CAYMAN ISLANDS MONETARY AUTHORITY

ANNUAL REPORT 2016

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

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

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

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CAYMAN ISLANDS

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Mission

To protect and enhance the reputation of the Cayman Islands as an International Financial Centre by fully utilising a team of highly skilled professionals and current technology, to carry out appropriate, effective and efficient supervision and regulation in accordance with relevant international standards and by maintaining a stable currency, including the prudent management of the currency reserve.

Vision

Committed to continually enhancing the Cayman Islands Monetary Authority's position as a financial services regulator of EXCELLENCE, consistent with the jurisdiction's standing as a leading International Financial Centre.

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MANAGING DIRECTOR'S STATEMENT

The Cayman Islands continues to be home to a thriving financial services industry, which is bolstered by prudent and robust regulation.

As the principal regulator for the Cayman Islands financial services industry, the Cayman Islands Monetary Authority (CIMA) has developed a regulatory and supervisory framework which emphasizes adherence to international standards, and is a combined rules-based and risk-based approach.

Fundamental to the success of the jurisdiction is comprehensive regulation, supervision and the consideration of the evolving dynamic nature of the industry.

The appointment of a new Board of Directors occurred in the early period of Financial Year 2015-16, as the terms of the outgoing board members had come to an end. I wish to extend much thanks and gratitude to the outgoing directors for another successful year, and I look forward to working with the current board as we continue to enhance the reputation of the Cayman Islands as a leading financial centre.

INDUSTRY REVIEW

The industry remains highly competitive in several areas:

In the Banking sector, at 30 June 2016, there were 176 licensed banks, 24 nominee (trust) companies, 10 non-bank financial institutions (comprising 6 money services businesses, 2 credit unions, 1 building society and 1 development bank), and 9 controlled subsidiaries. Since 2015, licensed banks and nominee companies decreased by 10% and 17% respectively, while controlled subsidiaries increased by 50%.

The Cayman Islands remains a top international location for the provision of trust services, with 242 companies licensed to provide these services in and from the jurisdiction as at 30 June 2016.

The jurisdiction also maintained its position as the top domicile for hedge funds during the period, ending the financial year with 11,021 funds (comprising 7,662 registered funds, 2,883 master funds, 376 administered funds and 100 licensed funds).

During the financial year, 36 new insurer licences and 4 insurance intermediary licences were added to the Cayman market. During this same period, 49 insurer licences and 2 insurance intermediary licences were cancelled. This brought the total number of licensees to 862 at 30 June 2016.

REGULATORY DEVELOPMENTS

The Authority issued several measures that impacted the investment funds, securities, banking, fiduciary and insurance sectors.

The Regulatory Policy on Exemption from Audit Requirements for a Regulated Mutual Fund was revised to expand the list of circumstances under which a regulated mutual fund can apply for an audit waiver. A new Regulatory Policy on Recognised Overseas Regulatory Authority was issued to provide the criteria used by the Authority to recognise an overseas regulatory authority for the purposes of the Securities Investment Business Law, 2015 ("SIBL"). Further changes were made to the Regulatory Policy on Licensing Banks to enable Class 'B' applicants to have more options to meet CIMA's expectations of how to hold the minimum required capital.

In addition, new measures were issued for the insurance sector pertaining to corporate governance and a licensee's use of an Internal Capital Model ("ICM"). The Authority also enhanced its measures pertaining to fitness and propriety assessments across all sectors.

The first edition of the Cayman Islands Monetary Authority's Supervisory Issues & Information Circular was also published in February 2016. This publication will be issued on a bi-annual basis. The document aims to raise awareness, in the industry, of common regulatory and thematic issues identified through our off-site and on-site supervisory practices and highlight regulatory developments for the financial sector.

As every effort is made to ensure that we continue to meet the requisite standards, both locally and internationally, the Authority continues to keep abreast of relevant legislation in other jurisdictions which has an impact, or potential impact, on the Cayman Islands. One such area relates to the Alternative Investment Fund Managers Directive (AIFMD) where changes to the regulatory framework for mutual funds and securities managers were made to enhance the jurisdiction's ability to comply with the AIFMD, thereby enabling the continued marketing of Cayman funds into Europe. The AIFMD is aimed at bringing managers of alternative investment funds, such as hedge funds and private equity funds managed or marketed in Europe, under similar regulatory arrangements as mutual and pension funds and their managers.

Another major development, related to the AIFMD, was the European Securities and Markets Authority's (ESMA) assessment of the Cayman Islands at the end of June 2016. This assessment was based on whether there were significant obstacles regarding investor protection, market disruption, competition or the monitoring of systemic risk to making the European Union Passport available to the Cayman Islands.

While there were some major accomplishments during the financial year, there were also several setbacks. Early 2016, de-risking by correspondent banks, while not unique to the Cayman Islands, was at the forefront of the key issues facing the Authority and the Cayman Islands' banking sector. As a result, immense operational pressure was placed on the Money Services Businesses. During this time, the Authority was fully engaged in identifying viable solutions for all parties involved.

ORGANISATIONAL EFFECTIVENESS

The Authority collected $104.839m in coercive fees from regulated entities on behalf of the Cayman Islands Government (CIG) for financial year 2015-16, compared to $102.667m the prior year.

At 30 June 2016, currency in circulation (excluding numismatic coins) stood at $95.738m in notes and $11.138m in coins, totalling $106.876m. This represents a 12.635% increase from the 30 June 2015 figure of $94.887m.

STRATEGIC PLAN 2014-16

Strategic objectives were identified in the CIMA Strategic Plan 2014-16, and progress can be reported. Adjusting the Authority's organisational structure, in order to become more effective, is centrally inclusive in our objectives. A key component of these reforms was the establishment of an Onsite Inspection Unit. This Unit was set up and functioning by January 2015.

Another area of focus was implementing Human Resources enhancements, which include recruitment of key senior staff. A Head of Banking Supervision, a Deputy Head of Insurance Supervision and a Reinsurance Specialist were hired; while a Deputy Head of the Investments and Securities Division was appointed on promotion. The recruitment process for a Head of Insurance Supervision was also being pursued in its final stages.

It is also important that the Authority continues to strengthen relationships in our key markets, to ensure that Cayman remains a dominant choice for offshore financial services. Therefore, the Authority intends to organise more visits to other key jurisdictions, and there are also some new markets which merit the Authority's attention.

Another objective is to maintain and enhance our regulatory profile internationally. As standards evolve, CIMA must continually be involved in related events and evaluate what implications they have for the Cayman Islands. Recognising this, the Authority has sent high-level delegations to meetings and conferences of standard-setting agencies.

As a regulator, it is critical to ensure that the framework for regulating and supervising the Cayman Islands financial services industry continually meets international standards. Therefore, another key objective is the enhancement of our regulatory framework. This also includes preparation for financial assessments and reviews by international bodies – namely the International Monetary Fund (IMF) and the Caribbean Financial Action Task Force (CFATF). It can be reported that self-assessments have been completed, and priorities for addressing deficiencies have also been identified.

Other objectives include maintaining public confidence in the Cayman Islands currency through public education, enhancing the collaboration with the Cayman Islands Government and private sector, implementation of operational and technological enhancements where success can be reported with the implementation of the Director Registration and Licensing system, the implementation of the Regulatory Enhanced

Electronic Forms Submission (REEFS) system, and the electronic files (document) management system.

CONCLUSION

The Authority plays a vital role in helping to ensure that the continued success of the Cayman Islands financial services industry remains strong.

This includes protecting and enhancing the reputation of the Cayman Islands as a leading international financial centre which in turn, provides opportunity for new businesses.

As a testament to this, efforts continued throughout the year to prepare for the upcoming international assessments and reviews, and the Authority took a leading role in some of these activities, and remains committed to this process.

Working together with Government and industry, the Authority is committed to playing its part in contributing to the continued success of this industry.

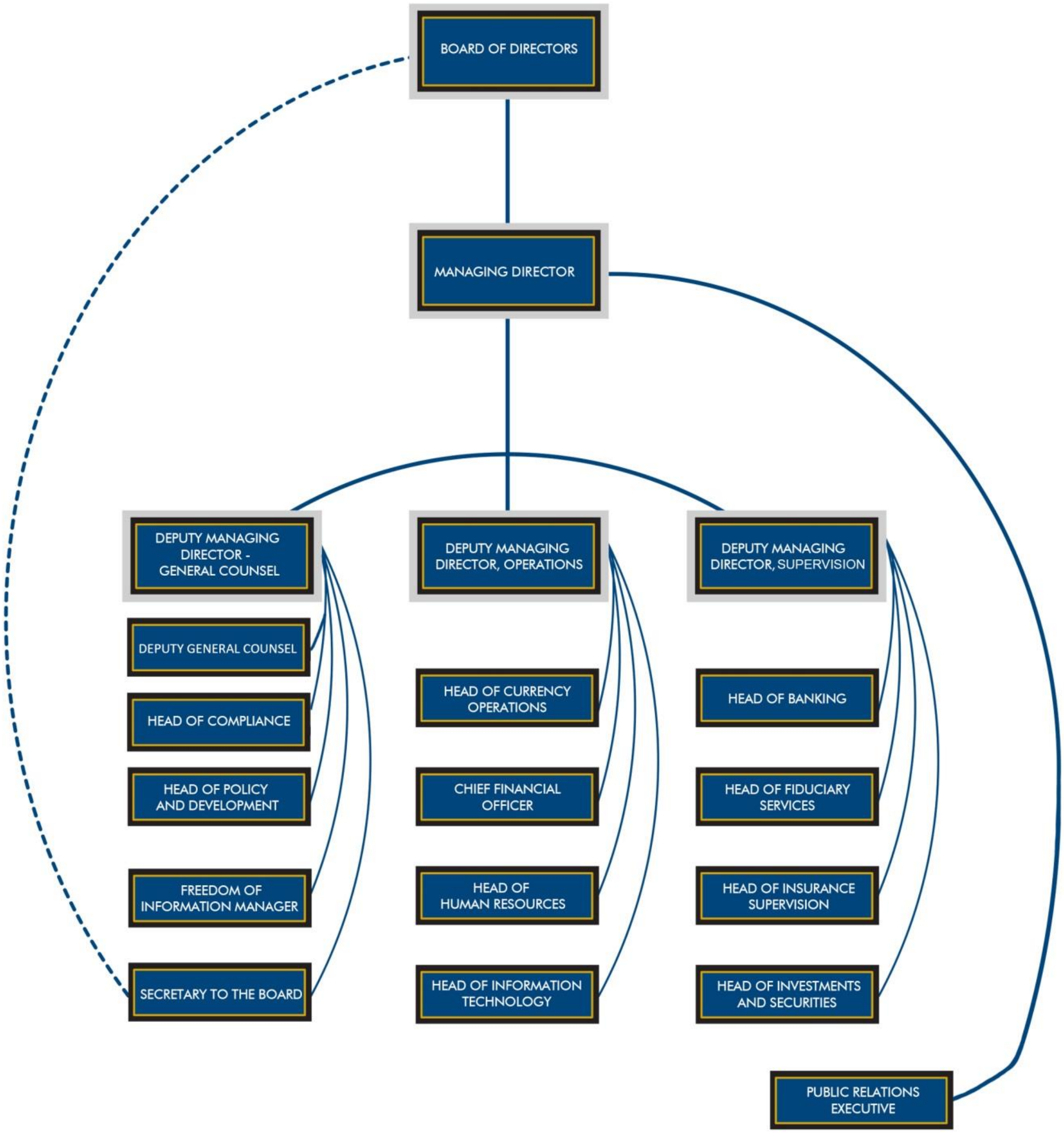
Given our robust, yet flexible and competitive regulatory regime, infrastructure and high levels of expertise and experience in the relevant service areas, the Authority is confident that the Cayman Islands will continue to thrive as a leading financial centre.

I commend the staff of CIMA for their contribution to the achievement of Authority's objectives during the past financial year.

Cindy Scotland

ORGANISATIONAL CHART

AS AT 30 JUNE 2016


BOARD OF DIRECTORS
MANAGING DIRECTOR
DEPUTY MANAGING DIRECTOR - GENERAL COUNSEL
DEPUTY MANAGING DIRECTOR, OPERATIONS
DEPUTY MANAGING DIRECTOR, SUPERVISION
DEPUTY GENERAL COUNSEL
HEAD OF COMPLIANCE
HEAD OF POLICY AND DEVELOPMENT
FREEDOM OF INFORMATION MANAGER
SECRETARY TO THE BOARD
HEAD OF CURRENCY OPERATIONS
CHIEF FINANCIAL OFFICER
HEAD OF HUMAN RESOURCES
HEAD OF INFORMATION TECHNOLOGY
HEAD OF BANKING
HEAD OF FIDUCIARY SERVICES
HEAD OF INSURANCE SUPERVISION
HEAD OF INVESTMENTS AND SECURITIES
PUBLIC RELATIONS EXECUTIVE

BOARD OF DIRECTORS

As at 30 June 2016

At 30 June 2016, the Board of Directors of the Cayman Islands Monetary Authority comprised seven members:

Mr. Grant Stein, Chairman
Mr. Harry Chisholm, MBE, JP, Deputy Chairman
Mrs. Cindy Scotland, Managing Director
Mr. Adrian (Gus) Pope, Director
Mrs. Patricia Estwick, Director
Ms. Judith Watler, Director
Mr. Garth MacDonald, Director
Professor William Gilmore, Overseas Director

Seated front row L-R: Deputy Chairman, Harry Chisholm, MBE, JP; Managing Director, Cindy Scotland; and Chairman, Grant Stein.

Standing back row L-R: Director, Patricia Estwick; Director, Adrian (Gus) Pope; Director, Judith Watler; Director, Garth MacDonald; and Overseas Director, Professor William Gilmore.

SENIOR OFFICERS

As at 30 June 2016

Managing Director
Cindy Scotland

Deputy Managing Director/
General Counsel
Langston Sibblies, QC

Deputy Managing Director - Operations
Patrick Bodden

Deputy Managing Director - Supervision
Anna McLean

SUPERVISORY DIVISIONS

Banking Supervision

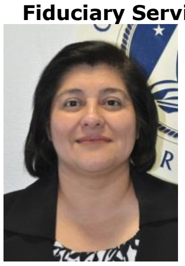
Head
Charles Ilako

Deputy Head
Sharon Braithwaite

Deputy Head
Gloria Glidden

Fiduciary Services

Head
Rohan Bromfield



Deputy Head
Leticia Frederick

Deputy Head
Eric Wilson

Insurance Supervision

Acting Head
Ruwan Jayasekera

Deputy Head
Razaak Busari

Investments and Securities

Head
Heather Smith

Deputy Head
Garth Ebanks

Deputy Head
Juliette Maynard

NON-SUPERVISORY DIVISIONS

Compliance


Head
Robert J. Berry


Deputy Head
Audrey Roe

Policy and Development


Head
Justine Plenkiewicz


Deputy Head
Judiann Myles

Legal


Deputy General Counsel
André Mon Désir


Senior Legal Counsel
Angelina Partridge


Legal Counsel
Nedra Myles


Legal Counsel
Helen Speigel

OPERATIONS

Currency Operations


Head
Deborah Ebanks


Deputy Head
Shan Whittaker

Finance


Chief Financial Officer
Gilda Moxam-Murray

Human Resources


Head
Deborah Musson


Deputy Head
Tara Abdul-Jabbar

Information Systems


Head
Charles Thompson


Deputy Head
Scott MacLaren

MANAGING DIRECTOR'S OFFICE


Special Assistant to
the Managing Director
Mitchell Scott


Public Relations Executive
Sharon Marshall, Ph.D.

