



ANNUAL REPORT

1 JULY 2007 – 30 JUNE 2008

The Cayman Islands Monetary Authority Year in Review 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)



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CIMA's MISSION

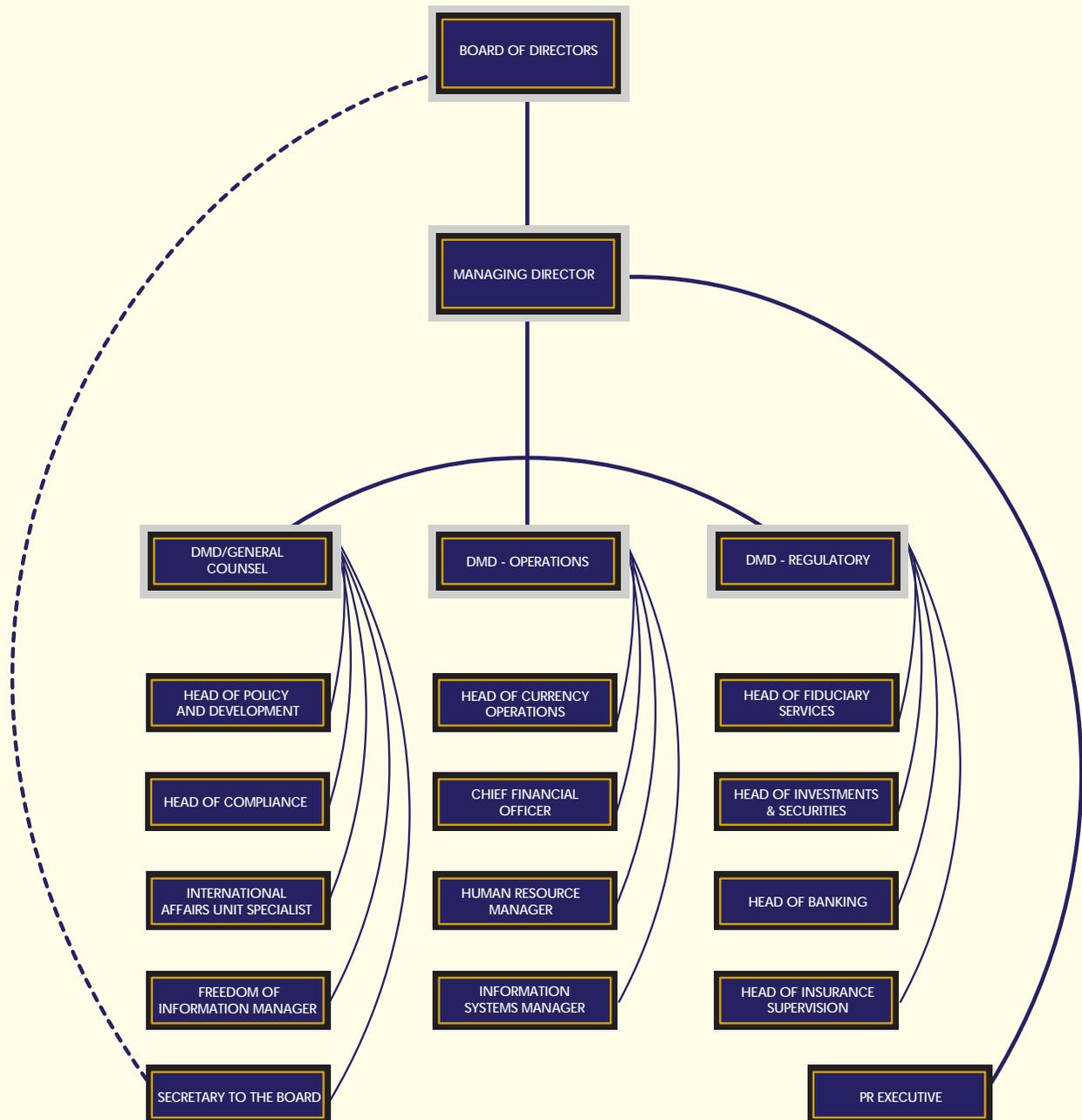
“AS THE PRIMARY FINANCIAL SERVICES REGULATOR OUR MISSION IS TO ENHANCE THE ECONOMIC WEALTH AND REPUTATION OF THE CAYMAN ISLANDS BY FOSTERING A THRIVING AND GROWING, COMPETITIVE, AND INTERNATIONALLY RECOGNISED FINANCIAL SERVICES INDUSTRY THROUGH APPROPRIATE, RESPONSIVE, COST-EFFECTIVE AND EFFICIENT SUPERVISION AND A STABLE CURRENCY.”

TABLE OF CONTENTS

ORGANISATIONAL CHART	1
DIRECTORS & SENIOR OFFICERS AS AT 30 JUNE 2008	2
MANAGING DIRECTOR'S STATEMENT	3
INDUSTRY OVERVIEW	6
BANKING & RELATED SERVICES	7
BANKING	7
MONEY SERVICES, CO-OPERATIVES AND BUILDING SOCIETIES	9
FIDUCIARY SERVICES	10
INSURANCE	13
INVESTMENTS & SECURITIES	15
ORGANISATIONAL PERFORMANCE	18
NATURE AND SCOPE OF ACTIVITIES	19
STRATEGIC GOALS	19
EXECUTION OF FUNCTIONS: MONETARY	20
CURRENCY MANAGEMENT	20
EXECUTION OF FUNCTIONS: REGULATORY	22
THE REGULATORY REGIME	22
REGULATORY DEVELOPMENTS	23
COMPLIANCE & ENFORCEMENT	29
EXECUTION OF FUNCTIONS: COOPERATIVE & ADVISORY	31
CROSS-BORDER COOPERATION	31
LOCAL COOPERATION	33
ADVISORY ACTIVITY	34
OPERATIONAL SUPPORT & ADMINISTRATION	35
HUMAN RESOURCE MANAGEMENT & DEVELOPMENT	35
INFORMATION SYSTEMS	36
PUBLIC RELATIONS	37
FREEDOM OF INFORMATION INITIATIVE	38
FINANCIAL CONTROL	38
ACHIEVEMENT OF STRATEGIC GOALS	39
FINANCIAL STATEMENTS	47

ORGANISATIONAL CHART

AS AT 30 JUNE 2008



DIRECTORS & SENIOR OFFICERS

AS AT 30 JUNE 2008

Chairman.....	Timothy Ridley OBE
Deputy Chairman.....	Joel Walton
Managing Director.....	Cindy Scotland
Directors.....	Warren Coats PhD Richard W. Rahn PhD Bryan Bothwell Adriannie Webb Professor William Gilmore Carlyle McLaughlin Christopher Rose PhD
Deputy Managing Director.....	Vacant
BANKING SUPERVISION DIVISION	
Head of Banking Supervision.....	Reina Ebanks
COMPLIANCE DIVISION	
Head of Compliance.....	RJ Berry
CURRENCY OPERATIONS DIVISION	
Head of Currency Operations.....	Cindy Scotland
Deputy Head.....	Shan Whittaker
FIDUCIARY SERVICES DIVISION	
Head of Fiduciary Services.....	Rohan Bromfield
INSURANCE DIVISION	
Head of Insurance.....	Albert Smith
Deputy Head.....	Dean Wickens
INVESTMENTS AND SECURITIES DIVISION	
Head of Investments and Securities.....	Yolanda McCoy
Deputy Head.....	Heather Smith
LEGAL DIVISION	
General Counsel.....	Langston Sibbles
Legal Counsel.....	Sandra Edun-Watler
Legal Counsel.....	Andre Mon Desir
MANAGING DIRECTOR'S OFFICE	
Public Relations Executive.....	Joan Scott
OPERATIONS DIVISION	
Chief Financial Officer.....	Gilda Moxam-Murray
Human Resources Manager.....	Judy Miller
Information Systems Manager.....	Rodney Ebanks
POLICY AND DEVELOPMENT DIVISION	
Head of Policy and Development.....	Mitchell Scott
Deputy Head.....	Vacant

SUBSEQUENT EVENT: On 27 July Mr. Carlyle McLaughlin, Jr., succeeded Mr. Timothy Ridley as Chairman of the Authority, upon the expiry of Mr. Ridley's term. At the same time, Messrs Harry Chisholm and Richard Harris were appointed as new directors to fill the vacancies left by Mr. Ridley and overseas-based director Dr. Richard Rahn, whose term also expired in July 2008. Directors and senior officers' biographies are available on the CIMA website at <http://www.cimoney.com.ky/section/aboutus/default.aspx?id=59>

MANAGING DIRECTOR'S STATEMENT

During 2007-08 major areas of focus for the Cayman Islands Monetary Authority were: engaging international standard-setters, assessors and others to facilitate understanding and acceptance of Cayman's financial services regulatory regime; continued review and enhancement of the regulatory framework to meet evolving international standards and local needs, and increasing our operational efficiency. Tangible positive results were achieved for CIMA and for the wider financial services industry on several fronts.

INTERNATIONAL ENGAGEMENT AND COOPERATION

As one of the agencies assessed, CIMA was integrally involved in the Caribbean Financial Action Task Force's (CFATF) mutual evaluation of Cayman's anti-money laundering and anti-terrorist financing regimes. We were able to engage with the CFATF assessors before and during their site visit in June 2007 as well as during the post-visit analysis stage. The assessment exercise resulted in a very favourable CFATF report, released in December. Cayman's ratings of 'compliant,' 'largely compliant' or 'partially compliant' with 48 of the 49 AML/CFT recommendations served to underscore the quality of this jurisdiction's AML/CFT regime.

Dialogue continued throughout the year with the International Organisation of Securities Commissions (IOSCO) regarding co-operation between CIMA and IOSCO member jurisdictions. These negotiations resulted in progress on both sides, with acceptance by the IOSCO representatives of some areas of the cooperation regime that had not been fully understood, as well as adjustments to the regime by Cayman to enable it to fully meet standards introduced by IOSCO in recent years.

In this regard, the Cayman Islands Government enacted amendments to the Monetary Authority Law, recommended by CIMA, that clarified and extended CIMA's powers of disclosure of information to other regulatory authorities in response to their requests for assistance. The IOSCO team subsequently indicated that it had no further concerns about CIMA's capacity to cooperate, paving the way for CIMA to resubmit its application for IOSCO membership. Having satisfied the IOSCO requirements, CIMA is looking forward to a positive outcome to our application shortly.

In the meantime, as part of its normal course of international cooperation activities, the Authority dealt with an increasing number of requests for assistance from overseas regulatory authorities. Memoranda of understanding that formalised the framework for information exchange and assistance were negotiated and implemented with the Insurance Commissioner, Washington State, U.S.A.; the Central Bank of Argentina, and the UK's Financial Services Authority. These bring to 12 the number of such agreements that CIMA has in place.

Preparations for a further assessment of the financial services regime by the International Monetary Fund in March 2009 continued, with the Authority and the IMF having discussions to define the assessment's scope. The details were still being determined at the end of the year.

REGULATORY ENHANCEMENT

CIMA instituted several regulatory measures during the year to implement recommendations of both the CFATF and IMF, to meet international standards, to enhance the resilience of regulated entities, and to protect consumers. These included rules or guidance on: operational risk management for banks, professional indemnity insurance for trusts, internal audit for trusts, reinsurance arrangements and internal controls for insurance entities, calculation of net asset values of funds, and specifications on the contents of investment fund offering documents and segregation of assets for licensed (i.e., public) funds. CIMA also formalised and published, in the interest of consistency and transparency, its policies for assessing the fitness and propriety of persons applying to act as senior officers of regulated entities; dealing with assistance from overseas regulatory authorities, and recognition and approval of actuaries and trusts.

In addition to the revisions to the Monetary Authority Law mentioned above, amendments to the Insurance Law and the Mutual Funds Law were enacted.

The Authority took the decision to adopt the Basel II capital adequacy framework following a study of the impact on

Cayman's banks of adopting various options under the framework. During the year, the process towards implementing the standardised approaches under the framework was begun. The plan is to phase in implementation between 2010 and 2012 in conjunction with industry. This is a major undertaking for the Authority and the affected banks. However, we believe it is a vital component of modern, risk based supervision, and is necessary to meeting international supervisory standards as well as to enhancing our standing and competitiveness as a financial services centre. We anticipate that any amendments to Basel II that the Basel Committee on Banking Supervision implements in light of lessons learned from the current global financial crisis will be incorporated into Cayman's Basel II regime, as appropriate, in due course.

CURRENCY MANAGEMENT

The deteriorating economic conditions in the United States caused by the sub-prime mortgage market collapse did not go unnoticed. To ensure that the Cayman Islands currency reserve was protected from the US credit-market instability, the decision was taken in December 2007 to restructure the currency reserve investment portfolio to substantially reduce exposure to mortgage-backed securities. At 30 June 2008, the value of currency reserve assets was CI\$99.8 million, or 126.5 percent of currency in circulation. The June 2008 value of the currency reserve assets was four percent below the value at 30 June 2007.

SECTOR PERFORMANCE

The Cayman Islands continued to see growth in the regulated sectors during 2007-08. In the banking sector, the size of assets and liabilities booked through Cayman banks grew (US\$1.8 trillion, respectively, as 30 June). The 280 banking licences in force at 30 June marked a slowing in the contraction of licence numbers that we had witnessed in the last few years as a result of global banking industry consolidation. The captive insurance sector continued its growth, not only in numbers of licensees (772 at 30 June) but in assets and in value of premiums written (US\$33 billion and US\$7.5 billion, respectively, at 2007 calendar year-end). At the same time, the number of Cayman Islands-regulated funds passed the 10,000 threshold during the year, to reach 10,037 at 30 June, and trust and corporate services licences held steady at 236.

Further evidence of the industry's value was seen in the amount of revenue generated. CIMA collected CI\$63.4 million in regulatory fees on behalf of the Government for the fiscal year. This was roughly five percent above the CI\$60.3 million collected for 2006-07.

ASSISTANCE TO INDUSTRY

The industry's strength is not only evidence of the international business community's satisfaction with the expertise, quality of service and infrastructure provided by this jurisdiction, but also of the continued confidence in the quality of regulation.

The Authority continued to actively consult with the respective industry sectors by hosting and attending meetings and other forums with the appropriate private sector representatives. This was done to understand industry concerns and to determine practical approaches to resolving issues relating to the regulatory regime. All the measures implemented this year, as in the past, came following consultation with industry representatives.

For the most part, entities operated within their regulatory guidelines and only nine new enforcement actions were taken during 2007-08. These comprised eight revocations/cancellations of licence/registration and the initiation of winding-up proceedings against one entity.

The Authority helped to enhance the skills of industry participants by providing training in such areas as counterfeit detection (in conjunction with the Chamber of Commerce), and AML/CFT for credit union and money services business staff.

INCREASING INTERNAL EFFICIENCY

Internally, we implemented or extended a number of measures to improve efficiency and address operational challenges, and began to reap the benefits of initiatives implemented in the prior period.

One area of focus was the continued strengthening of mechanisms to support risk-based supervision, such as the refinement of the licensee risk-rating instrument used by the Banking Supervision Division. The positive effects of the electronic-reporting initiative for funds were increasingly evident, with the automated processing of submissions and flagging of irregular data saving staff time and enabling them to quickly identify submissions needing further risk-

assessment. Additional enhancements were made to the E-reporting system and to other technology applications across CIMA and the Authority committed to implementing the COBIT governance framework for information technology.

On the human resources side, the emphasis on staff training continued, while a comprehensive job evaluation and reclassification project was begun, to ensure that all posts are accurately defined and weighted and that appropriate compensation is given.

CONCLUSION

The growing size and complexity of the financial services industry placed increasing demands on CIMA during 2007-08. I therefore thank each member of our staff, and the Board of Directors, for the dedication which enabled us to fulfill our mission during the period. I assure our stakeholders of our continuing commitment to the task of maintaining high-quality regulation to ensure the jurisdiction's continued success during what will no doubt be a very challenging period ahead.

Cindy Scotland

INDUSTRY OVERVIEW

THE CAYMAN ISLANDS ECONOMY HAS CONTINUED TO BENEFIT FROM THE GROWTH AND SOUND OPERATION OF THE FINANCIAL INDUSTRY REGULATED BY THE MONETARY AUTHORITY, THOUGH THE EXPERIENCE HAS VARIED FROM ONE SECTOR TO ANOTHER. INDUSTRY PERFORMANCE IS REVIEWED IN THE FOLLOWING SECTION.

BANKING & RELATED SERVICES

BANKING

INDUSTRY TRENDS

During the 2007-08 fiscal year the Cayman Islands maintained its prominence as an international banking centre, ranking as the fifth largest in the world with regards to total liabilities and sixth with respect to total assets, both showing increases over the previous year. Despite the crisis in international financial markets, and continued restructuring, consolidation and rationalisation of banking group activities worldwide, there was a much smaller decline in the number of Cayman-licensed banks for the 2007-08 fiscal year than there had been for the last several fiscal years.

There were 280 institutions holding banking licences in the jurisdiction at 30 June 2008. These comprised 19 Category A licensees and 261 Category B licensees¹.

