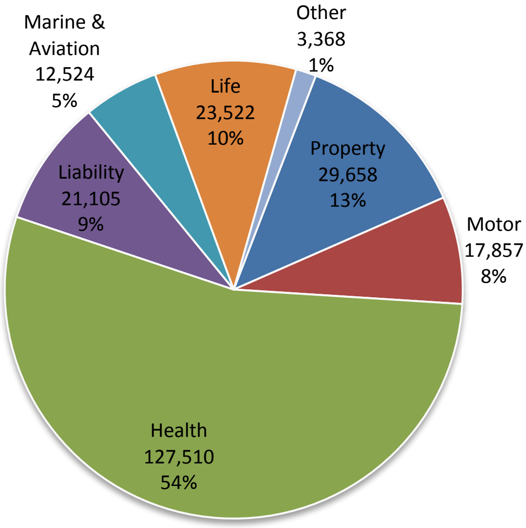
The Domestic Segment

Figure 14: Number of Cayman Islands Domestic Insurance Licences, by Category, Fiscal Year-end 2007-2011



The domestic market comprises insurance companies (both locally incorporated and branches of foreign companies) and intermediaries (brokers and agents). Business is written directly or through the brokers and agents. Domestic insurers provide a range of coverage to local policyholders, with property, health and life being the top three categories, accounting for approximately 77 per cent of premiums earned by the sector for calendar year 2010 (see Figure 15).

Figure 15: Coverage Provided by Class A Insurers, Measured by Net Earned Premiums, 2010 Calendar Year (US$000)



Industry Activity

At 30 June 2011, there were 883 insurance licensees under regulation (June 2010: 956). Of these, 725 were class B (captive), 29 were class A, 32 were insurance managers, 37 were brokers and 60 were agents.

Table 10: Insurance Licensing Activity 2010-2011

Licence Type	Active as at 30 June 2010	Terminated 1 July 2010 - 30 June 2011	Issued 1 July 2010 - 30 June 2011	Active as at 30 June 2011
Class A	29	1	1	29**
Class B	757*	68	36	725
Insurance Managers	32	3	3	32
Brokers	34	1	4	37
Agents	104*	55	11	60
TOTAL	**956**	**128**	**55**	**883**

* *Revised*

** *The number of Class A insurance companies writing business at 30 June 2011 was 27 as Class A insurers Clico (Cayman) Ltd and Motor and General Insurance Company Limited were under controllership.*

Captives

There was an increase in the number of licences issued during 2010-2011 (36), compared to 2009-10 (28). In particular, during the two first quarters of 2011, there were 22 new captives licensed, which is a very good indicator of the recovery in the captive insurance sector and in the licensing numbers, following the effects of the US subprime crisis on captives.

The increase in the number of licences cancelled during 2010-11 (68), compared to 2009-10 (55), was mostly reflective of CIMA's review and cleaning out of a number of licences that had been surrendered in prior years but not removed from the system. In addition, the cancellations include SPVs that completed their one-year policy cycle.

Despite the general soft global insurance marketplace, there was continued demand in 2010-11 for the use of captives, primarily in the areas of medical malpractice liability (the primary class of business for 35 per cent of class B licences at 30 June 2011), workers compensation (22 per cent of licences) and property coverage (12 per cent).

The most popular region of origin of Cayman captives continues to be North America, which accounted for 90.48 per cent of captives at fiscal year-end (see Figure 13). This was followed by Latin America and the Caribbean: 3.17 per cent. With 1.79 per cent of companies covering risk in Europe, that region became the third largest risk location, overtaking Africa, Asia and the Middle East which accounted for 0.55 per cent. Pacific Rim: 0.28 per cent, and the rest of the world accounted for a combined 3.72 per cent.

Table 11: Captive Insurance Company Statistics by Company Category and Licence Class, 30 June 2011

Category	Total Licences To date	%	Total Premiums	Net Income	Net Worth	Total Assets
Association	51	7.03%	358,629,035	103,973,004	701,615,914	1,693,030,121
Group Captive	75	10.34%	948,567,717	275,204,816	1,687,263,916	2,794,511,199
Open Market Insurer	31	4.28%	1,226,831,226	339,470,181	2,052,095,063	10,365,770,292
Pure Captive	415	57.24%	5,580,052,748	786,611,786	8,167,127,569	30,832,482,584
Rent-A-Captive	1	0.14%	436,850	74,957	23,818,923	34,628,612
Segregated Portfolio Company	118	16.28%	460,967,672	83,948,072	575,297,076	5,552,285,129
Special Purpose Vehicle	34	4.69%	489,989,289	-16,253,486	-29,562,739	6,132,930,905
Totals:	**725**	**100.00%**	**9,065,474,537**	**1,573,029,330**	**13,177,655,722**	**57,405,638,842**

Among the 725 captives were 118 segregated portfolio companies under the Companies Law, with a total of 633 segregated portfolios operating within them. Open market insurers accounted for four per cent of total class B licences active at June 2011.

Jurisdictional Comparisons - Captives

As shown in Table 12, between 2009 and 2010 most of the jurisdictions for which figures are available experienced a decline in licences, evidence of the extremely soft commercial insurance markets. Nevertheless, the Cayman Islands' continued prominence as a captive domicile is evidenced.

Table 12: Captive Insurance Licence Numbers - Selected Jurisdictions, 2006-2010-Calendar Year-end

Jurisdiction	2006*	Change	2007$^{\delta}$	Change	2008	Change	2009	Change	2010$^{\delta\delta}$
Cayman	740	↑3%	765	↑2%	777	↑1%	780	↓5%	738
Barbados	235	↓5%	223	↑3%	229	-	N/A	-	242
Bermuda	989 **	↓4%	958	↑0.2%	960	↓8%	885	↓5%	845
BVI	383 ***	↑1%	390	↓15%	332	↓14%	285	↓23%	219
Guernsey	381	↓5%	367	↑1%	370	↓1%	355	↓6%	333
Hawaii	160	↑1%	163	↑1%	165	-	N/A	-	168
S. Carolina	146	↑31%	191	↓15%	163	↓2%	147	↑9%	160
Vermont	563	↑1%	567	↓2%	557	↑1%	560	↑3%	576

* 2006 - Source: *Business Insurance,* 12 March 2007 edition

** 2006 was the first year Bermuda released data specifically for captives as a licence class. Prior figures reflected the combined position for all licence classes.

*** *Business Insurance* estimate

δ 2007 – Source: jurisdictions' websites or regulators

δδ 2010 – Source: *Captive Review* March 2011: 2011 Survey – Top Leading Captive Domiciles.

N/A Data not available

Domestic Activity

The number of class A licences at the end of the 2010-11 fiscal year was 29, with one issued and one cancelled. In the 2009-10 fiscal year, it had been reported that two class A companies that were approved external insurers were placed under controllership during the fiscal year due to financial difficulties experienced by their home companies. As a result, the Authority approved the sale of the two companies (to separate parties), and they are now operating as Ordinary Class A Insurers.

Domestic insurance companies recorded an estimated combined net earned premium of $226.45 million (audited) for the calendar year ended 31 December 2010, with an estimated combined net income of $76.96 million for the same period.

During the 2010-11 fiscal year, a review of the licensing requirements for insurance agents as per the Insurance Law (2008 Revision) was conducted and it was determined that a person acting as a representative of a licensed insurance broker does not require an insurance agent's licence to carry on insurance business on behalf of the insurance broker that he/she is contracted with. This contributed to the decline in licensed agents during the fiscal year.

However, 12 insurance agent licences were issued during 2010-11. These reflect additions to the sales force of class A companies and demonstrate the increased interest by those companies involved in the sale of life insurance in having a dynamic and growing sales force.

Table 13: Domestic Insurance Company Statistics by Primary Class of Business as at 31 December 2010 (CI$)

	Motor	Property	Liability	Casualty	Marine & Aviation	Health	Workers' Compen-sation	Total Non – Life	Life	Annuity & Other	Grand Total
Gross Written Premiums	$22,512,619	$109,243,799	$21,913,810	$3,106,655	$12,734,759	$142,108,961	$1,239,765	$312,860,368	$21,729,336	$3,973,341	$338,563,045
Reinsurance Ceded	$6,110,647	$83,239,237	$1,229,130	$3,092,671	$181,790	$14,557,481	$487,094	$108,898,050	$3,874,655	$245,715	$113,018,420
Unearned Premium Adjustment	-$1,006,804	-$8,296	$82,975	$2,045	$25,343	$24,142	$42,362	-$838,233	-$63,695	-$7,483	-$909,411
NET EARNED PREMIUMS:	**$17,408,776**	**$26,012,858**	**$20,601,705**	**$11,939**	**$12,527,626**	**$127,527,338**	**$710,309**	**$204,800,551**	**$17,918,376**	**$3,735,109**	**$226,454,036**
Commissions Received	$1,051,207	$19,248,026	$172,108	$798,976	$18,183	$22,521	$166,059	$21,477,080	$0	$19,456	$21,496,536
TOTAL UNDER-WRITING INCOME:	**$18,459,983**	**$45,260,884**	**$20,773,813**	**$810,915**	**$12,545,809**	**$127,549,859**	**$876,368**	**$226,277,631**	**$17,918,376**	**$3,754,565**	**$247,950,572**
Net Claims Paid	$5,988,586	-$2,601,782	$8,595,403	$1,648	$870,193	$103,353,397	$462,490	$116,669,935	$6,709,547	$2,592,400	$125,971,882
Movement in Claim Reserves:	$873,827	$44,004	$511,638	$0	-$29,789	-$1,739,996	$19,517	-$320,799	-$400,707	-$611,213	-$1,332,719
Commissions Paid	$1,580,436	$5,989,336	$385,608	$760,133	$37,636	$7,715,098	$135,943	$16,604,190	$4,436,834	$5,316	$21,046,340
Other Expenses	$0	$3,381,385	$0	$0	$0	-$93,450	$1,580	$3,289,515	$831,959	$0	$4,121,474
UNDER-WRITING PROFIT:	**$10,017,134**	**$38,447,941**	**$11,281,164**	**$49,134**	**$11,667,769**	**$18,314,810**	**$256,838**	**$90,034,790**	**$6,340,743**	**$1,768,062**	**$98,143,595**
Investment Income	$140,289	$839,152	$75,299	$431	$1,422	$425,620	$29,334	$1,511,547	$13,516,486	$1,046,262	$16,074,295
Administration Expenses:	$3,957,865	$9,510,797	$411,081	$172,064	$23,298	$7,734,112	$170,019	$21,979,236	$5,481,758	$423,362	$27,884,356
Other Income	-$106,649	-$3,346,940	-$1,620,732	$0	-$66,631	-$14,834	-$3,843	-$5,159,629	-$4,625,710	$414,277	-$9,371,062
TOTAL 2010 NET INCOME:	**$6,092,909**	**$26,429,356**	**$9,324,650**	**-$122,499**	**$11,579,262**	**$10,991,484**	**$112,310**	**$64,407,472**	**$9,749,761**	**$2,805,239**	**$76,962,472**

INVESTMENTS AND SECURITIES

FUNDS AND FUND ADMINISTRATORS

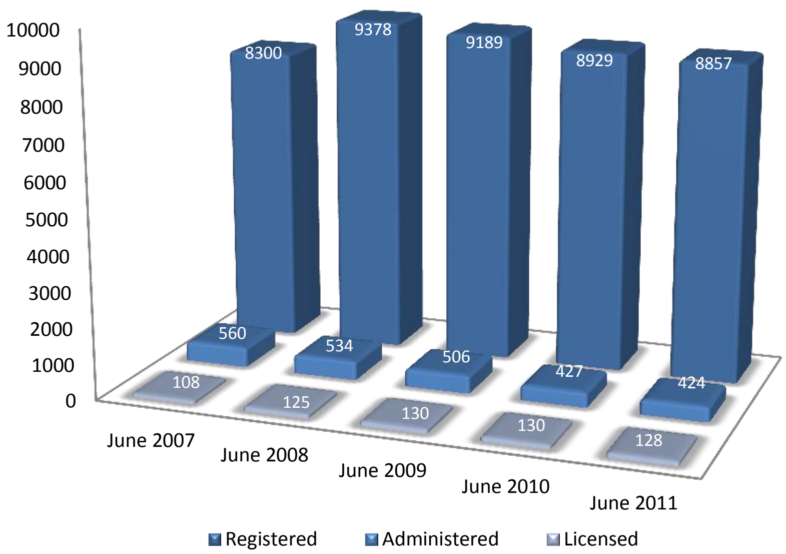
The Sector

Since the enactment, in 1993, of the Mutual Funds Law (MFL) to create a regulatory framework for the development of the funds industry in the Cayman Islands, the jurisdiction has become the leading domicile for funds. Although the continued challenges in the international financial marketplace since 2008 have led to a decline in the overall number of Cayman-regulated funds, from over 10,000 in mid-2008 to 9,409 at 30 June 2011, the jurisdiction still surpasses other fund domiciles (see Figure 16 and Table 13).