INDUSTRY OVERVIEW

BANKING AND RELATED SERVICES

BANKING

The Banks and Trust Companies Law (2013 Revision) allows for two categories of banking licences: category A and B. CIMA, through its Banking Supervision Division, regulates and supervises all banking entities operating in and from within the Cayman Islands, along with those trust entities that have a banking licence.

Category A banks are allowed to operate both in the domestic and international markets and provide both retail and non-retail services to residents and non-residents. Traditional commercial retail banking services are provided by six of the category A banks, with the others offering principal office/authorised agent services to category B banks that do not have a physical presence in the Cayman Islands and conduct investment banking services.

The category B licence permits international banking business and limited domestic activity, and are primarily used as financial intermediaries to raise funds in the international market to provide capital for their parent banks and for the financing of external/cross-border business on their own account in the international market.

There were 176 banking licences in the jurisdiction at 30 June 2016 (June 2015:196). These comprised of six retail category A banks, five non-retail category A banks and 165 category B banks (June 2015: 184). Of the 176 licensees, 112 were branches, primarily from the US and Brazil; 45 were subsidiaries, and 19 were banks privately owned or affiliated to another bank or a financial institution in their Group.

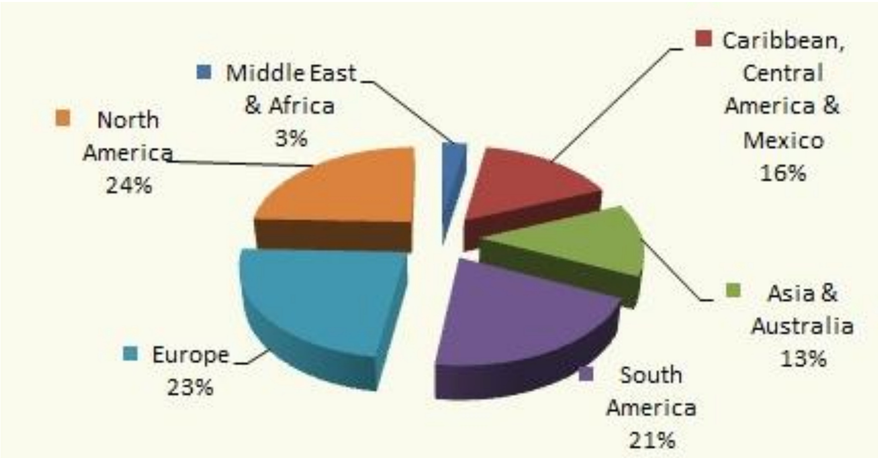


Figure 1: Region of Origin of Cayman-licensed Banks, June 2016

The majority of Cayman Islands-licensed banks are branches or subsidiaries of established international financial institutions conducting business in international markets. The largest concentrations of banks are from North America, Europe, and South America, as shown in Figure 1.

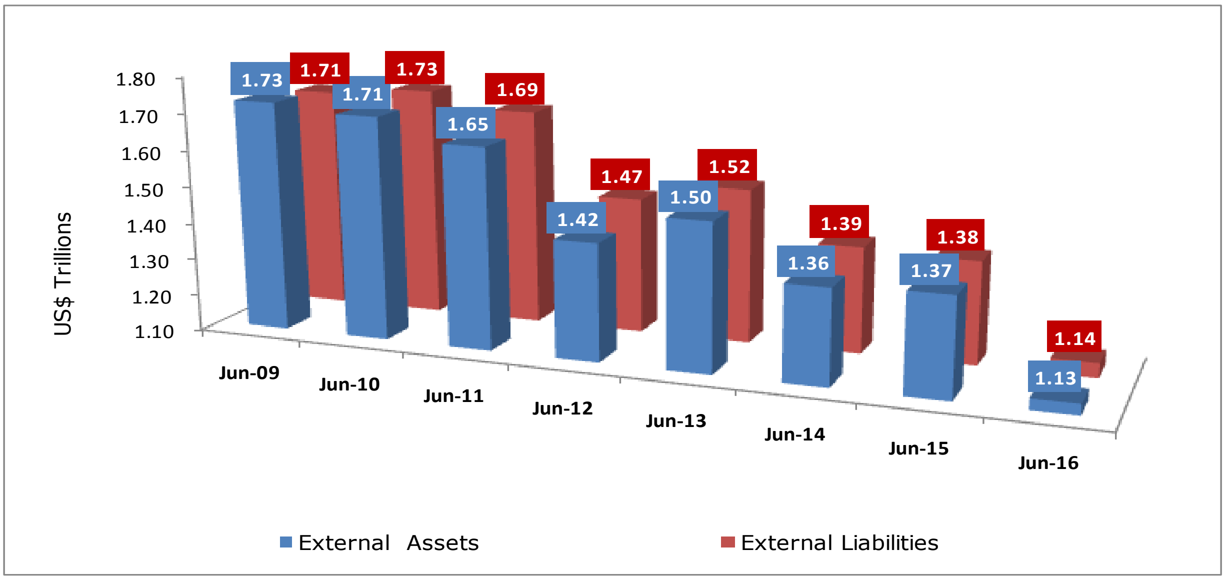
Banking Sector – Total Financial Assets

Total financial assets and liabilities (cross-border positions in domestic and foreign currency, domestic positions in foreign currency and domestic positions in local currency) as at June 2016 stood at US$1.156 trillion and US$1.202 trillion, respectively. Cross-border assets and liabilities in domestic and foreign currency of US$1.131 trillion and US$1.143 trillion were booked internationally with non-residents and domestic assets and liabilities in foreign currency of US$22.98 billion and US$56.92 billion, respectively, were booked locally with other Cayman Islands licenced entities. Local positions in local currency stood at $2.154 billion in assets and $1.762 billion in liabilities.

Cross-Border Assets and Liabilities in Foreign and Domestic Currency, June 2009 - 2016

As at June 2016, the jurisdiction ranked eighth internationally in terms of cross-border assets of US$1.13 trillion (June 2015: $1.37 trillion)1 and fifth by cross-border liabilities of US$1.14 trillion (June 2015: $1.38 trillion)2 booked by Cayman Islands licensed banks. (see Figure 2).

Figure 2: Cross-Border Assets and Liabilities of Cayman Islands-licensed Banks, June 2011 - June 2016



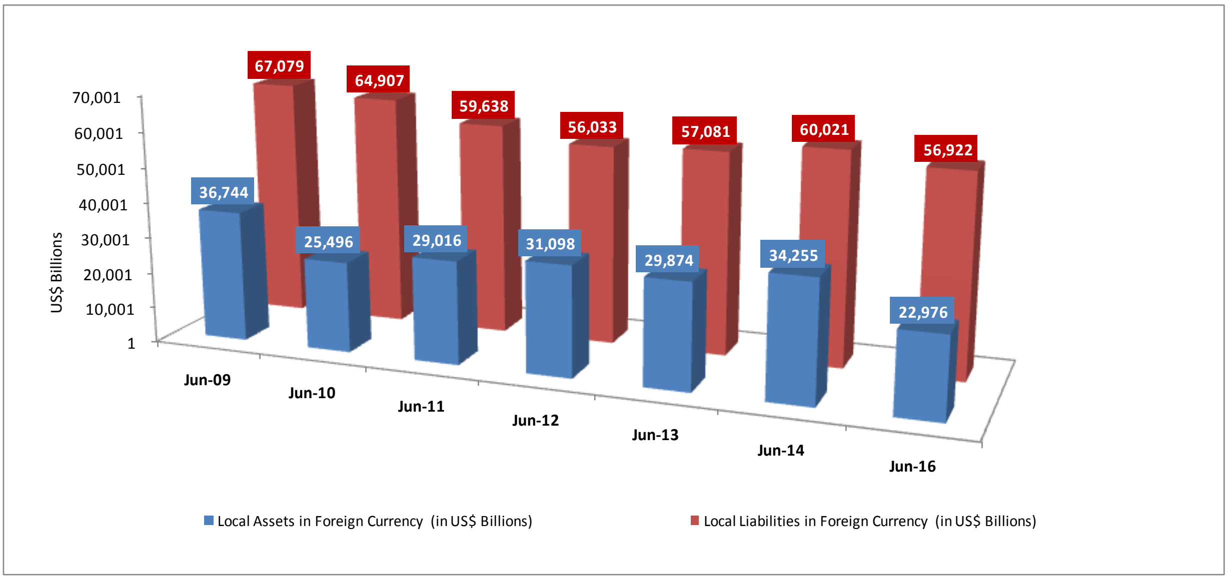
The Cayman Islands-licensed banks' cross-border assets and liabilities have been declining post-global financial crisis. Branches operating in the Cayman Islands had a significant reduction in intra-bank deposit assets and liabilities with parent groups as result of regulatory changes onshore which provided an incentive to hold overnight deposits onshore and to meet liquidity requirements, resulting in a US$200 billion dollars decline in cross border assets and liabilities. Other reasons for the decline were due to the contraction in global economic growth, legislative reforms to curtail the activities of banks, de-risking and restructuring. In addition, there has been a marked shift from the banking sector to the investment funds market due to the high performance of stocks and bonds on the capital markets.

1. Source: Bank for International Settlements (BIS): http://www.bis.org/statistics/bankstats.htm. Report titled 2A External positions of banks in all currencies vis-à-vis all sectors.
2. Source: Bank for International Settlements (BIS): http://www.bis.org/statistics/bankstats.htm. Report titled 2A External positions of banks in all currencies vis-à-vis all sectors

Domestic[3] Assets and Liabilities in Foreign Currency, June 2009 - 2016

Of the US$22.97 billion and US$56.92 billion in assets and liabilities in foreign currencies booked in the domestic economy, these positions are largely interbank and intra-bank positions with Cayman Islands licensed category B banks and other financial intermediaries and category A banks' positions with the resident domestic sector as residential mortgages, commercial private sector lending and other financial intermediaries, namely investment funds (see Figure 3).

Figure 3: Domestic Assets and Liabilities of Cayman Islands-licensed Banks in Foreign Currency, June 2011 - June 2016



Domestic Assets and Liabilities in Domestic Currency

Of the US$$2.154 billion in assets and $1.762 billion in liabilities in domestic currency[4], the majority of these positions were in loans and deposits with households and non-financial private sector corporations.

Domestic Sector – Category A Retail Banks

The domestic market continues to be serviced by six retail banks (6: June 2015), who held assets and liabilities of US$14.33 billion as at June 2016 (US$13.4: June 2015). Of the US$14 billion booked by the retail banks, approximately US$4 billion and US$10 billion of assets were positions with residents and non-residents, respectively, financed by US$7 billion and US$5 billion in deposits from resident and non-residents. Credit expansion was supported primarily by marginal increases in lending to domestic households and non-financial commercial sector and non-resident companies.

The domestic banking sector remained resilient in the face of the overall decline in total assets and liabilities of the entire banking sector. Banks continue to be funded by retail deposits as a stable source of funding; strongly demonstrating that commercial and

[3] Domestic refers to positions booked by Category 'A' and 'B' banks with entities licensed in the Cayman Islands (and considered legally resident by licence) and resident households.
[4] Domestic currency (KYD) converted to US$.

retail customers continue to have confidence in the soundness of the domestic banking sector.

Financial Soundness Indicators (FSIs) – Retail Banking Sector

The FSIs for the retail banking sector remains healthy, with capital adequacy ratios (CAR) in excess of the 8% minimum requirement set by the Basel Committee on Banking Supervision and an improvement in the asset quality as evidenced by the decline in non-performing loans and a consistent liquid asset ratio.

Table1: Financial Soundness Indicators

Indicator	2010 Year end	2011 Year end	2012 Year end	2013 Year end	2014 Year end	2015 Year end	30 June 2016
Capital adequacy							
Regulatory capital to Risk-Weighted Assets	22.9%	21.5%	20.6%	21.1%	17.7%	18.9%	18.4%
Capital to Assets	10.1%	10.9%	11.4%	11.6%	11.5%	12.1%	10.3%
Asset quality							
Nonperforming loans (net of provisions) to Capital	10.4%	11.7%	12.3%	10.0%	10.5%	7.5%	7.3%
Nonperforming Loans to Total Gross Loans	2.4%	2.7%	3.5%	3.4%	3.4%	3.1%	2.3%
Earnings and profitability							
Return on equity (net income to average capital [equity])	4.9%	570.0%	6.8%	6.5%	8.7%	6.6%	6.9%
Return on assets (net income to average total assets)	0.5%	50.0%	0.7%	0.7%	1.0%	0.8%	0.8%
Interest margin to gross income	48.2%	66.7%	76.4%	76.2%	76.5%	69.5%	70.0%
Non-interest expenses to gross income	51.3%	50.2%	57.0%	57.7%	62.1%	50.3%	49.0%
Liquidity							
Liquid assets to total assets (liquid asset ratio)	36.2%	48.1%	32.2%	28.3%	31.1%	22.1%	23.7%

Capital Adequacy Ratios (CAR)

The CAR for the six retail banks decreased marginally from 18.9% to 18.4 as at June-2016, and has remained comfortably above the minimum CAR requirement.

***Asset Quality* – Non-performing Loans (NPLs) to Gross Loans**

NPLs for the retail banking sector have been averaging around 2.9% over the past five years. The quality of the loan portfolio remained high as non-performing loans continued on a steady decline. As at June-2016, this ratio declined to 2.3%, reflecting improved asset quality due in part to loan write offs of NPLs and slower asset growth in loans.

Earnings and Profitability

Retail banks continue to show signs of stable profits, as seen in an improving net interest margin to gross income. The sector’s RoE increased from 6.6 % in 2015 to 6.9%in 2016, partly due to a reduction in the provisions for credit losses/recoveries, coupled with gains in trading income, while the RoA maintained at 0.8% as at June 2016, indicating signs of stabilization.

Liquidity

The ratio of liquid assets to total assets for retail banks increased from 22.1% in 2015 to 23.7% at June 2016. The liquidity position is considered healthy for the retail banking sector.

Authorisation Activity

Changes in the laws and regulations around the world have had some impact on banks in the Cayman Islands. In addition banks continue to consolidate and restructure in search of cost efficiencies, and improvements in operational risk management and governance. This is reflected in a steady decline in the number of bank licences over the last seven years (see Figure 4). The 176 licences held as at June 2016 represent an approximately 10% decline from the 196 held as at June 2015. Table 4 shows the results of the licensing and termination activities for the fiscal years 2010 to 2016.

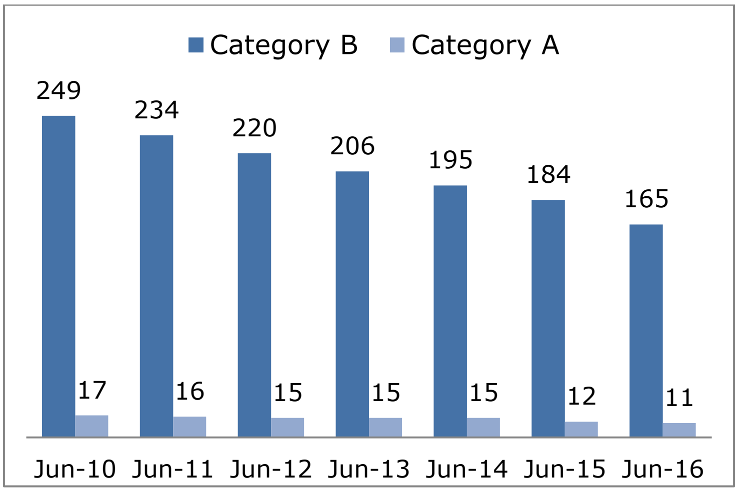


Figure 6: Number of Bank Licences, by Category, Fiscal Year-end 2010-2016

Jurisdictional Comparisons

As illustrated in Table 4, changes in the number of banks licensed in the listed jurisdictions were relatively static. All jurisdictions experienced declines in the number of licensed banks since 2015 with the exception of two that remained unchanged and Singapore with a modest increase.