Fig. 1: Active Cayman Islands Bank Licensees, 2003-08

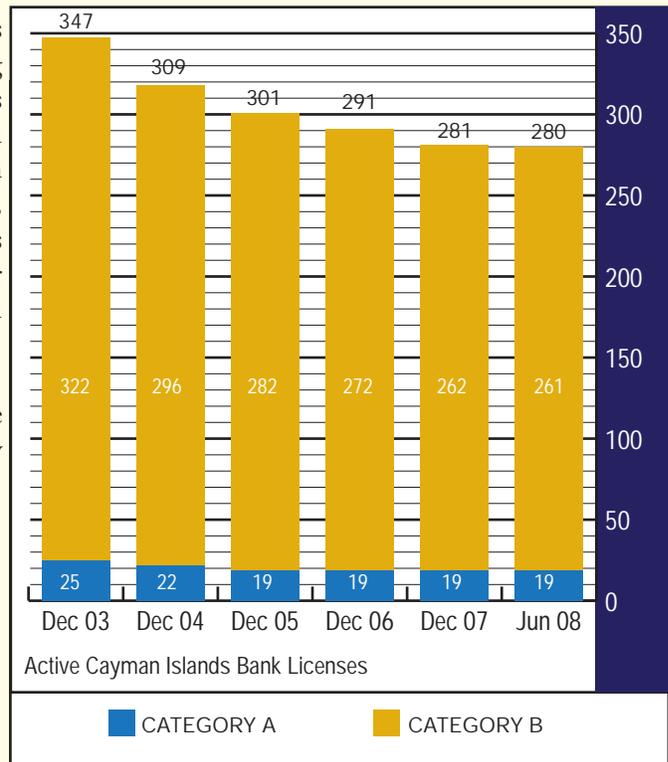


Table 1: Bank Licensing Activity 2007-2008, with June '06 and June '07 Comparisons

Licence Type	Active as at 30 June 2006	Active as at 30 June 2007	Terminated 1 July 2007 - 30 June 2008	Issued 1 July 2007 - 30 June 2008	Active as at 30 June 2008
Category A Bank & Trust	19	20	1	0	19
Category B Bank & Trust	272	262	12	10	260
Cat B Bank & Trust (Restricted)	4	1	0	0	1
Total	295	283	13	10	280

The June 2008 figure showed three fewer banks than 30 June 2007, representing a one percent decline. The jurisdiction continues to attract top tier banking groups from around the world, including Europe and North America, and, at the end of the reporting period, was hosting branches or subsidiaries of over 40 of the world's top 50 banks as ranked by total assets.

International assets booked through banks in the Cayman Islands stood at US\$1.8 trillion at 30 June 2008, as compared

¹ The Category A banking and trust licence allows holders to operate both in the international and domestic market. The Category B licence permits international banking business and limited domestic activity.

to US\$1.4 trillion at June 2007. Liabilities rose to US\$1.8 trillion, up from US\$1.77 trillion as at June 2007.

THE DOMESTIC MARKET

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

HSBC Financial Services (Cayman) Limited was granted approval on 19 March 2007 to carry out retail banking business. At the end of the reporting period the bank was still in the process of setting up operations at its new premises and expected to offer retail services as of January 2009.

The risk adjusted capital adequacy ratio for the five locally incorporated banks that have a capital adequacy requirement was an average of 19 percent at June 2008. This is well in excess of the eight percent minimum requirement set by the Basel Committee on Banking Supervision and the 12 percent set by the Banking and Trust Companies Law (2007 Revision). Individual capital adequacy ratios ranged from 12.9 to 27.3 percent. Table 2 shows aggregate deposit, loan and total asset figures for the six retail banks.

Fig. 2: Total Value of Assets and Liabilities of Cayman Islands Bank Licensees, 2003-08

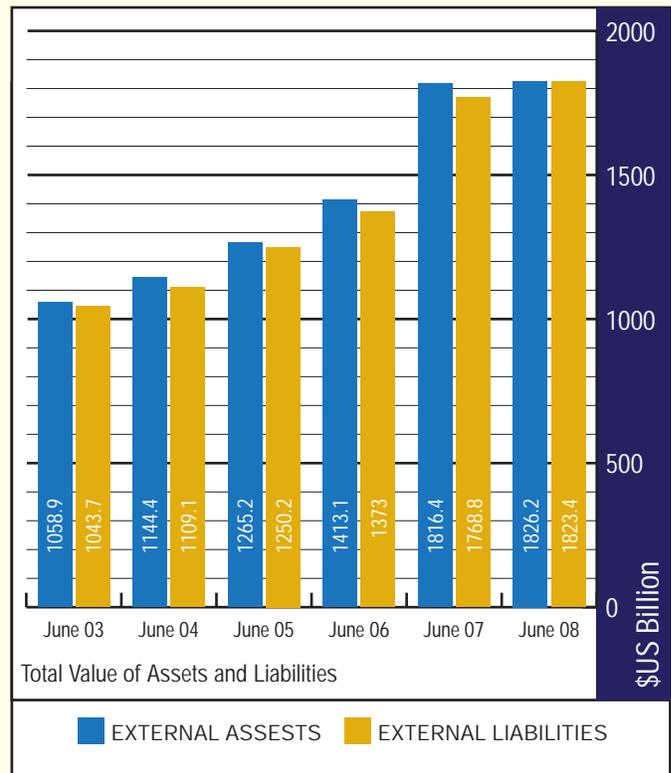


Table 2: Aggregate Retail Bank Figures, 2007 & 2008 (In \$US)

Year	Total Assets	Total Loans	Total Deposits
June 2007	\$ 13.4 billion	\$ 5.5 billion	\$11.4 billion
June 2008	\$ 12.6 billion	\$ 5.5 billion	\$11.1 billion

IMPACT OF INTERNATIONAL FINANCIAL CRISIS

Data requested by CIMA from bank licensees showed that, as at 30 June 2008, 23 licensees had direct or indirect exposure to the US sub-prime market. None of the banks reported any capital constraints faced by their head offices, neither had they suffered any significant difficulties as a result of their exposures, and all remained well-capitalised. The Authority continues to monitor the possible impact the difficulties in the US sub-prime market and the resulting global liquidity shortage on the Cayman Islands banking sector.

JURISDICTIONAL COMPARISONS

As illustrated in Table 3, by 2007 the number of banks licensed in most of the listed jurisdictions had fallen below the numbers reported in 2003. The only exceptions were Panama, which had increased by three, and Singapore, which had the same number at the end of 2007 as it had at the end of 2003. Nevertheless, the number of Cayman-licensed banks

has started to level off over the past two years, and there was a one percent increase in number of banks licensed between December 2007 and June 2008.

Table 3: Bank Licence Numbers in Selected Jurisdictions, 2003-2007

Jurisdiction	2003	% Change ('04 v '03)	2004	% Change ('05 v '04)	2005	% Change ('06 v '05)	2006	% Change ('07 v '06)	2007
Cayman	347	↓ 8%	318	↓ 5%	301	↓ 3%	291	↓ 3%	281
Bahamas	174	↓ 7%	162	↓ 2%	158	↓ 13%	137	↑ 3%	141*
Hong Kong	215	↓ 3%	208	↓ 3%	202	-	202	↓ 1%	200
Jersey	55	↓ 7%	51	↓ 2%	50	↓ 1%	45	↑ 7%	48*
Luxembourg	169	↓ 2%	165	↓ 5%	157	↓ 3%	155	↑ 1%	157**
Panama	76	↓ 4%	73	0%	73	↑ 8%	79	-	79
Singapore	162	-	N/A	-	158	↓ 1%	157	↑ 3%	162
Switzerland	342	↓ 1%	338	↑ 1%	342	↓ 1%	336	↓ 1%	337

*Figures as at Sept 07. **Figure as at Nov 07.

MONEY SERVICES, CO-OPERATIVES AND BUILDING SOCIETIES

Money services businesses, co-operative societies and building societies cater primarily to the domestic market. The number of licences in effect for money services business in the Cayman Islands held steady at seven during the year. The number of cooperative societies building societies and development banks also remained stable, at two, one and one, respectively.

Overseas remittances through these entities for 2007-08 grew to an estimated US\$216 million, from some US\$209 million for the previous year.

FIDUCIARY SERVICES

INDUSTRY TRENDS

At 30 June 2008 there were 236 institutions holding trust², company manager³ and corporate service provider⁴ licences, the same number as at 30 June 2007.

Table 4: Trust & Company Management Licensing Activity 2007-2008, with June '06 and June '07 Comparisons

Licence Type	Active as at 30 June 2006	Active as at 30 June 2007	Terminated 1 July 2007 –30 June 2008	Issued 1 July 2007 –30 June 2008	Active as at 30 June 2008
Trust Company - Restricted	81	86	5	4	85
Trust Company - Unrestricted	52	51	2	2	52*
Nominee Trust	21	20	2	1	20*
Company Manager	70	72	7	8	73
Corporate Service Provider	5	7	2	1	6
Total	229	236	18	16	236

* One trust licence (unrestricted) and one nominee licence were transferred from the Banking Division

TRUSTS

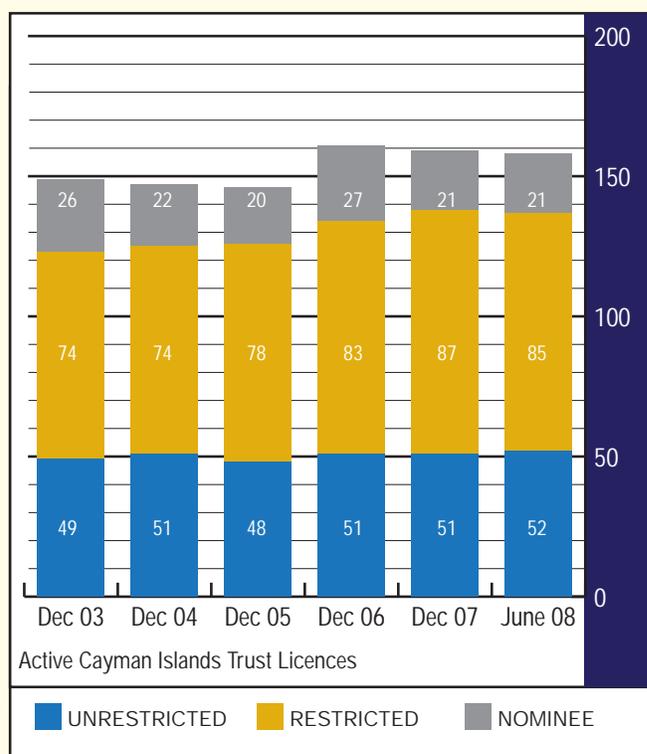
The Cayman Islands remains a jurisdiction of choice for the provision of trust services (see Table 5 for jurisdictional comparisons), with CIMA's Fiduciary Services Division administering licences for those entities who hold trust licences only and the Banking Supervision Division administering licenses for those entities who hold both banking and trust licences. The 157 active trust licences supervised by the Fiduciary Services Division as at 30 June 2008 remained unchanged from the number at 30 June 2007, as nine licences were cancelled, seven new licences were issued and two were transferred from the Banking Supervision Division, having surrendered their banking licences.

2 Comprises three licence categories: Trust – a licence that allows the holder to carry on the business of acting as trustee, executor or administrator; Trust (Restricted) – allows the holder to undertake trust business only for persons listed in any undertaking accompanying the application for the licence; Nominee Trust – a licence granted for the holder to act solely as the nominee of a trust licensee, being the wholly-owned subsidiary of that licensee.

3 A Company Manager licence allows the holder to provide company management services as listed in section 3(1) of the Companies Management Law (2003 Revision) or any other corporate services as may be prescribed under that section.

4 Corporate Service Provider licence allows the holder to provide only the corporate services specified in section 3(1)(a) through (e) of the Companies Management Law (2003 Revision).

Fig. 3: Active Cayman Islands Trust Licences by Category, 2003-08



While the total number of restricted trust licences declined by one during the fiscal year, the Authority saw continued interest from industry in using restricted trust licences for establishing private trust companies to create solutions for the varied wealth management demands of wealthy private clients. At the end of the fiscal year the Fiduciary Services Division had five applications under consideration for restricted trust licences and two for unrestricted trust licences.

COMPANIES MANAGEMENT

The total number of licensees under the Companies Management Law has not fluctuated significantly over the years. However, CIMA has recently noted an increase in applications for companies management licences from applicants wishing to provide independent director services. At 30 June there were eight applications pending for companies management licences.

JURISDICTIONAL COMPARISONS

Tables 5 and 6 show the number of active trust and corporate services licences for calendar years 2003 to 2007 in the Cayman Islands and in other international financial centres for which figures are available.

Fig. 4: Active Company Manager and Corporate Service Provider Licences, 2003-08

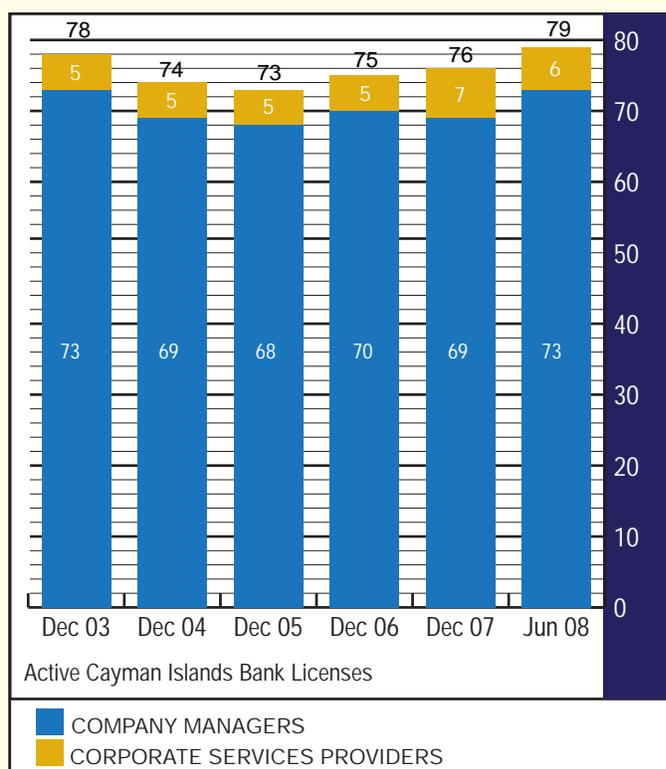


Table 5: Trust Licence Numbers in Selected Jurisdictions, 2003-2007

Jurisdiction	2003	% Change ('04 v '03)	2004	% Change ('05 v '04)	2005	% Change ('06 v '05)	2006	% Change ('07 v '06)	2007
Cayman*	373	↓5%	354	↓1%	352	↓3%	344	↓2%	339
BVI	204	↑16%	236	↓11%	212	↓6%	201	↑1%	203
Bahamas	208	↓6%	197	↓3%	191	↓1%	190	↑3%	196
Bermuda	N/A	N/A	N/A	-	33	-	33	-	33
Gibraltar**	78	↑3%	80	↑3%	82	↑6%	87	↓1%	86
Guernsey**	202	↓1%	201	↓1%	199	↑3%	205	↑3%	209
Isle of Man	N/A	-	N/A	-	18	↑428%	95	↑33%	127
Jersey**	248	↓24%	190	↓4%	184	↑5%	193	↓5%	184
Panama	17	↓12%	15	↓7%	14 (Jun)	-	N/A	-	56
Turks and Caicos	N/A	-	-	-	14	-	N/A	-	30

* Cayman's figures include trust companies that also hold a banking licence and are thus supervised by the Banking Division. Jersey, Gibraltar and Guernsey's figures include both trust and company business licences.

Table 6: Company Services Licence Numbers in Selected Jurisdictions, 2003-2007

Jurisdiction	2003	% Change ('04 v '03)	2004	% Change ('05 v '04)	2005	% Change ('06 v '05)	2006	% Change ('07 v '06)	2007
Cayman	78	↓5%	74	↓1%	73	↑3%	75	↑1%	76
BVI	18	↑6%	19	↑5%	20	0%	20	↓10%	18
Gibraltar*	78	↑3%	80	↑3%	82	↑6%	87	↓1%	86
Guernsey	202	↓1%	201	↓1%	199	↑3%	205	↑3%	209
Isle of Man	161	-		-	176	↓2%	173	↑6%	184
Jersey**	248	↓24%	190	↓4%	184	↑5%	193	↓5%	184

* Jersey and Gibraltar's figures include both trust and company business licences.

INSURANCE

INDUSTRY TRENDS

At 30 June 2008 there were 946 insurance licensees under regulation, an overall increase of 23 from 30 June 2007. Of these, 772 were class B (captives) licensees.

Licensing activity during the financial year fell within the expected range for all categories⁶ other than agents, where considerable growth was evidenced (See “Domestic” below.).

Table 7: Insurance Licensing Activity 2007-08, with June ‘06 and June ‘07 Comparisons

Licence Type	Active as at 30 June 2006	Active as at 30 June 2007	Terminated 1 July 2007 - 30 June 2008	Issued 1 Jul 2007 -30 June 2008	Active as at 30 June 2008
Class A	26	28	0	0	28
Class B	737	752	23	43	772
Insurance Managers	25	25	2	2	25
Brokers	27	29	1	2	30
Agents	66	89	14	16	91
TOTAL	881	923	40	63	946

CAPTIVES

The market continued to show a high level of activity in 2007-08, with 39 new captive licences issued and 19 cancelled. Among the 772 captives were 126 segregated portfolio companies under the Companies Law (2004 Revision), with a total of 511 segregated portfolios operating within them.