The MFL makes provision for three categories of regulated funds: licensed, administered and registered, and charges the Cayman Islands Monetary Authority with responsibility for their regulation and ongoing supervision. Licensed funds, commonly known as retail or public funds, are governed by a more prescriptive regime than registered funds because they are open to the public. All operators and promoters are vetted, offering documents must outline certain required information, calculation of net assets must be clearly defined and transparent, and assets must be segregated in accordance with governing rules.

Although Cayman Islands legislation refers to 'mutual funds', the vast majority of the funds regulated in the jurisdiction fall within the loose definition of a 'hedge fund' and are regulated as registered funds. A registered fund must either have a US$100,000 minimum subscription or have its equity interest listed on a recognised (CIMA-approved) stock exchange. The great majority of investors are professional investors and/or institutions. Most of these funds have a US$1,000,000 minimum subscription level, and they are usually distributed as a private placement, all of which further reinforce their non-public status.

Figure 16: Number of Cayman Regulated Funds, by Category, Fiscal Year-end 2007-2011

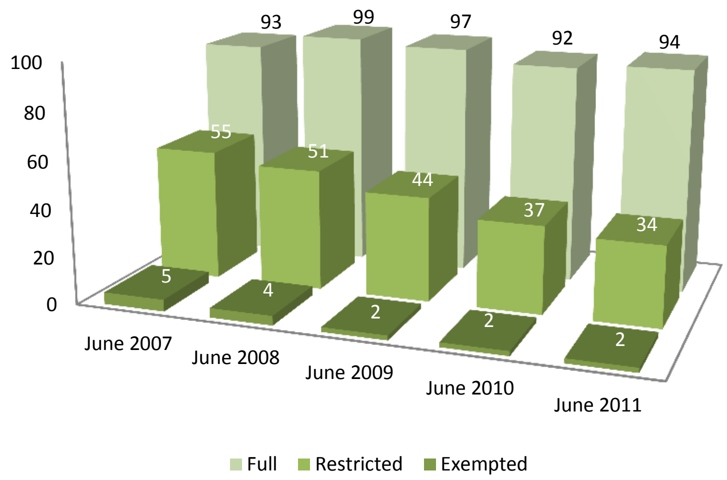


To be authorised as such, an administered fund must have a licensed mutual fund administrator in Cayman acting as its principal office. The MFL imposes several duties on the mutual fund administrator including the responsibility to satisfy itself about the proper business conduct of the fund, and to report to CIMA if it knows or suspects that the fund is unable to meet its obligations as they fall due, or if the fund is carrying on business in contravention of a law or in a manner prejudicial to investors or creditors.

Mutual fund administrators must themselves be authorised by CIMA to carry out mutual fund administration, which is defined as the provision of any of the following services for a fund: management (including control of the fund's assets), administration, principal office in the Cayman Islands, or the fund's operator (i.e., the director, trustee or general partner).

Two categories of mutual fund administrator licence[6] exist: full, which allows the holder to provide administration to an unlimited number of funds, and restricted, which allows administration of no more than 10 funds. See Figure 17, Mutual Fund Administrators by Category, 2006-2011.

Figure 17: Number of Mutual Fund Administrators, by Category, Fiscal Year-end 2007-2011



While aggregate financial and other statistical information covering all regulated funds is not currently available, one can get an indication of the size and profile of the industry from statistics that CIMA collated from 6,938 funds that had a financial year end in 2009 and that submitted the required Fund Annual Return form via CIMA's electronic reporting system.[7] These 6,938 funds had total assets of US$2.2 trillion combined and net assets of US$1.6 trillion. Thirty-two per cent of the funds required a minimum initial subscription of US$1,000,000 or more (see Figure 18) and 39 per cent required between US$100,000 and $999,999. Cayman was the primary location from which fund administration services (registrar and transfer (R&T) service and net asset value (NAV) calculation) were provided for these funds, while New York was the primary location of the investment managers to these funds[8].

In addition to the factors that facilitate financial services generally from the Cayman Islands, investors and their fund promoters/sponsors primarily form hedge funds in the Cayman Islands in order to benefit from its tax neutral platform, which allows investors from multiple jurisdictions to avoid excessive layers of foreign taxation in addition to their home country tax. This tax neutrality provides a level playing field for all investors, natural persons or institutional, within the complex parameters of existing tax and securities laws that apply to the investors, the management team and the business or investment activities in their multiple home jurisdictions - it does not mean that investors avoid paying taxes. The fact that the MFL does not impose restrictions on investment strategies, limits on leveraging, mandate resident directors or the physical presence of funds service providers in the Cayman Islands, as well as the fact that there is a distinction between the regulation of public funds and that of non-public funds, are other reasons for the growth of the Cayman Islands as a funds domicile.

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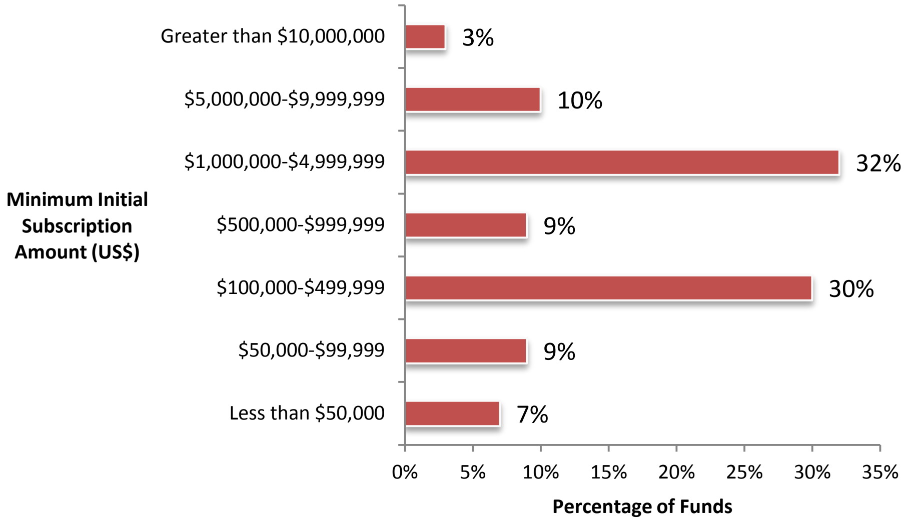
[6] A third authorisation category, exempted, which previously existed, has been discontinued. However, administrators already authorised in this category remain.
[7] See CIMA's *Investments Statistical Digest 2009*, available on CIMA's website at www.cimoney.com.ky
[8] As determined by the proportion of the Cayman funds' aggregate net assets for which those service providers were responsible.

Figure 18: Minimum Initial Investment Required by Cayman-Regulated Funds Filing a Fund Annual Return for 2009



Authorisation Activity

Funds - The number of new registrations/licences processed and approved by CIMA for the fiscal year ending 30 June 2011 was 1,083 (June 2010: 1,168). Fund terminations totalled 1,136 (June 2010: 1,415). This brought the total number of regulated funds at 30 June 2011 to 9,409, a minimal decline of 0.8 per cent from June 2010. Nevertheless, fund authorisation activity was brisk, with an average of 90 funds per month being authorised during the fiscal year (authorisations ranged from a low of 37 in December to a high of 141 in January). Despite the decline in the overall fund numbers, the local funds regime remains healthy.

Administrators - For the fiscal year, seven new mutual fund administrator licenses were issued (2009-10: seven) and eight were cancelled (2010-11: eight), for a total of 130 at June 2011. The cancellations comprised three full administrator licences and five restricted licences. The main reason for the surrender of the licences was that the licensees were no longer carrying on fund administration business in or from the Cayman Islands.

Despite the continued challenges in the global financial markets during 2010 and 2011, fund administrators saw a modest increase in new business and the anticipated implementation of the Registrar and Transfer Agent Mutual Fund Administrators Licence is expected to facilitate further developments in this area.

Jurisdictional Comparisons - Funds

Table 14 shows the number of active funds for calendar years 2006 to 2010 in Cayman and other international financial centres for which figures are available. As the figures demonstrate, the number of Cayman Islands-authorised funds has consistently been far in excess of the other jurisdictions. To date, Cayman remains the leader in fund domiciliation. The decline in fund numbers across jurisdictions between 2008 and 2010 largely reflects the impact of the US recession and the continued instability in the global financial markets.

Table 14: Regulated Fund Numbers - Selected Jurisdictions, 2006-2010 Calendar Year-end

Jurisdiction	2006	Change	2007	Change	2008	Change	2009	Change	2010
Cayman	8134	↑16%	9413	↑ 5%	9870	↓ 4%	9524	↓ 1%	9438
Bahamas	723	↑8%	782	↑ 11%	803	↓ 1.9%	788	↓ 4%	754
Bermuda	1302	↓ 2%	1276	↓ 18%	1133	↑15.5%	1309	↓ 10%	1181
BVI	2571	↑6%	2731	↑ 8%	2942	↓ 6%	2923	↑1%	2951
Dublin	941	-	N/A	-	N/A	-	N/A	-	N/A
Jersey	1157	↑13%	1311	↑12%	1472	↓ 12%	1294	↑2%	1324

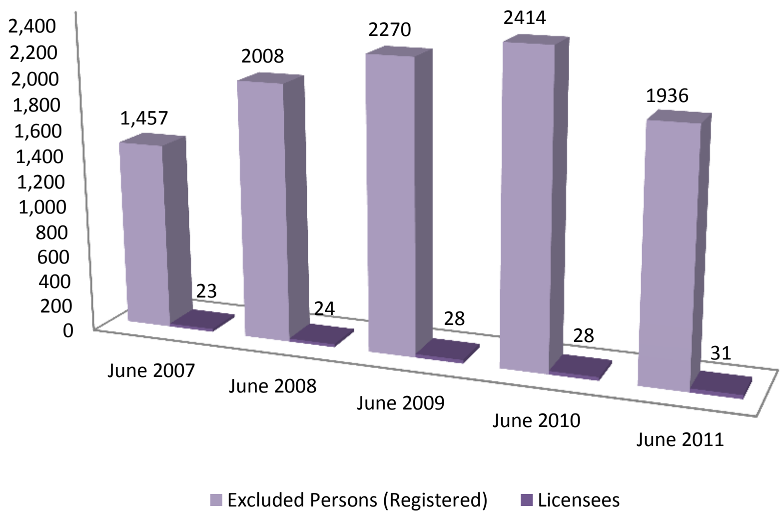
SECURITIES INVESTMENT BUSINESS

The Sector

Securities investment business activities carried out in and from the Cayman Islands include: dealing in securities, arranging deals, investments management and provision of investment advice. The Securities Investment Business Law (SIBL) provides for the regulation of persons engaged in these activities in or from the Cayman Islands, including market makers, broker-dealers, securities arrangers, securities advisors and securities managers. Such persons must be licensed by CIMA unless they meet the criteria to be excluded for the licensing requirement, in which case they must be registered as 'excluded persons'.

Since 2003, when the SIBL regime commenced, the excluded persons category has accounted for the vast majority of SIBL authorisations (see Figure 19). Most of the entities in this category conduct securities investment business exclusively for institutions or sophisticated investors. The majority of the licensees are category A banks that maintain securities investment business licences in order to provide securities investment services to their customers.

Figure 19: Number of Regulated Securities Investment Business Entities, Fiscal Year-end 2007-2011



Authorisation Activity

Four new securities investment business licences and 430 new excluded person registrations were approved during the fiscal year. In total, 833 excluded person registrations and one securities investment business licence were cancelled. This brought the totals at June 2011 to 1,936 excluded person registrations and 31 licences.