Table 4: *Bank Licence Numbers - Selected Jurisdictions, 2012-2016*

Jurisdiction	**2012**	**% change ('13v12')**	**2013**	**% change ('14v13')**	**2014**	**% change ('15v14')**	**2015**	**% change ('15v16')**	**2016**
Cayman	222	-4.05%	213	-7.04%	198	-4.55%	189	-6.35%	176
Bahamas	102	-0.98%	101	-3.96%	97	-1.03%	96	-1.04%	95
Panama	78	1.28%	79	3.80%	82	-3.66%	79	0.00%	79
Jersey	42	0.00%	42	-21.43%	33	0.00%	33	-3.03%	32
Luxembourg	152	-5.92%	143	12.59%	161	-3.11%	156	0.00%	156

Switzerland	271	9.96%	298	-5.70%	281	-2.85%	273	-1.47%	269
Hong Kong	200	0.50%	201	1.00%	203	-1.97%	199	-0.50%	198
Singapore	165	-2.42%	161	-1.24%	159	-0.63%	158	0.63%	159

MONEY SERVICES, COOPERATIVES AND BUILDING SOCIETIES

Money services businesses cater primarily to the resident domestic market and must be licensed by CIMA. As at June 2016 there were three active licensees involved in the remittance business.

Remittances sent from the Cayman Islands to other jurisdictions through these entities for fiscal year June 2016 decreased slightly from US$183 million to US$174 million in 2015. Since 2010, outflows average approximately $179 million per year.

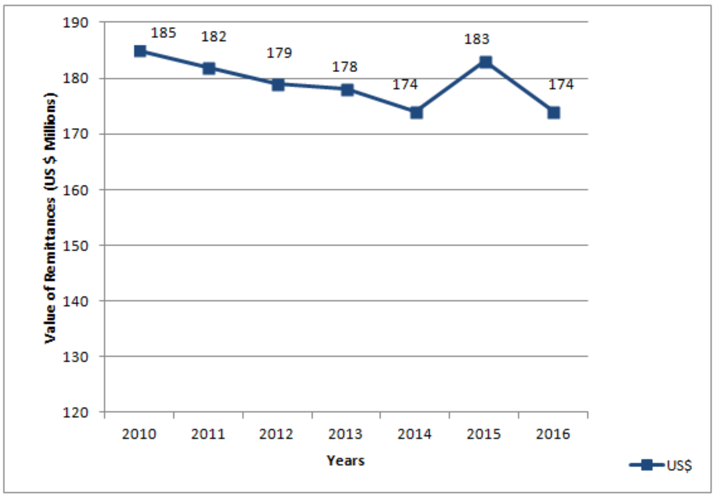


Figure 7: Total Remittance Outflows, June 2010 to June 2016

Jamaica remained the largest recipient of remittances from the Cayman Islands in fiscal year ended June 2016, with 60% (June 2015: 61%) of the US$104 million going to that country (see Figure 8). Remittance inflows through the money service providers totalled US$5.7 million (June 2015: US$1.8 million), with 56% of this amount coming from the United States (see Figure 9).

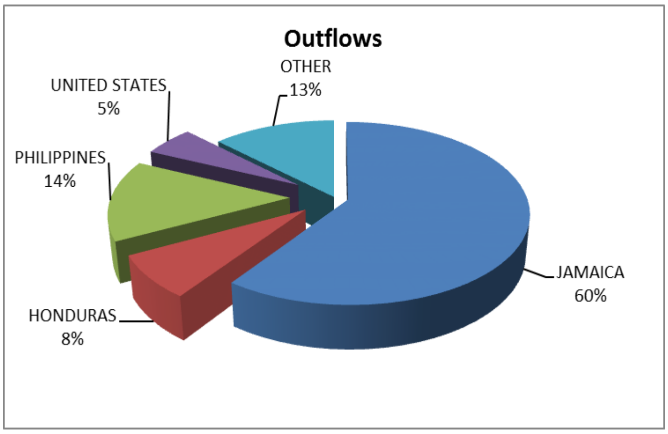


Figure 8: Proportion of Total Remittance Outflows, Fiscal Year June 2016

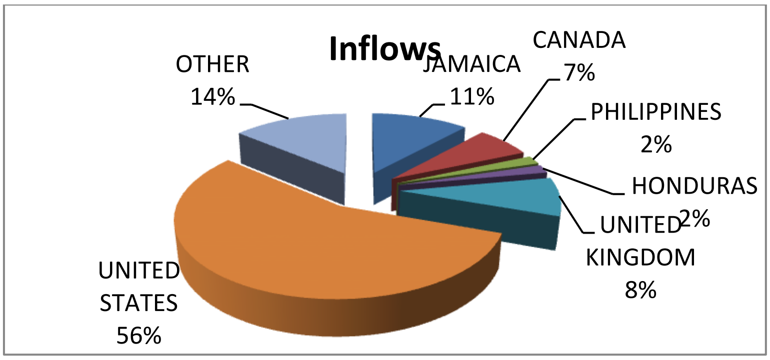


Figure 9: Proportion of Total Remittance Inflows, Fiscal Year June 2016

Cooperative societies carrying on credit union business, building societies and development banks are not required to be licensed but are entities created by statute and supervised by CIMA. The number of cooperative credit unions (2), building societies (1) and development banks (1) supervised by the Banking Division as at June 2016 remained at four.

FIDUCIARY SERVICES

TRUSTS

The Sector

Corporate trust business carried out in and from the Cayman Islands is regulated pursuant to the Banks and Trust Companies Law (2013 Revision) (BTCL), and the Private Trust Companies Regulations (2013 Revision) (PTCR). The BTCL defines trust business as "the business of acting as trustee, executor or administrator", and no company is allowed to carry on such business unless it is licensed or registered by CIMA. CIMA's Fiduciary Services Division has regulatory and supervisory responsibility for trust companies that do not have a banking licence. Those that have a banking licence are regulated and supervised by the Banking Supervision Division.

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

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

The Cayman Islands has been a top international location for the provision of trust services and remains so, with 411 companies providing these services in and from the jurisdiction as at 30 June 2016. Figure 8 shows the breakdown of trust companies by authorisation type at fiscal year-end, 2011 to 2016.

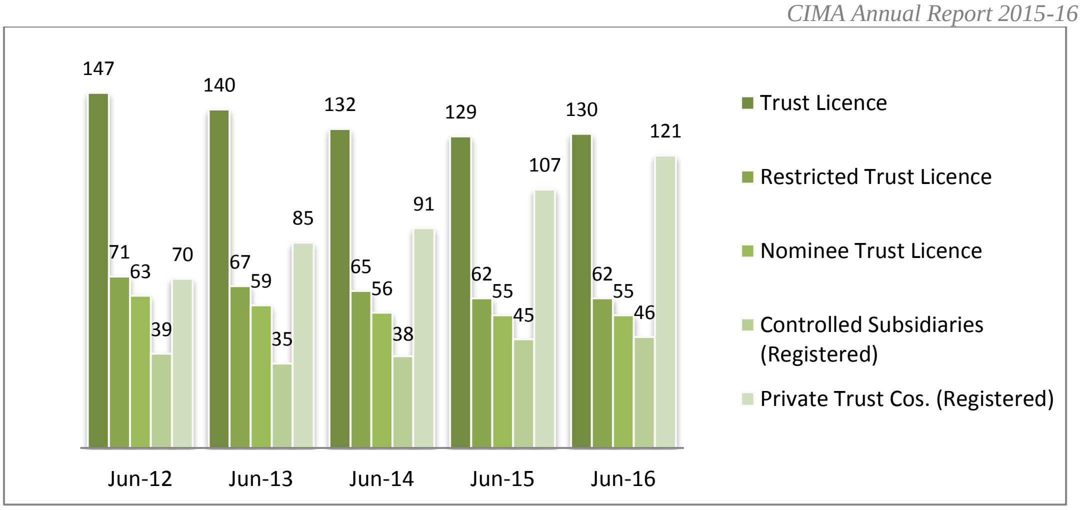


Figure 8: Number of Trust Licences by Category, 2012-2016

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

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

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

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

Authorisation Activity

Table 3 shows trust company authorisation activity for the fiscal year. Overall, the sector remained fairly stable in 2015-16.

Authorisation Type	Active as at 30 June 2015	Terminated 1 July 2015 –30 June 2016	Issued 1 July 2015 – 30 June 2016	Active as at 30 June 2016
Trust Company (Licensed)	129	3	4	130
Trust Company – Restricted (Licensed)	62	1	1	62
Nominee Trust (Licensed)	55	0	0	55

Controlled Subsidiaries (Registered)	45	4	5	46
Private Trust Companies (Registered)	107	12	26	121
Total	398	20	36	414

Table 3: Trust Authorisation Activity, 2015-2016

The Trust Companies referenced in the foregoing table are an aggregation of banks with trust licences and stand-alone trust companies.

Prior to the enactment of legislation in 2008 for the registration of private trust companies, the restricted trust category had been largely used to establish private trust companies. The net decline in restricted trust companies since 2008 (see Figure 8) is mainly attributable to licence holders choosing to surrender their licences in order to register as private trust companies. There was a total of 121 private trust companies as at 30 June 2015, with 26 being registered during the fiscal year. It is anticipated that this upward movement in registration will continue.

Jurisdictional Comparisons

Table 4 shows the number of licensed trust entities for calendar years 2012 to 2015 in the Cayman Islands and in other international financial centres for which figures are available.

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

Jurisdiction	**2012**	***% Change***	**2013**	***% Change***	**2014**	***% Change***	**2015**
Cayman	147	↓4.8	140	↑3.6	145	↑4.1	151
BVI	189	0	189	0	189	↓0.5	188
Bahamas	50	↓5.8	51	↓11.0	53	0	53
Bermuda	30	0	30	↓3.3	29	0	29
Gibraltar	67	↑1.5	68	↓32.3	46	↓6.5	43
Guernsey	151	↓0.7	150	↑2.7	154	↑0.6	155
Isle of Man	128	↓1.6	126	↓3.2	122	↓4.1	117
Jersey	185	↑2.2	189	↑1.1	191	↓0.5	190
Panama	71	↑4.2	74	↑2.7	76	↑1.3	77
Turks and Caicos	12	0	12	↓8.3	11	↓18.2	9
Singapore	51	0	51	↑5.8	54	↓1.8	53

Table 4: Number of Licensed Trust Companies - Selected Jurisdictions, 2012-2015 Calendar Year-end

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

CORPORATE SERVICES

The Sector

The Cayman Islands holds its own among locations from which corporate/company management services are provided (see Table 6 for jurisdictional comparisons) and the sector has seen steady growth over the last several years (see Figure 9), with 133 such companies active at 30 June 2016.

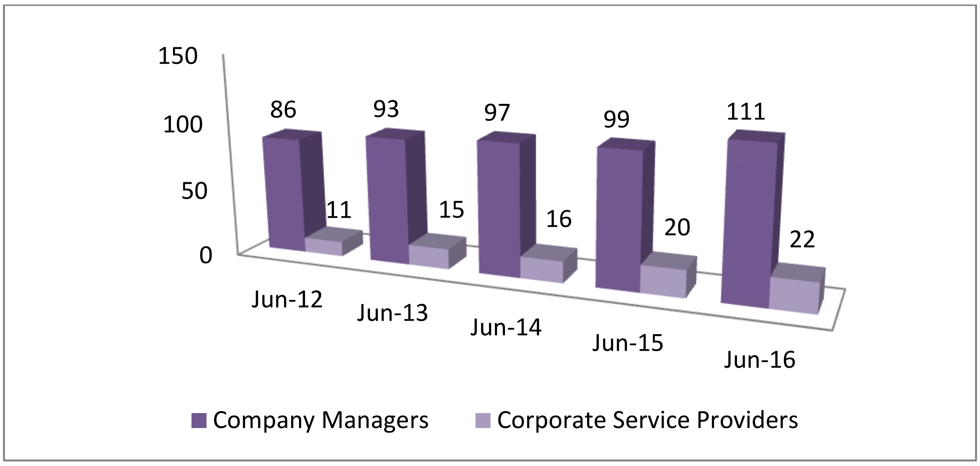


Figure 9: Number of Company Manager and Corporate Service Provider Licences, 2012-2016

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

All providers of corporate services are required to be licensed by CIMA, and the Authority's Fiduciary Services Division has regulatory/supervisory responsibility for these licensees, in accordance with the Company Management Law (2003 Revision) ("CML").

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

Authorisation Activity

Table 5 shows authorisation activity for company managers and corporate service providers for 2015-2016. The 133 licences in effect at 30 June 2016 represent an increase of 11.76% over June 2015.

Authorisation Type	**Active as at 30 June 2015**	**Terminated 1 July 2015 –30 June 2016**	**Issued 1 July 2015 –30 June 2016**	**Active as at 30 June 2016**
Company Manager (Licensed)	99	1	13	111
Corporate Service Provider (Licensed)	20	0	2	22
Total	**119**	**1**	15	**133**

Table 5: Companies Management Authorisation Activity, 2015-2016

Jurisdictional Comparisons

Table 6 shows the number of active corporate services licences for calendar years 2012 to 2015 in the Cayman Islands and in other international financial centres for which figures are available.

Jurisdiction	2012	% Change	2013	% Change	2014	% Change	2015
Cayman	98	↑12.2	110	↓10.9	98	↑8.2	106
BVI	21	↓4.8	20	↑65.0	33	0	33
Bahamas	N/A	-	21	↓42.8	12	↑16.6	14
Bermuda	N/A	-	N/A	-	N/A	-	N/A
Gibraltar	67	↑1.5	68	↓32.3	46	↓6.5	43
Guernsey	151	↓0.7	150	↑2.6	154	↑0.6	155
Isle of Man	192	↓9.4	174	↓4.6	166	↓1.8	163
Jersey	185	↑2.2	189	↑1.1	191	↓0.5	190
Panama	N/A	-	N/A	-	N/A	-	N/A
Turks and Caicos	22	↑77.3	39	↓2.6	38	↓5.3	36

Table 6: Corporate Services Licence Numbers - Selected Jurisdictions, 2012-2015 Calendar Year-end

Note: Figures provided have been collected from the relevant websites and overseas contacts.
* Jersey, Gibraltar and Guernsey's figures include both trust and company businesses licensed, inclusive of affiliation members.

The Cayman Islands enacted the Directors Registration and Licensing Law, 2014, ("DRLL") which came into force on 4 June 2014. The DRLL gives CIMA certain authorisation and supervisory responsibilities in respect of natural and corporate directors of mutual funds and certain entities that are registered under the Securities Investment Business Law. Table 7 shows the number of applications recorded in respect of applications made under the DRLL.

Authorisation Type	Active as at 30 June 2015	Active as at 30 June 2016
Registration - Exemption from licensing - Section 16(1)	75	75
Licence - Professional Director	41	50
Licence - Corporate Director	0	21

Table 7: Director Authorisation Activity, 2015-2016

INSURANCE

The Insurance Industry in the Cayman Islands

The insurance industry in the Cayman Islands has two distinct sectors: the domestic insurance segment, which provides insurance of local risks by locally incorporated or registered insurers, and the international insurance segment, which provides insurance of foreign risks by insurers from within the Cayman Islands. The Authority, through its Insurance Supervision Division, regulates and supervises all insurance entities operating in and from the Cayman Islands.