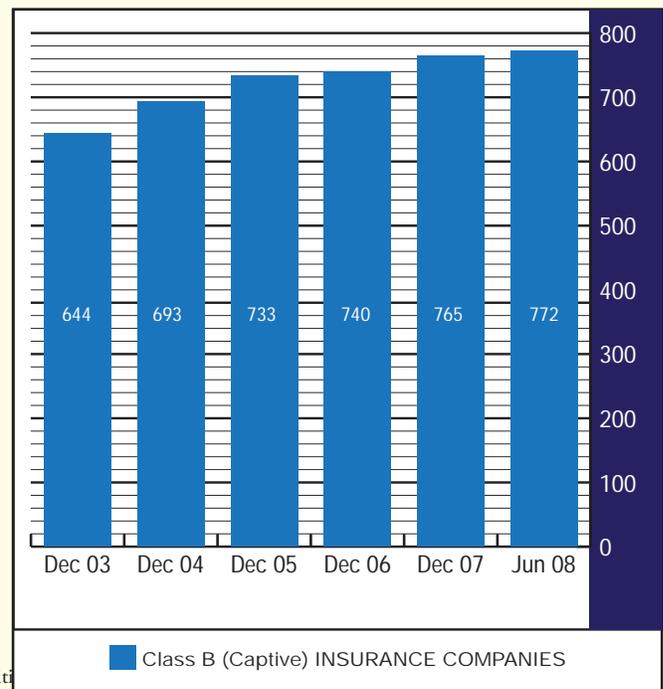
The most popular region of origin of Cayman captives at fiscal year-end was North America, from which 89.77 percent of captives originate. This was followed by Latin America and the Caribbean: 3.24 percent; Africa, Asia and the Middle East: 1.30 percent; Europe: 1.17 percent; Pacific Rim: 0.26 percent, and the rest of the world: 4.27 percent.

Despite the continued general softening in the global insurance marketplace, it is anticipated that new licensing activity for calendar year 2008 will be only slightly down from 2007. Continuing demand for the use of captives is

⁵ Insurance companies operate within the Cayman Islands as Class A Insurers (written in the Companies Law) and commonly known as captive insurance companies).

⁶ In addition to Class A and B insurers licences, licences are granted in the following categories: Insurance Manager – defined in section 2 of the Insurance Law (2008 Revision) as “a company operating in and from within the [Cayman] Islands which provides insurance expertise to and for insurers and which has in its bona fide employment a person who” fits the criteria outlined in section 2; Insurance Agent - “a person (not being an insurer) who solicits directly, or through representatives, advertising or other means, domestic business on behalf of not more than one insurer,” and Insurance Broker - “a person (not being an insurer) who negotiates directly or through representatives or other means, contracts of insurance or of reinsurance on behalf of more than one insurer, or for placement with insurers or reinsurers” (Insurance Law (2008 Revision) s.2).

Fig. 5: Class B (Captive) Insurance Companies, 2003-08



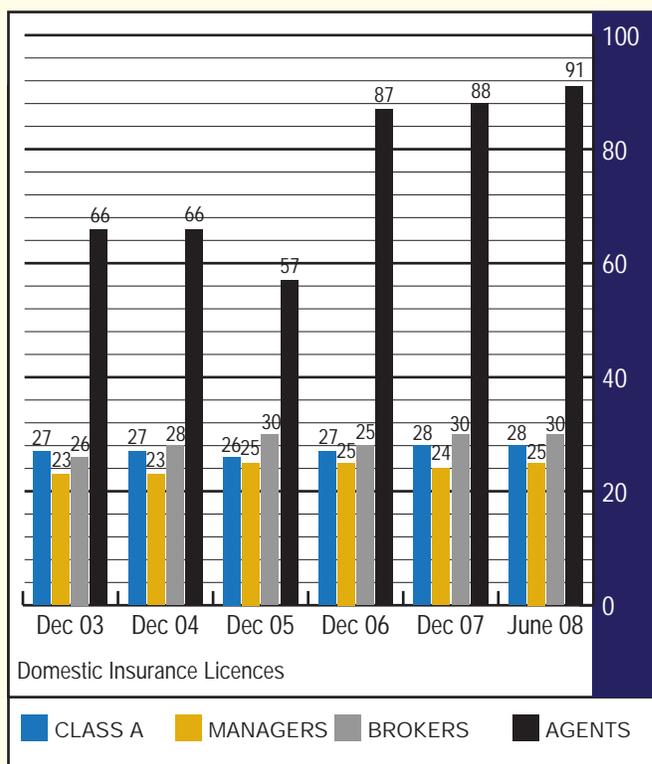
expected primarily in the areas of medical malpractice, workers compensation and property coverage. In the Cayman Islands, 17 new class B licences were issued between January and June (compared to 23 in the same period of 2007). These figures are in line with expectations, as historically the first two quarters of a calendar year yield lighter licensing activity than the latter two quarters.

DOMESTIC

The number of class A licences at the end of the fiscal year remained at 28, with none having been issued or cancelled. Domestic insurance companies recorded a combined net earned premium of \$184.00 million for the calendar year ending 31 December 2007, with combined net income of \$60.9 million for the same period. Further details are available on the CIMA website.⁷

The 12 agent licences issued during the fiscal year reflect additions to the sales force of eight companies (class A and broker licensees) and demonstrate the increased interest by those companies involved in the sale of life insurance in having a dynamic and growing sales force.

Fig. 6: Cayman Islands Domestic Insurance Licences, by Category, 2003-08



JURISDICTIONAL COMPARISONS

Table 8: Captive Insurance Licence Numbers in Selected Jurisdictions, 2003-2007

Jurisdiction	2003	% Change ('04 v '03)	2004	% Change ('05 v '04)	2005	% Change ('06 v '05)	2006*	% Change ('06 v '05)	2007 [§]
Cayman	644	↑ 7%	693	↑ 5%	733	↑ 1%	740	↑ 3%	765
Barbados	N/A	-	N/A	-	242	↓ 3%	235	↓ 5%	223
Bermuda	1284	↓ 5%	1266	↑ 1%	1281		989 **	↓ 4%	958
BVI	309	↑ 11%	346	↑ 10%	381		383 ***	↑ 1%	390
Guernsey	383	↓ 1%	379	↓ 1.8%	372	↑ 2%	381	↓ 5%	367
Hawaii	N/A		N/A		158	↑ 1%	160	↑ 1%	163
S. Carolina	60	↑ 60%	99	↑ 11%	110	↑ 33%	146	↑ 31%	191
Vermont	507	↑ 3%	524	↑ 3%	542	↑ 4%	563	↑ 1%	567

* 2006 - Source: BusinessInsurance, 12 March 2007 edition

** 2006 was the first year Bermuda released data specifically for captives as a licence class. Previously, the figure used was the combined position for all licence classes.

*** BusinessInsurance estimate

§ 2007 – Source: jurisdictions' website or regulators

N/A – Data not available

⁷ <http://www.cimoney.com.ky/section/regulatoryframework/sub/default.aspx?section=ID&cid=61>

INVESTMENTS & SECURITIES

INDUSTRY TRENDS

FUNDS

Amid continued turmoil in the international financial marketplace, during the 2007-08 fiscal year the Cayman Islands achieved, and surpassed, the enviable milestone of having 10,000 funds under regulation.

The marked growth of the funds sector continued steadily throughout the year and resulted in a record 10,037 funds being under CIMA regulation at 30 June 2008. This was a 12 percent increase over the corresponding period in 2007, when the number of regulated funds totalled 8,972.

For the fiscal year, 1,873 funds were authorised while 808 were terminated. The main contributor to the net increase in fund numbers was registered funds. These grew from 8,300 at June 2007 to 9,378 at June 2008, a jump of 13 percent. Licensed funds also increased, growing 11.6 percent from 112 to 125. This category of funds, while relatively small, has been growing steadily over the past five years. Among administered funds there was a 4.6 percent decline. This was largely caused by funds taking advantage of the November 2006 amendment to the Mutual Funds Law, which changed the definition of “carrying on mutual fund business” in the Cayman Islands, thereby removing the need for foreign funds to be registered simply because they are being administered in the Islands by a licensed mutual fund administrator.

FUND ADMINISTRATORS

Seven new fund administrators were licensed and six cancelled, bringing the total number of administrator licences at June 2008 to 154, an increase of one over June 2007. Of these 154, the majority, 99, were full administrator licences, the most popular category of administrator licences. There were 51 restricted administrators and four exempted administrators at the end of the fiscal year. Since the introduction of the Securities Investment Business Law (SIBL), the restricted administrator category has been declining as entities opt to be registered as excluded persons under SIBL, rather than be licensed as restricted fund administrators.⁸ Entities are also opting to be licensed as full administrators so as not to be restricted in the number of funds for which they can provide administration services.

⁸ Under the Securities Investment Business Law (2004 Revision) (SIBL) a person who carries on securities investment business in any one or more of the activities set out in Schedule 2 of that law is required to hold a licence unless exempt, as an excluded person, from holding a licence.

Fig. 7: Active Mutual Funds, by Category, 2003-08

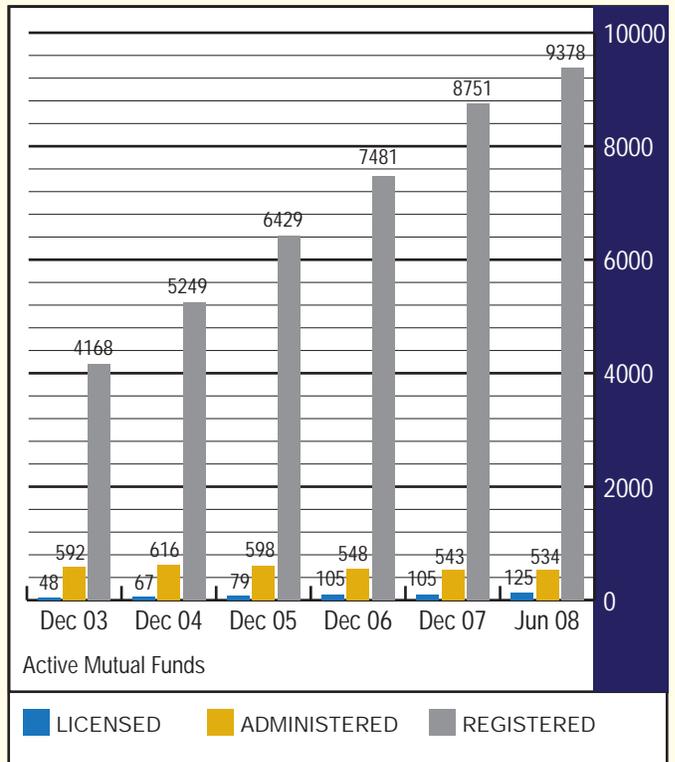
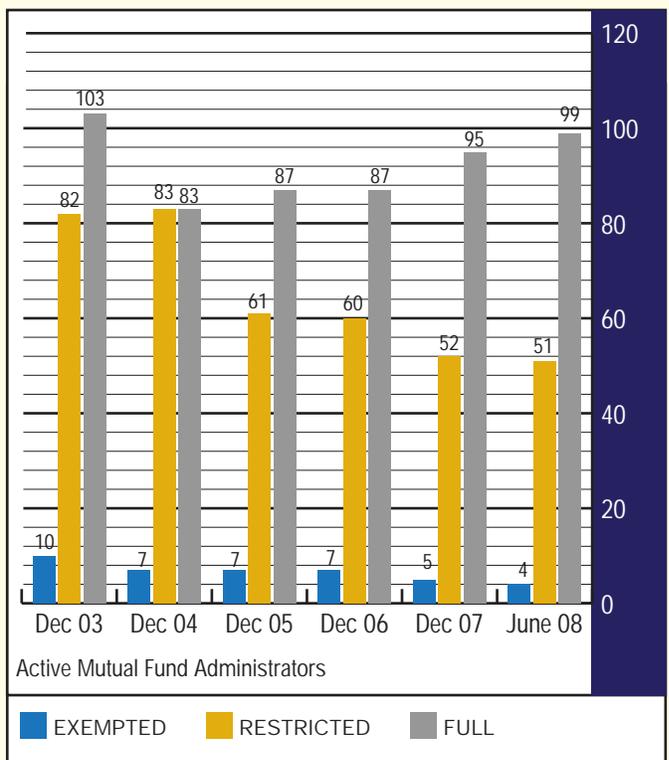


Fig. 8: Active Mutual Fund Administrators, by Category, 2003-08



SECURITIES

The growing popularity of the SIBL excluded persons category is evidenced by the total of 592 entities which were registered as excluded persons under SIBL during the fiscal year. These brought the total of excluded persons as at 30 June 2008 to 2,008, with 41 excluded person registrations having been cancelled. Licensed securities entities stood at 24 at the end of the fiscal year, one new licence having been issued and none cancelled. In addition, three new applications from local auditors, for local audit sign-off purposes, were processed.

Table 9: Fund and Securities Authorisation Activity 2007-08, with June '06 and June '07 Comparisons

Authorisation Type	Active as at 30 June 2006	Active as at 30 June 2007	Terminated 1 July 2007 - 30 June 2008	Issued 1 July 2007 - 30 June 2008	Active as at 30 June 2008
Funds					
Registered	7,161	8300	741	1819	9378
Administered	587	560	66	40	534
Licensed	97	112	1	14	125
Total Funds	7845	8972	808	1873	10037
Mutual Fund Administrators					
Full	87	93	1	7	99
Restricted	60	55	4	0	51
Exempted	7	5	1	0	4
Total Administrators	154	153	6	7	154
Securities Investment Business					
Securities – Excluded Persons	1209	1457	41	592	2008
Securities (Full and Restricted Licences)	25	23	0	1	24

JURISDICTIONAL COMPARISONS

Table 10: Fund Numbers in Selected Jurisdictions, 2003-2007

Jurisdiction	2003	% Change ('04 v '03)	2004	% Change ('05 v '04)	2005	% Change ('06 v '05)	2006	% Change ('07 v '06)	2007
Cayman	4808	↑ 23%	5932	↑ 20%	7106	↑ 14%	8134	↑ 16%	9413
Bahamas	707	↑ 19%	838	↓ 15%	709	↑ 2%	723	↑ 8%	782
Bermuda	1022	↑ 12%	1149	↑ 3%	1182	↑ 10%	1302	↓ 2%	1276
BVI	1934	↑ 11%	2138	↑ 11%	2372	↑ 8%	2571	↑ 6%	2731
Dublin	992	↓ 1%	987	↓ 2%	964	↓ 2%	941	N/A	N/A
Jersey	602	↑ 38%	833	↑ 16%	965	↑ 20%	1157	↑ 13%	1311

Table 10 shows the number of active funds for calendar years 2003 to 2007 in the Cayman Islands and in other international financial centres for which figures are available. As the figures demonstrate, the number of Cayman Islands-authorized funds is far in excess of the other jurisdictions and Cayman has consistently widened that lead over the five-year period.

ORGANISATIONAL PERFORMANCE

THE CAYMAN ISLANDS MONETARY AUTHORITY IS A CORPORATE BODY, WHOLLY OWNED BY THE CAYMAN ISLANDS GOVERNMENT AND ESTABLISHED TO PERFORM SPECIFIED FUNCTIONS. CIMA'S FUNCTIONS AND STRATEGIC GOALS, THE MAJOR DEVELOPMENTS RELATED TO THESE AREAS AND ITS PERFORMANCE IN RELATION TO ITS GOALS ARE OUTLINED IN THE FOLLOWING SECTION.

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, 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 organizations.

OBLIGATIONS:

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

1. to be efficient and act in the best economic interests of the Cayman Islands;
2. to promote and maintain a sound financial system and reduce the use of financial services business for criminal purposes;
3. to promote and enhance market confidence, consumer protection and the reputation of the Cayman Islands as a financial centre;
4. to 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; and
5. to be transparent and fair.

STRATEGIC GOALS

1. To maintain a high-quality and effective regulatory environment to attract users and providers of financial services
2. To operate the Monetary Authority in the most efficient way possible
3. To preserve the value and integrity of the Cayman Islands’ currency
4. To raise the profile in order to increase understanding of the Monetary Authority both locally and internationally

EXECUTION OF FUNCTIONS: MONETARY

CURRENCY MANAGEMENT

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

CURRENCY RESERVE

Cayman Islands currency is issued on demand only against United States currency at the rate of one Cayman Islands dollar per 1.20 US dollars. It is repurchased on demand with US dollars at the same rate. The currency in circulation is backed by the currency reserve assets in accordance with section 32 of the Monetary Authority Law.

Up to December 2007 the currency reserve assets were invested primarily in US treasury notes, US government agency-issued discount notes and mortgage-backed securities through the Authority's external fund managers. However, in light of the continuing credit market instability, the Board of Directors considered it prudent to restructure the investment portfolio to substantially reduce exposure to mortgage-backed securities and in December 2007 instructed CIMA's investment managers to do so.

At 30 June 2008, the value of currency reserve assets was \$99.8 million (unaudited) representing 126.5 percent of currency in circulation. By comparison, at 30 June 2007, total currency reserve assets stood at \$103.7 million, 136.1 percent of currency in circulation. The approximately four percent decrease in the June 2008 value of currency reserve assets below the June 2007 figure was due to reduced interest rates but loss was mitigated by the restructuring of the investment portfolio.

ISSUE AND REDEMPTION OF CURRENCY

Currency in Circulation - At 30 June 2008 currency in circulation (excluding numismatic coins) stood at \$78.9 million. This figure comprised \$70.2 million in notes and \$8.7 million in coins and represents a 4.1 percent increase over the June 2007 figure of \$76.2 million. Table 11 shows currency in circulation at fiscal and calendar year-end from 2003 to 2008. Figure 9 shows currency in circulation by month from 2004-2008.