ORGANISATIONAL DEVELOPMENTS

NATURE AND SCOPE OF ACTIVITIES

FUNCTIONS

CIMA has four principal functions.

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

OBLIGATIONS

The primary obligations of the Monetary Authority in carrying out the above functions are to:

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

STRATEGIC GOALS

During 2010-2011, CIMA's Board of Directors approved a number of strategic priorities for the Authority to pursue over the next three years. In summary, these are:

1. to further **modernise regulation and enhance supervision** in order to ensure that Cayman keeps on par with the evolving international regulatory standards and best practices that are relevant to our business;

2. to **intensify CIMA's international cooperation and involvement** so as to: ensure that the Authority does its part in maintaining the safety and sound regulation of the international financial system; enable Cayman to continue to contribute to the development of international rules and standards that affect this jurisdiction, and to enhance the jurisdiction's reputation;

3. to facilitate the Government and private sector's efforts to **further develop the Cayman Islands as an international financial centre**, and

4. to **increase CIMA's effectiveness and cost-efficiency**.

EXECUTION OF MONETARY FUNCTIONS

CURRENCY MANAGEMENT

The Monetary Authority, through its Currency Operations Division, is the sole issuing authority for Cayman Islands currency. The division is responsible for the issue, re-issue, and withdrawal of Cayman Islands currency notes and coins against the United States dollar, dealing with the local retail banks: Butterfield Bank (Cayman) Limited, Cayman National Bank Ltd., Fidelity Bank (Cayman) Limited, FirstCaribbean International Bank (Cayman) Limited, HSBC Bank (Cayman) Limited, Royal Bank of Canada, and Scotiabank & Trust (Cayman) Ltd. The division also administers the sale and redemption of numismatic coins to and from local and overseas collectors.

Currency Reserve Management

Cayman Islands currency is issued on demand only against United States currency at the rate of one Cayman Islands dollar per 1.20 US dollars. It is repurchased on demand with US dollars at the same rate.

The currency in circulation is backed by the currency reserve assets in accordance with section 32 of the Monetary Authority Law. As at 30 June 2011, the value of the currency reserve assets was CI$95,607,146 (2010: $87,202,232) representing 112.58 per cent (2010: 111.82 per cent) of total demand liabilities (i.e., currency in circulation).

Full details on the currency reserve assets, including specifics on the performance of the investments and cash and cash equivalent deposits that comprise the currency reserve assets, can be found at Note 4 of the Notes to the Annual Financial Statements (page 63 and following).

Issue and Redemption of Currency

Currency in Circulation - At 30 June 2011, currency in circulation (excluding numismatic coins) stood at $75.6 million in notes and $9.3 million in coins, totalling $84.9 million. This represents an 8.9 per cent increase over the 30 June 2010 figure of $78 million. Table 15 shows currency in circulation at fiscal and calendar year-end from 2006 to 2011. Figure 20 shows currency in circulation by month from 2006 to 2011.

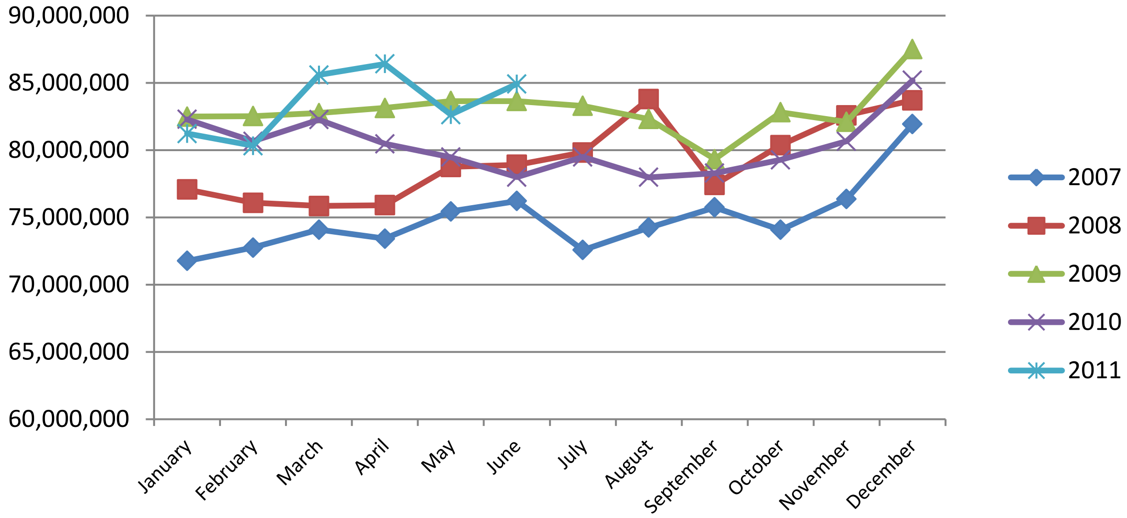
Table 15: Currency in Circulation at Fiscal and Calendar Year-end, 2006-2011 (in CI$m)

DATE	2006	2007	2008	2009	2010	2011
30 June	70.5	76.2	78.9	83.6	78	84.9
31 December	78.2	81.9	83.6	87.5	85.2	

New Currency – The new series of banknotes, the D series, was launched when two denominations were issued into circulation in the week of 4 April 2011. The new series represents the first complete redesign of Cayman Islands banknotes since local currency was introduced in 1972, and incorporates innovative features to significantly increase protection against counterfeiting and to make the banknotes more durable.

A series of *Know Your Money* sessions were conducted prior to the launch for the financial industry, government agencies, law enforcement agencies, the general public and CIMA staff. A session was held on Cayman Brac for the Sister Islands. Public awareness was extended through the distribution of posters to banks and retail outlets as well as through articles placed on CIMA's website and published by the print and electronic media. Coverage via the electronic media included a special segment produced by Government Information Services (GIS), at CIMA's request, and aired on the television, radio and internet programme "GIS Spotlight".

Figure 20: Cayman Islands Currency in Circulation by Month: 2007-2011



Counterfeit Detection

A total of 114 forged banknotes were detected and withdrawn from circulation in 2010-11, compared to 24 detected and withdrawn in the prior fiscal year.

The majority of these notes (97) were detected and withdrawn between January and March 2011, with the peak being in March following alerts that were issued in February and March by the Royal Cayman Islands Police Service (RCIPS) and CIMA to notify the public that forged notes were in circulation and to remind people how to detect counterfeits currency.

Table 16 shows the numbers of counterfeit banknotes, by denomination, which were withdrawn from circulation in each of the six-month periods between 1 July 2009 and 30 June 2011.

Table 16: Counterfeit Cayman Islands Currency Notes Recovered, July 2009- June 2011

Denomination	1 July to 31 December 2009	1 January to 30 June 2010	1 July to 31 December 2010	1 January to 30 June 2011
$100	8	2	5	8
$50	1	1	0	10
$25	0	10	0	19
$10	2	0	0	72
$5	0	0	0	0
$1	0	0	0	0
Total No. of Notes	**11**	**13**	**5**	**109**
Total Dollar Value	**$870**	**$500**	**$500**	**$2,945**

EXECUTION OF REGULATORY FUNCTIONS

THE REGULATORY REGIME

Framework
The framework for the Monetary Authority's regulation and supervision of financial services is made up of a number of elements. These include the applicable laws and regulations passed by the Government of the Cayman Islands; rules and statements of principle and of guidance issued by the Authority; and policies and procedures detailed in the *Regulatory Handbook* and other manuals.

Regulation and supervision are carried out in accordance with internationally accepted standards where these exist and are appropriate for the jurisdiction. The domestic laws and international standards under which the Cayman Islands Monetary Authority and regulated sectors operated as at 30 June 2011 are shown in Table 17.

Copies of all rules, statements of guidance and policies and procedures issued by the Authority are available on the CIMA website. The prudential measures issued during the 2010-11 fiscal year are listed in Table 18.

Table 17: Framework Under Which the Cayman Islands Monetary Authority Operates (as at 30 June 2011)

Sector/ Entity type	CI Law	International Standards / Memberships
All	• Monetary Authority Law (2010 Revision) • Proceeds of Crime Law (2008) • Money Laundering Regulations (2010 Revision) • Terrorism Law (2009 Revision), and amendment • Public Management and Finance Law (2010 Revision) • Companies Law (2010 Revision), and amendments	**Standards**: • Financial Action Task Force Forty Recommendations on Money Laundering and Nine Special Recommendations on Terrorist Financing **Memberships**: • Caribbean Financial Action Task Force (CFATF)
Banks, trusts, money services businesses, credit unions, building societies, corporate services providers, company managers	• Banks and Trust Companies Law (2009 Revision) • Private Trust Companies Regulations, 2008), and amendment • Money Services Law (2010 Revision), and regulations • Cooperative Societies Law (2001 Revision), and regulations • Building Societies Law (2010 Revision) • Development Bank Law (2004 Revision) • Companies Management Law (2003 Revision), and regulations	**Standards**: • Basel Core Principles for Effective Banking Supervision[9] • Trust and Company Service Providers Working Group Statement of Best Practice produced by the Offshore Group of Banking Supervisors[10] **Memberships**: • Group of International Financial Centre Supervisors (formerly Offshore Group of Banking Supervisors) • Caribbean Group of Banking Supervisors • Association of Supervisors of Banks of the Americas
Insurance companies, managers, brokers, agents	• Insurance Law (2008 Revision), and regulations	**Standards**: • International Association of Insurance Supervisors (IAIS) Core Principles of Insurance Regulation[11] **Memberships**:

[9] As promulgated by the Basel Committee on Banking Supervision
[10] 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.
[11] Issued by the International Association of Insurance Supervisors (www.iaisweb.org). The Cayman Islands is a charter member of this association.

		• 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 (2009 Revision), and regulations • Securities Investment Business Law (SIBL) (2010 Revision), amendment and regulations	**Standards**: • International Organization of Securities Commissions (IOSCO) • Offshore Group of Collective Investment Schemes Supervisors (OGCISS) **Memberships**: • Offshore Group of Collective Investment Schemes Supervisors (OGCISS) • IOSCO

Regulation and Supervision

The Banking Supervision, Fiduciary Services, Insurance, and Investments and Securities divisions (collectively referred to as the supervisory divisions) are responsible for processing, and making recommendations on, applications for licences and other relevant authorisations for the provision of those financial services falling within their sectors. They are also responsible for the 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 is responsible for the continuous development of the financial services regulatory framework within the Cayman Islands in accordance with international standards. Its cross-functional role supports and advises the Authority's senior management, four supervisory divisions (Banking, Insurance, Investments & Securities and Fiduciary) and the Compliance Division.

The division's development and advisory role entails research of international developments and initiatives; analysis of the impact on the local financial services industry; formulation of appropriate options for consideration by the Authority and providing policy advice to the Authority, including during the industry consultation process. In addition, the division assists in the provision of responses, of both a statistical and non-statistical nature, on the financial sector to various international and domestic organisations.

During the year under review, the Authority issued a comprehensive set of standards implementing the International Convergence of Capital Measurement and Capital Standards (Basel II Accord). These became effective on 1 January 2011. The Authority also issued a new regulatory Rule on Regulatory Reporting Standards that applies to all regulated entities. Implementation of this measure was subsequently deferred. The measures and their descriptions are listed in Table 18.

[12] www.ogis.net

Table 18: List of Regulatory Measures Issued in 2010-2011

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

Other Regulatory Developments

Basel II Implementation

CIMA completed the first part of its implementation of the Basel II[13] framework in the Cayman Islands on 1 January 2011 when Pillar 1[14] became effective. The Basel II framework applies to both category A and B banks that are locally incorporated in the Cayman Islands.

Work was started towards implementing Pillar 2, the supervisory review process. The supervisory review process is intended to ensure that banks have adequate capital to support all the risks in their business, beyond the core minimum requirements, and to encourage banks to develop and use better risk management techniques in monitoring and managing their risks. Banks are responsible for developing an internal capital adequacy assessment process (ICAAP) and setting capital targets that are appropriate for banks' risk profiles and control environments. During the period, the Authority drafted its policy document on the Supervisory Review Process. The Authority will be consulting on the Pillar 2 documents with the banking industry during the 2011-12 financial year, with implementation following thereafter.