CIMA provides four main classes of insurer licences for (re)insurance companies, namely: Class 'A' licences for domestic insurers, Class 'B' licences for international insurers to carry on insurance and/or reinsurance, Class 'C' licences for fully collateralised international insurers, e.g. Insurance Linked Securities ("ILS") and catastrophe bonds, and Class 'D' licences for large open-market reinsurers. The Class 'B' licence is subdivided into three subcategories, namely Class 'B(i)' for (re)insurers with at least 95% of the net premiums written originating from the insurer's related business, Class 'B(ii)' for (re)insurers with over 50% (but less than 95%) of the net premiums written originating from the insurer's related business and Class 'B(iii)' for (re)insurers with 50% or less of the net premiums written originating from the insurer's related business. CIMA also regulates intermediaries, namely Insurance Managers, Insurance Brokers and Insurance Agents[5].

The International Insurance Segment

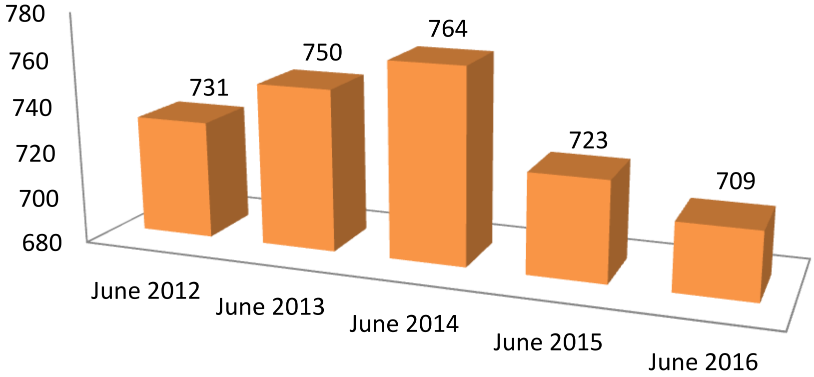


Figure 10: Number of Cayman Islands International (Class B, C, D) Insurer Licences, 2012-2016

The Cayman Islands insurance industry is dominated by the international segment comprised primarily of international insurers, including captive insurance companies[6] and their Insurance Managers. The size of this market is evidenced by the number of insurance companies: 709 at 30 June 2016 (see Figure 10); the premiums generated:

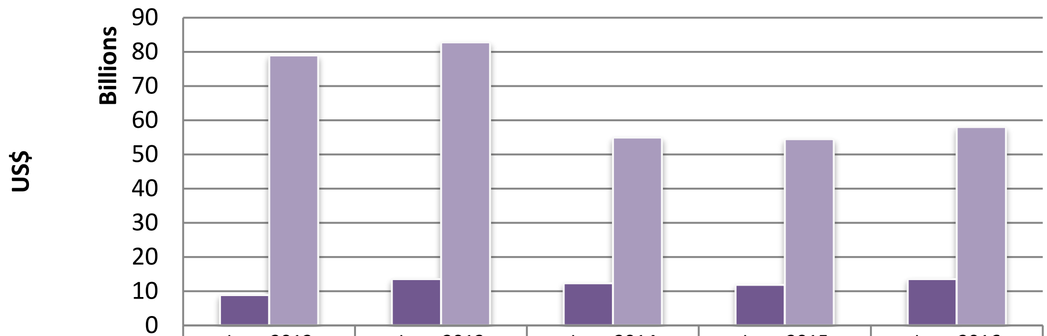
[5] Insurance Manager – "a company operating in and from within the [Cayman] Islands which provides insurance expertise to and for insurers and which has in its bona fide employment a person who fits the criteria outlined in section 2"; Insurance Agent - "a person (not being an insurer) who solicits directly, advertising or other means, domestic business on behalf of not more than one general insurer and one long term insurer"; Insurance Broker - "a person (not being an insurer) who arranges or procure, directly or through representatives, contracts of insurance or of reinsurance on behalf of existing or prospective policyholders".

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

US$13.6 billion in total at 30 June 2016, and the assets held: US$58.0 billion in total at 30 June 2015 (Figure 11).

With these figures, the segment also claims a major share of the global insurance market, positioning the Cayman Islands as the second largest domicile for captive insurance companies.

However, the total number of insurance-related licensees in the International Insurance Segment dropped from 723 at the end of fiscal year 2014/15, to 709 as at the end of fiscal year 2015/16. This was mainly as a result of CIMA carrying out a "tidy up" exercise to cancel previously surrendered licences, with surrenders reaching as far back as 2011. The main reasons for surrender of licences included: novation/commutation of liabilities to ceding/reinsurance companies, mergers and acquisitions of healthcare captives, maturing catastrophe bonds etc. Cancellations can only be processed once all supporting documents have been received by CIMA, hence the records tidy up exercise.



	June 2012	June 2013	June 2014	June 2015	June 2016
Total Premiums	8,883,201,932	13,508,011,557	12,333,618,976	11,853,173,913	13,563,533,903
Total Assets	78,901,054,596	82,771,108,151	54,926,495,859	54,460,741,822	57,967,799,337

Figure 11: Total Premiums & Assets of Cayman Islands Class B Insurance Licensees, Fiscal Year-end 2012-2016

As depicted in Figure 11, both premiums written by the Cayman-domiciled international insurance companies and their total asset position increased by 14.4% and 6.4% respectively compared to 30 June 2015.

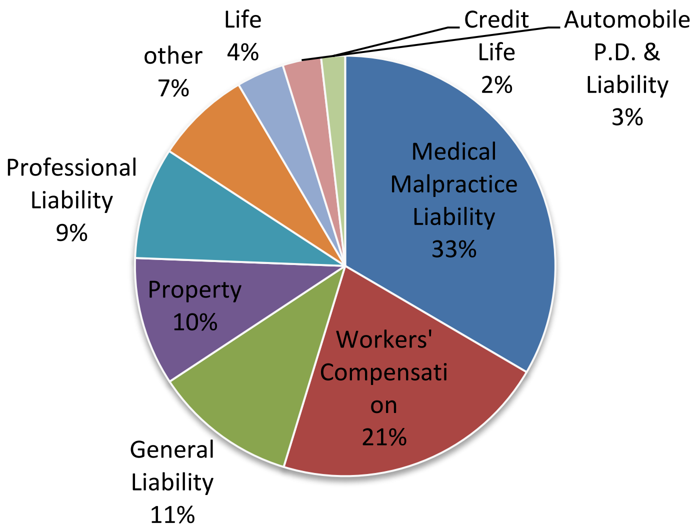


Figure 12: Cayman-Domiciled International Insurance Companies by Type of Coverage, 30 June 2016

With 33% of Cayman's captives covering healthcare risks (see Figure 12), the jurisdiction is the leading domicile for healthcare captives. Other types of coverage provided by Cayman captives include: workers' compensation, general and professional liability, property, auto and product liability, and life and annuity. In addition, Cayman is a leading domicile for group captives and cat bonds.

While the vast majority of companies in the international segment of Cayman's insurance industry are self-insured of one type or another, i.e. B(i)s, a number of companies provide (re)insurance coverage to unrelated entities and operate as open-market (re)insurers. The risks underwritten by international (re)insurers originate mainly from North America, with the next largest geographical source being the Caribbean and Latin America, collectively (see Figure 13).

The international insurance segment in Cayman began in the mid-1970s with the medical malpractice insurance crisis in the United States of America, and was formalized with the introduction of the Insurance Law in 1979. Unable to obtain commercial insurance, healthcare organisations began to form captives in the Cayman Islands to provide for their risk management needs. As a result, Cayman has developed particular expertise in this area.

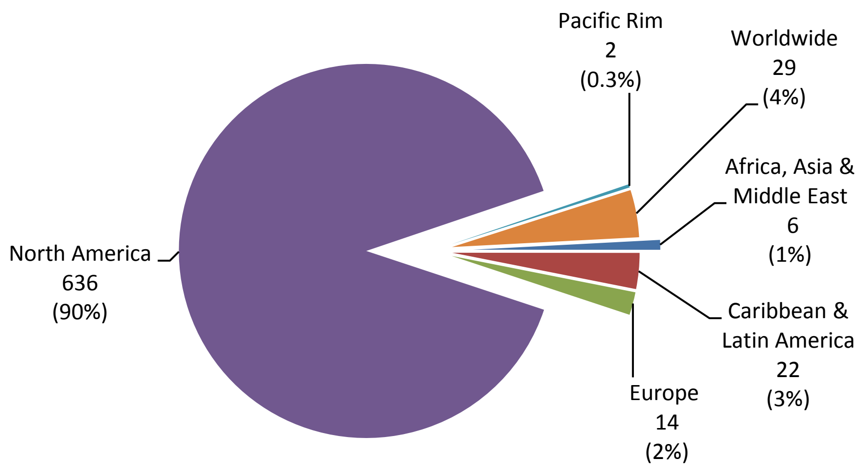


Figure 13: Cayman-Domiciled International Insurance Companies by Location of Risks Covered, 30 June 2016

Over the years, corporations have made increasingly extensive use of captives as part of their overall risk management function, reducing the premium they pay for commercial coverage by insuring a portion of their risk through a captive insurance programme.

In addition to expanded coverage availability and flexibility, and better risk management, reasons for the formation of captives include cost reduction and stabilisation, improved cash-flow, and access to the reinsurance market. With the introduction of the Companies (Amendment)(Segregated Portfolio Companies) Law in May 1998, Segregated Portfolio Companies ("SPCs") that typically provide insurance coverage for smaller organisations became a significant part of the market. As at 30 June 2016, there were 145 SPCs with over 600 segregated portfolios operating within them.

More recently, amendments were made to the Insurance Law to introduce Portfolio Insurance Companies ("PICs") under the Segregated Portfolio Company structure.

The Domestic Insurance Segment

The domestic insurance market comprises insurance companies (both locally incorporated and branches of foreign companies) and intermediaries (insurance brokers and insurance agents). Business is written directly, or through the insurance brokers and insurance agents.

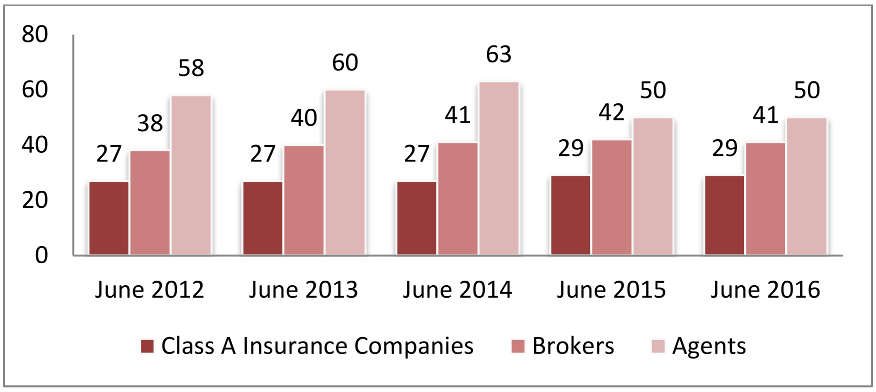


Figure 14: Number of Cayman Islands Domestic Insurance Licences, by Category, Fiscal Year-end 2012-2016

Domestic insurers provide a range of coverage to local policyholders, with health and property insurance being the top two categories. They account for approximately 65% of premiums written by the sector for the calendar year 2015 (see Figure 15).

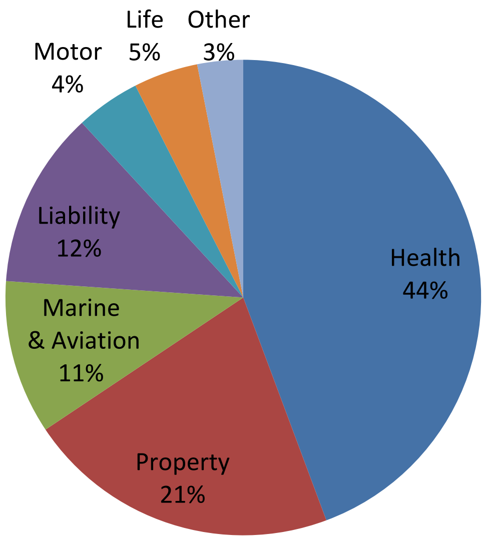


Figure 15: Coverage Provided by Class A Insurers, Measured by Gross Written and Assumed Premiums, 2015 Calendar Year

Cayman's Insurance Industry Activity

At 30 June 2016, there were 862 licensees under supervision of the Insurance Supervision Division of CIMA (June 2015: 873). Of these, 29 were class 'A' insurers, 683 were class 'B' insurers, 24 were class 'C' insurers, two were class 'D' insurers, 50 were insurance agents, 41 were insurance brokers and 33 were insurance managers. The number of licensees under supervision as at 30 June 2015, and the number of new licences issued and cancelled during the 2015/16 fiscal year are given in Table 8 below.

Licence Type	As at 30 June 2015	Cancelled 1 July 2015 - 30 June 2016	Issued 1 July 2015 - 30 June 2016	As at 30 June 2016
Class A	29	2	2	29
Class B, C, D	722	47	34	709
Insurance Managers	31	--	2	33
Brokers	42	1	--	41
Agents	49	1	2	50
TOTAL	**873**	**51**	**40**	**862**

Table 8: Insurance Licensing Activity 2015-2016

The International Insurance Segment Activity

The Cayman Islands continues to remain the second largest offshore jurisdiction in terms of the number of international insurers including captives, behind Bermuda, and the leading jurisdiction for healthcare and group captives. During the 2015/16 fiscal year, 36 new insurance companies were added to the Cayman Islands' international insurance market.

Growing competition among captive insurance domiciles, especially emerging captive domiciles in the United States, healthcare reforms introduced by the Patient Protection and Affordable Care Act (commonly called the "Affordable Care Act") in the United States, continuing soft market, uncertainty created due to the election in the United States posed challenges to the Cayman's captive market in 2015/16. Consolidation among hospitals and healthcare service providers in the United States, thus consolidation in the healthcare captive industry continued during the fiscal year. However, the changing landscape presents opportunities as well. As examples, it is possible that hospitals acquiring physician practices are establishing new captives or expanding existing captives; there is a possibility for physicians and practices to team up to form large provider groups and establish captive insurance companies for professional liability and other risks; for those mid-sized companies in the United States who are looking for health care options, captive insurance is one option.

Hedge funds' interest in the Cayman Islands' insurance and reinsurance market continued in the 2015/16 fiscal year. With the Cayman Islands being a leading jurisdiction for hedge funds and the second largest jurisdiction for captive operations, it is well positioned to build on its expertise to be the domicile of choice for the emerging hedge fund-backed reinsurers.

Total premiums, net income, total assets and net asset position of (re)insurers operating in the Cayman Islands international market are reported in Table 9.