Table 11: Currency in Circulation at Fiscal and Calendar Year-end, 2003-08 (in CI\$m)

DATE	2003	2004	2005	2006	2007	2008
30 June	49.5	54.8	72.8	70.5	76.2	78.9
31 December	54.3	74	74.2	78.2	81.9	

Total notes withdrawn from circulation and destroyed in the 2007-08 financial year equalled \$21.0 million compared to \$10.2 million in the previous year.

New Currency - Following approval from the Cabinet during the prior year for CIMA to re-design the banknotes, draft designs were received and considered and at the end of the year amendments were being made. The banknotes are being designed by De la Rue Currency, the UK company which produces the Cayman Islands banknotes, and will incorporate additional safety features.

Arrangements were made to replenish the stock of circulating coins, beginning with the one-cent coin. Twelve million one-cent coins were minted and were scheduled to be put into circulation

beginning in the 2008-09 fiscal year. The other coin denominations will be minted during the last half of calendar year 2008.

A special numismatic coin issue in observance of CIMA's 10th anniversary was unveiled in November 2007. The issue comprised a gold \$10 coin and a silver \$5.

COUNTERFEIT DETECTION

There has seen a steady increase in the number of counterfeits being detected and withdrawn from circulation. The table below shows the numbers of counterfeit banknotes by denominations that have been withdrawn from circulation since 2005.

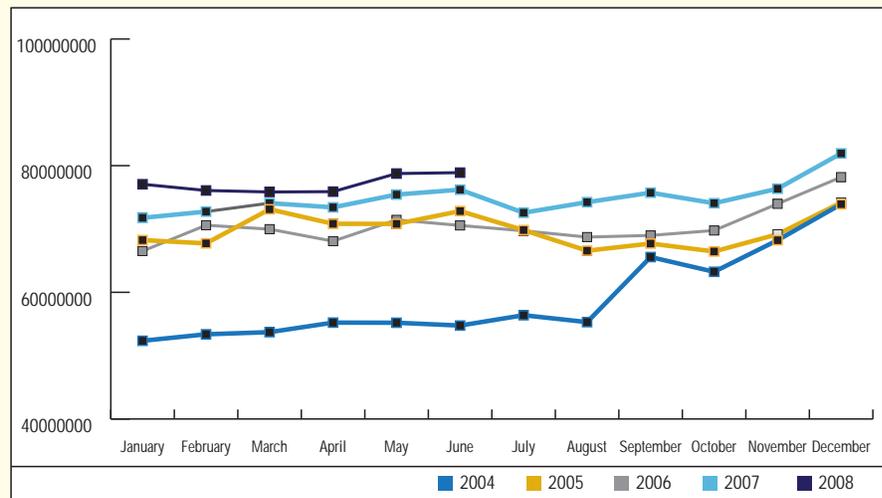
Table 12: Recovered Counterfeit Banknotes as at 30 June 2008

Denomination	2005	2006	2007	As at 30 June 2008
\$100	99	33	14	44
\$50	17	6	12	11
\$25	1	-	29	5
\$10	1	-	2	6
\$5	-	-	1	-
\$1	6	-	1	1
Total No. of Notes	124	39	59	67
Total Dollar Value	\$10,791	\$3,600	\$2,751	\$5,136

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

In June 2008, the Cayman Islands Chamber of Commerce held a counterfeit/fraud prevention seminar in conjunction with the RCIPS and CIMA. In addition to presentations on the Cayman Islands currency by the De La Rue representative for the Caribbean, the US Secret Service covered the US currency. There were also presentations on credit fraud and counterfeit traveller's cheques. Staff from a cross-section of retailers, retail banks and law enforcement attended the four half-day sessions.

Fig. 9: Cayman Islands Currency in Circulation by Month, 2004 to 2008



EXECUTION OF FUNCTIONS: REGULATORY

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 2008 are shown in Table 13.

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 2007-08 fiscal year are listed in Table 14.

Table 13: Framework Under Which the Cayman Islands Monetary Authority Operates

Sector/ Entity type	CI Law	International Standards / Memberships
All	<ul style="list-style-type: none"> • Monetary Authority Law (2008 Revision) • Proceeds of Criminal Conduct Law (2007 Revision) • Money Laundering Regulations (2008) • Terrorism Law, 2003 • Public Management and Finance Law (2005 Revision) • Companies Law (2007 Revision), and amendment 	<p>Standards:</p> <ul style="list-style-type: none"> • Financial Action Task Force Forty Recommendations on Money Laundering and Nine Special Recommendations on Terrorist Financing <p>Memberships:</p> <ul style="list-style-type: none"> • Caribbean Financial Action Task Force (CFATF)
Banks, trusts, money services businesses, credit unions, building societies, corporate services providers, company managers	<ul style="list-style-type: none"> • Banks and Trust Companies Law (2007 Revision) • Money Services Law (2003 Revision), and regulations • Cooperative Societies Law (2001 Revision), and regulations • Building Societies Law (2001 Revision) • Development Bank Law (2004 Revision) • Companies Management Law (2003 Revision), and regulations 	<p>Standards:</p> <ul style="list-style-type: none"> • Basel Core Principles for Effective Banking Supervision¹ • Offshore Group of Banking Supervisors (OGBS) Trust and Company Service Providers Working Group Statement of Best Practice produced by the of the Offshore Group of Banking Supervisors² <p>Memberships:</p> <ul style="list-style-type: none"> • OGBS • Caribbean Group of Banking Supervisors • Association of Supervisors of Banks of the Americas.

Insurance companies, managers, brokers, agents	<ul style="list-style-type: none"> • Insurance Law (2008 Revision) 	Standards: <ul style="list-style-type: none"> • International Association of Insurance Supervisors (IAIS) Core Principles of Insurance Regulation³ Memberships: <ul style="list-style-type: none"> • IAIS • Offshore Group of Insurance Supervisors⁴
Mutual funds, fund administrators, securities investment businesses (market makers, broker-dealers, securities arrangers, securities advisors and securities managers)	<ul style="list-style-type: none"> • Mutual Funds Law (2007 Revision) • Securities Investment Business Law (2004 Revision) 	Standards: <ul style="list-style-type: none"> • International Organization of securities Commissions (IOSCO) - Applied to SIBL licensees • Offshore Group of Collective Investment Schemes Supervisors (OGCISS)

REGULATION AND SUPERVISION

The Banking Supervision, Fiduciary Services, Insurance, and Investments and Securities divisions (collectively referred to as the supervisory divisions) are responsible for processing, and making recommendations on, applications for licences and other relevant authorisations for the provision of those financial services falling within their sectors. They are also responsible for the ongoing supervision of licensees/registrants, and make recommendations for enhancements to the supervisory regime where appropriate.

Supervision of licensees is carried out off-site and on-site. Off-site supervision is continuous, involving the analysis of quarterly prudential returns and annual audited statements, supplemented with prudential meetings. On-site supervision involves limited scope and full-scope inspections both in the Cayman Islands and overseas. The objectives of the inspection process are to understand the licensee's business activities and operating environment, to detect problems of compliance with the relevant laws and/or regulations, and to gather information on matters identified as requiring policy considerations.

REGULATORY DEVELOPMENTS

RULES, GUIDELINES AND POLICIES

The Policy and Development Division spearheads the development, documentation and issuing of guidance for the financial industry. The division is responsible for researching industry and regulatory topics, for drafting policy and for co-ordinating the development of instruments applicable to, and for the benefit of, financial services providers. It works in conjunction with the supervisory divisions, the Compliance Division and in consultation with industry.

The Authority issued four rules, five statements of guidance (SOGs), two regulatory policies and two regulatory procedures during the year under review. These measures are listed in Table 14 and can be viewed in their entirety on the CIMA website⁹. An update to the Regulatory Handbook - Volume 110 was issued in June 2008.

At the end of the financial year, a draft regulatory policy on the Licensing of Banks had gone through industry consultation.

⁹ Rules and SOGs can be viewed at: <http://www.cimoney.com.ky/section/regulatoryframework/sub/default.aspx?section=RSGP&tid=785>. Policies and procedures can be viewed in the Regulatory Framework/ Regulatory Handbook section of the website at: <http://www.cimoney.com.ky/section/regulatoryframework/sub/default.aspx?section=PD&tid=71>

¹⁰ See link to Regulatory Handbook at note 13 above.

Table 14: List of Regulatory Measures Issued in 2007-2008

When Issued	Type of Standard	Title	Description
All Licensees			
Nov 2007	Regulatory Procedure	Procedure – Assessing Fitness and Propriety	This procedure is followed by the Authority to assess the fitness and propriety of persons who have applied to act for or are existing directors, operators, senior officers, general partners, promoters, insurance managers or shareholders of licensed entities (“directors and senior officers”).
May 2008	Regulatory Procedure (Revision)	Procedure - Dealing with Requests for Assistance from Overseas Regulatory Authority (ORA)	This procedure is followed by the Authority when dealing with requests for assistance from overseas regulators.
Banking			
May 2008	Rule	Rule - Operational Risk Management for Banks	This rule applies to all banks regulated by the Authority under the Banks and Trust Companies Law (2007 Revision). It stipulates that banks must “establish, implement and maintain strategies, policies and processes to assess, identify, monitor and mitigate operational risk that are appropriate for the size, complexity and nature of the bank’s activities.” Each bank’s board of directors must approve, oversee and periodically review these measures.
May 2008	SOG	SOG - Operational Risk Management for Banks	This SOG offers guidance to banks on their obligations set out in the Rule on Operational Risk Management for banks (see above). It also provides guidance on the “key elements for the implementation of an effective and sound operational risk management framework.” Areas covered are: risk management identification and assessment; risk management monitoring and reporting; risk management - control and/or mitigation; risk culture; contingency and business continuity plans and outsourcing.
Fiduciary Services			
March 2008	SOG	SOG – Professional Indemnity Insurance – Trust Companies	The SOG provides holders of trust licences with guidance on meeting the legal requirement to have adequate professional indemnity insurance, or other appropriate arrangements to cover risks in respect of their trust business. The requirement is outlined in section 15(2) of the Banks and Trust Companies Law (2007 Revision). The SOG sets out the minimum criteria trust companies should follow when obtaining and/or maintaining professional indemnity insurance or other arrangements to cover similar risks.

May 2008	SOG	SOG – Internal Audit – Unrestricted Trust Companies	This SOG provides guidance on the internal audit functions that are required by section 3.6 of the SOG on Corporate Governance. It also presents a standard of best practice to licensed trust companies for the implementation of an effective and sound internal audit function. Among the areas covered are: scope of an internal audit function; permanent function - continuity; independent function; impartiality; audit charter; professional competence; scope of activity; and functioning of internal audit.
Insurance			
July 2007	Regulatory Policy	Policy – Recognition and Approval of an Actuary	To set out the criteria that the Authority will use for determining whether to recognise or approve an actuary.
Nov 2007	Regulatory Policy (Revision)	Policy – Approval of Trusts	Provides for policyholder protection for Cayman domestic business, in section 7 (1) of the Insurance Law.
May 2008	SOG (Revision)	SOG - Reinsurance Arrangements – Insurance Companies	This SOG, originally issued in 2003, now applies to all licensed insurers and not only Class A as obtained prior to the revision. It sets out the elements that should be contained in a licensed insurer's strategy to mitigate and diversify risks. This includes the purchase of reinsurance protection to ensure reinsurance arrangements are in place to cover an appropriate level of the insurer's liability. It also provides guidance on reinsurance strategy and how this should be implemented.
August 2007	SOG (Revision)	SOG – Internal Controls – Insurance	To provide guidance on the requirement imposed on licensees by the Rule on Internal Controls.
Investments & Securities			
April 2008	Rule	Rule - Content of Offering Documents- Licensed Funds	The Rule on the Contents of Offering Documents stipulates that a fund's offering document describe the fund's equity interests in all material respects. Additionally, the document must contain such other information as is necessary to enable a prospective investor to make an informed decision as to whether or not to subscribe for or purchase the fund's equity interest. It strengthens the Mutual Funds Law requirements by setting out the minimum information that must be included in an offering document for a licensed fund.
April 2008	Rule	Rule - Calculation of Asset Values	Stipulates that licensees must now also establish, implement and maintain a net asset value (NAV) calculation policy and must outline the scope of such a policy. This rule mandates the policy be "fair, reliable, of high quality and verifiable".
April 2008	Rule	Rule - Segregation of Assets for Licensed Funds	Calls for a fund's portfolio (i.e., all financial assets and liabilities) to be segregated and accounted for separately from any assets of any service provider. Also, licensed funds must ensure that service providers do not use the portfolio to finance their own or any other operations in any way.

OTHER REGULATORY DEVELOPMENTS

AUTHORITY-WIDE

Amendments to the Monetary Authority Law

Amendments to the Monetary Authority Law were enacted in February 2008 to facilitate the sharing of information between CIMA and foreign regulators. The amendment clarifies and extends CIMA's powers of disclosure of information to other regulatory authorities in response to requests for assistance from these authorities.

The amendment to section 50 of the Monetary Authority Law removes the distinction between routine and non-routine requests and the corresponding referrals to the Attorney General and the Financial Secretary. Previously, disclosure of information by the Authority in the context of non-routine requests was only permitted on the advice of the Attorney General or Financial Secretary.

The amendment also enables the Monetary Authority to consent to the use of information provided pursuant to a regulatory request for assistance in certain criminal investigations or proceedings. Prior to the amendment, the information provided to the foreign regulator could not be used in a criminal investigation without the approval of the Financial Secretary or Attorney General.

Responding to the International Financial Crisis

As the fall-out from the US sub-prime mortgage crash continued to spread, particularly in the latter part of the financial year, CIMA continued to closely monitor the potential impact on Cayman's financial industry. At the end of the fiscal year the Authority was preparing for its annual Management and Board Strategic Sessions to be held in July and September, respectively, which would examine, among other topics, the sub-prime crisis and whether it called for a change in the regulatory approach. Out of those discussions it was agreed that the Authority would, during the 2008-09 fiscal year, review the standards it has established for industry, including those on liquidity, risk management, valuation, transparency, failure resolution mechanisms, supervisory practices.

BANKING

Basel II

During the period, CIMA announced and subsequently commenced the process towards implementing the new Basel II¹¹ framework in the Cayman Islands between 2010 and 2012. The first phase of the programme, it was indicated, would focus on requiring Cayman-incorporated banks to put in place the standardised approaches under Pillar 1 by the end of 2010, with a staged implementation of Pillars 2 and 3 between 2010 and 2012. Further consideration will be given to the more advanced approaches thereafter.

By June, CIMA had engaged a Basel II Project Manager on a consultancy basis and a Basel II Implementation Road Map was developed to guide the timely roll out the project.

Revision of Risk Assessment Matrix

Following the completion of its licensee risk-rating exercise during the 2006-07 financial year, the Banking Supervision Division revised the risk assessment matrix during 2007-08. The new matrix is more tailored to the risk areas specific to banks and takes into consideration the model used by regulators in other countries including Canada (OSFI) and the UK (FSA). It takes into account not just risk but also risk-management controls, and facilitates evaluation of liquidity-, market-, operational-, credit- and counterparty-associated risks. Analysts are now using the new model to conduct revised risk assessments on their portfolios of banks.

¹¹ Basel II is a new set of standards for establishing minimum capital requirements for banking organizations. It was developed by the Basel Committee on Banking Supervision, a group of central banks and bank supervisory authorities in the G10 (Group of 10 Industrialised Countries). Basel II takes into account innovations in banking markets, risk management and banks' internal processes since the first capital framework, commonly known as Basel I or the Basel Concordat, was introduced in 1988. Basel II is a more risk-sensitive approach to capital regulation. It is being implemented in G10 countries and a number of non-Basel member jurisdictions are also implementing Basel II as a requirement for banks operating in their jurisdiction.

AML/CFT Training for Money Services Providers

In recognition of the need for specialised training for money service practitioners and their sub-agents, CIMA staged a special AML/CFT training workshop to money service providers in the final quarter. The workshop was held over a three-day period with 89 participants, including eight from the Financial Crime Unit (FCU). All seven money service providers and their sub-agents participated, as well as the Cayman Islands Development Bank, the National Building Society of Cayman and the Financial Crime Unit (FCU). Local presenters were from CIMA, the Financial Reporting Authority and the FCU, with international presenters from the Office of Technical Assistance of the US Department of Treasury, which is the authority regulating this business in the United States.

FIDUCIARY

Controlled Subsidiaries

Subsequent to representation from industry the provisions within the Banks and Trust Companies Law (2007 Revision) that allowed controlled subsidiaries, as defined by section 2 of the law, failed to achieve the intended objective, the Government made amendments in order to expand the scope of controlled subsidiaries to make them commercially suitable. The amendments were contained in the Banks and Trust Companies (Amendment) Bill 2008, which was passed by the Legislative Assembly on 30 June 2008.

The Authority had formalised registration procedures and developed forms for controlled subsidiaries during the previous reporting period but had received only one application for registration of a controlled subsidiary, which later de-registered. It is anticipated that the amendment to the law will generate renewed interest from industry in forming these structures.

Private Trust Companies Regime

The Banks and Trust Companies (Amendment) Bill 2008, which was passed by the Legislative Assembly on 30 June 2008, also allows for special regimes to be prescribed via regulations. A special regime allowing for private trust companies to be registered by CIMA rather than licensed was subsequently introduced by way of the Private Trust Company Regulations, 2008.

The introduction of the private trust companies regime followed discussions between Government and the Society of Trust and Estate Practitioners (STEP) on Cayman's existing regulatory regime for private trust companies and its suitability in facilitating the continued growth and development of the sector and in maintaining Cayman's competitiveness in this area. The discussions were prompted by recent regulatory changes in other jurisdictions and the apparent trend towards increased demand for private trust company formation in this jurisdiction.