Securities Investment Business (Amendment) Law, 2011

The principal law was amended in April 2011 to provide that the disposal of treasury shares by a company does not constitute securities investment business. This amendment complemented changes to the Companies Law that included the introduction of a provision for companies to hold shares in treasury, such that the shares are able to be reissued otherwise than from authorised share capital.

Dormant Accounts Law, 2010

The Dormant Accounts Law, 2010, its regulations and subsequent amendments were passed in the latter half of 2010. It requires class A life insurers, banks, trust companies, credit unions and building societies (i.e., 'account providers') to transfer monies that are in dormant accounts in their institutions to the Government after seven years of account inactivity. The legislation sets out: the circumstances under which accounts will be considered dormant; the procedures that account providers must follow to ensure account holders are notified and given opportunity to re-activate their accounts within the specified

[13] Basel II is the set of standards for establishing minimum capital requirements for banking organisations, developed by the Basel Committee on Banking Supervision, a group of central banks and bank supervisory authorities in the Group of 10 Industrialised Countries. Basel II is a more risk-sensitive approach to capital regulation. Pillars 2 and 3 address the supervisory review process and market discipline, respectively.

[14] Pillar 1 addresses minimum capital requirements, specifically focused on regulatory capital for three major components of bank risk: credit-, market-, and operational risk. Pillars 2 and 3 address the supervisory review process and market discipline, respectively.

time; the time frame within which account providers must transfer, to the Government, monies in dormant accounts that meet the criteria for transfer, and the procedures and format for reporting.

Under the law, account providers are required to submit reports and certificates of compliance to CIMA (as well as to the Minister of Finance), and must have CIMA's approval before they can vary interest payments and account charges applicable to an account during the period of dormancy or at the time a payment or transfer of monies is required. The law also gives CIMA power to authorise inspections of account providers and to issue directions to account providers.

Insurance Law, 2010

The Insurance Law, 2010, was passed by the Legislative Assembly in September 2010. However its implementation was deferred to coincide with the issuing of the supporting regulations. CIMA continued its extensive consultation with industry on the draft regulations and incorporated input received. The draft regulations were with the Government's Legislative Drafting Department for finalisation at the end of the fiscal year.

The Insurance Law, 2010, includes stricter reporting requirements for class A (i.e., domestic) insurers, a restructuring of class B insurers into three categories depending on the amount of related party business, a new class of insurer for reinsurance companies and a new class for special purpose vehicles. Additionally, it provides a new definition of insurance broker, harmonisation of enforcement provisions with other Cayman regulatory laws, and more minor administrative adjustments.

Regulation of Pension Plans and Administrators

CIMA continued to assist the Cayman Islands Government in reorganising the framework for oversight of the Cayman Islands' private pension system, subsequent to Government's announcement of its intention to have CIMA assume the regulation of pension plans and plan administrators. The process involves changes to legislation and during 2010-11 CIMA was actively involved in the redrafting of the National Pensions Law in order to delineate CIMA's responsibilities from those of other agencies. Once the amendments are finalised, the Authority will be able to determine its resource requirements for this additional area of regulation.

Public Auditor Oversight Regime

The establishment of an independent oversight body for auditors in the Cayman Islands, to meet European Union auditor oversight standards, progressed during the fiscal year with the drafting of enabling legislation. CIMA spearheaded the development of the framework with assistance from an external consultant, and in consultation with relevant parties, including the Government and the Cayman Islands Society of Professional Accountants. Near the end of the fiscal year the decision was taken not to have CIMA assume the role of oversight body, as was originally proposed, but rather to establish a separate entity for this purpose. Subsequent to the end of the fiscal year, the Legislative Assembly passed the enabling legislation.

The auditor oversight regime is designed to allow Cayman to meet recently introduced international standards, in particular the 8th European Union Company Law Directive. The directive requires foreign auditors carrying out audits of entities listed on EU stock exchanges to be subject to a system of independent public oversight that is equivalent to that of the EU in order to be exempted from the registration and regulation requirements of the individual member states.

Alternative Investment Fund Managers Directive (AIFMD)

In November 2010 the European Parliament adopted the AIFMD, which introduces a unified regulatory regime for alternative investment fund managers and funds within the European Union from 2013.

Building on its work since the AIFMD was first proposed in 2009, CIMA, subsequent to the directive's adoption in late 2010, carried out a gap analysis of Cayman's existing regulatory regime *vis-à-vis* the specific framework that was passed by the European legislators. The Authority also worked with members of industry to ascertain areas of difficulty in meeting the AIFMD requirements applicable to Cayman domiciled funds, managers and other service providers. In January 2011, CIMA provided input to the European Securities and Markets Authority (ESMA) in response to ESMA's call for input to help it frame AIFMD implementation strategies.

CIMA is seeking to expand bi-lateral cooperation agreements to key counterparts in EU countries where service providers to Cayman domiciled funds are located. To this end, in the last quarter of the fiscal year, the Authority met with regulators in Germany, Ireland, Luxembourg, France and Italy to initiate discussions regarding possible memoranda of understanding.

Bi-annual Return for Trust Companies and Company Managers

In November 2010 CIMA established a working group comprising CIMA and industry representatives to review proposed amendments to the bi-annual reporting form for trust companies and company managers. Following input from the working group and approval by CIMA's Board, the draft reporting form was issued for private sector consultation in June 2011. Revisions to the reporting form are intended to refine the data collected in order to enhance the regulation of the trust and corporate services industries.

Enhancement of Risk-based Supervision

CIMA's Supervisory Harmony Task Force, which was established to develop and implement a formal risk-based supervision framework for the Authority, prepared a draft Supervisory Framework Document outlining a risk assessment methodology by which analysts would rate licensees and schedule supervisory activities. The draft was approved by senior management and the next phase of the project, during which the task force will review each division's supervisory processes, was set to be completed during 2011-12.

COMPLIANCE AND ENFORCEMENT

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

Due Diligence

In carrying out due diligence, the Authority follows its *Regulatory Policy – Assessing Fitness and Propriety*[15]*.* The Compliance Division, which is tasked with conducting due diligence on applicants that the regulatory divisions refer to it, received 375 such applications during the 2010-2011 fiscal year. This compares to 200 during 2009-10. The breakdown of the applications for 2010-11 and 2009-10, by division, is shown in Table 19.

Table 19: Due Diligence Applications Referred to the Compliance Division, 2010-11, with 2009-10 Comparison

	Banking	Fiduciary	Insurance	Investments	Other	Total
Applications as at 30 June2010:	53	104	2	41	0	200
Applications as at 30 June 2011:	109	182	1	83	0	375

Enforcement

CIMA's *Enforcement Manual*[16] 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

[15] Regulatory Policy – Assessing Fitness and Propriety: Appendix E3 (page 66) of the Regulatory Handbook Appendices. Address: http://www.cimoney.com.ky/WorkArea/DownloadAsset.aspx?id=3825. Also see information on Fitness and Propriety at page 28 of the Regulatory Handbook - Volume 1 March 2011. Address: http://www.cimoney.com.ky/WorkArea/linkit.aspx?LinkIdentifier=id&ItemID=3714

[16] The Enforcement Manual:Address: http://www.cimoney.com.ky/WorkArea/linkit.aspx?LinkIdentifier=id&ItemID=672

ladder of compliance detailing the steps the Authority will follow in the event of non-compliance. Where appropriate, CIMA will work with the licensee or registrant in an attempt to resolve regulatory issues prior to taking formal enforcement action. The Compliance Division and the Legal Division are responsible for the exercise of enforcement action, under the authorisation of CIMA's Board of Directors.

The Authority initiated five formal enforcement actions during 2010-11 (compared to 11 during 2009-10). One of these actions involved litigation brought by CIMA. Table 20 lists the formal enforcement actions initiated[17].

Table 20: Formal Enforcement Actions, 2010-2011

Name of Entity	Type of Authorisation Held	Enforcement Action	Effective Date
Banco Privado Portugues (Cayman) Ltd	Category B Banking Licence	Revocation	July 7, 2010
Banco Privado Portugues (Cayman) Ltd	Category B Banking Licence	Official Liquidation	July 9, 2010
Winchester Opportunity Offshore Fund, Ltd	Registered Fund	Registration Cancelled	April 18, 2011
Wilshire Fund Ltd.	Registered Fund	Registration Cancelled	April 18, 2011
Island Capital Offshore Fund, Ltd.	Registered Fund	Registration Cancelled	April 18, 2011

Litigation:

A Petition was presented to the Grand Court for the winding up of Banco Privado Portugues (Cayman) Ltd. on 9 July 2010 and was granted.

Other Compliance-related Matters

Among its duties, the Compliance Division is also tasked with investigating persons or entities that appear to be conducting regulated business without the proper authorisation from the Authority.

In addition, in keeping with its mandate to protect the jurisdiction from individuals or entities seeking to reap illegal benefit by false association with the Cayman Islands, the Compliance Division continued updating a list of websites which give Cayman addresses for various businesses which are not registered or licensed in the Cayman Islands.[18]

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[17] See the Regulatory and Enforcement Notices section of CIMA's website. Address: http://www.cimoney.com.ky/enforcement/notices.aspx?id=164

[18] The complete list can be viewed in the Enforcement/ Information and Alerts section of the website: Address: http://www.cimoney.com.ky/enforcement/info_alerts.aspx?id=168 .

EXECUTION OF COOPERATIVE AND ADVISORY FUNCTIONS

CROSS-BORDER COOPERATION

The Monetary Authority Law (MAL) lists the provision of assistance to overseas regulatory authorities as one of the principal functions of the Authority. Such international cooperation takes place through the exchange of information, as provided for in the MAL and facilitated through memoranda of understanding (MOUs) and other agreements, as well as through the Authority's active participation in international forums.

Memoranda of Understanding

While not a prerequisite for the provision of assistance, MOUs and similar agreements establish a framework for mutual assistance and cooperation by CIMA and the regulatory body with which the MOU is signed. The agreements specify when consultation should take place and the type of supervisory and enforcement information that may be exchanged. In this way, they enhance the existing working relationships between the authorities. Copies of the Authority's current MOUs and cooperation agreements are available on the CIMA website.[19]

Four bi-lateral MOUs and one multi-lateral information exchange and cooperation agreement were concluded during 2010-11. These are listed in Table 21.

Table 21: International Information Exchange and Cooperation Agreements Concluded, 2010-2011

Agreement	Effective Date
International Association of Insurance Supervisors	17 June 2011
Dubai Financial Services Authority - Memorandum of Understanding	30 March 2011
National Banking and Securities Commission of the United Mexican States - Memorandum of Understanding	7 March 2011
Turks and Caicos Islands Financial Services Commission - Memorandum of Understanding	25 February 2011
U.S. Banking Regulators - Statement of Cooperation (US Regulators: Federal Reserve System Board of Governors, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, and Office of Thrift Supervision)	6 August 2010
State of Florida Office of Insurance Regulation - Memorandum of Understanding	27 July 2010

Assistance to Overseas Regulatory Authorities

An ongoing activity for the Legal Division is advising on, and coordinating responses to, requests for assistance from overseas regulatory authorities (ORAs). The division works closely with other CIMA divisions, particularly Compliance, to ensure that requests are handled in a timely and efficient manner and that they conform to the requirements of the MAL. The *Procedure - Dealing with Requests for*

[19] International agreements: http://www.cimoney.com.ky/ext_coop_assess/international_cooperation_agreements.aspx?id=184&ekmensel=e2f22c9a_18_108_184_1. Local agreements: http://www.cimoney.com.ky/ext_coop_assess/domestic_cooperations_agreements.aspx?id=178&ekmensel=e2f22c9a_18_110_178_1

Assistance from an Overseas Regulatory Authority (ORA)[20] sets out the Authority's approach in dealing with these requests. The process includes reviewing and assessing the requests and drafting directions to persons who have information that will assist the ORA in performing its functions.

The Compliance Division assists primarily on those requests on which the Authority will be required to issue a direction to obtain the information sought. The division is currently responsible for assessing the request, preparing the direction and serving it on the relevant party, as well as reviewing the information provided by the party to assess whether the party complied with the requirements of the direction, and providing the information to the requesting ORA.