Category	Total Licences	%	Total Premiums	Total Assets
Commercial Insurer	44	6.21%	401,089,477	3,661,041,663
Group Captive	128	18.05%	2,483,053,630	7,493,106,572
Pure Captive	360	50.78%	4,303,269,473	18,491,619,334
Reinsurance Companies	9	1.27%	4,817,633,862	16,394,806,595
Segregated Portfolio Company	145	20.45%	1,273,450,982	7,165,237,234
Special Purpose Vehicle	23	3.24%	285,036,479	4,761,987,939
Totals:	**709**	**100.00%**	**13,563,533,903**	**57,967,799,337**

Table 9: International Insurance Company Statistics by Company Category and Licence Class, 30 June 2016

The Domestic Insurance Segment Activity

The domestic insurance sector provides a number of products such as motor insurance, property insurance, health insurance, liability insurance, marine insurance, term life and credit life insurance, investment-linked products, annuities etc. As at 30 June 2016, there were 29 insurance companies operating in the Cayman Islands' domestic insurance industry. Of the 29 Class 'A' insurer licence holders in the market, 25 licensees actively engaged in insurance business in the Cayman Islands. Of the four 'inactive' licensees, three were in "run off" (a company is placed into run-off once it stops issuing new insurance policies, but continues to process claims) and one under controllership.

As depicted in Table 10, total gross written premium (GWP) and assumed reinsurance premium generated by the domestic insurance companies as at 31 December 2015 amounted to CI$555.1 million, compared to previous year GWP of CI$534.7 million. As in the past years, general insurance business, which includes health insurance business, led the market with a share of 95% of the total premium income. In 2015, general insurance business recorded a gross written premium and reinsurance premium income of CI$530.8 million with a growth of approximately 3.2%, compared to CI$514.1 million in 2014. Even though much smaller in size, the life insurance market also reported a growth of approximately 20% in 2015.

	Property	Motor	Health	Liability	Marine & Aviation	Other	Life	Grand Total
Direct premiums	91,979	23,698	245,349	26,624	54,199	17,029	24,340	483,218
Assumed premiums	26,296	574	675	40,162	3,977	221		71,905
Ceded premiums	-66,935	-8,806	-30,195	-2,363	-78	-123	10,504	-97,996
Unearned premium adjustment	2,352	-1,026	-4	-1,996	-10	-3		-687
TOTAL UNDERWRITING INCOME	**53,692**	**14,440**	**215,825**	**62,427**	**58,088**	**17,124**	**13,836**	**435,432**
Net loss and loss adjustment expenses paid	4,382	9,633	124,911	23,799	40,332	1,355	7,004	211,416
Change in reported outstanding claims	4,313	-1,571	17,661	-9,765	-20,291	399	8,037	-1,217
Change in IBNR	6	216	-9	222	0	390		825
Incurred Loss Sub Total	8,701	8,278	142,563	14,256	20,041	2,144		195,983
Acquisition and General Expenses	-3,236	3,004	21,743	2,099	763	2,197	9,142	35,712
TOTAL UNDERWRITING EXPENSES	**5,465**	**11,282**	**164,306**	**16,355**	**20,804**	**4,341**	**24,183**	**246,736**
TOTAL UNDERWRITING INCOME (LOSS)	**48,227**	**3,158**	**51,519**	**46,072**	**37,284**	**12,783**	**-10,347**	**188,696**
Net Investment Income	n/a	n/a	n/a	n/a	n/a	n/a	n/a	8,420
Other Revenue/(Expenses)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-17,055
TOTAL INCOME (LOSS)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	**180,061**

Table 10: Domestic Insurance Company Statistics by Primary Class of Business as at 31 December 2015 (CI$ 000') – based on unaudited financial statements

INVESTMENTS AND SECURITIES

FUNDS AND FUND ADMINISTRATORS

The Sector

The regulatory framework that governs the alternative investment industry in the Cayman Islands was enacted in 1993. Today, the Cayman Islands is the premier domicile of choice for funds. The jurisdiction also continues to surpass other fund domiciles (see Table 11). Despite an overall decline in new fund authorisations globally, the funds industry in the Cayman Islands remains healthy, showing only a slight decrease, with 11,019 total funds as of 30 June 2016, compared to 11,061 as at 30 June 2015; 11,296 as at 30 June 2014. The total as at June 2016 includes 2,882 master funds, 7,661 registered funds, 376 administered funds and 100 licensed funds. (See Figure 16)

The Mutual Funds Law (2015 Revision) ("MFL") makes provision for three categories of regulated funds: licensed, administered and registered, and charges the Cayman Authority with responsibility for their regulation and ongoing supervision. Licensed funds, commonly known as retail or public funds, are governed by a more prescriptive regime than registered funds because they are open to the public. All operators and promoters are vetted, offering documents must outline certain required information, calculation of net assets must be clearly defined and transparent, and assets must be segregated in accordance with governing rules.

Although Cayman Islands legislation refers to 'mutual funds', the vast majority of the funds regulated in the jurisdiction fall within the loose definition of a 'hedge fund' and are regulated as registered funds. A registered fund must either have a CI$80,000 minimum subscription, or have its equity interest listed on a recognised (CIMA-approved) stock exchange. The majority of investors are professional investors and/or institutions. Most of these funds have a US$1,000,000 minimum subscription level, and they are usually distributed as a private placement, all of which further reinforce their non-public status. According to the Authority's 2014 Investment Statistical Digest, of the 9,807 regulated funds that filed a 2014 Fund Annual Return Form ("FAR") with CIMA, 44% of the master funds and 33% of the registered funds, required a minimum initial investment of US$1 million. However, for administered and licensed funds, which do not have a minimum subscription amount, 62% and 83%, respectively, of the funds had a lower threshold for minimum initial investment at less than US$50,000 (see Figure 18).

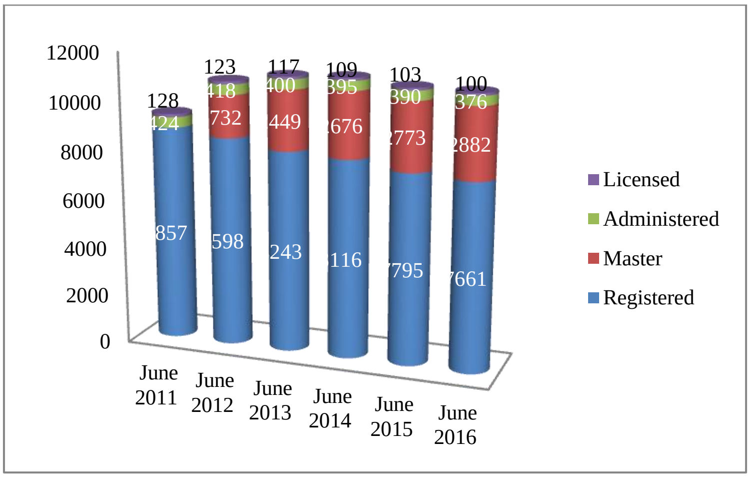


Figure 16: Number of Cayman Regulated Funds, by Category, Fiscal Year-end 2011-2016

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

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

Two categories of mutual fund administrator licences[7] exist: full, which allows the holder to provide administration to an unlimited number of funds, and restricted, which allows administration of no more than 10 funds. See Figure 17, Mutual Fund Administrators by Category, 2011-2016.

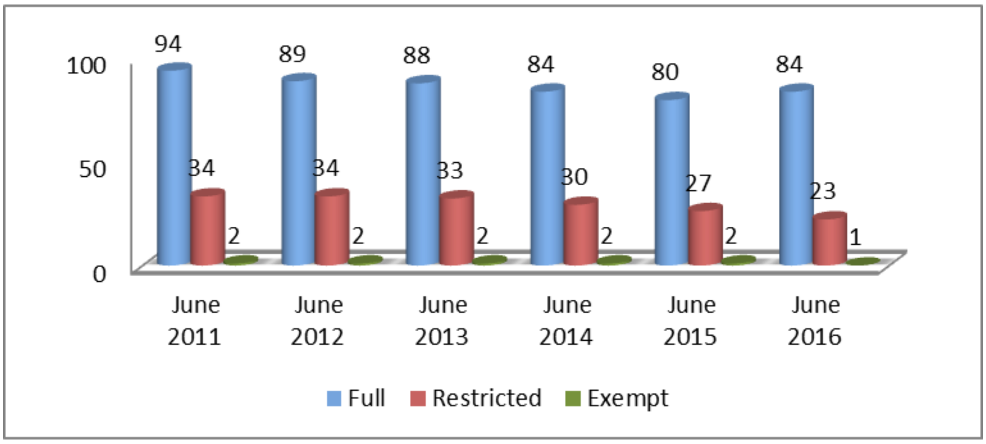


Figure 17: Number of Mutual Fund Administrators, by Category, 2011-2016

CIMA reports aggregate financial and other statistical information on regulated funds, enabling information to be gathered on the size and profile of the industry. CIMA collated information from 9,807 regulated funds that had a financial year-end in 2014 and that submitted the required FAR form via CIMA's electronic reporting system.[8] These 9,807 funds had total assets of US$5.7 trillion combined, and net assets of US$3.6 trillion. The increase in net assets was due to subscriptions of US$1.1 trillion, redemptions of US$808 billion, Dividends/Distributions of US$33 billion and Net Income of US$189 billion. The data indicate net income of the funds declined in 2014 due to the challenging global macroeconomic and investment environment, primarily in the Euro Area and Emerging Markets, and the effects of high stock prices on hedging strategies, with returns on both gross and net assets decreasing from 6.9% and 10.7% in 2013, to 3.3% and 5.3% in 2014, respectively. Total performance fees paid during 2014 were also down 28% as a result of the decline in earned income during the year.

Four of the top five investment manager locations, as measured by net assets held by managers in these locations, remain the same, being New York, United Kingdom,

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[7] A third authorisation category, Exempted Administrators, which previously existed, has been discontinued. However, administrators already authorised in this category remain.
[8] See CIMA's *Investments Statistical Digest 2014* available on CIMA's website at www.cimoney.com.ky

Connecticut and California. However, Hong Kong, Illinois and Delaware are now on the same level with Massachusetts that was previously in the top 5 investment manager locations. The Cayman Islands remained the primary location from which fund administration services (registrar and transfer (R&T) service) was provided for these funds.

The Cayman Islands remains one of the jurisdictions of choice in the offshore hedge fund industry, with investment managers continuing to exhibit a level of confidence in the Islands' regulatory regime for funds that is reflected in the growth of the total assets under management of Cayman Islands structures, despite global economic and investment environment challenges in 2014. Investors also benefit from a robust and transparent regulatory infrastructure, while gaining additional benefits such as a tax-neutral investment platform.

As the industry is constantly evolving, with increased focus on good governance and transparency, the Cayman Islands continues to enhance and adopt appropriate legislation that meets globally acceptable regulatory standards for the funds industry. This evolution also includes establishing a suitable regulatory regime for those Cayman Islands managers who desire to market and manage funds in the European Union (EU) and must therefore comply with the Alternative Investment Fund Managers Directive (AIFMD).

The European Securities Markets Authority ("ESMA") continued its assessment of third countries in relation to the possible extension of the passporting system to such jurisdictions. Given the recent announcement that the second round of assessments would include Australia, Canada, Japan, the Cayman Islands, the Isle of Man and Bermuda, the Authority was called upon to respond to a series of questions as part of ESMA's assessment for the Cayman Islands. The proposed legislative changes to the Mutual Funds Law and Securities Investment Business Law in relation to the new AIFMD regime were enacted in September 2015; however they have not yet been assented to, pending the finalization of the supporting regulations.

These legislative changes and regulations will provide a comprehensive legislative framework for funds and managers in the Cayman Islands, who will seek to operate within the EU and European Economic Area. Strict anti-money laundering requirements are also in place within the jurisdiction to prevent the flow of funds from the proceeds of crime, with information exchange agreements relating to AML/CFT signed with many countries, including the United States and United Kingdom.

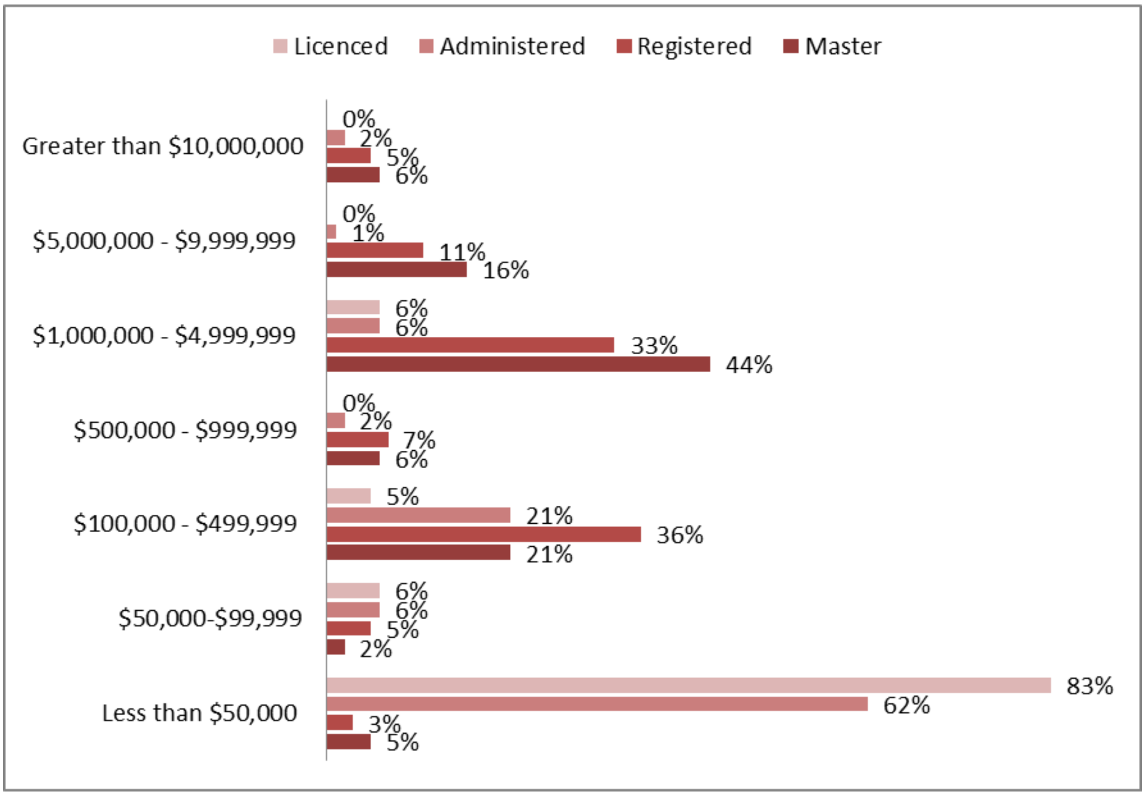

Figure 18: Minimum Initial Investment Required by Cayman-Regulated Funds Filing a Fund Annual Return for 2014

Authorisation Activity

Funds - Fiscal year to date, 1,274 regulated entities were authorized and 1,478 regulated entities were terminated, compared to 1,423 and 1,465 respectively during the same period in 2015. The total number of regulated funds as at 30 June 2016 was 11,019 (comprising 7,661 registered funds, 2,882 master funds, 376 administered funds and 100 licensed funds), compared to 11,061 for the same period in 2015 (comprising of 7,795 registered funds, 2,773 master funds, 390 administered funds and 103 licensed funds).

Administrators – The number of licensed mutual fund administrators decreased slightly during the fiscal year from 109 to 108. There were 4 new mutual fund administrators' licence applications approved, and 5 licences cancelled during the fiscal year. The trend to downsize through mergers and acquisitions continues. At 30 June 2016, there were 108 licensed mutual fund administrators (1 Exempted, 84 Full and 23 Restricted), compared to 109 for the same period in 2015.

Jurisdictional Comparisons - Funds

Table 11 shows the number of active funds for calendar years 2010 to 2015 in Cayman and other financial jurisdictions for which figures are available. As the figures demonstrate, the number of Cayman-authorised funds remains consistently in excess of the other jurisdictions. To date, Cayman remains the leader in fund domiciliation. The decline in fund numbers across jurisdictions between 2010 and 2015 largely reflects the impact of the US recession and the continued instability in the global financial markets.