Amendment to Biannual Reporting Form

The Fiduciary Services Division, in conjunction with the Policy and Banking Supervision divisions, progressed revisions to the biannual reporting form during the year. The form, a revision of the existing biannual form for licensees under the Companies Management Law, is intended to extend to trust companies licensed under the Banks and Trust Companies Law, including those that hold bank licences. It seeks to capture statistical and regulatory information thought necessary to enhance the regulation of trust and corporate services licensees. Revisions to the form had been first drafted in the previous year. That draft underwent pre-consultation via a sample of members of the trust and companies management industries and was revised in light of comments received. At the end of the fiscal year the new draft was still under CIMA's consideration.

INSURANCE

Amendments to the Insurance Law

The Insurance Law (2007 Revision) was gazetted in July 2007. This consolidated the previous version of the law and regulations. The Insurance (Amendment) Law, 2007 was passed in September 2007, its main object being to repeal

and replace that portion of the schedule in the Insurance Law (2007 Revision), which was inadvertently omitted. Additionally, the amendment validated the collection of any annual licence fees that may have been paid in respect of the omitted portion. Finally, it amended the deadline for the section 7 provisions under the Insurance Law (2007 Revision), which stipulate that the funds that approved external insurers are required to keep must be maintained under a CIMA-approved trust arrangement and such funds must only be used to discharge the insurer's obligations in respect of its Cayman Islands business.

In June 2008, The Insurance Law (2008) Revision was gazetted, consolidating the Insurance Law (2007 Revision) and the Insurance (Amendment) Law, 2007.

INVESTMENTS AND SECURITIES

E-Reporting

On 29 March 2007, CIMA officially launched electronic reporting for funds, accepting electronic submission of funds' audited accounts along with the Funds Annual Return (FAR). To enhance the overall efficiency of the e-reporting system, staff from the Investments and Securities and Information Systems divisions formed an internal E-Reporting Working Group in January 2008. The group was charged with the review and resolution of all problems encountered with the FAR, statistical analysis, and future enhancements to the FAR and the broader E-reporting system.

Using data gathered from the FARs, the Investments and Securities Division created the inaugural edition of the Investments Statistical Digest, which provides aggregate statistics on the financial position, structure, investment strategies, subscription activity, fund administration and investment management services of Cayman Islands-regulated funds. The digest was released in June.

Mutual Funds Law Amendment

The Legislative Assembly passed the Mutual Funds (Amendment) Law, 2008 on 30 June 2008. The law amends section 16(c) of the Mutual Funds Law (2007). The specific section reverts to the old wording of the Mutual Funds Law (2003 Revision) where licensed fund administrators' responsibilities were limited to 'administered funds' only.

COMPLIANCE & ENFORCEMENT

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

DUE DILIGENCE

In carrying out due diligence, the Authority is guided by its Guidelines - Fitness and Propriety¹² and Procedure – Assessing Fitness and Propriety¹³. The Compliance Division, which is tasked with conducting due diligence on applicants that the regulatory divisions refer to it, received 170 such applications during the 2007-08 fiscal year. This compares to 211 during 2006-07. The breakdown by division is shown in Table 15

Table 15: Due Diligence Applications Referred to the Compliance Division for 2007-08, with 2006-07 comparison

	Banking	Fiduciary	Insurance	Investments	Other	Total
Applications as at 30 June 2008:	16	102	7	45	0	170
Applications as at 30 June 2007:	30	112	8	60	1	211

ENFORCEMENT

CIMA's Enforcement Manual¹⁴ describes the policies, procedures and tools for the exercise of its enforcement powers in the event of non-compliance with the regulatory laws. The manual includes a ladder of compliance detailing the steps the Authority will follow in the event of non-compliance. Where appropriate, CIMA will work with the licensee or registrant in an attempt to resolve regulatory issues prior to the exercise of enforcement action. The Authority took nine formal enforcement actions during 2007-08, compared to seven in 2006-07; eight on behalf of the Investments and Securities Division (ISD) and one on behalf of the Insurance Division. These comprised eight revocations/cancellations (one for Insurance; seven for ISD) and one winding-up petition (for ISD).

Table 16: Formal Enforcement Actions Taken by CIMA's Compliance Division for 2007-2008:

Name of Entity	Enforcement Action Taken	Effective Date	Type of Authorisation Held
GIAMO Fund	Registration Cancelled	August 31, 2007	Registered Fund
GIAMO Fund	Official Liquidation	August 31, 2007	Registered Fund

¹² Available online at: http://www.cimoney.com/ky/uploadedFiles/Regulatory_Framework/Policy_and_Development/Policies,_Guidelines_and_Procedures/General/GuidelinesFitnessAndPropriety.pdf

¹³ Available online at: http://www.cimoney.com/ky/uploadedFiles/Regulatory_Framework/Policy_and_Development/Regulatory_Handbook/RH_Appendices%20I%20%2015Mar2006%20EC%20.pdf

¹⁴ Available online at: http://www.cimoney.com/ky/uploadedFiles/Regulatory_Framework/Policy_and_Development/Regulatory_Handbook/EnforcementManualJune%2006.pdf

Skilled Nursing Indemnity Ltd	Revocation	October 10, 2007	Unrestricted Class B Insurance Licence
Nebo Offshore Master Fund Ltd	Registration Cancelled	April 30, 2008	Registered Fund
Nebo Offshore Fund Ltd	Registration Cancelled	April 30, 2008	Registered Fund
Arista High Technology Growth Fund	Registration Cancelled	April 30, 2008	Registered Fund
Arista Capital Growth Fund Ltd	Registration Cancelled	April 30, 2008	Registered Fund
Veco High Yield Fund Ltd	Registration Cancelled	June 30, 2008	Registered Fund
Veco Capital Growth Fund Ltd	Registration Cancelled	June 30, 2008	Registered Fund

LITIGATION

The Legal Division conducts enforcement and cooperative action involving litigation, with the Compliance Division's assistance. During the 2007-08 fiscal year, the following legal actions were taken:

- GIAMO Fund - A petition was presented to the Grand Court for the winding up of the GIAMO Fund on 31 August 2007 and was granted.
- Dyoll - CIMA sought and received directions from the Grand Court regarding the handing over of the proceedings of the letter of credit to the joint liquidators of Dyoll. The relevant funds have since been handed over.
- SEC Examination - Counsel from the US Securities and Exchange Commission conducted the examination under oath of a local protector of various overseas trust companies on 23 October 2007, following the issue of directions under section 34(9) of the Monetary Authority Law by CIMA. One of CIMA's Legal Counsels was present and supervised the proceedings, which took place at a local law firm.
- Grand Island Funds – Representatives from CIMA's Compliance, Legal and Investments and Securities divisions, as well as the Managing Director, were involved in discussions with the Joint Voluntary Liquidators appointed in relation to the liquidation of Grand Island Funds. CIMA voiced its preference for court supervision of the winding-up of the funds and a petition for this was filed in the Courts and was heard on 21 July 2008. CIMA attended the hearing at which court supervision was granted.

OTHER COMPLIANCE-RELATED MATTERS

As part of its mandate to ensure the proper regulation of Cayman's financial services industry, and promote and enhance consumer protection, CIMA investigated complaints regarding potentially harmful financial activities and subsequently issued notices on 12 June 2008 warning the public about high-yield investment schemes, advance-fee frauds, and unlicensed persons conducting money services.¹⁵

Also in keeping with its mandate to protect the jurisdiction from individuals or entities seeking to reap illegal benefit by false association with the Cayman Islands, the Compliance Division has continued updating a list of websites which give

Cayman addresses for various businesses which are not registered or licensed in the Cayman Islands.¹⁶

¹⁵ These notices can be accessed on CIMA's website via the following links: CIMA Investment Schemes Warning: 'If it sounds too good to be true it probably is'; CIMA issues Warning regarding Advance-Fee Frauds; Money-Services Operators must be Licensed

¹⁶ The complete list can be viewed via the following link: Websites With Cayman Addresses Not Registered Nor Licensed in the Cayman Islands

EXECUTION OF FUNCTIONS: COOPERATIVE & ADVISORY

CROSS-BORDER COOPERATION

The Monetary Authority Law (2008 Revision) (MAL) lists the provision of assistance to overseas regulatory authorities as one of the principal functions of the Authority. Such international cooperation takes place through the exchange of information, as provided for in the MAL and facilitated through memoranda of understanding (MOUs), as well as through the Authority's active participation in international forums.

MEMORANDA OF UNDERSTANDING

MOUs and similar agreements establish a framework for mutual assistance and cooperation by 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.¹⁷

During 2007-08, CIMA added three MOUs to the growing list of overseas regulators with whom it has formal information-exchange agreements to facilitate cross-border financial services supervision.

On 31 January 2008, its agreement with the Office of the Insurance Commissioner (OIC), Washington State, U.S.A., took effect, while a similar arrangement with the Superintendencia de Entidades Financieras y Cambiarias del Banco Central de la Republica Argentina (Central Bank of Argentina) became official on 13 February 2008. On 21 February 2008, the Authority also sealed an MOU with the United

Table 17: International Information Exchange and Cooperation Agreements in Effect as at 30 June 2008

Title	Date
Memorandum of Understanding - Financial Services Authority UK	21-Feb-2008
Memorandum of Understanding - Superintendencia de Entidades Financieras y Cambiarias del Banco Central de la Republica Argentina	13-Feb-2008
Memorandum of Understanding - Office of Insurance Commissioner of the State of Washington	31-Jan-2008
Memorandum of Understanding - Jersey Financial Services Commission	21-Aug-2006
Memorandum of Understanding - Office of the Superintendent of Financial Institutions Canada	16-May-2006
Memorandum of Understanding - Banco Central Do Brazil	07-Mar-2006
Undertaking for Sharing of Information with the US Commodity Futures Trading Commission	11-Jan-2006
Memorandum of Understanding - Isle of Man Financial Supervision Commission	30-Jun-2005
Memorandum of Understanding - Bermuda Monetary Authority	30-Jun-2005
Undertaking - US Securities and Exchange Commission	23-May-2005
Memorandum of Understanding - Bank of Jamaica	10-Oct-2003
Memorandum of Understanding - Superintendency of Banks of the Republic of Panama	31-May-2004
Multilateral Memorandum of Understanding - The Regional Authorities for the Exchange of Information and Co-operation and Consultation	30-Nov-2004

¹⁷ <http://www.cimoney.com.ky/section/regulatoryframework/default.aspx?id=150>

Kingdom's Financial Services Authority (FSA), the UK's national regulator of financial services and markets.

Meanwhile, the Legal Division continued negotiations with Brazil's securities regulator, CVM, regarding an MOU or similar agreement between CIMA and CVM.

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 Assistance from an Overseas Regulatory Authority (ORA)¹⁸ sets out the Authority's approach in dealing with these requests. The process includes reviewing and assessing the requests and drafting directions to persons who have information that will assist the ORA in performing its functions.

The Authority received and processed 163 requests for assistance from ORAs, up from 156 during the previous financial year.

INTERNATIONAL INITIATIVES

International Organization of Securities Commissions (IOSCO) - During 2007-08, CIMA, the Cayman Islands Government and IOSCO continued dialogue on international cooperation issues as a result of CIMA's application for membership in IOSCO. One of the last remaining issues for IOSCO was whether the Monetary Authority Law (MAL) adequately allowed for assistance to be provided to other securities regulators. In December 2007, the Legislative Assembly passed amendments to the MAL to clarify and extend CIMA's powers of disclosure of information to other regulatory authorities in response to requests for assistance from these authorities. (See page 29, "Amendments to the Monetary Authority Law.") The Authority then resubmitted its membership application and at 30 June 2008 was awaiting IOSCO's decision.

Caribbean Financial Action Task Force Mutual Evaluation of the Cayman Islands

The Caribbean Financial Action Task Force (CFATF) third round mutual evaluation of the Cayman Islands' anti-money laundering (AML)/countering the financing of terrorism (CFT) regime was conducted by means of a detailed questionnaire and an on-site visit in the Cayman Islands in June of 2007. Following the visit, CIMA was integrally involved in the preparation of the response to the draft CFATF Mutual Evaluation Report (MER) on the Cayman Islands. CIMA continued to be involved with the CFATF in the post-assessment process and senior staff formed part of the Cayman Islands delegation that attended and defended the MER at the CFATF Plenary in Costa Rica in November.

The resulting mutual evaluation report, published on 23rd November 2007, found the following:

In terms of the overall AML/CFT compliance culture prevailing in the Cayman Islands, it was evident to the assessors that the country in general and the financial service providers in particular all have a keen sense of awareness of AML/CFT issues. Additionally the financial service providers displayed a healthy compliance culture based on an appreciation of the reputation risk of AML/CFT for the jurisdiction. The strong compliance culture was also demonstrated by the financial service providers' proactive co-operation with the authorities in implementing AML/CFT measures (Par. 9).

The evaluation report rated Cayman "compliant" or "largely compliant" with 38 of the 40 Financial Action Task Force recommendations and nine special recommendations (FATF 40+9). More specifically, the ratings for the Cayman Islands were: 14 "compliant," 24 "largely compliant," 10 and "partly compliant." The one area in which the jurisdiction received a non-compliant rating related to correspondent banking. However, the report acknowledged that correspondent activity was limited. Subsequent to the end of the reporting period, the issue was addressed in amendments to the Guidance Notes on the Prevention and Detection of Money Laundering in the Cayman Islands.

Cayman's ratings were among the better ones in this round of CFATF mutual assessments of its member jurisdictions'

¹⁸ On the CIMA website: http://www.cimoney.com.ky/pages/aboutus/RHA_Revised_ORA_Procedures.pdf

compliance with the Financial Action Task Force’s 40 Anti-money Laundering Recommendations and Nine Special Recommendations to Combat Terrorist Financing, and compares very favourably with the FATF/IMF assessments of many leading FATF countries. At the end of the year work was in progress to address those areas in which did not receive ‘compliant’ ratings.

CIMA Participation in CFATF BVI Evaluation – One of CIMA’s legal counsel participated as the legal expert in the CFATF team of assessors that carried out the Mutual Evaluation Assessment of the British Virgin Islands in February 2008.

International Association of Insurance Supervisors - CIMA began assisting the International Association of Insurance Supervisors (IAIS) in validating applications from insurance regulators who wish to sign up to a new IAIS Multilateral Memorandum of Understanding (MMOU). The MMOU establishes a formal basis for cooperation and information exchange between signatory authorities regarding the supervision of insurance companies where cross-border issues arise. The IAIS’ objective in developing the MMOU was to provide an additional tool for supervisors in carrying out their regulatory role. The Head of Insurance is serving as lead validator for one of the MMOU applications under consideration by the IAIS. He was also appointed a member of the validation teams for the applications of Australia, the British Virgin Islands and the United Kingdom.

Insurance Core Principles Review - In 2007 the IAIS embarked on a review of the Insurance Core Principles (ICPs) with the aim of ensuring they remain appropriate, comprehensive and current. CIMA, through the Deputy Head of Insurance, is a member of the ICP Task Force. The group’s mandate is to spearhead the review of the ICPs and present the revised ICPs and methodology at the IAIS general meeting in 2009. CIMA agreed to head the group reviewing the ICPs on licensing, suitability of persons, changes in control and portfolio transfers, corporate governance, internal control, fraud, and AML.

LOCAL COOPERATION

MONEY LAUNDERING REPORTING

The Head of Compliance is the Monetary Authority’s Money Laundering Reporting Officer (MLRO) under the Proceeds of Criminal Conduct Law (2005 Revision). 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 (2003 Revision).

The MLRO filed six suspicious activity reports (SARs) with the Financial Reporting Authority (FRA) during 2007-08, the same number of SARs filed during 2006-07. The FRA made eight onward disclosures to the Authority pursuant to the MOU between the FRA and CIMA.

LOCAL MEMORANDA OF UNDERSTANDING

One local agreement was brought into effect during the 2007-08 fiscal year: a Protocol with the Financial Services Council in April 2008.

Table 18: Local Information Exchange and Cooperation Agreements in Effect as at 30 June 2008

Title	Date
Protocol with the Financial Services Council	Apr-08
Protocol with Cayman Islands Society of Professional Accountants	May-07
MOU with the Health Insurance Commission	Sep-06
MOU with the Financial Reporting Authority	Dec-04

ADVISORY ACTIVITY

The Monetary Authority Law (2004 Revision) requires CIMA to advise the Government on monetary, regulatory and cooperative matters, and to consult with the local private sector on proposed measures. 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 written reports and submissions to the Financial Secretary and the Cabinet as well as through meetings with the Financial Secretary and the Cabinet.

CIMA consults with the private sector formally and informally as part of the development process for all rules, guidance, policies and financial services sector legislation. The measures implemented or in development during 2007-08 are covered in the Regulatory Developments section of this report, beginning on page 27.

OPERATIONAL SUPPORT & ADMINISTRATION

HUMAN RESOURCE MANAGEMENT & DEVELOPMENT

STAFFING AND RECRUITMENT

The Authority's staff complement rose from 116 at 30 June 2007 to 122 at 30 June 2008. Senior recruits during the year were the new Head of Banking, the new Human Resources Manager and the Basel II Consultant. Table 19 shows the breakdown of staff by division. Information on actual to budgeted staff, percentage staff turnover and average length of service is provided under 'Human Capital Measures' in the Ownership Performance Targets section of this report.