The Authority handled a total of 142 requests for assistance from ORAs during the 2010-11 financial year, compared to 171 requests during 2009-10 and 113 during 2008-09. New and supplemental requests came from regulatory authorities in Europe, Asia, the Caribbean and Bermuda, USA, Canada, and the UK.

International Initiatives Involving CIMA

Caribbean Financial Action Task Force/Financial Action Task Force (CFATF/FATF)

A CIMA representative co-chaired the CFATF Working Group on FATF Issues (WGFI) during the year. This working group monitored developments as the FATF conducted a review of the 40+9 Recommendations in advance of the fourth round of mutual evaluations. Revised FATF Recommendations are expected to be published in early 2012 and the fourth round of mutual evaluations is scheduled to begin in late 2013. The CIMA representative also joined other regional colleagues in ensuring active CFATF participation at the FATF plenary sessions.

International Association of Insurance Supervisors (IAIS)

CIMA expanded its involvement in the IAIS to the following subcommittees:

- ComFrame: the subcommittee developing the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), an initiative to enhance group-wide supervision of internationally active insurers, and
- Pension Coordination: the group tasked with preparing a cooperation framework to facilitate liaison between the IAIS and the International Organisation of Pension Supervisors (IOPS), and with checking the consistency of standard setting activities.

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

International Banking Regulatory Groups

The Authority was nominated to the seat of Deputy Chairman of the Group of International Finance Centre Supervisors (GIFCS, previously named the Offshore Group of Bank Supervisors (OGBS)). The appointment took effect in late 2011.

CIMA is an active member of the Caribbean Group of Bank Supervisors (CGBS) and a member of the CGBS' Basel II Implementation Working Group. The Authority also continued its role as the CGBS' representative on the Board of the Association of Supervisors of Banks of the Americas (ASBA). The two-year appointment was due to expire in November 2011.

[20] Procedure- Dealing with Requests for Assistance from an Overseas Regulatory Authority: Appendix D1 (page 32) of the Regulatory Handbook Appendices. Address: http://www.cimoney.com.ky/WorkArea/DownloadAsset.aspx?id=3825.

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 CIMA's staff in conducting their supervisory activities is reported to the MLRO, who has the responsibility to report to the Financial Reporting Authority (FRA) in conformance with the Money Laundering Regulations (2010 Revision).

The MLRO filed no suspicious activity reports (SARs) with the Financial Reporting Authority (FRA) during 2010-11, compared to 2 filed during 2009-10. The FRA made 22 onward disclosures to the Authority pursuant to the MOU between the FRA and CIMA. This compares to 32 made by the FRA during 2009-10. CIMA assesses all onward disclosures to determine if further investigation and regulatory action is required.

ADVISORY ACTIVITY

The Monetary Authority Law requires CIMA to advise the Government on monetary, regulatory and cooperative matters. This includes providing advice as to whether CIMA'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 CIMA to consult with the local private sector on the proposed issuance or amendment of rules or statements of principle or guidance concerning the conduct of licensees and their officers and employees; statements of guidance concerning the requirements of the money laundering regulations; and rules or statements of principle or guidance to reduce the risk of financial services business being used for money laundering or other criminal purposes.

Through its involvement with overseas regulatory authorities, participation in local and international forums, and interaction and consultation with local and overseas market participants, CIMA is able to stay abreast of developments relevant to the local financial services sector, and the concerns of the industry, and to advise the Government based on the information gathered. CIMA also carries out its own research and assessment, including cost benefit analyses of all new regulatory measures it proposes, and makes recommendations to the Government accordingly. Advice to the Government is provided through meetings, participation in various Government groups and through written reports and submissions, including financial sector legislative proposals (draft bills and regulations) and Cabinet papers.

The measures implemented or in development during 2010-11 are covered in the Regulatory Developments section of this report, beginning on page 36.

Assistance on TIEA and OECD Matters

As part of its advisory and cooperative mandate, CIMA representatives participated in the work of the Government's Tax Information Exchange Agreement (TIEA) negotiating team. The team's activities during the year included negotiations with several jurisdictions, which culminated in the signing of four bilateral agreements between July 2010 and June 2011[21].

CIMA representatives on the TIEA also participate, along with their Government counterparts, on the Organisation for Economic Cooperation and Development's (OECD) Global Forum on Transparency and Exchange of Information Steering Group and Peer Review Group. Cayman is a member of both groups.

[21] See List of Cayman Islands Bilateral Agreements and Arrangements on the Cayman Islands Tax Information Authority website: http://tia.gov.ky/pdf/BilateralAgreementsArrangements.pdf

OPERATIONAL SUPPORT AND ADMINISTRATION

HUMAN RESOURCE MANAGEMENT & DEVELOPMENT

Human Resources Division

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

Staffing and Recruitment

The Authority's staff complement fell from 158 at 30 June 2010 to 155 at 30 June 2011, with 83 per cent being Caymanian. The turnover rate for 2010-11 was 12.73 per cent, an increase from 5.27 per cent for 2009-10.

Table 22: Staff Numbers by Division at 30 June 2011, with June 2010 Comparisons

Division	Actual staff numbers at 30 June 2010	**Actual staff numbers at 30 June 2011**
Banking	23	23
Compliance	11	11
Currency Operations	7	7
Fiduciary Services	10	9
Insurance	21	20
Investments and Securities	35	34
Legal	7	7
Managing Director's Office	8	9
Finance, Information Systems and Human Resources (Operations)	27	25
Policy & Development	9	10
TOTAL	158	**155**

As a result of exemplary performance results, a total of 12 staff members were promoted during the period, as listed in Table 23:

Table 23: Staff Promotions, 2010-2011

Staff	New Position	Division
James Whittaker	Deputy Head	Investments & Securities
Jennifer Hydes	Chief Analyst	Fiduciary
Pedro Reis	Chief Analyst	Insurance
Wilbur Welcome	Senior Analyst	Banking
Cindy Grant	Senior Analyst	Compliance
Roshenara Khan	Senior Analyst	Compliance
Andrew Graham	Senior Analyst	Investments & Securities
Michael Dawkins	Network Administrator	Information Systems
Clive Scotland	Network Administrator	Information Systems

Melesia Adderley	Analyst	Investments & Securities
Tarena Christian	Analyst	Fiduciary
Francisco Castillo	Database Administrator	Information Systems

Employee Services

The Performance Management Programme that was implemented during the previous fiscal year proved to be a success, enabling HR and the divisional management team to efficiently and effectively manage the probationary period for new employees and the annual appraisal process.

The streamlining of policies, procedures and forms has enabled the division to develop a New Employee Online Orientation Programme, scheduled for implementation in the first half of 2011-12. This programme, which will include HR and divisional information, will supplement the current employee staff handbook and enable employees to have all of the key information readily available in a convenient central location.

The implementation of the division's new automated HR information system (Great Plains Dynamics) has streamlined the payroll and HR reporting processes. The success of the system has resulted in the implementation of another HR information system (SharePoint) which will be accessible to staff so that they will be able to electronically access the information that is usually stored on their personnel files. This will enable the HRD to improve transparency as employees will then be fully aware of any updates that are taking place in respect to their employee profile.

Learning and Development

The in-house learning and development programme is designed to create a culture where employees and CIMA equally share the responsibility of gaining and maintaining the required knowledge, skills and competencies to remain competitive in the international financial services industry. This also facilitates an increase in knowledge transfer to ensure that employees at CIMA are receiving consistent information whenever applicable. The following is a breakdown of CIMA's learning and development statistics for the 2010-11 calendar year:

Table 24: Learning and Development Programme Statistics, 2010-2011

Course Type	Total Held	Total Attendance
Internal Lunch 'n' Learn Courses	2	26
Internal Courses – External Presenters	17	174
Internal Courses – Leader Led	12	160
Internal Web Seminar Courses	12	113

INFORMATION SERVICES

The goal of the Information Systems (IS) Division is to facilitate CIMA's business practices in a secure and resilient manner, utilising information and communications technology.

The division surpassed its goals for availability, security, and reliability of information technology systems and services during 2010-2011. At the end of the fiscal year, availability of all production systems stood at 99.97% during prime time (8 a.m. to 6 p.m. on work days). This exceeded the self-imposed guideline of 99.8% and far surpassed the industry-accepted standard of 98%. Several key systems, including CIMA's main web site and the MARS reporting system, maintained 100% availability during this period. CIMA's systems handled and processed just over one million emails during the year.

Major Initiatives During 2010-2011

Virtualisation and Disaster Recovery - The division continued to embrace virtualisation technology in order to significantly improve disaster recovery, reliability, availability, and return on investment.

Use of the technology has removed the need to have, at a remote site, duplicate hardware that is only used for disaster recovery purposes. Instead, as part of a needed upgrade and replacement of outdated equipment to support the Basel II and CIMAConnect projects, the Authority purchased four 'big iron' servers to act as host to dozens of virtual servers. These four servers now host over 60 production servers and are all actively utilised in day to day operations. Either site can take on the entire workload in the event of a disaster. This strategy has saved CIMA in excess of $150,000 in hardware while allowing the division to be extremely agile in bringing new systems online at short notice.

Plans for 2011-2012 include the implementation of a third leg of the disaster recovery plan: the capability to failover to Cayman Brac in the event of a total loss of power or facilities on Grand Cayman. The goal is to further ensure the continued operation of CIMA's web sites, email and online systems (and thus the ability to continue conducting business) regardless of the extent of a natural disaster.

CIMAConnect – CIMA's newly-developed online submission system, *CIMAConnect,* went live in the Investments and Securities Division in October 2010. The system allows licensees/ registrants to submit applications for CIMA approvals through a secure internet portal and automates and streamlines much of the manual tasks involved in processing such applications. Initially, the system is enabling authorised service providers to funds to submit requests and documentation for the registration or licensing of new funds online.

As part of plans to extend CIMAConnect and E-reporting to other CIMA divisions, the IS Division undertook an analysis to determine suitable workflow software. The goal is to provide a common development infrastructure that will allow the division to create and modify forms that can then be applied to the existing interfaces.

The division also carried out an initial analysis of various online payment options that would facilitate CIMAConnect and E-reporting users paying the required application and other approval fees online. This analysis has been submitted to CIMA's Board of Directors.

Electronic Content Management - The first phase of the Electronic Content Management (ECM) project was implemented in the HR Division and is now being utilised to assist with managing documentation and correspondence related to new hires and existing employees. The next steps in the project will enable employees to view their own payroll and personnel data online via the My Site portal.

Network Security - Enhancements to network security systems during the reporting period included the addition of third-tier email scanning software, enhanced anti-virus deployment, improved backup and recovery processes, and a new log-in processing system, Desktop Authority, which improves the accuracy and security of information accessed by the user.

Monetary Authority Regulatory System (MARS) - The division continued to upgrade the Monetary Authority Reporting System, which had been implemented during 2009-2010, in response to divisional requests. Among the capabilities added to MARS were: the option to search for an entity based on its previous name; increased data filtering functionality to reduce the time required to find relevant records, and the ability to edit attachments previously saved in the system.

Other Projects

Throughout the year, the division provided enhanced data analysis tools to various divisions to assist them in their operations. This included the creation of 'data cubes', which facilitate extensive data modelling and reporting and allows the users to perform ad-hoc queries against stored data in ways that were previously unavailable.

Significant support was provided to the Finance Division to assist with year-end billing and the cleaning up of historical data. Several custom reports were developed from CIMA's automated receipting system, C4, in order to provide clearer pictures of the state of all accounts.

The development and implementation of a new staff alert web page was among other work completed by the IS Division during the fiscal year. The site allows management to post emergency staff notices during weather-related or other emergencies.

COMMUNICATION AND PUBLIC RELATIONS

The Public Relations (PR) Unit, a part of the Managing Director's Office, provides communications support to, and on behalf of, CIMA in order to help the Authority execute its functions and enhance relationships with stakeholders and other members of the public. These efforts are augmented by the activities of CIMA's management, the Human Resources Division and other divisions, as well as through staff-led initiatives.