Jurisdiction	2010	% change ('11 v '10)	2011	% change ('12 v '11)	2012	% change ('13 v '12)	2013	% change ('14 v '13)	2014	% change ('15 v '14)	2015
Bahamas	753	↓1.8%	713	↓8.6%	652	↑15%	750	↑10.7%	830	N/A	N/A
Bermuda	1,181	↓11.8%	772	↓1.3%	762	↓8.4%	698	↓7.3%	647	↓2.6%	630
BVI	2,951	↓12.3%	2,627	↓11.8%	2,318	↓3.5%	2,238	↓4.3%	2,142	↓4.9%	2,037
Dublin	1,022	↑9.7%	1,121	↑3.3%	1,158	↑3.2%	1,195	↓1.3%	1,179	↑1.6%	1,198
Jersey	1,324	↑3.0%	1,392	↓0.3%	1,388	↓3.9%	1,334	↓0.8%	1,323	↓1.9%	1,320
Cayman	9,438	↓1.9%	9,258	↑17.2%	10,841	↑5%	11,379	↓3.2%	11,010	↓0.6%	10,940

Table 11: Regulated Fund Numbers - Selected Jurisdictions, 2010-2015 Calendar Year-end

SECURITIES INVESTMENT BUSINESS

The Sector

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

The excluded persons category continues to account for the vast majority of SIBL authorisations (see Figure 19). Most of the entities in this category conduct securities investment business exclusively for institutions or sophisticated investors. The majority of the licensees are increasingly stand-alone operations from major jurisdictions that are seeking to expand their client base, utilizing a well-established jurisdiction with a globally recognized regulatory regime for securities investment business.

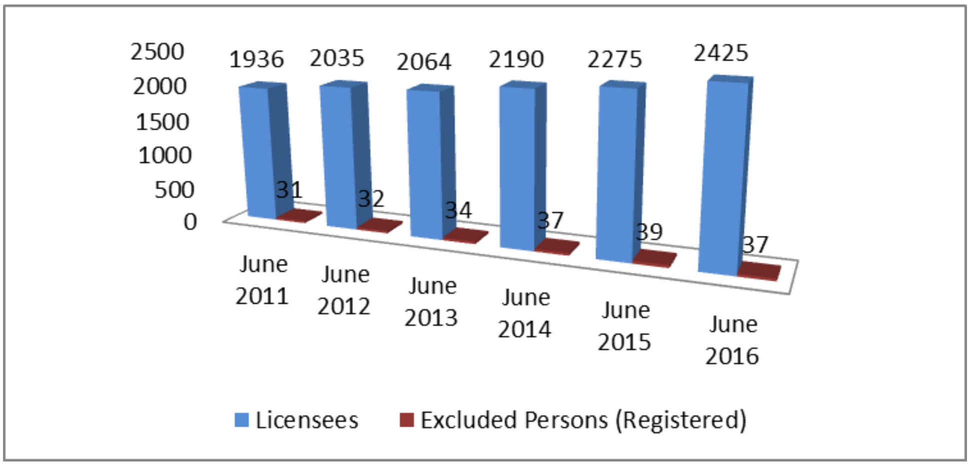

Figure 19: Number of Regulated Securities Investment Business Entities, 2011-2016

Authorisation Activity

The securities investment business has declined slightly, with two licences cancelled during the fiscal year. At 30 June 2016, there were 37 licensed Securities Investment Business holders and 2,425 SIBL Excluded Persons, compared to 39 and 2,275 respectively during the same period in 2015.

ORGANISATIONAL DEVELOPMENTS

NATURE AND SCOPE OF ACTIVITIES

FUNCTIONS

CIMA is governed by the Monetary Authority Law (2013 Revision), and has four principal functions:

1. **Monetary** - the issue and redemption of the Cayman Islands currency and the management of currency reserves.

2. **Regulatory** - the regulation and supervision of financial services, the monitoring of compliance with money laundering regulations, the issuance of a regulatory handbook on policies and procedures and the issuance of rules, and statements of principle and guidance.

3. **Cooperative** - the provision of assistance to overseas regulatory authorities, including the execution of memoranda of understanding to assist with consolidated supervision.

4. **Advisory** – the provision of advice to the Government on monetary, regulatory and cooperative matters, and, in particular, to advise Government whether the Authority's regulatory functions and cooperative functions are consistent with functions discharged by an overseas regulatory authority, and whether the regulatory laws are consistent with the laws and regulations of foreign jurisdictions. The scope of CIMA's advisory role also extends to representing the interests of the Cayman Islands at international forums and advising Government on the recommendations of those organisations.

OBLIGATIONS

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

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

STRATEGIC OBJECTIVES

In 2014, CIMA completed a new three-year strategic plan approved by the Authority's Board of Directors. In summary, the strategic priorities were:

1. to undertake structural/functional reforms;
2. to implement HR enhancements;
3. to conduct visits to key jurisdictions;
4. to maintain and enhance CIMA's regulatory profile internationally;
5. to enhance collaboration with the Cayman Islands Government and Private Sector;
6. to implement regulatory framework enhancements;
7. to implement Operational and Technology Enhancements; and
8. to preserve the value and integrity of the Cayman Islands currency.

EXECUTION OF MONETARY FUNCTIONS

CURRENCY MANAGEMENT

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

Currency Reserve Management

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

The currency in circulation is backed by the currency reserve assets in accordance with section 32 of the Monetary Authority Law. As at 30 June 2016, the value of the currency reserve assets was CI$118.503m (2015: $105.812m) representing 110.88 % (2015: 111.51%) of total demand liabilities (i.e. currency in circulation).

Full details on the currency reserve assets, including specifics on the performance of the investments and cash and cash equivalent deposits that comprise the currency reserve assets, can be found at Note 4 of the Notes to the Annual Financial Statements (page 62 and following).

Issue and Redemption of Currency

Currency in Circulation - At 30 June 2016, currency in circulation (excluding numismatic coins) stood at $95.8 million in notes and $11.1 million in coins, totalling $106.9 million. This represents a 12.6% increase from the 30 June 2015 figure of $94.9 million. Table 12 shows currency in circulation at fiscal and calendar year-end from 2011 to 2015. Figure 20 shows currency in circulation by month from 2011 to 2015.

DATE	2012	2013	2014	2015	2016
30-Jun	88.7	87.2	91.7	94.9	106.9
31-Dec	94	96.2	95.5	107.7	

Table 12: Currency in Circulation at Fiscal and Calendar Year-end, 2012-2016 (in CI$m)

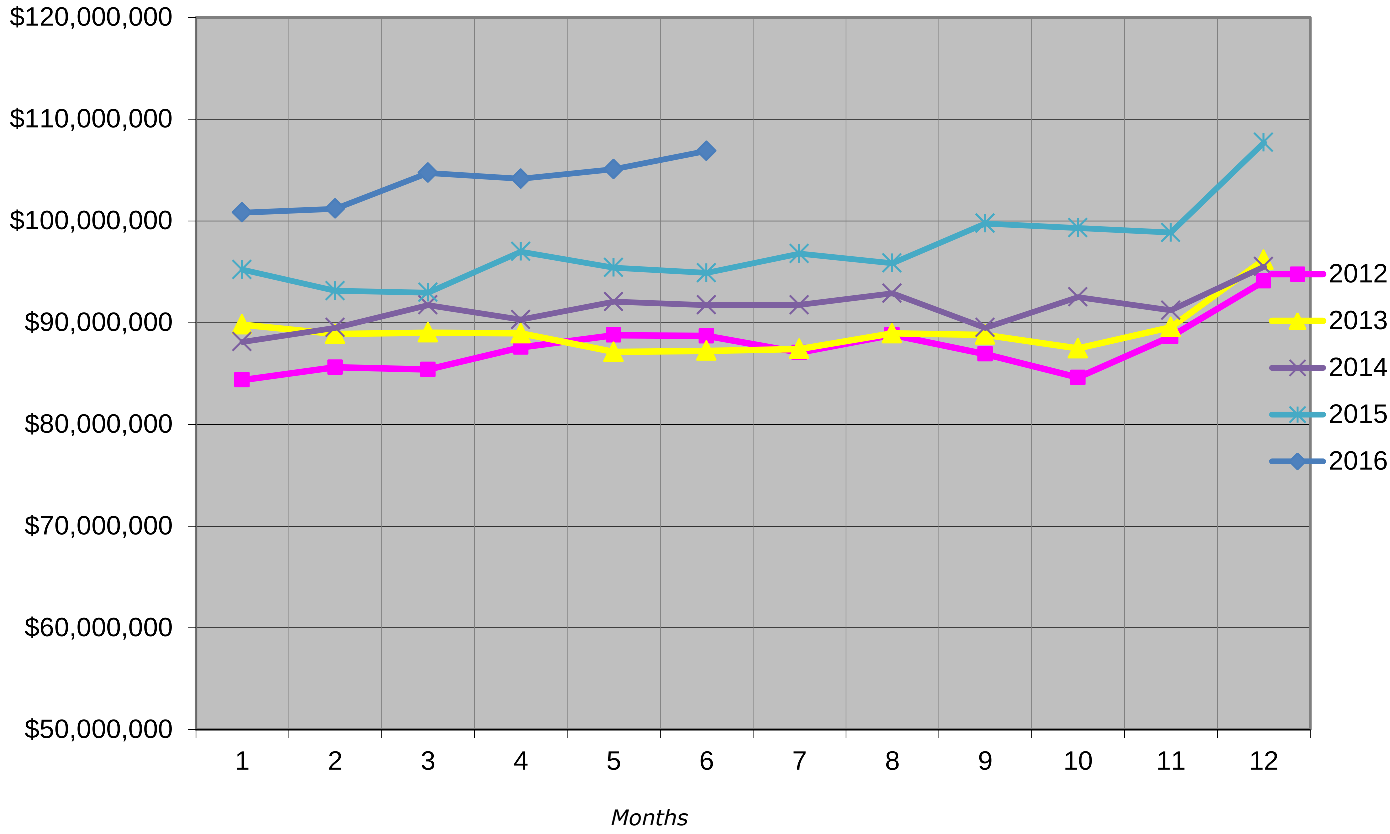

Figure 20: Cayman Islands Currency in Circulation by Month: 2012-2016

Counterfeit Detection
A total of 1 forged banknote was detected and withdrawn from circulation in 2015-16, compared to 3 detected and withdrawn in the prior fiscal year.

Table 13 shows the number of forged banknotes, by denomination, which were withdrawn from circulation in each of the six-month periods between 1 July 2012 and 30 June 2016.

	Jul - Dec 2012	Jan - Jun 2013	Jul - Dec 2013	Jan - Jun 2014	Jul - Dec 2014	Jan - Jun 2015	Jul - Dec 2015	Jan - Jun 2016
$100	0	4	3	1	0	2	0	1
$50	1	2	1	0	0	0	0	0
$25	4	7	0	0	0	0	0	0
$10	2	4	4	2	1	0	0	0
$5	0	0	0	0	0	0	0	0
$1	0	0	0	0	0	0	0	0
Total No. of Notes	**7**	**17**	**8**	**3**	**1**	**2**	**0**	**1**
Total Dollar Value	**$170**	**$715**	**$390**	**$120**	**$10**	**$200**	**$0**	**$100**

Table 13: Counterfeit Cayman Islands Currency Notes Recovered, July 2012-June 2016

Numismatic Coin Programme

The Authority was approached by the Cayman Islands National Museum (CINM), which was celebrating its 25th anniversary in November 2015, to commission a 25th Anniversary Coin. The Authority was pleased to honour this request, and the subsequent approvals were granted to mint 250 commemorative coins.

On 20 November 2015 at the preview of the CINM's Anniversary Exhibition - Twenty-Five Years - Miss Deborah Ebanks, Head of the Currency Division, presented one of the commemorative coins to Mr. Alfonso Wright, Chairman of the Board of Directors, on behalf of CIMA.

The Authority also recognized the hard work of a young Caymanian artist, Mr. Brian Walter Jr., who was attached to CINM as an intern and on 28 November at the Exhibit Opening, Looky Ya & Kitchen Dance, Ms. Shan Whittaker, Deputy Head of Currency, presented Mr. Watler with a coin. The Authority is very keen on recognizing our young people for their hard work and hopes that young people like Brian will continue to be role models and become mentors for other young people.

Below are obverse and reverse images of the 25th Anniversary Coin of the Cayman Islands National Museum.

Figure 21: 25th Anniversary Coin of the Cayman Islands National Museum

The Authority continues to look for significant milestones in our country's history that could be viable subjects for commemorative coins.

EXECUTION OF REGULATORY FUNCTIONS

THE REGULATORY REGIME

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

Regulation and supervision are carried out in accordance with internationally accepted standards where these exist and are appropriate for the jurisdiction. The domestic laws and international standards under which the Cayman Islands Monetary Authority and regulated sectors operated as at 30 June 2016 are shown in Table 14.

Sector/ Entity type	CI Law	International Standards / Memberships
All	• Monetary Authority Law (2013 Revision), and amendment • Proceeds of Crime Law (2014) Money Laundering Regulations (2015 Revision) • Terrorism Law (2015 Revision) • Public Management and Finance Law (2013 Revision), amendment and regulations • Companies Law (2013 Revision), and amendments	**Standards:** • Financial Action Task Force Forty Recommendations on Money Laundering and Financing of Terrorism & Proliferation **Memberships:** • Caribbean Financial Action Task Force (CFATF) • Regional Consultative Group for the Americas (Financial Stability Board)
Banks, trusts companies, money services businesses, credit unions, building societies, corporate services providers, company managers	• Banks and Trust Companies Law (2013 Revision), and amendments • Private Trust Companies Regulations, 2013), and amendment • Money Services Law (2010 Revision), and regulations • Cooperative Societies	**Standards:** • Basel Core Principles for Effective Banking Supervision[9] • Trust and Company Service Providers Working Group Statement of Best Practice produced by the Group of International Financial Centre Supervisors (formerly Offshore Group of Banking Supervisors)[10]

[9] As promulgated by the Basel Committee on Banking Supervision
[10] The working group comprised representatives of various offshore financial centres, the FATF, IMF and OECD as well as representatives of four G7 countries. The Statement was disseminated to the fiduciary sector via the

	Law (2001 Revision), and regulations • Building Societies Law (2014 Revision) • Development Bank Law (2004 Revision) • Companies Management Law (2003 Revision), and regulations	**Memberships:** • Group of International Financial Centre Supervisors (formerly Offshore Group of Banking Supervisors) • Caribbean Group of Banking Supervisors • Association of Supervisors of Banks of the Americas
Insurance companies, managers, brokers, agents	• Insurance Law, 2010, amendments and regulations	**Standards:** • International Association of Insurance Supervisors (IAIS) Core Principles of Insurance Regulation[11] **Memberships:** • IAIS • Group of International Insurance Centre Supervisors (GIICS) • Caribbean Association of Insurance Regulators (CAIR)
Mutual funds, fund administrators, securities investment businesses (market makers, broker-dealers, securities arrangers, securities advisors and securities managers)	• Mutual Funds Law (2015 Revision), and regulations • Securities Investment Business Law (SIBL) (2015 Revision), amendment and regulations • Directors Registration and Licensing Law, 2014 and regulations	**Standards:** • International Organization of Securities Commissions (IOSCO) • Offshore Group of Collective Investment Schemes Supervisors (OGCISS) **Memberships:** • Offshore Group of Collective Investment Schemes Supervisors • Caribbean Group of Securities Regulators • IOSCO

Society of Trust and Estate Practitioners (STEP) and the Company Managers Association, and was accepted locally.