Table 19: Staff numbers by division at 30 June 2008

Division	Actual staff numbers at 30 June 2008
Banking	21
Compliance	8
Currency Operations	5
Fiduciary Services	8
Insurance	14
Investments and Securities	25
Legal	7
Managing Director's Office	4
Operations (Accounts, Information Systems & Human Resources)	23
Policy & Development	7
TOTAL	122

JOB EVALUATION EXERCISE

As part of its continuing focus on attracting and retaining qualified staff, the Authority began a comprehensive job evaluation exercise in April 2008, with the assistance of consultants Deloitte. The project encompassed an examination of CIMA's structure and compensation scheme to determine their effectiveness and efficiency. The review also covered an evaluation of all jobs within the organisation according to criteria including skills sets required and the relative value of the jobs, market pricing of those jobs, and review of the salary structure. The aim is to ensure that every job is appropriately valued and that salaries are locally and internationally competitive. Deloitte worked closely with a Job Evaluation Committee comprising staff from a cross section of divisions and positions. The consultants' final report was scheduled to be submitted in September 2008.

ACCOMMODATION

With the growth in staff numbers in recent years (by roughly 33 percent since June 2004), the Authority had outgrown its physical space, which, in turn, constrained the number of new persons it was able to accommodate. During 2007-08, CIMA was able to lease an additional 6,052 square feet of office space, which is enabling it to expand staff numbers.

RECRUITMENT PROCESS

The Human Resources Unit redesigned CIMA's recruitment process to ensure that prospective employees' competencies and objectives are well matched to the Authority and to the positions for which they are being assessed. These changes were also designed to attract suitable candidates and to improve retention rates.

HR UNIT STRATEGIC PLAN & TRAINING /PERFORMANCE MANAGEMENT REVIEW

During the year, the Human Resources Unit reviewed and revised its role and responsibilities to better assist the organisation's growth and development. It crafted a set of team values and a customer service commitment to guide the development and delivery of new services, and increased its staff to meet the demand for expanded and improved services.

The unit also did an analysis of CIMA's training and performance management initiatives and completed updates of job descriptions, and the performance appraisal tool. The unit anticipates further revisions to implement the recommendations flowing from the job evaluation process.

INFORMATION SYSTEMS

The major information and communications technology projects carried out during 2007-08 are outlined below.

STRATEGIC DEVELOPMENT

In the prior year, CIMA had decided to adopt the internationally-accepted COBIT information technology governance framework in order to ensure alignment between its IT and business goals. During 2007-08, CIMA awarded Deloitte the contract for implementing the framework. Work included the holding of awareness and information-gathering sessions with CIMA's directors and key staff, analysis of current business and IT processes, and identifying and prioritising the desired COBIT functions. This culminated in the drafting, and management approval, of the COBIT Vision & Implementation Roadmap document. At the same time, CIMA's Information Systems Unit (IS) started work on the development of an IT strategic plan.

CIISMA4

IS continued the development and design of the technology replacement for CIISMA, the Authority's licensee/registrant database system. This included developing and user-testing a new fee-receipting module for the Accounts Unit.

UPGRADES/ENHANCEMENTS

The unit assisted the Currency Division to upgrade its SWIFTNet application, used for the settlement of currency transactions. This was essential for the continued use of the SWIFT inter-bank financial telecommunication system as the system was going through a worldwide upgrade.

IS implemented enhancements to the E-reporting system for funds, significantly improving the ease-of-use of the system, and subsequently assisted the Investments and Securities Division with the release of the Investments Statistical Digest, which resulted from data collected through E-reporting.

IS also released and subsequently upgraded a new data import tool allowing the Policy and Development Division to transfer data from CIMA's Locational Banking Survey to the Bank for International Settlements (BIS) in the BIS' new electronic data exchange format.

Other projects included assisting the Human Resources Unit with the redevelopment of the staff performance appraisal system; the installation of equipment for the staff training room; the installation of additional telephone lines for the Authority; upgrading/replacement of numerous staff computers, and enhancing CIMA's IT security infrastructure. IS also coordinated the updating of the Authority's business recovery plans and the maintenance and testing of the crisis management and business recovery systems and equipment.

PUBLIC RELATIONS

The Monetary Authority endeavours to maintain and enhance relationships with its stakeholders and other groups through ongoing provision of information and through dialogue, consultation and collaboration as appropriate. Public relations activities are co-ordinated through the Public Relations unit of the Managing Director's Office.

10TH ANNIVERSARY

A major initiative during the year was the planning and coordination of CIMA's 10th anniversary observances in November 2007. Events included a church service, an industry stakeholder recognition event, staff awards dinner, a charity walk, the launching of a tertiary education scholarship and an anniversary numismatic coin issue, presentations by CIMA staff on the Cayman Islands currency to primary and middle schools, and reading sessions at schools. CIMA's role and work were also publicised through media appearances and a newspaper supplement.

The aims of the celebrations were to raise awareness of CIMA, its people, and its contribution to the development of Cayman's financial industry, and to reach out to stakeholders and the wider community. Feedback indicates that the initiatives were well-received both internally and externally, with the currency presentations being particularly useful in raising awareness among students, their teachers and some of their parents about this aspect of CIMA's work. The Authority donated the funds raised from its 10th Anniversary Charity Walk to the International College of the Cayman Islands (ICCI) for the purchase of books for ICCI's library, which had been destroyed by Hurricane Ivan in 2004.

WEBSITE

The redevelopment of the CIMA internet site got underway during the year following an assessment and the acceptance of recommendations for the short- and longer-term development of the site. In recognition of the importance of the website as one of the main tools for providing access to information on the Authority, the redevelopment aims to make the website more client-focussed, easier to navigate and to give greater prominence to some of the previously underemphasised aspects of CIMA's work. The new site is being developed with assistance of an external web and business development firm and is to be launched in the 08-09 fiscal year.

ROUTINE WORK

Among its routine work, the unit produced and disseminated some 24 media releases; the quarterly issues of CIMA's newsletter, The Navigator, which is distributed to over 300 local and overseas recipients; the 2006-07 Year in Review; and quarterly reports to the Financial Secretary. It assisted the Investments and Securities Division in the production of the inaugural Investments Statistical Digest. Senior CIMA officials contributed articles, updates and messages at the request of several local and international publications and delivered over 17 speeches and presentations at local and overseas conferences, meetings and other functions. The unit also facilitated media interviews, and the provision of information and other assistance to local and overseas journalists, members of the public and government agencies. In

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

The major presentations delivered by CIMA officials, as well as the releases and publications mentioned are available in the “Media Centre” and “Publications” sections of CIMA’s website (www.cimoney.com.ky).

FREEDOM OF INFORMATION INITIATIVE

CIMA began preparations for the implementation of the Freedom of Information (FOI) Law, set to come into effect across the Cayman Islands Public Service in January 2009, with the hiring of an FOI Manager/Legal Counsel in April. The FOI Law gives members of the public a general right of access to government records and, once the law takes effect, the Information Manager will be the person receiving and processing FOI requests coming to CIMA.

Between April and June, the Information Manager’s activities focused on developing and implementing procedures and systems that CIMA will use to effectively handle applications under the FOI initiative and the National Archive and Public Records Law. This involved conducting awareness sessions for CIMA’s directors, management and staff; participating in training provided by the Government; conducting an organisational records survey, and developing an organisational file plan and policies on document creation.

FINANCIAL CONTROL

The Accounts Unit has responsibility for all financial matters relating to budget, annual licence 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 unit’s objectives are essentially created by the financial requirements of the organisation and its stakeholders and the resources available to it.

Revenue collected in the year ending June 2008 was \$63.4m, resulting in a favourable variance of \$6.4m above budget. There was some discussion between the Authority and the Portfolio of Finance, Treasury Department, regarding new payment methods, in particular on-line payments, which some of the larger licensees have been requesting the Authority to consider. It was determined that some changes would have to be made by both parties and also by the banks in order for this to be effectively implemented. The issue was still under consideration at the end of the year.

A surplus of CI\$3,777,946 for the 2006-07 financial year was paid over to the Government.

The Authority contracted consultant firm, Advisory Capital, to conduct a review of the guidelines for the investment of the currency reserves and of the investment performance benchmark. The consultants were requested to suggest any recommendations for change. This review is ongoing.

The Internal Audit’s final report on “Operational Review of Currency Division and Accounts Section” was accepted at the Authority’s January 2008 Board meeting and implementation of the recommendations is ongoing.

ACHIEVEMENT OF STRATEGIC GOALS

The Authority has set a number of strategic goals and objectives in order to fulfil its mission. It reviews these annually, adopts specific strategies and tactics, and translates these into non-routine projects. These, along with the routine responsibilities including the issue and cancellation of licences and authorisations and monitoring of regulated entities' compliance with the regulatory laws and rules, become the Authority's work programme for the year. The work programme is documented in the Authority's Look Forward Report and is published on the website.

The following outlines the goals, objectives, strategies, tactics and the main non-routine projects for 2007-08, with an indication of the year-end status of the projects.

GOAL 1:

To maintain a high-quality and effective regulatory environment to attract users and providers of financial services.

OBJECTIVE 1:

- To ensure that the laws and regulations and scope of supervision are in line with international standards that are appropriate for the Cayman Islands.

STRATEGIES

- Evaluate existing legislation and propose, as necessary, changes in relation to international standards relevant to the Cayman Islands financial industry.
- Identify, analyse and participate in the processes which influence the setting of relevant international standards.
- Maintain the process of review in order to ensure that the supervisory process is competitive in comparison with other jurisdictions.

TACTICS

- Continue the establishment of relevant working parties chaired by a representative from the Management Committee ("MC") to evaluate the appropriateness of the Authority's supervisory process and identify possible shortcomings of own legislation through comparative studies of international standards and the laws, regulations and supervisory processes of other jurisdictions.
- Liaise with and advise the Cabinet, through the Financial Secretary or his designate, on foreseeable developments/trends in international regulatory standards.
- Advise the Cabinet, through the Financial Secretary or his designate, of proposals to amend or introduce legislation to address any deficiencies identified.

Projects on 2007-08 Non-routine Work Programme	Status at 30 June 2008
Develop procedure for reviewing and reporting on enforcement cases	Pending
Draft rule on operational risk management for banks	Issued May 2008
Review bank-licensing policy	Near completion (Approved by Board – Cabinet approval sought to withdraw the SOG on licensing that will be replaced with the Policy)

Complete Basel II impact study and assessment and continue process towards implementation	Impact Study completed. Implementation process underway (Consultant on board)
Prepare analysis/regulatory impact paper on regulation of banking /financial holding companies	Draft paper submitted to Board.. Recommendation to be made to Government
Complete consultation on, and issue, statements of guidance (SOGs) on internal audit for restricted trust companies	Completed. Issued May 2008
Draft statements of guidance on the establishment or acquisition of branches, subsidiaries, agencies and representative offices; physical presence requirements for corporate services providers, and on the Authority's procedures for assessing adequacy of resources	Pending
Develop SOGs for the insurance sector, in relation to solvency and capital adequacy for Class "A" insurers; proper handling of client money; approval of the use of derivatives by licensees	Pending
Draft regulations on solvency and assets, to prescribe solvency calculations and admissible assets for insurers, along with revised licence application forms	Drafts done. To be finalised.
Develop SOG setting out the responsibilities of a principal office of a mutual fund	Pending
Consultation and approval of rules on segregation and protection of client assets and valuation of assets & pricing & redemption of units for licensed mutual funds; and of rule on offering documents of regulated mutual funds	Rules Issued April 2008
Draft policy/procedure on circumstances in which CIMA will exercise its power to waive audits of regulated funds	Policy drafted. Subsequently approved by Board July 2008 and issued August 2008
Propose amendments to Monetary Authority Law to allow rules to be issued to all regulated entities	Proposal made to Government

OBJECTIVE 2:

- To assist overseas regulators in a manner consistent with Cayman Islands laws and appropriate international standards.

STRATEGIES

- Enhance international regulatory cooperation through the application of a clear and transparent process for providing assistance under the laws of the Cayman Islands.

TACTICS

- Continue to negotiate and devise with relevant parties memoranda of understanding (MOU) and other agreements that are congruent with Cayman laws.
- Continue to review and collate statistics concerning requests for assistance to be used for both overseas and domestic purposes.
- Enhance already established internal procedures and performance standards for responding to information requests.

Projects on 2007-08 Non-routine Work Programme	Status at 30 June 2008
Review the cross-border cooperation regime and the position in other jurisdictions	Done

OBJECTIVE 3:

- To be responsive to appropriate needs of stakeholders.

STRATEGIES

- Monitor the local and international markets in order to identify, understand and anticipate the needs of stakeholders both locally and internationally.
- Identify and implement, on an ongoing basis, mechanisms to meet stakeholders' needs appropriately and effectively.

TACTICS

- Continue to conduct regular meetings with stakeholders.
- Monitor developments in local and international markets.
- Conduct Cost Benefit Analysis in order to identify appropriate action.
- Advise the Government on actions needed.
- Develop relevant IT platforms to facilitate the efficient response to stakeholder needs.

Projects on 2007-08 Non-routine Work Programme	Status at 30 June 2008
Review the Guidance Notes on the Prevention and Detection of Money Laundering in the Cayman Islands (GN) to assess their effectiveness and cost-benefits with the aim of developing a more sophisticated risk-based approach	Pending
Review the Frequently Asked Questions (FAQs) section of the GN for accuracy, consistency and relevance	Pending
Complete Volume II of the Regulatory Handbook	Pending
Develop FAQs that provide key guidance and assistance to prospective and existing investors and consumers regarding regulation, consumer protection	Pending
Develop position paper on CIMA statistics, reviewing statistical data collected by CIMA from the financial industry and CIMA's role in data gathering and dissemination	Completed

GOAL 2:

To operate the Monetary Authority in the most efficient way possible.

OBJECTIVE 1:

- To secure and retain adequate financial resources in the fulfilment of the Monetary Authority's mandate.

STRATEGIES

- Identify the physical, technical (including information technology (IT) systems), financial and human resources needed to satisfy the Monetary Authority's mandate.

- Enhance dialogue with the Cabinet in order to ensure that it is fully aware of the resource needs of the Monetary Authority.
- Maintain appropriate systems and procedures to ensure the relevant guidance and benchmarking for effectiveness.

TACTICS

- Continue to monitor and evaluate the effectiveness of existing resources in meeting the agreed outputs of the Monetary Authority against pre-determined performance and efficiency indicators. Identify any shortfalls and/or inefficiencies in resource utilisation.
- Review, on an on-going basis agreed outputs.
- Seek to finalise the proposed MOU with the Portfolio of Finance so as to formalise the dialogue process with the Cabinet.

OBJECTIVE 2:

- To secure and retain appropriate staff to fulfil the Authority’s mandate at the least cost to the Authority.

STRATEGIES

- Ensure a first-tier learning organisation where hiring, training, promotion and rewards are based on merit.
- Continue to develop and foster a culture whereby employment relations and practices promote equality and fairness through transparent policies and procedures for recruitment, selection, training, development and shared knowledge.
- Provide an infrastructure that supports training and continued professional development as deemed appropriate.
- Ensure that salaries are competitive with the relevant markets.

TACTICS

- Continuously review the employee selection and interviewing process against the job analysis needs of the organisation and in accordance with labour and immigration laws.
- Ensure that positive work attitudes are recognised and rewarded and that sensitivity is demonstrated to bona fide employee needs (where possible and practical).
- Continue to evaluate the performance review process used in creating and executing a professional development plan for each employee; and conduct regular reviews of salaries and scales in relation to market in order to attract and retain high calibre staff.
- Strengthen the use of relevant technology to increase staff efficiency and the quality of output.
- Continuously encourage and facilitate the sharing of knowledge between employees and across divisions through the training and development function.

Projects on 2007-08 Non-routine Work Programme	Status at 30 June 2008
Review CIMA’s pay policy and conduct a salary rebuilding exercise	Pay policy reviewed.
Review CIMA’s staff handbook	In progress

OBJECTIVE 3:

- Establish and maintain appropriate physical and technical resources for optimum staff efficiency.
- Strategies:
 - Plan for adequate space and facilities for current and future staff.
 - Develop and monitor the implementation of an appropriate Strategic IT Plan.
- Tactics:

- Work closely with the Government in design of new finance complex building.
- Undertake task force review of IT and implement the “COBIT” IT governance framework.
- Strengthen the use of relevant technology to increase staff efficiency and the quality of output.

Projects on 2007-08 Non-routine Work Programme	Status at 30 June 2008
Begin implementation of the COBIT IT governance framework	Implementation underway
Continue review and upgrade of the Authority’s “CIISMA” information system.	Ongoing
Continue to provide input on CIMA’s accommodation requirements under the Government Office Accommodation Project	Ongoing

GOAL 3:

To preserve the value and integrity of the Cayman Islands’ currency.

OBJECTIVE 1:

- Maintain and safeguard adequate reserves.
- Strategy:
- Review of the Monetary Authority’s investment strategy on an on-going basis.
- Tactics:
- Continue periodic reviews of the Authority’s investment strategy.
- Continue to monitor adherence to the investment strategy by the fund managers and advise the Board on any deviations.
- Continue to monitor performance of the fund and the fund managers.

Projects on 2007-08 Non-routine Work Programme	Status at 30 June 2008
Review the level of reserves required to ensure continued statutory compliance.	In progress

OBJECTIVE 2:

- Deter counterfeiting.

STRATEGIES

- Educate and train Currency personnel and raise the awareness of the general public.
- Maintain cooperation with law enforcement and other relevant entities on initiatives to deter counterfeiting.