Events

Global Finance Forum - For the second year, CIMA partnered with Financial Times Global Conferences and Events to stage the Global Finance Forum. The PR Unit again assisted in organising this event, which in 2010 was held in New York on 2 December, under the theme, 'Reforming the Global Financial System'. Over 100 persons representing industry, international regulatory bodies and government officials, attended the conference. Participants included top-level diplomats, regulators, economists, financial analysts and strategists, auditors, accountants, lawyers; directors and senior executives of banking, investment and other firms; representatives of finance industry associations; media editors and senior academics. Among them were members of Cayman's public and private sectors.

Jurisdictional Update - The unit also organised the Cayman Islands International Financial Centre Update Dinner, hosted by CIMA to allow the jurisdiction's top-level business partners and potential business partners in the New York area to hear of current financial services enhancement initiatives from the Cayman Islands Premier and participating private sector service providers. That event, held in New York on 30 November, was a precursor to the Global Forum.

Regional regulatory conferences and training - Continuing its assistance to regional and international organisations with which it is involved, CIMA, through the Human Resources Division, helped to organise a regional regulators seminar on capital adequacy and Basel III in conjunction with the Financial Stability Institute (FSI) and the Caribbean Group of Banking Supervisors (CGBS) in February 2011. Following that, the division assisted in organising the Caribbean Association of Insurance Regulators (CAIR) and the Caribbean Regional Technical Assistance Centre (CARTAC) regulatory skills training workshop, conference and annual meetings. CIMA hosted those events in Cayman.

Other conferences and events - In addition to presentations made at the above events, senior CIMA officials delivered addresses and chaired or participated in panel discussions at local and overseas conferences, meetings and other occasions, including the American Bankruptcy Institute's Caribbean Insolvency Symposium; GAIMOps Cayman, Campbell's Cayman Fund Focus, Cayman Captive Forum, Global Compliance Solutions Annual Conference, and the Fraud Prevention Workshop held in conjunction with the Cayman Chamber of Commerce and Royal Cayman Islands Police Service. The PR Unit aided in the preparation of some of the material presented.

Student presentations - Secondary and tertiary students were among those who learned more about the Authority's work and Cayman's financial industry sectors. Among the groups to which senior managers gave guest lectures were: a business class from Elon University, North Carolina, during a study-abroad session in Grand Cayman in January 2011, and the International College of the Cayman Islands' Introduction to Insurance class. Additionally, HR staff held sessions with John Gray High school students to facilitate their career preparations and to inform about CIMA. HR also coordinated staff participation in Literacy Week activities at the primary-school level.

External Publications and Media Liaison

CIMA's work, regulatory developments in Cayman, perspectives regarding international regulatory changes, and financial industry developments were all communicated to a wide cross-section of local and international audiences through articles that PR staff prepared on behalf of, and in conjunction with, members of senior management. Among the internationally-circulated publications that commissioned and published articles from CIMA were: Euromoney Yearbooks' *Global Banking and Financial Policy Review*, Cayman Financial Review, Cayman Funds 2011, and Global Investment I's *Business in the Cayman Islands Special Report 2011*.

The unit also provided data that contributed to the rankings in The Banker Magazine's *International Financial Centres Survey 2011* (published in September 2011), and Captive Review magazine's *2011 Top 20 Captive Domicile Survey* (published in March 2011). Data was also provided for Captive Review's *Cell Company Handbook*, and information on CIMA was updated in international financial and regulatory directories including the Centre for Latin American Monetary Studies listings, the Central Banking Directory, EuropaWorld Yearbook, the Tax Directory and the Bankers Almanac.

PR staff researched and provided information in response to media queries and facilitated interviews between CIMA officials and journalists representing several local and international news outlets. During 2010-11, these included general and industry-specific publications and outlets based in the USA, UK, Germany, Taiwan and Dubai. Among them were: Reuters, OffshoreAlert, Hedge Fund Alert, Hedge Funds Review, HFM Week, Institutional Investor, Business Today Magazine, AR Magazine, the Islamic Globe, and the German weekly, Die Zeit.

CIMA Publications

The Investments and Securities Division and PR Unit collaborated on the production of the fourth edition of the *Investments Statistical Digest*, released in May 2011, and the PR Unit continued to produce and disseminate news releases and notices; the quarterly issues of CIMA's newsletter, *The Navigator*, and the Authority's annual report, all covering CIMA developments and activities.

Communication Support for new CIMA Services and Products

The PR unit supported the roll-out of the new online application submission system, CIMAConnect, through branding and publicity. CIMAConnect went live at the beginning of October 2010, allowing service providers to funds to submit and track applications on-line.

The launch of Cayman's new D series of currency notes took place in April 2011. PR worked with the Currency Division to promote the new series (which was the first complete redesign of the bank notes since 1972) and to educate CIMA staff, banks, retailers and the public about its security features. The notes were selected as 'Banknote of the Month' by the editors of the monthly international trade journal, Currency News, in its April 2011 issue and were featured on the cover of the 75th edition of the *MRI Bankers' Guide to Foreign Currency*, published by the Texas, USA-based Monetary Research Institute.

Direct Public Information and Assistance

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

Staff Community Involvement

Among the Authority's community assistance initiatives was the creation of a school lunch fund. Participating staff members made monthly monetary donations to assist with the provision of lunches for needy primary school children. Four schools benefitted from the first disbursements.

Through events such as dress-down days and food sales and through the donation of goods, staff also contributed to various organisations and programmes, and to individuals with special medical or other needs. Recipients included the Special Needs Foundation of Cayman, Cayman Heart Fund, Lions Club of Tropical Gardens for Breast Cancer Awareness Month, the Department of Children and Family Services, and Lions Club of Grand Cayman for White Cane Week/World Sight Day.

The staff social committee was involved in several of the above-mentioned activities. The group also re-started its Green initiative with a programme of ongoing recycling of aluminium products (which are dispatched to the Department of Environmental Health) and newspapers (which are donated to the Humane Society).

Internal Support
Supporting CIMA's internal administrative enhancement efforts, PR staff assisted the Human Resources Division in producing an employee orientation multi-media presentation which featured video clips with representatives of all divisions explaining their division's role. The presentation is to be part of the orientation package for new employees. PR further collaborated with HR in the production of support material and CIMA-branded items for various conferences and events.

In addition, PR staff monitored, collected, and disseminated internally, relevant external information (especially media coverage) on market, regulatory and political developments taking place locally and internationally.

The unit also assisted the Information Systems Division in developing a staff alert webpage for posting emergency information.

FREEDOM OF INFORMATION INITIATIVE

The Freedom of Information (FOI) Law, came into effect across the Cayman Islands Public Service in January 2009, giving members of the public a general right of access to government records, with some exemptions and exclusions that are specified in the law. Because of the nature of CIMA's work, the FOI Law (in section 3(1)(c)) specifically excludes the release of records and information protected by section 50 of the Monetary Authority Law (2010 Revision).

Between July 2010 and June 2011, nine FOI requests were received and processed. Full access was granted for four of the requests, no records were found for two requests, two requests were either excluded or exempted, and one request was still being processed at the end of the year.

FINANCIAL CONTROL

Finance Division
The Finance Division has responsibility for all financial matters relating to budget, fee collection, payroll, and accounts payable, and is responsible for preparation of CIMA's financial statements and the purchase & ownership agreements between the Cabinet and the Authority. The division's objectives are essentially created by the financial requirements of CIMA and its stakeholders and the resources available to it.

Supply of Outputs
The Authority depends on the sale of its outputs to the Cabinet of the Government of the Cayman Islands, as its main source of income to meet its obligations. The outputs delivered in 2010-11, for a total of $16.850 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

CIMA's other sources of income are the income from investments, commission and the sale of numismatic items.

Fee Collection

The Authority collected $76.647 million in fees from regulated entities on behalf of the Government for the 2010-11 fiscal year, compared to $74.222 million for the prior year. The amount collected was $1.218 million below the amount forecasted for the budget ($77.866m). This shortfall is primarily attributed to money service transactions fee payments being lower than anticipated. (See page 16 for information on remittances from the Cayman Islands for fiscal year 2010-11.)

Income

The Authority's net income for the 2010-11 financial year was $814,318 (2009-10: $189,031). Of this, $389,318 would be allocated to the Contributed Capital of the Authority and $425,000 to the Cayman Islands Government.

Details of CIMA's financial position for the year ending 30 June 2011 can be seen in the Audited Financial Statements that follow.

ANNUAL FINANCIAL STATEMENTS

For Year Ending 30 June 2011

Statement of Responsibility
For Financial Statements
30 June 2011

These financial statements have been prepared by the Cayman Islands Monetary Authority in accordance with the provisions of the *Public Management and Finance Law* (2010 Revision).

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the *Public Management and Finance Law* (2010 Revision).

As Chairman and Managing Director we are responsible for establishing; and have established and maintain a system of internal controls designed to provide reasonable assurance that the transactions recorded in the financial statements are authorised by law, and properly record the financial transactions of the Cayman Islands Monetary Authority.

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

The financial statements fairly present the financial position, financial performance and cash flows of the Cayman Islands Monetary Authority for the financial year ended 30 June 2011.

To the best of our knowledge we represent that these financial statements:
(a) Completely and reliably reflect the financial transactions of Cayman Islands Monetary Authority for the year ended 30 June 2011;
(b) fairly reflect the financial position as at 30th June 2011 and performance for the Year ended 30th June 2011;
(c) comply with International Public Sector Accounting Standards and International Financial Reporting Standards under the responsibility of the Interrnational Standards Board and the International Accounting Standards Board respectively.

The Office of the Auditor General conducts an independent audit and expresses an opinion on the accompanying financial statements. The Office of the Auditor General has been provided access to all the information necessary to conduct an audit in accordance with International Standards of Auditing.

George McCarthy
Chairman
Cayman Islands Monetary Authority

Date: 31 October 2011

Scotland

Cindy Scotland
Managing Director
Cayman Islands Monetary Authority

Date: 31 October 2011

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Auditor General's Report
To the Shareholder and Board of Directors of the Cayman Islands Monetary Authority

I have audited the accompanying financial statements of the Cayman Islands Monetary Authority ("*the Authority*") which comprise the statement of financial position as of 30 June 2011 and the related statements of comprehensive income, changes in reserves and capital and cash flows and other explanatory notes as set out on pages 4 to 20 and in accordance with Section 52 (3) of the *Public Management and Finance Law* (2010 Revision).

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriated accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor General's Responsibility and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Cayman Islands Monetary Authority as at 30 June 2011 and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Monetary Authority Law (2010 Revision).