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

Table 14: The Cayman Islands Monetary Authority Regulatory Framework (as at 30 June 2016)

Regulation and Supervision

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

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

REGULATORY DEVELOPMENTS

Rules, Guidelines and Policies

The Policy and Development Division is responsible for the continuous development of the financial services regulatory framework within the Cayman Islands in accordance with international standards. Its cross-functional role supports and advises the Authority's senior management, the four supervisory divisions and the Compliance Division.

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

During the year under review, the Authority issued several measures that impacted the investment funds, securities, banking, fiduciary and insurance sectors. The Regulatory Policy on Exemption from Audit Requirements for a Regulated Mutual Fund was revised to expand the list of circumstances under which a regulated mutual fund can apply for an audit waiver. A new Regulatory Policy on Recognised Overseas Regulatory Authority was issued to provide the criteria used by the Authority to recognise an overseas regulatory authority for the purposes of the Securities Investment Business Law, 2015 ("SIBL"). Further changes were made to the Regulatory Policy on Licensing Banks to enable Class 'B' applicants to have more options to meet CIMA's expectations of how to hold the minimum required capital. New measures were issued for the insurance sector pertaining to corporate governance and a licensee's use of an Internal Capital Model ("ICM"). The Authority also enhanced its measures pertaining to fitness and propriety assessments across all sectors. Revisions were also made to the general Statement of Guidance on Corporate Governance with a view to enhancing and modernising this measure in line with international standards and best practices. Lastly, new measures relating to the outsourcing of material functions and activities and approving changes in ownership and control were issued for all sectors, with noted exceptions.

The regulatory measures issued during the 2015-16 fiscal year are listed in Table 15. Copies of all rules, statements of guidance and policies and procedures issued by the Authority are available on the CIMA website.

When Issued	Type of Standard	Title	Description
August 2015	Statement of Guidance	Statement of Guidance: Outsourcing Regulated Entities	The purpose of this Statement of Guidance (SOG) is to provide guidance to regulated entities on the minimum expectations of the Authority relating to the establishment of outsourcing arrangements and the outsourcing of material functions or activities.
December 2015	Policy	Regulatory Policy Criteria for Approving Changes in Ownership and Control	This Policy was established to promote consistency and transparency relating to share transfers and acquisitions and to allow for better alignment with international standards. It establishes criteria for the approval of changes in ownership, shareholdings and control.
February 2016	Statement of Guidance	Statement of Guidance: Corporate Governance	The revised SOG is applicable to entities regulated by the Authority with the exception of regulated mutual funds, excluded persons (pursuant to SIBL), insurers, and private trust companies. The SOG sets out the minimum elements of a corporate governance framework and expands on the duties and responsibilities of the Governing Body and individual directors.
April 2016	Policy	Regulatory Policy – Licensing Banks	The Policy on Licensing was revised to allow home regulated banks to now maintain a banking relationship with any Category 'A' Bank for the purpose of maintaining their net worth.
June 2016	Policy	Regulatory Policy On Fitness And Propriety	The Policy was revised to enhance the criteria for the assessment of fitness and propriety of persons performing or proposed to perform a controlled function. The policy highlights the responsibility of the licensee or regulated fund including the expectation that the fit and proper assessment commences at the recruitment stage and ensuring that the person continues to remain competent.
June 2016	Procedure	Regulatory Procedure - Assessing Fitness And Propriety	The Procedure was revised to update and strengthen the required documentation of persons. In addition, the Procedure outlines the steps that will be performed by the Authority in its fit and proper assessments.
June 2016	Policy	Regulatory Policy – Recognised Overseas Regulatory Authorities – Securities Investment Business Law	This Policy on Recognised Overseas Regulatory Authorities was revised to introduce the criteria where an overseas regulatory authority would be recognised for various purposes of the Securities Investment Business Law. The new criteria increased the number of recognised overseas regulatory authorities.
June 2016	Statement of Guidance	Statement Of Guidance - For	This SOG sets out the criteria used by the Authority to determine whether a licensee should be granted

		Licensees Seeking Approval To Use An Internal Capital Model To Calculate The Prescribed Capital Requirement	approval to use an ICM to calculate the Prescribed Capital Requirement
June 2016	Procedure	The Regulatory Procedure - Submission Process For Licensees Seeking Approval To Use An Internal Capital Model To Calculate The Prescribed Capital Requirement	The aim of the Procedure is to detail the process that a licensee should undertake when seeking approval from the Authority to use an ICM to calculate its PCR.
June 2016	Rule	Rule: Corporate Governance for Insurers	This Rule was created to more closely align with current Insurance Core Principles. The measure requires insurers to establish, implement, and maintain a corporate governance framework which provides for sound and prudent management and oversight of the insurer's business and adequately recognizes and protects the interests of policyholders.
June 2016	Policy	The Regulatory Policy – Exemption From Audit Requirement For A Regulated Mutual Fund	The Policy was amended to expand the list of circumstances in which a Fund can apply to the Authority for an exemption from the audit requirement.

Table 15: List of Regulatory Measures Issued in 2015-16

Other Regulatory Developments

Alternative Investment Fund Managers Directive (AIFMD)
The AIFMD, which introduced a unified regulatory regime for alternative investment fund managers and funds within the European Union (EU) and the wider European Economic Area (EEA), came into force in July 2013.

The Authority, in consultation with the Cayman Islands Government ("CIG") and industry stakeholders, amended the Mutual Funds Law, 2015 ("MFL") and the SIBL (gazetted but not yet assented to) for the purpose of the Alternative Investment Fund Managers Directive ("AIFMD"). Regulations were also drafted to supplement both the MFL and the SIBL in respect of the AIFMD.

The European Securities and Markets Authority ("ESMA") completed an assessment of the Cayman Islands at the end of June 2016 in order to provide advice to the European Parliament, the Council and the Commission on whether the EU Passport should be extended to the Cayman Islands. ESMA's assessment is based on whether there are significant obstacles regarding investor protection, market disruption, competition or the monitoring of systemic risk to making the EU Passport available to the Cayman Islands.

Cayman Islands fund managers continue to operate in the European Union under the National Private Placement regimes.

Anti-Money Laundering

The Cayman Islands expects its assessment by the Caribbean Financial Action Task Force ("CFATF") as part of the Fourth Round of Mutual Evaluations in 2017. In 2014-2015, the Cayman Islands carried out a national risk assessment of money laundering and terrorist financing led by the Government through its Anti-Money Laundering Unit with active participation by the Authority.

A number of other working groups have been established with an aim to effect changes to strengthen the Cayman Islands Anti-Money Laundering/Countering of Terrorist Financing (AML/CFT) framework and to enhance the AML/CFT related supervisory practices for a more robust AML/CFT regime. CIMA continues to work with the CIG in an effort to enhance the country's AML/CFT framework and effectively prepare for its upcoming CFATF assessment.

Mutual Funds (Annual Returns) Regulations

The Authority worked with the CIG to amend the Mutual Funds (Annual Returns) Regulations resulting in the Mutual Funds (Annual Returns)(Amendment) Regulations, 2015 coming into force on 15th September 2015. The amendments brought changes that reflect the evolution of fund structures in the jurisdiction, such as Master Funds while allowing the Authority to comply with certain international obligations.

Insurance (Capital and Solvency) (Classes B, C and D Insurers) Regulations

The Insurance (Capital and Solvency) (Classes B, C and D Insurers) Regulations, 2012 were revised to give the Authority more flexibility in relation to an application for a Class D insurance licence. The Authority may now prescribe a lower capital requirement in respect of Class D insurers once certain terms and conditions have been met. The amended Regulation came into force on 27 April 2016.

COMPLIANCE AND ENFORCEMENT

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

Due Diligence

In carrying out due diligence, the Authority follows its *Regulatory Policy – Assessing Fitness and Propriety*[12]. The Compliance Division, which is tasked with conducting due diligence on applicants that the regulatory divisions refer to it, received 285 such applications during the 2015-2016 fiscal year. This compares to 299 during 2014-15. The breakdown of the applications for 2015-16 and 2014-15, by division, is shown in Table 16.

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[12] Regulatory Policy – Fitness and Propriety:
http://www.cimoney.com.ky/WorkArea/DownloadAsset.aspx?id=2147485187
Also see information on Fitness and Propriety at page 28 of the Regulatory Handbook - Volume 1 March 2011. Address: http://www.cimoney.com.ky/WorkArea/linkit.aspx?LinkIdentifier=id&ItemID=3714

	Banking	Fiduciary	Insurance	Investments	Total
Applications as at 30 June 2015:	108	148	3	40	299
Applications as at 30 June 2016:	87	133	1	64	285

Table 16: Due Diligence Applications Referred to the Compliance Division, 2015-16 with 2014-15 Comparison

Enforcement

CIMA's *Enforcement Manual*[13] 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 taking formal enforcement action. The Compliance Division and the Legal Division are responsible for the exercise of enforcement action, under the authorisation of CIMA's Board of Directors.

The Authority initiated 11 formal enforcement actions during 2015-16 (compared to 18 during 2014-15). Table 17: lists the formal enforcement actions initiated[14].

Table 17: Formal Enforcement Actions, 2015-2016

Name of Entity	Type of Authorisation Held	Enforcement Action	Effective Date
Brighton SPC	Registered Fund	Winding Up	6-Oct-15
Brighton SPC	Registered Fund	Registration Cancelled	6-Oct-15
Melstrep Neural Network No.1 Fund Limited	Registered Fund	Winding Up	3-Nov-15
Melstrep Neural Network No.1 Fund Limited	Registered Fund	Registration Cancelled	3-Nov-15
Azure Energy Fund, Inc.	Registered Fund	Registration Cancelled	26-Apr-16
Robert Neil Aspinall	Professional Director	Registration Suspended	3-Jun-16
Ryan Kim Ashley Bateman	Registered Director	Condition Imposed	3-Jun-16
Ryan Kim Ashley Bateman	Registered Director	Directions Issued	3-Jun-16
Canover Norbert Watson	Registered Director	Registration Cancelled	3-Jun-16
A2 Fund	Registered Fund	Registration Cancelled	28-Jun-16
Ryan Kim Ashley Bateman	Registered Director	Registration Cancelled	30-Jun-16

Litigation

There was no litigation with regards to enforcement actions during the 2015-16 fiscal period.

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

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

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

In addition, in keeping with its mandate to protect the jurisdiction from individuals or entities seeking to reap illegal benefit by false association with the Cayman Islands, the Compliance Division continued updating a list of websites which give Cayman addresses for various businesses which are not registered or licensed in the Cayman Islands.[15]

EXECUTION OF COOPERATIVE AND ADVISORY FUNCTIONS

CROSS-BORDER COOPERATION

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

Memoranda of Understanding

While not a prerequisite for the provision of assistance, MOUs and similar agreements establish a framework for mutual assistance and cooperation by CIMA and the regulatory body with which the MOU is signed. The agreements specify when consultation should take place and the type of supervisory and enforcement information that may be exchanged. In this way, they enhance the existing working relationships between the authorities. Copies of the Authority's current MOUs and cooperation agreements are available on the CIMA website.[16]

During this period, CIMA signed three bi-lateral MOUs. These are listed in Table 18.

Agreement	Effective Date
▪ Gibraltar Financial Services Commission	30 June 2016
▪ Abu Dhabi Global Market FRSA	14 June 2016

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

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

▪ Labuan Financial Services Authority – Memorandum of Understanding	6 Aug 2015

Table 18: International Information Exchange and Cooperation Agreements Concluded, 2015-2016

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)*[17] - sets out the Authority's approach in dealing with these requests. The process includes reviewing and assessing the requests and drafting directions to persons who have information that will assist the ORA in performing its functions.

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

The Authority handled a total of 246 requests for assistance from ORAs during the 2015-16 financial year, compared to 207 requests during 2014-15 and 154 during 2013-14.

LOCAL COOPERATION

Money Laundering Reporting

The Head of Compliance is the Authority's Money Laundering Reporting Officer (MLRO) under the Proceeds of Crime Law, (2014 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 (2015 Revision).

The MLRO filed 4 suspicious activity report (SAR) with the FRA during 2015-16, compared to 1 filed during 2014-15. The FRA made 42 onward disclosures during 2015-16 to the Authority, pursuant to the MOU between the FRA and CIMA. This compares to 39 made by the FRA during 2014-15. CIMA assesses all onward disclosures to determine if further investigation and regulatory action are required.

ADVISORY ACTIVITY

The Monetary Authority Law requires CIMA to advise the Government on monetary, regulatory and cooperative matters. This includes providing advice as to whether CIMA's regulatory and cooperative functions are consistent with those discharged by overseas

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

regulators; whether the regulatory laws are consistent with the legislation of other countries and territories; and advising on the recommendations of international organisations.

This law also requires CIMA to consult with the local private sector on the proposed issuance or amendment of rules or statements of principle or guidance concerning the conduct of licensees and their officers and employees; statements of guidance concerning the requirements of the money laundering regulations; and rules or statements of principle or guidance to reduce the risk of financial services business being used for money laundering or other criminal purposes.

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

The measures implemented or in development during 2015-16 are covered in the Regulatory Developments section of this report, beginning on page 45.

OPERATIONAL SUPPORT AND ADMINISTRATION

HUMAN RESOURCE MANAGEMENT AND DEVELOPMENT

CIMA prides itself in having a cadre of experienced employees equipped to carry out the functions of the organization. The average tenure of staff is approximately 6 years, with an average of 10 years at executive and upper management levels and 6 years at middle management and supervisory levels.

The past year was challenging in terms of staff retention, with a turnover rate of 13%. This is not uncommon for a regulatory body such as the Cayman Islands Monetary Authority, with the majority of staff being Caymanian and persons with permanent residency status whose skillset and regulatory experiences are easily transferrable to the Industry. It is widely known that CIMA is an excellent organization for the provision of training, experience and opportunity in financial services regulation as well as a breadth of other areas.

Focus remains and will continue to be on the development of our staff and the recruitment of experienced and/or qualified individuals as well as new graduates with whom CIMA seeks to build strong, long-term working relationships.

In keeping with the goals of the 2014–2016 strategic plan, the organisation continued its efforts in attracting and recruiting experienced candidates as well as new graduates who are being groomed in the careers of financial services regulation.

EMPLOYEE SERVICES

Promotions

Sixteen staff members from the Investments and Securities, Fiduciary Services, Banking Supervision, Legal, and Compliance divisions, and the Onsite Inspection Unit earned promotions to analyst, senior analyst, chief analyst, deputy head and head positions since July 2015 to present. CIMA's managers continue to employ the tool of development plans and the interim and annual performance review processes, to work with their team members to identify areas for training and development with additional exposure to technical aspects of the job.

LEARNING AND DEVELOPMENT

In the 2013-2014 fiscal year, CIMA commenced the establishment of working relationships with members of the financial services industry. This partnership has continued, and was strengthened in the current year (2015-2016) with industry field and subject matter experts facilitating and directly sharing their experience with CIMA staff.

Training and Meetings/Seminars

This year, training was especially focused on risk identification and assessments. This included Transaction Monitoring, AML/Fraud Monitoring, and International Financial Reporting Standards ("IFRS"). These sessions focused on a number of key areas such as Integration of Business Lines; Risk Assessments; Integration with Transaction Monitoring Systems; Exception Reports and Suspicious Activity Reporting, Effectively assessing AML/Compliance aspects of entities; Approaches to documenting AML/Fraud findings; Different approaches to conducting AML audits; Roles of the Board and Senior Management; AML/Fraud from a regulatory vs. operational approach; and the impact of IFRS 9 from a regulatory perspective, including credit loss impairment modelling.