TACTICS

- Continue to provide and update training of Currency personnel in fraud and counterfeiting detection to ensure they are kept abreast of the latest trends.
- Continue a cooperative relationship with Financial Crime Unit.
- Educate the general public via website advisories, press releases and workshops.

OBJECTIVE 3:

- Provide adequate stock and facilities for the physical safeguarding of the currency.

STRATEGIES

- Ensure that the working environment is safe and conducive to an efficient operation.
- Ensure that stock levels are adequate to meet demand in all circumstances.

TACTICS

- Continue to work with the Government Office Accommodation Project Team to ensure that the specific requirements for the Authority are provided for in the new building.
- Advise the Cabinet on what constitutes appropriately secure facilities for the safeguarding of the currency.
- Continue to work towards implementation of an appropriate electronic vault management system.
- Strengthen print/mint ordering and inventory management strategy.

Projects on 2007-08 Non-routine Work Programme	Status at 30 June 2008
Implementation of vault management system	In progress (in discussion with service provider).
Redesign of banknotes	In progress

GOAL 4:

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

OBJECTIVE 1:

- Strengthen relations with regulatory counterparts, and all other stakeholders (the Government, the industry and the public).

STRATEGIES

- Maintain involvement in relevant international forums and coordination with local private sector organisations and Government bodies (e.g. the Secretariat) to address the regulatory aspects of international initiatives.
- Maintain contact with relevant regulatory counterparts to discuss topics of common interest and to promote the regulatory regime of the Cayman Islands.
- Identify and utilise opportunities to increase public understanding of the Authority through contact with stakeholder groups, monitoring of views, etc.
- Establish an on-going communication programme to educate the general public and specific target groups on the roles and responsibilities of the Monetary Authority, and their corresponding responsibilities as financial consumers.

TACTICS

- Continue to expand the number of appropriate forums that add value to the regulatory process; and continue to ensure that relationships are forged with the Cabinet/private sector and that appropriate information is disseminated.
- Conduct periodic meetings with relevant regulatory counterparts to discuss topics of common interest and to promote the regulatory regime of the Cayman Islands.
- Work with the Complaints Commissioner in ensuring that the Monetary Authority is cognizant of the opinions of the general public and how the Monetary Authority is perceived.
- Maintain responsiveness to requests for information and assistance from members of the public.
- Continue to utilise the Monetary Authority's website to disseminate information.

- Continue to publish regular features in local and international media to ensure the Monetary Authority maintains a high and positive profile locally and overseas.
- Continue to raise the understanding and profile of the Authority through speaking engagements, attendance at functions and through other forums.
- Continue to expand educational initiatives beyond local high school to other educational establishments both locally and overseas. Participate in careers fairs, information seminars, mentoring schemes.
- Enhance participation in international forums to inform the debate on the development of appropriate international standards.
- Continue to expand coordination with the Government, Financial Services Council, Secretariat, Stock Exchange, Cayman Islands Investment Bureau, Maritime Authority, General Registry, Health Insurance Commission, Superintendent of Pensions and Private Sector, on matters of common interest (e.g., legislation, regulation, promotion of Cayman, international representation, resource and intelligence sharing).
- Enhance international awareness and intelligence gathering through more vigorous and proactive monitoring of international developments.

Projects on 2007-08 Non-routine Work Programme	Status at 30 June 2008
Continue upgrade of CIMA's website	In progress
Continue to expand the publication of enforcement actions	Completed
Issue Volume II of the Regulatory Handbook	Pending
Continue regular meetings with industry associations	Completed
Continue to work to enhance relations with Government through regular meetings	Completed
Continue programme of visits to overseas regulatory bodies	Completed
Enhance data collection through the implementation of CIMA internal procedures for data processing and recording, and increase data dissemination	Ongoing
Continue implementation of an educational campaign to improve public understanding of CIMA and its role	Completed
Develop a marketing strategy for the numismatic programme	Pending
Increase awareness of CIMA through 10 th Anniversary celebrations	Completed

OBJECTIVE 2:

- Forge/enhance relationships with local and international media.

STRATEGIES

- Maintain responsiveness to media needs while identifying and utilising appropriate opportunities for proactive dialogue and information dissemination.
- Increase networking opportunities for Public Relations Executive, the Managing Director and other senior members of staff.

TACTICS

- Continue to ensure that the Monetary Authority's perspective is accurately conveyed through proactive dissemination of information, e.g., interviews and articles for leading journals and broadsheets; through the Authority's own publications and through briefing meetings, as appropriate, with local press and local associations.
- Maintain and expand coordination with communication personnel in Government and finance industry to respond to /create local and overseas media opportunities.
- Enhance utilisation of Authority's website and its related features to provide background and current information targeted to media.

Status at 30 June 2008

Ongoing

(Footnotes)

1 As promulgated by the Basel Committee on Banking Supervision

2 The working group comprised representatives of various offshore financial centres, the FATE, 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.

3 Issued by the International Association of Insurance Supervisors (www.iaisweb.org). The Cayman Islands is a charter member of this association.

4 www.ogis.net

ANNUAL FINANCIAL STATEMENTS

CAYMAN ISLANDS MONETARY AUTHORITY
30 JUNE 2008

Cayman Islands Monetary Authority
Financial Statements
30 June 2008

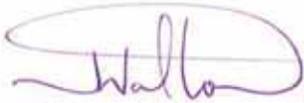
STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements have been prepared by the **Cayman Islands Monetary Authority** in accordance with the provisions of the Public Management and Finance Law, (2005 Revision). The financial statements comply with generally accepted accounting practice as defined in International Public Sector Accounting Standards and International Financial Reporting Standards.

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, (2005 Revision).

To the best of my knowledge the statements are:

- (a) complete and reliable;
- (b) fairly reflect the financial position as at 30 June 2008 and performance for the financial year ended 30 June 2008; and
- (c) comply with generally accepted accounting practice.



Deputy Chairman
Cayman Islands Monetary Authority

Date: 16 January 2009



Managing Director
Cayman Islands Monetary Authority

Date: 16 January 2009



The Cayman Islands Monetary Authority
CERTIFICATE OF THE AUDITOR GENERAL

*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 balance sheet as of 30 June 2008 and the related statements of income, changes in reserves and capital and cash flows for the year then ended as set out on pages 4 to 19 and in accordance with the Section 52 (3) of the Public Management and Finance Law (2005 Revision).

Management’s Responsibilities for the Financial Statements

Management is responsible for the preparation and fair representation 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 our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we 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 2008 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 (2008 Revision).



Dan Duguay MBA, FCGA
Auditor General

16 January 2009
Cayman Islands

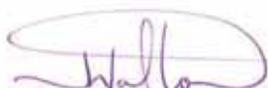
CAYMAN ISLANDS MONETARY AUTHORITY

BALANCE SHEET

AS AT 30 JUNE 2008
(Expressed in Cayman Islands Dollars)

	NOTE	30 JUNE 2008	30 JUNE 2007
		\$	\$
ASSETS			
Currency Reserve Assets			
Call Deposits	3b	3,086,014	2,262,278
Fixed Deposits	3b	1,495,132	1,444,095
Interest Receivable, Deposits		104,257	289,146
Short-Term Investments	3a	82,417,627	54,863,072
Long-Term Investments	3a	10,692,227	43,089,402
Stocks	6	2,021,876	1,763,694
<i>Total Currency Reserve Assets</i>		99,817,133	103,711,687
Operating Assets			
Current and Call Deposits	3b	9,769,830	536,932
Accounts Receivable	4	263,371	3,962,1322
Interest Receivable		3,033	0
Other Receivables and Prepayments		148,983	82,021
Fixed Assets	5	941,942	1,255,918
Retirement Benefit Assets	10	422,000	386,000
<i>Total Operating Assets</i>		11,549,159	6,223,003
TOTAL ASSETS		<u>111,366,292</u>	<u>109,934,690</u>
LIABILITIES			
Demand Liabilities, Currency in Circulation	7a	78,897,508	76,205,264
Due to the CI Government	9b	1,185,903	6,782,067
Other Liabilities and Payables	7b	1,198,528	1,302,842
<i>Total Liabilities</i>		81,281,939	84,290,173
RESERVES and CAPITAL			
General Reserve	9a	11,834,626	11,430,790
Currency Issue Reserve	9c	435,107	435,107
Capital Expenditures Reserve	9e	5,664,712	2,833,718
Operational Expenditures Reserve	9e	1,000,000	0
<i>Total Reserves</i>		18,934,445	14,699,615
Paid Up Capital	9d	11,149,908	10,944,902
<i>Total Reserves and Capital</i>		30,084,353	25,644,517
TOTAL LIABILITIES, RESERVES and CAPITAL		<u>111,366,292</u>	<u>109,934,690</u>

Signed on behalf of the Board on 16 January 2009



Joel Walton
Deputy Chairman
Cayman Islands Monetary Authority



Cindy Scotland
Managing Director
Cayman Islands Monetary Authority

CAYMAN ISLANDS MONETARY AUTHORITY

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2008
(Expressed in Cayman Islands Dollars)

	NOTE	2008	2007
		\$	\$
INCOME			
Output Income	13	13,918,135	12,451,342
Investment Income		4,510,530	5,555,153
Commission Income		582,636	731,505
Numismatic Income		323,371	94,765
Other Income		346	1,442
<i>Total Income</i>		19,335,018	18,834,207
OPERATING EXPENSES			
Salaries and Other Benefits		7,934,244	7,281,038
General and Administrative		2,170,648	1,872,831
Pension Contributions	10	691,903	671,245
Lease Rental	8	634,635	530,235
Depreciation	5	482,982	335,945
Staff Training and Recruitment		384,562	269,331
Professional Fees	13	339,167	615,429
Realised Loss on Investments		303,891	375,757
Conferences and Seminars		254,714	244,561
Directors Fees	13	225,000	225,000
Official Travel		175,872	271,787
Management and Custody Fees	3a	147,661	142,372
<i>Total Expenses</i>		13,745,279	12,835,531
NET INCOME		5,589,739	5,998,676

CAYMAN ISLANDS MONETARY AUTHORITY

STATEMENT OF CHANGES IN RESERVES AND CAPITAL

AS AT 30 JUNE 2008
(Expressed in Cayman Islands Dollars)

	2008					2007			
	General Reserve	Currency Issue Reserve	Paid-up Capital	Capital Expenditures Reserve	Operational Expenditures Reserve	General Reserve	Currency Issue Reserve	Paid-up Capital	Capital Expenditures Reserve
Balance at 1 July	\$11,430,790	\$435,107	\$10,944,902	\$2,833,718	0	\$10,583,760	\$446,593	\$9,725,020	\$2,615,900
Transfers in :									
From Net Income	5,589,739					5,998,676			
From General Reserve			0	3,000,000	1,000,000			525,000	848,700
Change in Retirement Benefit Assets			36,000					64,000	
Transfers out :									
To Paid-up Capital	0					(525,000)			
To Capital Expenditures Reserve	(3,000,000)					(848,700)			
To Operational Expenditures Reserve	(1,000,000)								
Contribution Payable to CI GOVT	(1,185,903)					(3,777,946)			
Cost of currency inventory issued		0					(11,486)		
Cost of Fixed Assets Purchased			169,006	(169,006)				630,882	(630,882)
Balance at 30 June	\$11,834,626	\$435,107	\$11,149,908	\$5,664,712	\$1,000,000	\$11,430,790	\$435,107	\$10,944,902	\$2,833,718

CAYMAN ISLANDS MONETARY AUTHORITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2008

(Expressed in Cayman Islands Dollars)

	2008	2007
	\$	\$
Cash flows from operating activities		
Net Income	5,589,739	5,998,676
Adjustments for items not involving cash:		
Add: Depreciation	482,982	335,945
Operating profit before working capital changes	6,072,721	6,334,621
Net change in Working Capital:		
Net change of Investments	4,842,620	(11,412,259)
Interest Receivable – Currency Reserves	184,889	(24,949)
Interest Receivable – Operating Assets	(3,033)	0
Accounts Receivable	3,698,761	(233,713)
Other Receivables and Prepayments	(66,961)	8,126
Other Liabilities and Payables	(104,315)	(579,946)
Stocks	(258,182)	18,700
Cash Generated from / (used by) Operations	14,366,500	(5,889,420)
Increase in Demand Liabilities	2,692,244	5,646,860
(Decrease) in Currency Issue Reserve Cost of Currency Notes Reprint	0	(11,486)
<i>Net cash generated from / (used by) operating activities</i>	17,058,744	(254,046)
Investing Activities		
Acquisition of Fixed Assets	(169,006)	(630,882)
Proceeds from Fixed Assets Disposal	0	893
<i>Net cash used by investing activities</i>	(169,066)	(629,989)
Financing Activities		
Contribution paid to CI Government	(6,782,067)	0
<i>Net cash used by financing activities</i>	(6,782,067)	0
Increase/ (Decrease) in cash and cash equivalents	10,107,671	(884,035)
Movement in cash and cash equivalents		
Balance at July 1	4,243,305	5,127,340
Increase/ (Decrease)	10,107,671	(884,035)
Balance at 30 June (Note 3b)	14,350,976	4,243,305

CAYMAN ISLANDS MONETARY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

(Expressed in Cayman Islands Dollars)

1. ORGANIZATION 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 (2008 Revision) (the “Law (2008 revision)”), the primary objectives of the Authority are (a) to issue and redeem currency notes and coins and to manage the Currency Reserve, (b) to regulate and supervise the financial services business (c) to provide assistance to overseas regulatory authorities, and (d) to advise the Cayman Islands Government on regulatory matters.

As at 30 June 2008 the Authority has 122 employees (30 June 2007: 116). 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 on the accrual basis under historical cost convention and are in accordance with International Financial Reporting Standards. The reporting currency is Cayman Islands Dollars.
- b) Investments. Short-term investments are valued, on a monthly basis at amortised cost and long term investments are valued at quoted market value. Unrealised gains or losses are recorded in the Income Statement.
- c) Foreign Currency. Foreign currency transactions are recorded at the exchange rates prevailing on the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Assets and liabilities are translated at the exchange rate in effect at the Balance Sheet date.
- d) Revenue recognition. 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 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 they are earned.
- e) Fixed Assets. Fixed Assets are stated at historical cost less accumulated depreciation. Depreciation is calculated on the straight-line method of 20% per annum for Furniture & Fixtures, Leasehold Improvements, Motor Vehicle and Office Equipment (with the exception of Bank Note Sorting machine calculated at 15% and DRC Equipment calculated at 33.33%); and 25% to 33.33% per annum for Computer Hardware and Software, which is sufficient to write-off the cost of the assets over their estimated useful lives.
- f) Stocks. 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) and unissued currency notes. Bullion stocks are stated at year-end market values for gold and silver bullion and unrealised gain/loss are recorded in the Income Statement.

The stock of unissued currency notes is stated at cost. Only the cost of notes issued into circulation is expensed on a “first in first out” basis. (See also Note 6).

g) Numismatic Coins. The total nominal value of numismatic coins outstanding as at 30 June 2008 is \$14,579,618 (30 June 2007: \$14,614,456). 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 Income Statement as incurred.

h) Cash and cash equivalents. For the purposes of the Cash Flow statement, cash and cash equivalents consist of current and call deposits and fixed deposits maturing within 90 days from the date of acquisition. (See also Note 3 b).

i) Employee Benefits

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

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

A defined benefit plan is one that defines an amount of benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation. The asset or liability in respect of defined benefit plans is the difference between the present value of the defined benefit obligation at the Balance Sheet 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 Income Statement 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 an expense in the Income Statement as incurred. (See also Note 10).

Other Benefits. Other employee benefits include maternity leave, sick leave, vacation days and performance awards. Vacation days accumulate and vest and therefore a liability is accrued each year. The accrued vacation liability as at 30 June 2008 is \$230,019 (2007: \$218,697) and is included in the other liabilities and payables.

j) Accounts Receivable. The receivables are stated at original invoice amount less provision for doubtful debts. (See also note 4).

- k) Accounts Payable. The payables are stated at historical cost.
- l) Use of Estimates The preparation of financial statements, in conformity with International Financial Reporting Standards, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

3. CURRENCY RESERVE ASSETS

Sections 32(8) of the Law (2008 revision) mandates the preservation of Currency Reserve Assets, separately from all other assets of the Authority. These assets are to be used to fund the Authority's currency redemption obligations. (See also Note 7.) They shall not be chargeable with any liability arising from any other business of the Authority. After all demand liabilities are extinguished, any surplus Currency Reserve Assets would form, in part, the assets of the General Reserve. (See also Note 9a.)

Under the Law (2008 revision), sections 32(2) and 32(6) respectively, the Currency Reserve Assets are to 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 2008, the value of Currency Reserve Assets was \$99,817,133 (30 June 2007: \$103,711,687) representing 126.51% (30 June 2007: 136.10%) of total demand liabilities. The value of external assets equated to 121.85% (30 June 2007: 131.42%) while the value of local assets as at 30 June 2008 equated to 4.67% (30 June 2007: 4.67%) of demand liabilities. (Stocks of un-issued notes and coins have been reclassified as local assets)

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, in accordance with the Law (2008 Revision). Management fees are calculated based on the market value of the portfolio and are payable quarterly in arrears. Either party may terminate the agreement with thirty days notice.

Long-term investments

Long-term investments are made up of U.S. Government Sponsored Enterprise ("GSE") and US Treasury Notes and are stated at market value, with interest rates ranging from 4.5% to 8.0%. Maturity dates range from 01/08/2009 to 15/01/2018.