Alastair Swarbrick MA. (Hon), CPFA
Auditor General

31 October 2011

CAYMAN ISLANDS MONETARY AUTHORITY
STATEMENT OF FINANCIAL POSITION
at 30 June 2011

(in Cayman Islands Dollars)

	Note	2011 $000	2010 $000
ASSETS			
Currency Reserve Assets			
Current Assets			
Call Deposits	4b	2,858	2,555
Short-Term Investments	4a	77,484	79,310
Fixed Deposits	4b	1,533	1,531
Interest Receivable, Deposits		30	92
Stocks	7	3,286	1,592
Non-Current Assets			
Long-Term Investments	4a	10,417	2,122
Total Currency Reserve Assets		95,608	87,202
Operating Assets			
Current Assets			
Current and Call Deposits	4b	10,541	7,729
Accounts Receivable	5	198	2,926
Other Receivables and Prepayments		122	734
Non-Current Assets			
Fixed Assets	6	2,208	2,138
Employee Pension Plan	9	48	306
Total Operating Assets		13,117	13,833
TOTAL ASSETS		**108,725**	**101,035**
LIABILITIES, RESERVES and CONTRIBUTED CAPITAL			
Liabilities			
Demand Liabilities, Currency in Circulation	8a	84,921	77,985
Other Liabilities and Payables	8b	1,142	732
Total Liabilities		86,063	78,717
Reserves			
General Reserve		16,743	15,890
Currency Issue Reserve		375	420
Capital Expenditures Reserve		2,818	3,543
Operational Expenditures Reserve		398	526
Total Reserves		20,334	20,379
Contributed Capital		2,328	1,939
TOTAL LIABILITIES, RESERVES and CONTRIBUTED CAPITAL		**108,725**	**101,035**

Approved on 31 October 2011

Cindy Scotland	Gilda Moxam-Murray
Managing Director	*Chief Financial Officer*
Cayman Islands Monetary Authority	Cayman Islands Monetary Authority

The accompanying notes form an integral part of these financial statements

CAYMAN ISLANDS MONETARY AUTHORITY
STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2011
(in Cayman Islands Dollars)

	Note	2011 $000	2010 $000
INCOME			
Services Provided to The Cayman Islands Government	11a	16,850	15,750
Commission Income		558	671
Numismatic Income		557	210
Investment Income		522	471
TOTAL INCOME		**18,487**	**17,102**
EXPENSES			
Salaries and Benefits		11,143	10,785
Other Operational Expenses	11d, 12	2,267	1,836
Pension Expenses	9	1,103	1,006
Accomodation	10	854	891
Depreciation	6	655	656
Training and Conferences		553	549
Utilities		457	438
Professional Fees		326	423
Official Travel		315	329
TOTAL EXPENSES		**17,673**	**16,913**
TOTAL NET INCOME FOR THE YEAR		**814**	**189**

The accompanying notes form an integral part of these financial statements

CAYMAN ISLANDS MONETARY AUTHORITY
STATEMENT OF CHANGES IN RESERVES AND CONTRIBUTED CAPITAL
For the year ended 30 June 2011
(in Cayman Islands Dollars)

2011

	General Reserve $000	Currency Issue Reserve $000	Capital Expenditures Reserve $000	Operational Expenditures Reserve $000	Contributed Capital $000
BALANCE AT 01 JULY 2010	15,890	420	3,543	526	1,939
Transfers in :					
From Net Income					389
From Capital Expenditures Reserve	725				
From Operational Expenditures Reserve	128				
Transfers out :					
Capital Withdrawal					
Currency Inventory Issued		(45)			
Fixed Assets Purchased			(725)		
Operational Expenses				(128)	
BALANCE AT 30 JUNE 2011	**16,743**	**375**	**2,818**	**398**	**2,328**

2010

	General Reserve $000	Currency Issue Reserve $000	Capital Expenditures Reserve $000	Operational Expenditures Reserve $000	Contributed Capital $000
BALANCE AT 01 JULY 2010	13,896	435	5,305	758	10,000
Transfers in :					
From Net Income					189
From Capital Expenditures Reserve	1,762				
From Operational Expenditures Reserve	232				
Transfers out :					
Capital Withdrawal					(8,250)
Currency Inventory Issued		(15)			
Fixed Assets Purchased			(1,762)		
Operational Expenses				(232)	
BALANCE AT 30 JUNE 2011	**15,890**	**420**	**3,543**	**526**	**1,939**

The accompanying notes form an integral part of these financial statements

CAYMAN ISLANDS MONETARY AUTHORITY
STATEMENT OF CASH FLOWS
for the year ended 30 June 2011
(in Cayman Islands Dollars)

	2011	2010
	$000	$000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income for the year	814	189
Adjustments for:		
Depreciation	655	656
Loss on Defined Benefits Assets	258	179
(Increase) / Decrease in Investments	(6,469)	11,258
Decrease / (Increase) in Interest Receivable - Currency Reserve Assets	63	(87)
Decrease / (Increase) in Accounts Receivable	2,727	(777)
Decrease / (Increase) in Other Receivables and Prepayments	612	(416)
(Decrease) in Other Liabilities and Payables	(15)	(296)
(Increase) / Decrease in Stocks	(1,694)	120
Increase / (Decrease) in Demand Liabilities	6,936	(5,656)
(Decrease) in Currency Issue Reserve Cost of Currency Notes Reprint	(45)	(15)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,842	5,155
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of Fixed Assets	(725)	(1,762)
NET CASH USED BY INVESTING ACTIVITIES	(725)	(1,762)
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital withdrawal by the Cayman Islands Government	-	(8,250)
NET CASH USED IN FINANCING ACTIVITIES	-	(8,250)
INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS	3,117	(4,857)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	11,815	16,672
CASH AND CASH EQUIVALENTS, END OF THE YEAR	14,932	11,815

The accompanying notes form an integral part of these financial statements

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
year ended 30 June 2011

1. Organisation and Objectives

The Cayman Islands Monetary Authority (the "Authority") was established under the *Monetary Authority Law, 1996* on 1 January 1997. Under the *Monetary Authority Law (2010 Revision) (the "Law (2010 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 2011 the Authority has 155 employees (2010: 158). The Authority is located in Elizabethan Square, George Town, Grand Cayman, Cayman Islands.

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) *Basis of preparation.* The financial statements of the Authority are prepared in accordance with International Financial Reporting Standards ("IFRS"), on the accrual basis under historical cost convention.

b) *Foreign currency.* The reporting currency is Cayman Islands Dollars. Foreign currency transactions are recorded at the exchange rates prevailing on the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income. Assets and liabilities are translated at the exchange rate in effect at the date of these financial statements

c) *Use of Estimates.* The preparation of financial statements, in conformity with IFRS, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

d) *Financial Instruments.*

Classification
A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset, exchange financial instruments under conditions that are potentially favourable or an equity instrument of another enterprise. Financial assets comprise cash and cash equivalents, long and short-term investments, accounts and interest receivable, and other receivables and prepayments.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable. Financial liabilities comprise accounts payable and accrued expenses.

Recognition.
The Authority recognises financial instruments on its balance sheet on the date it becomes a party to the contractual provisions of the instrument.

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
year ended 30 June 2011

Significant Accounting Policies (continued)
Financial Instruments (continued)

Measurement.
Financial instruments are measured initially at cost, which is the fair value of the consideration given or received.

The financial assets classified as cash and cash equivalents, accounts and interest receivable, and other receivables and prepayments are carried at historical cost, which is considered to approximate to fair value due to the short-term or immediate nature of these instruments.

Short-term investments are valued, on a monthly basis at their amortised cost. Long term investments are valued at quoted market value. Unrealised gains or losses are recorded in the Statement of Comprehensive Income.

The Authority's financial liabilities are carried at historical cost, which is the fair value of the consideration expected to be paid in the future for goods and services received whether or not billed to the Authority, due to their short-term maturities.

e) *Cash and Cash Equivalents.* For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of current and call deposits and fixed deposits maturing within 90 days from the date of acquisition.

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

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

h) *Numismatic Coins in Circulation.* The total nominal value of numismatic coins outstanding as at 30 June 2011 is $14,500k (2010: $14,506k). No liability for redeeming numismatic coins is recognised in the financial statements, since the amount of redemption cannot be reasonably estimated and the probability of material redemption is remote. Redemption costs and sales proceeds are recorded in the Statement of Comprehensive Income as incurred.

i) *Fixed Assets.* Fixed Assets are stated at historical cost less accumulated depreciation. Additions or improvements to assets during the year, which significantly add to the value of, or extend the useful life of such assets, are capitalised as part of the cost. Depreciation is calculated on the straight-line method of 20% per annum for Furniture & Fixtures, Leasehold Improvements, Motor Vehicle and Office Equipment (with the exception of Bank Note Sorting Machine calculated at 15% and DRC Equipment calculated at 33.33%); and 25% to 33.33% per annum for Computer Hardware and Software.

j) *Employee Benefits.*

Pension Plans. The Authority makes pension contributions for its eligible employees to the Public Service Pensions Fund, which is administered by the Public Service Pensions Board. The Fund has both a defined benefit and a defined contribution element. There are a small number of employees who participate in other private plans, which are all defined contribution schemes.

Under defined contribution plans, the Authority pays fixed contributions and has no obligation to pay further contributions if the fund does not have sufficient assets to pay employee benefits relating to employee service in the current and prior periods. The Authority recognises contributions to a defined contribution plan when an employee has rendered services in exchange for those contributions.

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
year ended 30 June 2011

Significant Accounting Policies (continued)
Employee Benefits (continued).

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

Obligations for contributions to defined contribution and defined benefits pension plans are recognized as salary and other benefits expense in the Statement of Comprehensive Income as incurred.

Other Benefits. Other employee benefits include maternity leave, sick leave, vacation days and performance awards. Vacation days accumulate and vest and therefore a liability is accrued each year. The accrued vacation liability as at 30 June 2011 is $138k (2010: $198k) and is included in the other liabilities and payables.

k) Allocation of profits. Under Section 9 and 10 of the *Law (2010 revision)*, the net profits of the Authority, after provision for all expenditure and reserves, shall be allocated such that the Currency Reserve Assets represent at least 100% of Demand Liabilities and the General Reserve represents at least 15% of Demand Liabilities. Any surplus not allocated in accordance with the above shall be transferred to the General Revenue of the Cayman Islands Government.

l) General Reserve. The Authority maintains a General Reserve in accordance with Section 8 of the Law (2010 revision), to provide additional funding if necessary for Demand Liabilities and obligations arising from other business of the Authority. In accordance with section 8 of the *Law (2010 revision)* the General Reserve shall represent at least 15% of Demand liabilities. As at 30 June 2011, the General Reserve was $16,743k (2010: $15,890k) equating to 19.72% (2010: 20.38%) of Demand Liabilities.

m) Currency Issue Reserve. The Currency Issue Reserve will be adjusted as the stock of notes printed prior to 2003 is all issued into circulation. The Currency Issue Reserve will then remain at $375k. During the year notes costing $45k were issued, leaving a Reserve of $375k (2010: $420k).

n) Capital and Operational Expenditures Reserves. Under Section 9 of the *Law (2010 revision)*, the net profits of the Authority for any financial year shall include, but shall not be limited to, the income from the investments of the Authority, and the profit from the sales of investments belonging to the Authority, and shall be determined by the Authority after meeting or providing for all expenditure for that year and making such provisions for contingencies and the establishment of such additional reserves as it may consider desirable. The Capital Expenditures Reserve has been established for the implementation and acquisition of key capital projects such E-Reporting, Document Management and various other IT Projects. The Operational Expenditures Reserve will fund the operating costs associated with these key projects.

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
year ended 30 June 2011

Significant Accounting Policies (continued)

o) *Contributed Capital.* The authorised capital of the Authority is $100 million; with The Cayman Islands Government being the sole subscriber. In 1998, the Government made a commitment to increase the Contributed Capital of the Authority to a minimum of $10 million by yearly transfers of approximately $0.5 million from Operating Surplus.

In December 2009, Section 7 (5) of the Monetary Authority Law (2008 Revision) was amended by the Monetary Authority (Amendment Law, 2009), to allow Cabinet to vary the amount of paid-up capital held by the Authority, and where the capital is reduced any excess shall be transferred by the Authority to the Government. In June 2010 the Cayman Islands Government withdrew $8.25 million. Contributed Capital as at 30 June 2011 was $2.328 million (2010: $1.939 million).

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

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

2.1 Changes in Accounting Standards/IFRS

Relevant Standards and amendments issued prior to 30 June 2011 but not effective until future periods and are predicted to have an impact on the Authority

Amendments to IFRIC 14 IAS 19: Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011). These amendments apply in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendments permit such an entity to treat the benefit of such an early payment as an asset.

Amendments to IFRS 7: Financial Instruments: Disclosures (amended and effective for annual periods beginning on or after 1 January 2011). This amendment is expected to provide additional disclosures in the financial statements in succeeding years.

3. Financial Risk Management

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

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

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
year ended 30 June 2011

Financial Risk Management (continued)

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

4. Currency Reserve Assets

Sections 32(8) of the *Law (2010 revision)* mandates the preservation of Currency Reserve Assets, separately from all other assets of the Authority. These assets are to be used to fund the Authority's currency redemption obligations. (See Note 8.) They shall not be used to satisfy liabilities arising from any other business of the Authority. After all demand liabilities are extinguished, any surplus Currency Reserve Assets would form, in part, the assets of the General Reserve. (See Note 2 *l.)*

Under the *Law (2010 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 2011, the value of Currency Reserve Assets was $95,608k (2010: $87,202k) representing 112.58% (2010: 111.820%) of total demand liabilities. The value of external assets equated to 105.59% (2010: 106.21%) while the value of local assets as at 30 June 2011 equated to 6.99% (2010: 5.61%) 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 (2010 Revision)*. Management fees are calculated based on the market value of the portfolio and are payable quarterly in arrears. Either party may terminate the agreement with thirty days notice.

Long-term Investments. US Treasury Notes stated at market value, with interest rates ranging from 0.375% to 0.500% and a maturity dates between 30 September 2012 and of 30 November 2012.

	2011	2010
Range of maturities	$000	$000
1-5 years	10,417	2,122
6-10 Years	-	-
	10,417	2,122

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
year ended 30 June 2011

Currency Reserve Assets (continued)
Investments (continued)

Short-term Investments. US Treasury Bills, AAA Bands and US Treasury Notes with maturity dates ranging between 07 July 2011 and 30 March 2012, and the Federal Reserve Repurchase Agreement with a maturity date 01 July 2011.

	2011	2010
	$000	$000
US Treasury Bills	42,081	24,573
Federal Reserve Repurchase Agreement at 0.01 %	21,583	15,417
US Treasury Notes	10,030	39,320
AAA Bonds	3,790	-
Total Short-term Investments, at amortized cost	77,484	79,310

The fair value of the short term investments equates cost.

b) *Cash and Cash Equivalents.* The Authority maintains current, call and fixed term deposits with domestic and foreign banks. Under the *Law (2010 revision)*, domestic deposits (as part of the Currency Reserve Assets) cannot exceed 10% of Demand Liabilities. As at 30 June 2011, domestic deposits represent 4.76% (2010: 4.70%) of Demand Liabilities.

	Holding Currency	2011 $000	2010 $000
i) Operating Assets			
Current	KYD	(197)	(160)
Savings	KYD	10,370	1,842
Savings	USD	367	6,046
CI Cash on Hand	KYD	1	1
Current and Call Deposits		10,541	7,729

	Holding	2011	2010
ii) Currency Reserve Assets	Currency	$000	$000
Domestic Deposits			
Savings	GBP	8	7
Savings	KYD	522	477
Savings	USD	2,021	1,651
Foreign Deposits			
Federal Reserve Bank	USD	218	247
Investment Portfolio	USD	89	173
Total Call Deposits - Currency Reserve		2,858	2,555
Domestic - Fixed Deposits	USD	1,533	1,531
Total Operating Cash and Cash Equivalent		14,932	11,815

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
year ended 30 June 2011

Currency Reserve Assets (continued)
Cash and Cash Equivalents (continued)

Interest was earned on domestic call accounts at a rate of 0.01% during the year ended 30 June 2011 (2010: 0.03125% to 0.01%). The domestic fixed deposits earned interest at a rate of 0.1200% during the year ended 30 June 2011 (2010: 0. 2343% to 0.1200%).

The Federal Reserve call account balance is non-interest bearing; however, the excess balances are invested daily in a repurchase agreement.

Interest is calculated on the average daily balance of the foreign investment call account. During the year ended 30 June 2011 no interest was earned (2010: $0).

5. Accounts Receivable

	2011	2010
	$000	$000
Cayman Islands Government	173	2,918
Other Receivables	48	37
Provision for doubtful accounts	(23)	(29)
Accounts Receivable, net	198	2,926

There was no bad debt expense included in the statement of comprehensive income. $6.3k was recovered during the year in relation to an individual operating debt from an earlier period for which a full provision had been made.

6. Fixed Assets

	Furniture & Fixtures	Leasehold Improvement	Computer Equipment	Office Equipment	WIP	Motor Vehicle	Total
Original Cost	$000	$000	$000	$000	$000	$000	$000
Balance as at 30/06/10	708	881	1,627	606	1,336	23	5,181
Additions	1	-	386	-	338	-	725
Transfer to asset register	-	-	1,586	88	(1,674)	-	-
Disposals	-	-	-	-	-	-	-
Balance as at 30/06/11	709	881	3,599	694	-	23	5,906
Accumulated Depreciation							
Balance as at 30/06/10	655	769	1,157	451	-	11	3,043
Depreciation for the year	54	112	390	95	-	4	655
Relieved on disposals	-	-	-	-	-	-	-
Balance as at 30/06/11	709	881	1,547	546	-	15	3,698
Net Book Value as at 30/06/11	-	-	2,052	148	-	8	2,208
Net Book Value as at 30/06/10	53	112	470	155	1,336	12	2,138

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
year ended 30 June 2011

7. Stocks

	2011	2010
	$000	$000
External		
Bullion from the melt-down of coins	983	526
Coins awaiting melt-down	81	36
Coins for resale	278	250
Museum items	88	70
	1,430	882
Local		
Inventory of unissued currency notes and coins	1,856	710
Total Stocks	3,286	1,592

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.

	2011	2010
	$000	$000
Currency notes in circulation	75,638	68,897
Currency coins in circulation	9,283	9,088
Total Demand Liabilities	84,921	77,985

Total Demand Liabilities comprise:

b) *Other liabilities.*

	2011	2010
	$000	$000
Due to Cayman Islands Government	425	-
Basel II Project	157	167
Annual Leave accrual	138	198
Other Accruals	335	239
Accounts Payable	87	127
	1,142	732

As at 30 June 2011, Other Liabilities included unsettled investment management and custody fees of $30k (2010:$11k).

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
year ended 30 June 2011

9. Public Service Pension Plan

Pension contributions for eligible employees of the Authority are paid to the Public Service Pensions Fund (the "Fund"). The Fund is administered by the Public Service Pensions Board ("the Pensions Board") and is operated as a multi-employer plan. Prior to 1 January 2000 the Fund operated as a defined benefit plan. With effect from 1 January 2000 the Fund had both a defined benefit and a defined contribution element, with participants joining after 1 January 2000 becoming members of the defined contribution element only.

Using the projected Unit Credit method of measuring costs and obligations, the actuarial assessment for the Authority assessed the minimum normal annual contribution to be 13 % in 2009-10 (2009-10: 13%). This rate included a 1% for the cost of all of the benefits that are provided over and above those related to the participant's total account balance. The Authority pays this 1% for all employees. In addition, for some employees in the defined benefit plan, the Authority pays both the employer and employee contributions.

The Plans are funded at rates of: -

	2011	2010
	%	%
Defined Contribution Plans		
Employee	6	6
Employer	7	7
Defined Benefit Plans		
Employee	6	6
Employer	7	7

The Actuary to the Pensions Board has valued the Fund as at 30 June 2010. 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 2011 was $845k (2010: $827k). 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 2011, 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:

	2011	2010	2009	2008	2007
	$000	$000	$000	$000	$000
Net Present Value of Funded Obligation	(5,554)	(4,902)	(4,120)	(2,791)	(2,810)
Fair Value of Plan Assets	5,022	3,919	3,501	3,522	3,564
Defined Benefit Asset	(532)	(983)	(619)	731	754
Unrecognised Actuarial (Gain)/Loss	580	1,306	1,143	(246)	(332)
Net Asset	48	323	524	485	422

The amount of the defined benefit asset as at 30 June 2011 is as per the Actuary's projected funded status report.

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
year ended 30 June 2011

Public Service Pensions Plan (continued)

Pension Expense for fiscal year ending	30 June 2010	30 June 2009
	$000	$000
Company Service Cost	240	153
Interest Cost	237	188
Expected Return on Assets (net)	(216)	(258)
Recognition of Net Loss	56	-
Total Pension Expense	317	83

Reconciliation of Defined Benefit Asset/(Liability)	30 June 2010	30 June 2009
	$000	$000
Previous Year Defined Benefit Asset	524	485
Net Pension Expense for Fiscal Year	(317)	(83)
Employer Contributions	116	121
Other-Adj. to prior year's employer contribution allocation	0	1
Defined Benefit Asset	323	524

Change in Defined Benefit Obligation over year ending	30 June 2010	30 June 2009
	$000	$000
Defined Benefit Obligation at end of Prior Year	4,120	2,791
Company Service Cost	240	153
Interest Cost	237	188
Plan Participant Contributions	99	103
Net Acturial Gain	431	885
Transfers between other particpating Entities	(225)	-
Defined Benefit Obligation at End of Year	4,902	4,120

Change in Plan Assets over year ending	30 June 2010	30 June 2009
	$000	$000
Fair Value of Plan Assets as at End of Prior Year	3,501	3,522
Employer Contributions	116	121
Plan Participant Contributions	99	103
Transfers between other participating entities	(225)	-
Expected Return on Assets net of expense	216	258
Asset Gain / (Loss)	212	(575)
Other	-	72
Fair Value of Plan Assets as at End of Year	3,919	3,501

Change in Unrecognised Net Actuarial Loss/(Gain)	30 June 2010	30 June 2009
	$000	$000
Unrecognised Net Actuarial Loss /(Gain)	1,143	(246)
Amortisation (Cost) For Year	(56)	-
Liability Loss	431	885
Asset (Gain) / Loss	(212)	503
Other-Adj. to prior year's employer contribution allocation	-	1
Unrecognised Net Actuarial Gain	1,306	1,143

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
year ended 30 June 2011

Public Service Pensions Plan (continued)

Allocation of Assets

The Distribution of the Plan Assets, as at 30 June 2010 and 2009, based on the share of the total Fund allocated to the Authority was as follows: -

	30 June 2010	30 June 2009
	%	%
Global Equities	55	44
Bond Investments	37	49
Property	3	3
Cash/Other	5	4
Total	100	100

Actuarial Assumptions

The principal Actuarial Assumptions used to Determine Benefit Obligations at 30 June 2010 and 2009 are as follows:

	30 June 2010	30 June 2009
	%	%
Discount Rate	5.50	5.75
Expected Long-Term Return on Plan Assets	6.00	6.00
Rate of Salary Increase	4.00	4.00
Rate of Price Inflation	2.50	2.50
Rate of Pension Increases	2.50	2.50

The economic assumptions used to determine Net Periodic Benefit Cost for the year ending 30 June 2010 and 2009 are as follows:

	30 June 2010	30 June 2009
	%	%
Discount Rate	5.75	5.75
Expected Long-Term Return on Plan Assets	7.00	6.00
Rate of Salary Increase	4.00	4.00
Rate of Price Inflation	2.50	2.50
Rate of Pension Increases	2.50	2.50

Other Assumptions:

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

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
year ended 30 June 2011

10. Commitments

Operating Commitments.

Accommodation Leases

The Authority leases the premises used for its operations at Elizabethan Square from Montpelier Properties.

i. There are 8 lease agreements totaling 26,133 square feet, effective 1 July 2011 for 12 months, at a costs $29 per sq. ft. per annum.
ii. 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 2011 for a period of three years at a monthly cost of US$17k.
ii. An agreement with the Brac Informatics Centre effective 1 April 2009 at a monthly cost of CI$12k for a five year period.

Other Operating Commitment - relates to the Thomas Jefferson Memorial Scholarship.

	One year or less	One to five years
	$000	$000
Accomodation Leases	889	-
Disaster Recovery Leases	317	366
Total Operating Lease Comitments	1,206	366
Scholarship	25	25

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
year ended 30 June 2011

11. Related Party Transactions

a) *Services Provided to the Cayman Islands Government.* The Authority acts as the Government's custodian of the Cayman Islands currency as well as collector of license and other fees (these fees do not form a part of the Authority's revenue) and the regulator and supervisor of the financial services business.

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

b) *Directors.* The Board of Directors of the Authority is appointed by the Governor in Cabinet, and consisted of the Managing Director ("MD") and six directors as of 30 June 2011. The fees of $153k (2009-10:$266k) relates to payments made to the directors (of which there were seven during July to December; thereafter six to 30 June 2011) only.

c) *Key Management Personnel.* For the purposes of IAS 24 disclosure the MD is included in the number and cost of the Senior Management Team. The total number of personnel of the Senior Management Team was 14 in 2010-11 (2009-10: 14) and salaries & other short term benefits expensed in 2010-11 was $2,038k (2009-10: $2,002k).

d) *Services Provided by Government Entities.* The Authority obtained various goods and services from other Government departments/entities of the Cayman Islands Government, at prevailing market prices on an arm's length basis, during 2010-11 in the amount of $400k (2009-10: $280k).

12. Other Operating Expenses

	2011	2010
	$000	$000
Currency Stock issues	461	369
Business Continuity	332	308
Directors Fees	153	266
Maintenance and software licences	388	252
Management and Custody Fees	49	48
Realised loss on investments	308	48
Other expenses	576	545
Total	2,267	1,836