	2008	2007
<i>Range of maturities:</i>	\$	\$
1 – 5 Years	2,179,176	5,852,539
6 – 10 Years	8,513,051	301,543
Over 10 Years	0	36,935,320
	\$10,692,227	\$43,089,402

Short-term investments

	2008	2007
	\$	\$
U.S. Treasury Note		
Maturing from 31/08/08	2,947,542	0
US Treasury Bills		
Maturing 10/07/08 to 17/07/08	24,152,213	6,096,217
GSE Securities		
Maturing 07/07/08 to 25/07/08	14,186,730	0
AAA CP/Note	11,631,142	12,266,855
Repurchase Agreement		
Federal Reserve at 1.70% maturing 01/07/08	29,500,000	36,500,000
Total short-term investments, at amortised cost	\$82,417,627	\$54,863,072
Market value of short-term investments	\$82,414,211	\$54,861,416

b) Cash and Cash Equivalents The Authority maintains current, call and fixed deposits with domestic and foreign banks. Under the Law (2008 revision), domestic deposits (as part of the Currency Reserve Assets) cannot exceed 10% of demand liabilities. As at 30 June 2008, domestic deposits represent 3.55% (30 June 2007: 3.40%) of demand liabilities.

	Holding	2008	2007
	Currency	\$	\$
i) Operating Assets			
Current	KYD	(197,151)	(35,515)
Savings	KYD	4,338,414	544,690
Call	USD	5,627,867	27,057
CI Cash on Hand	KYD	700	700
Current and Call Deposits		9,769,830	536,932
ii) Currency Reserve Assets			
Domestic Deposits			
Call	GBP	5,642	6,514
Savings	KYD	112,483	43,476
Call	USD	1,190,050	1,097,529
Foreign Deposits-			
Federal Reserve Bank	USD	122,790	145,445
Investment Portfolio	USD	1,655,049	969,314
Total Call Deposits - Currency Reserve		3,086,014	2,262,278
Domestic - Fixed Deposits	USD	1,495,132	1,444,095
Total Operating Cash and Currency Reserve Assets		14,350,976	4,243,305

Interest earned on domestic call accounts at rates ranging from 0.5% to 2.0% during the year ended 30 June 2008 (1.75% to 2.0% during the year ended 30 June 2007). The domestic fixed deposits earned interest at rates ranging

from 2.18% to 4.69% during the year ended 30 June 2008 (4.70% to 4.84% during the year ended 30 June 2007).

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 2008 interest earned was \$129,243 (\$38,520 during the year ended 30 June 2007).

4. ACCOUNTS RECEIVABLE

	2008	2007
	\$	\$
Outputs	257,383	3,929,722
Other Receivables	53,812	84,734
Provision for Doubtful Debt	(47,824)	(52,324)
Total Accounts Receivable, net	\$263,371	\$3,962,132

5. FIXED ASSETS

	Furniture & Fixtures	Leasehold Improvement	Computer Equipment	Office Equipment	Motor Vehicle	Total
Original Cost	\$	\$	\$	\$	\$	\$
Balance as at 01/07/07	660,900	694,341	1,653,575	515,208	24,600	3,548,624
Additions	7,145	0	122,090	17,171	22,600	169,006
Disposals	0	0	(73,714)	0	0	(73,714)
Balance as at 30/06/08	668,045	694,341	1,701,951	532,379	47,200	3,643,916
Accumulated Depreciation						
Balance as at 01/07/07	<u>483,339</u>	<u>481,809</u>	<u>984,066</u>	<u>318,892</u>	<u>24,600</u>	<u>2,292,706</u>
Charge for the year	48,833	54,435	316,560	62,126	1,028	482,982
Relieved on disposals	0	0	(73,714)	0	0	(73,714)
Balance as at 30/06/08	<u>532,172</u>	<u>536,244</u>	<u>1,226,912</u>	<u>381,018</u>	<u>25,628</u>	<u>2,701,974</u>
Net Book Value as at 30/06/08	\$135,873	\$158,097	\$475,039	\$151,361	\$21,572	\$941,942
Net Book Value as at 30/06/07	\$177,561	\$212,532	\$669,509	\$196,316	\$0	\$1,255,918

6. STOCKS

	2008	2007
	\$	\$
<u>External</u>		
Bullion from the melt-down of coins	504,473	355,173
Coins awaiting melt-down	428,322	285,923
Coins for resale	166,013	117,012
Museum items	53,078	37,317
	1,151,886	795,425
<u>Local</u>		
Inventory of unissued currency notes and coins	869,990	968,269
Total stocks	\$2,021,876	\$1,763,694

7. LIABILITIES

a) Demand Liabilities. Demand Liabilities represents the value of notes and coins in circulation. These liabilities are fully funded by the Currency Reserve Assets.

TOTAL DEMAND LIABILITIES COMPRISE:	2008	2007
	\$	\$
i) Currency notes in circulation	70,197,270	67,899,365
ii) Currency coins in circulation	8,700,238	8,305,899
Total Demand Liabilities	\$78,897,508	\$76,205,264

a) Other liabilities. As at 30 June 2008, other liabilities included unsettled investment management and custody fees of \$131,111 (30 June 2007: \$155,259).

8. LEASE OBLIGATION

- a) The Authority leases the premises used for its operations at Montpelier Properties.
1. There are seven lease agreements totaling 17,543 square feet, effective January 1, 2007 for an 18 month period, with a 1 year option to renew effective 1 July 2008 at costs ranging from \$28 to \$31 per sq. ft. per annum.
 2. Effective December 2007 the Authority leased an additional 1,592 sq. ft., with an option to renew effective 1 July 2008 at a cost of \$31 per sq. ft. per annum.
 3. The Authority also leased 4,460 sq. ft under a lease agreement in February 2008 with an option to renew on 1 July 2008 at \$31 per sq. ft.

All leases carry a service charge cost of \$2 per sq. ft. per annum. Electricity is charged for 21,735 sq ft of the Lease agreements at a cost of \$0.80 per month, and 260 sq. ft is charged at \$3.20 per month.

- b) As a part of it Business Continuity Plan the Authority has two lease agreements.
1. An agreement with the Disaster Recovery Centre (Cayman Islands) Limited effective 1 July 2008 for a period of three years at a monthly cost of US\$17,000.

2. An agreement with the Brac Informatics Centre for the period 23 February 2006 to 31 March 2009, at a cost of US\$14,105.00 per month. Commencing in April 2009 the monthly cost will be US\$13,308.45 for a five year period.
- c) The Authority also has a Lease Agreement with the Picadilly Car Park for a storage unit for a three year period from 1 April 2007 to 31 March 2010.

Rental payments under operating leases are charged to the income statement in equal installments over the period of the leases.

LOCATION	ONE YEAR OR LESS	TWO TO FIVE YEARS
	\$	\$
Elizabethan Square, George Town, Grand Cayman	971,617	0
DRC, George Town, Grand Cayman	171,360	342,720
Brac Infomatics Centre, Stake Bay, Cayman Brac	139,051	532,317
Picadilly Car Park, George Town, Grand Cayman	24,000	18,000
	1,306,028	893,037

9. RESERVES AND CAPITAL

- a) General Reserve. The Authority maintains a General Reserve in accordance with Section 8 of the Law (2008 revision). The Authority shall maintain the General Reserve at 15% of demand liabilities to provide additional funding, if necessary, for demand liabilities and obligations arising from other business of the Authority. Reserve assets are held predominantly in United States dollars, with minimal holdings in Cayman Islands dollars and British Pound Sterling.
- b) Reserve Allocation. Under Section 10 of the Law (2008 revision), the net profits of the Authority, after provision for all expenditure and reserves, shall be allocated such that the Currency Reserve Assets represent at least 100% of demand liabilities and the General Reserve does not exceed 15% of demand liabilities. Any surplus not allocated in accordance with the above shall be transferred to the General Revenue of the Cayman Islands Government; the amount due for the year ended 30 June 2008 is \$1,185,903 (30 June 2007:\$3,777,946).
- c) Currency Issue Reserve. Prior to 1 January 2003 the cost of printing of notes or minting of coins (unissued and issued) was recorded against the Currency Issue Reserve (\$250,501 in 2002). The Currency Issue Reserve was set at a level deemed necessary to meet an estimated future printing or minting cost. This effectively expensed the cost of printing or minting in that period. After 1 January 2003 the cost of printing and minting was set up as a Stock of unissued currency and only the cost of currency issued into a circulation is expensed. As a result of this change the Currency Issue Reserve was adjusted as at 1 January 2003 by \$314,959 (the cost of currency notes printed prior to 1 January 2003 but on hand as at 1 January 2003). The Currency Issue Reserve will be adjusted as these notes are issued until the stock is exhausted. The Currency Issue Reserve will then remain at \$375,000.
- d) Capital. The authorised capital of the Authority is \$100,000,000. The Cayman Islands Government is the sole subscriber and has contributed Paid-Up Capital of \$11,149,908 as at 30 June 2008 (30 June 2007: \$10,944,902). The Cabinet of the Cayman Islands Government had made a commitment to increase the Paid-Up Capital of the Authority to a minimum of \$10 million by the year 2008; this was achieved in the year ended 30 June 2007.
- e) Capital and Operational Expenditure Reserve. Under Section 9 of the Law (2008 revision), the net profits of the Authority for any financial year shall include, but shall not be limited to, the income from the investments of the Authority, and the profit from the sales of investments belonging to the Authority, and shall be determined

by the Authority after meeting or providing for all expenditure for that year and making such provisions for contingencies and the establishment of such additional reserves as it may consider desirable. The Capital Expenditures Reserve has been established for the implementation and acquisition of the key projects of E-Reporting, Basel II, Document Management and a Currency Vault at the new Government Administration Building. This Reserve will also be used to acquire other assets to provide for the increase in the staff count and replacement and/or upgrade of existing assets. The Operational Expenditures Reserve will fund the operating cost associated with the Basel II and E-Reporting projects.

10. PENSIONS

Pension contributions are paid for all eligible employees on their pensionable emoluments. The majority of the employees are participants in the Public Service Pensions Plan, with a small number participating in other private plans, which are all defined contribution schemes.

Public Service Pensions Plan

Pension contributions for eligible employees of the Authority are paid to the Public Service Pensions Fund (the "Fund"). The Fund is administered by the Public Service Pensions Board ("the Pensions Board") and is operated as a multi-employer plan. Prior to 1 January 2000 the scheme underlying the Fund was a defined benefit scheme. 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 scheme 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 2007/8 (13% in 2006/7). This rate included a 1% for the cost of all of the benefits that are provided over and above those related to the participant's total account balance. The Authority pays this 1% for all employees. In addition, for those employees in the defined benefit plan, the Authority pays both the employer and employee contributions.

The Plans are funded at rates of: -

	2008	2007
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. The defined contribution part of the Fund is not subject to the special actuarial valuations due to the nature of the benefits provided therein. There has been no further actuarial valuation (of the defined benefit plan) received since 30 June 2007.

The total amount recognised as a pension expense for the year ended 30 June 2008 was \$691,903 (2006-7: \$671,245). The actual amount of pension expense relating to the defined benefits for staff should also include the effect of the changes in the actuarial determined liability. The impact on the expense for the year ended 30 June 2007 has been reflected in the Paid-Up Capital as at 30 June 2008 as there is no Retained Earnings, in the amount of \$36,000 (2006: \$10,000 and 2005:\$54,000 were reflected in the year ended 30 June 2007). Management is unable to determine the impact on the recorded expense for the year ended 30 June 2008, 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.

Independent Actuaries value the schemes. The latest actuarial valuation (of the defined benefit plan) was done as at 30 June 2007.

	30 JUNE 2007	30 JUNE 2006
	\$	\$
Net Present Value of Funded Obligation	(2,810,000)	(2,768,000)
Fair Value of Plan Assets	3,564,000	3,224,000
Funded Status	754,000	456,000
Unrecognised Actuarial Gains	(332,000)	(70,000)
Defined Net Benefit Asset in the Balance Sheet	422,000	386,000

The amount of the defined benefit asset as at 30 June 2008 cannot be determined by management at this time, as there has been no update to the actuary's report since 30 June 2007.

PENSION EXPENSE FOR FISCAL YEAR ENDING	30 JUNE 2007	30 JUNE 2006
	\$	\$
Company Service Cost	182,000	239,000
Interest Cost	173,000	150,000
Expected Return on Assets (net)	(240,000)	(193,000)
Recognition of Net Loss	0	20,000
Total Pension Expense	115,000	216,000

RECONCILIATION OF DEFINED BENEFIT ASSET/(LIABILITY)	30 JUNE 2007	30 JUNE 2006
	\$	\$
Previous Year Defined Benefit Asset	386,000	376,000
Net Pension Expense for Fiscal Year	(115,000)	(216,000)
Employer Contributions	151,000	226,000
Defined Benefit Asset	422,000	386,000

CHANGE IN DEFINED BENEFIT OBLIGATION OVER YEAR ENDING:	30 JUNE 2007	30 JUNE 2006
	\$	\$
Defined Benefit Obligation at end of Prior year	2,768,000	2,896,000
Company Service Cost	182,000	239,000
Interest Cost	173,000	150,000
Plan Participant Contributions	174,000	164,000
Net Actuarial Gain	(177,000)	(681,000)
Transfers between other participating Entities	(310,000)	0
Defined Benefit Obligation at End of Year	2,810,000	2,768,000

CHANGE IN PLAN ASSETS OVER YEAR ENDING	30 JUNE 2007	30 JUNE 2006
	\$	\$
Fair Value of Plan Assets as at End of Prior Year	3,224,000	2,624,000
Employer Contributions	151,000	226,000
Plan Participant Contributions	174,000	164,000
Transfers Between Other Participating Entities	(310,000)	0
Expected Return on Assets (net)	240,000	193,000
Asset Gain	166,000	17,000
Other	(81,000)	0
Fair Value of Plan Assets as at End of Year	3,564,000	3,224,000

CHANGE IN UNRECOGNISED NET ACTUARIAL LOSS/ (GAIN)	30 JUNE 2007	30 JUNE 2006
	\$	\$
Unrecognised Net Actuarial Loss/(Gain)	(70,000)	648,000
Amortisation Cost for Year	0	(20,000)
Liability Gain	(177,000)	(681,000)
Asset Gain	(85,000)	(17,000)
Unrecognised Net Actuarial Loss/(Gain)	(332,000)	(70,000)

Allocation of Assets

The Distribution of the Plan Assets, as at 30 June 2007 and 2006, based on the share of the total Fund allocated to the Authority was as follows: -

	30 JUNE 2007	30 JUNE 2006
	%	%
Global Equities	59	59
US Equities	-	-
Bonds	34	37
Cash/Other	7	4
Total	100	100

Actuarial Assumptions

The principal Actuarial Assumptions used to Determine Benefit Obligations at June 30, 2007 and 2006 are as follows:

	30 JUNE 2007	30 JUNE 2006
	%	%
Assumptions		
1. Discount Rate	6.25	6.25
2. Rate of salary increase	4.00	4.00
3. Rate of Price Inflation	2.50	2.50
4. Rate of pension increases	2.50	2.50

The Economic Assumptions used to Determine Net Periodic Benefit Cost for the Year ending June 30, 2007 and 2006 are as follows:

	30 JUNE 2007	30 JUNE 2006
	%	%
Assumptions		
1. Discount Rate	6.25	5.25
2. Expected long-term Return on Plan Assets	7.00	7.00
3. Expected long-term Return on reimbursement rights	0.00	0.00
4. Salary increase	4.00	4.00
5. Rate of Inflation	2.50	2.50
6. Pension Increases	2.50	2.50

Other Assumptions –

1. Mortality – Standard U.S. mortality rates
2. Retirement Age – completion of age 57 and 10 years of service

Asset Valuation –Fair (Market) Value

11. COMMITMENTS

As at 30 June 2008, there were no significant commitments, other than those listed elsewhere in the financial statements.

12. FINANCIAL INSTRUMENTS

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

b) Interest rate risk. The ranges of interest rates and maturity dates are presented in Note 3.

c) Fair values. The carrying amount of current, call, and fixed deposits, accounts and interest receivable, other receivables, prepayments, demand liabilities, other liabilities and payables approximated their fair value due to the short-term maturities of these assets and liabilities. The market value of investments is presented in Note 3. The fair values of other assets and liabilities are not materially different from the carrying amounts. Readily available markets, enables the determination of market values.

13. RELATED PARTY TRANSACTIONS

(a) Key Management Personnel consists of the Board of Directors of the Authority which is appointed by the Governor in Cabinet, and consisted of the Managing Director (“MD”) and nine directors as of 30 June 2008. The fees of \$225,000 relates to payments made to the nine directors only.

For the purposes of IAS 24 disclosure the MD is included in the number and cost of the Senior Management Team. The total number of personnel of the Senior Management Team was 13 in 2007-8 (2006-7: 13) and salaries & other short term benefits expensed in 2007-8 was \$1,467,609 (2006-7: \$1,481,345).

(b) The following Government departments/entities provided services to the Authority during the year ended 30 June 2008:

- i) Audit Office at a cost of \$41,000 (2006-7: \$38,000);
- ii) Internal Audit Office;
- iii) Cayman Islands Investment Bureau;
- iv) Computer Services Department;
- v) Legal Department;
- vi) Public Service Pension Board (see Note 10);
- vii) Public Works Department;
- viii) Department of Environmental Health.

The Authority acts as the Government’s custodian of the Cayman Islands currency as well as collector of the annual license fees (these fees do not form a part of the Authority’s revenue) and issuer of licenses relating to the financial services business. These services form a part of the outputs purchased by Government.

The Authority’s main source of revenue is from the sale of its Outputs to the Cabinet of 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.