In July 2015, the Authority hosted an **industry-wide seminar** co-facilitated by members of the Insurance Supervision Division and expert staff from AM Best – a well accredited agency that reports on the global financial stability of insurers and the insurance industry. This session was well received by the industry attendees and provided useful information as part of the Authority's objectives of continued outreach to the public and to industry.

In October 2015, CIMA hosted training facilitated by the **Group of International Insurance Centre Supervisors** (GIICS). Topics covered included industry trends and developments, financial crime, risk-based supervision, solvency and catastrophe risk.

In November 2015, the annual meeting of the **Financial Stability Board Regional Consultative Group on Shadow Banking** was hosted by the Authority. Twenty-four attendees from overseas as well as local industry participated.

CIMA was pleased to accept the services of Technical Assistance offered by **Caribbean Regional Technical Assistance Centre** ("CARTAC") whose extremely knowledgeable Basel II Expert trained and provided practical guidance to supervisory staff in the development of various methodologies for Pillar II and Pillar III.

Another subject matter expert from CARTAC facilitated regulatory training workshops on Stress Testing and Basel II, scenario analysis, risk management systems and credit mitigation. The workshop assisted with the development of a methodology for Pillar II and Pillar III assessments, and the use of working documents to evaluate reports from banks on their Internal Capital Adequacy Assessment Processes ("ICAAP").

In June 2016, members of the management team attended a one-day workshop with objectives to **Enhance Leadership/Management skills** and Tools to assist with the Effective Engagement towards the Motivation and Retention of staff.

CIMA Public Awareness Campaigns

CIMA launched the first of its public awareness campaigns in May where senior members of the regulatory divisions conducted a number of industry awareness presentations to the local Banking, Insurance and Mutual Funds professional societies. The goal of this initiative is to create a greater awareness about the regulatory functions and responsibilities of CIMA in the local financial industry. It also provided an opportunity for the industry attendees to ask specific questions in relation to the field of work or future initiatives on the part of CIMA.

Local Inward Secondment

CIMA afforded an opportunity for an inward secondment to one of the local liquidation firms. The exposure enabled the secondee an inside experience of CIMA's approach to financial services regulation and provided an opportunity for the secondee to impart this knowledge with colleagues at the firm from which they were seconded. The programme was structured across the four regulatory divisions, the Policy & Development and Compliance Divisions. For the future, it is the intention that this become a reciprocal arrangement to be included as a part of CIMA's future graduate exposure programme.

Staff Complement

The Cayman Islands Monetary Authority has a present total staff complement of 180, as at 30 June 2016.

The organization carries out its mission according to its strategic plan, through twelve divisions and the On-Site Inspection Unit depicted in the table below. Of the total staff complement, 149 are Caymanian, with 31 being non-Caymanians.

Table 19: CIMA Staff complement as at 30 June 2016

Division	Caymanian	non-Caymanian
Banking Supervision	16	6
Compliance	15	0
Currency	7	0
Fiduciary Services	12	1
Finance	7	0
Human Resources	9	0
Info Systems	10	4
Insurance Supervision	8	9
Investments & Securities	38	4
Legal	7	1
Managing Director's Office	8	1
Onsite Inspection Unit	3	0
Policy & Development	9	5

The chart below depicts the distribution of staff across all divisions and the Onsite Inspection Unit.

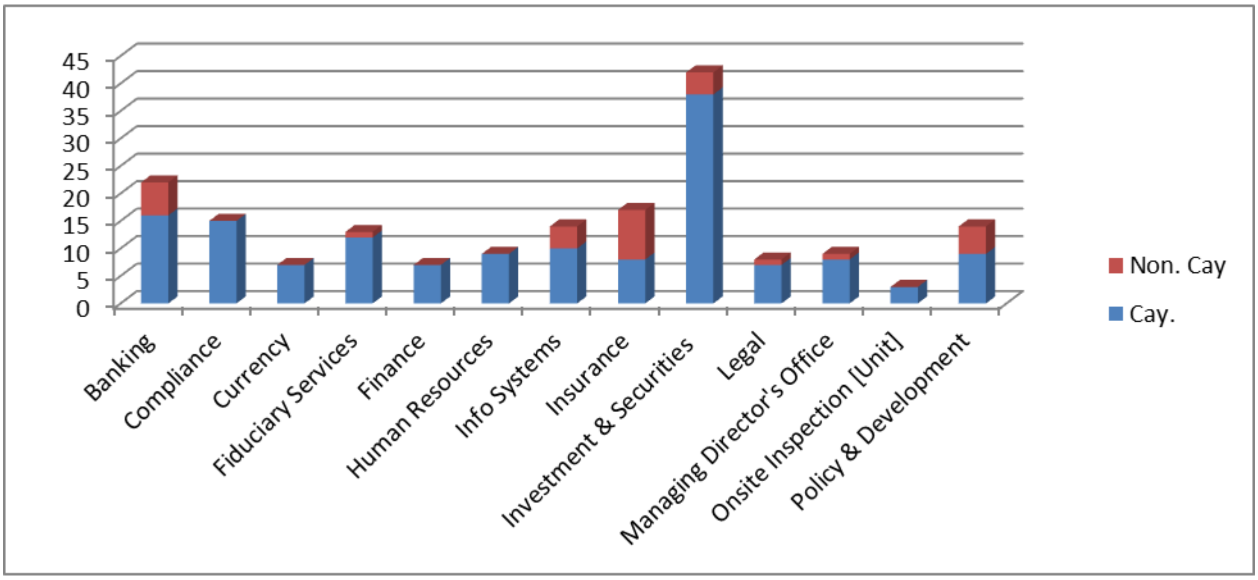

Figure 22: Distribution of staff across all Divisions and the Onsite Inspection Unit

Recruitment of qualified and experienced Caymanians in the insurance industry is typically challenging, as evidenced by the higher number of non-Caymanians within CIMA's Insurance Supervision Division. A similar observation can be made for the Policy & Development and Banking Supervision Divisions, but to a lesser extent; where the experience required for the position as a Chief Policy & Development Officer, for example, is not often available through local candidates. For the Banking Supervision Division, (as with the other regulatory divisions), having staff in the organization who already have financial services regulatory experience and further, having cross-jurisdiction experience, enables excellent synergies to be gained for on-the-job training and a sharing of supervisory techniques within the divisions' staff complement.

Simultaneously, retention of technically sound and experienced employees has also proven to be extremely challenging, as CIMA is unable to compete with the attractive and lucrative compensation packages offered by the private sector.

It is important therefore, for the successful functioning of the organization, to maintain a combination of some work permit holders as well as Caymanian employees. This combination of skillset, cultures and experiences provides a good balance to the working environment, as we continue to ensure that staff are exposed to and provided the right opportunities for breadth of development and experiences.

INFORMATION SYSTEMS

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

System uptime and service goals for the 2015-2016 year again exceeded the industry standards, and were above the 99.8% level. With the addition of the REEFS and the Director Gateway Portals, we have become a true 24/7 industry, as we now see Industry accessing these systems around the clock. To continue to maintain this level of service on a 24-hour basis, the Division has begun looking at technologies for load-balancing that will permit us to take portions of our systems off-line to perform updates, patches and server reboots, while still maintaining end-user access.

Major Initiatives During 2015-2016

Disaster Recovery – Our tests for business continuity were completed for the annual hurricane season, and proved very successful. The improvements of newer and faster PCs from last year's test have been implemented and all systems and applications were proven to be well balanced and performing satisfactorily.

Network Security – Security continues to be a primary focus of the Division, with several enhancements made to existing systems for threat management, with the inclusion of monitoring and additional layers of security protection for our firewalls, email, network and web security.

An ongoing concern that occupies a great deal of our time is that while we are well protected we must still monitor and react to issues every day, as the threats are constantly evolving. The Division has begun pursuing new security policies and the adoption of a cyber security framework to assist us in all aspects of keeping our data safe. User awareness training is expected to become a major focus of our 2016-2017 year.

A key note is that our initial endeavour of choosing the US National Institute of Standards and Technology (NIST) security governance has been well received by CIG. The Division participated in an exercise whereby CIG chose the security experts G2 to conduct interviews to ascertain what security levels the Computer Services Department and other government departments and statutory authorities had attained. Based on the results prepared by G2, CIMA was asked if our security plan could be used as a template for all other departments and statutory authorities as best practice guidelines.

Regulatory Enhanced Electronic Forms Submission System – Industry have been able to log into the Regulatory Enhanced Electronic Forms Submission (REEFS) web-based online portal since its launch on 5 January 2015. New applications for prospective licensed entities and change requests for existing licensees, along with the mandatory financial return submissions for the Fiduciary Services Division has been completed. Financial returns for the Insurance Supervision, and Investments and Securities Divisions have been completed. New applications for the Insurance, Banking Supervision and Investments and Securities Divisions are being reviewed for final processing and timelines for promotion to live production are expected before November 2016.

Online payments will soon be available in REEFS, which will allow licensees to send CIMA a top-up cheque to be deposited into their escrow-type account. As the licensee needs to pay for new applications, renewals or change requests that require fees, the system will draw down from their escrow account and process the transactions more quickly and more efficiently. This is similar to what CIG's Company Registry now does.

Directors Registration Portal – The Directors Registration portal has been running smoothly and has contributed some $23m in revenue and handled over 30,000 registrants since its inception.

Training – Ongoing training in security, database administration and C# software programming is paying back benefits as our dedicated staff have put new their skills to great use within our systems. The Division had two interns this summer that were extremely valuable and provided university level skills in their work. They both produced work that is now in our production systems and is being utilized by all staff.

COMMUNICATION AND PUBLIC RELATIONS

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

Events

The PR Unit participated in student interviews at the Clifton Hunter High School (CHHS), as part of a programme which is designed to help students understand all of the steps in applying for a job. The Unit was also part of CIMA's team which participated in the John Gray High School's careers day. In their interactions with the staff representatives, students were able to learn about career options at the Authority.

For the third consecutive year, the Authority participated in the CHHS 'Take Your Child To Work' programme.

External Publications and Media Liaison

The PR Unit assisted the Authority's senior management in producing articles for publications such as Cayman Captive magazine, Cayman Funds magazine, Captive Review, Captive Insurance Times, the Euromoney Global Banking & Financial Policy Review, and IFLR Global Operational Risk Review 2016.

In a direct outreach initiative, the Unit met with the editorial team of a local newspaper at their premises, to provide some insights into the Authority's role and function.

CIMA Publications

The Unit continued to produce and disseminate news releases and notices; the monthly internal newsletter, the CIMA Insider; quarterly issues of CIMA's external newsletter, The Navigator; the Authority's Annual Report; the CIMA Fact Sheet; and the Insurance Sector Insight.

In addition, the PR Unit collaborated with the Investments and Securities Division on the production of the Investments Statistical Digest 2014, and with the Policy and Development Division on the Banking Statistical Digest 2011-14, the first of its kind.

Direct Public Information and Assistance

The Unit frequently responded to local, regional and international media requests. Regular updates were also posted to the Authority's LinkedIn company page during the period, in addition to frequent updates to the CIMA website.

Internal Support

PR Unit staff worked closely with the various divisions to provide communication support in the form of photographic, graphic design and media training for a number of external conferences and other activities, and also collaborated with the Human Resources Division on activities to promote the well-being of staff.

The Unit monitored, collected, and disseminated relevant information, in order to keep staff abreast of local and international market, regulatory and political developments.

FREEDOM OF INFORMATION INITIATIVE

The Freedom of Information (FOI) Law came into effect across the Cayman Islands Public Service in January 2009, giving members of the public a general right of access to government records, with some exemptions and exclusions that are specified in the law. Because of the nature of CIMA's work, the FOI Law (in section 3(1)(c)) specifically excludes the release of records and information protected by section 50 of the Monetary Authority Law (2013 Revision).

Between July 2015 and July 2016, the Authority received and processed six requests. Full access was granted to four of the requests. One request was denied on the basis that the Authority did not hold the requested record. The final request was excluded from release since the Freedom of Information Law excludes access to records containing information that may not be disclosed under section 50 of the Monetary Authority Law. Records were provided for two requests within 30 days, and records were provided for the remaining two requests later than 60 days.

FINANCIAL CONTROL

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

Coercive Revenue Collection

The Authority collected $104.839m in coercive fees from regulated entities on behalf of the Cayman Islands Government for the 2015-16 financial year, compared to $102.667m for the prior year.

The Authority's Income

The Authority depends on the sale of its outputs to the Cabinet of the Government of the Cayman Islands, as one of its main sources of income to meet its obligations. The outputs delivered in 2015-16, for a total of $10.693m were:

- The Regulation of the Cayman Islands Currency
- The Collection of Fees on behalf of the Cayman Islands Government
- The Regulation of the Financial Services Industry
- Assistance to Overseas Regulatory Authorities
- Policy Advice & Ministerial Services

The other sources of income are from the Directors Registration and Licensing Fees $7.768m, CIMA Transactional Fees $4.586m, Investments $0.728m, commission and the sale of numismatic items $0.633m.

Net Income

The Authority's net income for the 2015-16 financial year was $0.708m (2014-15 restated: net loss $0.157m), which was allocated to CIMA's Capital Expenditures Reserve.

Details of CIMA's financial position for the year ending 30 June 2016 can be seen in the Audited Financial Statements that follow.

AUDITED FINANCIAL STATEMENTS

For Year Ending 30 June 2016

CAYMAN ISLANDS

MONETARY AUTHORITY

Statement of Responsibility

For Financial Statements

30 June 2016

These financial statements have been prepared by the Cayman Islands Monetary Authority in accordance with the provisions of the *Public Management and Finance Law* (2013 Revision).

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the *Public Management and Finance Law* (2013 Revision).

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

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

The financial statements fairly present the financial position, financial performance and cash flows of the Cayman Islands Monetary Authority for the financial year ended 30 June 2016.

To the best of our knowledge we represent that these financial statements:

(a) Completely and reliably reflect the financial transactions of Cayman Islands Monetary Authority for the year ended 30 June 2016;

(b) fairly reflect the financial position as at 30 June 2016 and performance for the Year ended 30 June 2016;

(c) comply with International Financial Reporting Standards under the responsibility of the International Accounting Standards Board.

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

Grant Stein	Cindy Scotland
Chairman	*Managing Director*
Cayman Islands Monetary Authority	Cayman Islands Monetary Authority
Date: 20 December 2016	Date: 20 December 2016

Office of the Auditor General
CAYMAN ISLANDS

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Grand Cayman, Cayman Islands

AUDITOR GENERAL'S REPORT

To the Board of Directors of the Cayman Islands Monetary Authority

I have audited the accompanying financial statements of the Cayman Islands Monetary Authority which comprise the statement of financial position as of 30 June 2016 and the related statements of comprehensive income, statement of changes in reserves and contributed capital and cash flows statement for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 8 to 26 in accordance with the provisions of Section 60 (1) (a) of the Public Management and Finance Law (2013 Revision).

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor General's Responsibility and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 I 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 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Sue Winspear, CPFA
Auditor General

20 December 2016

CAYMAN ISLANDS MONETARY AUTHORITY
STATEMENT OF FINANCIAL POSITION
As at 30 June 2016
(in Cayman Islands Dollars)

	Note	2016 $000	2015 Restated (Note 15) $000	01 July 2014 Restated (Note 15) $000
ASSETS				
Currency Reserve Assets				
Current Assets				
Call Deposits	4b	3,845	4,077	5,045
Short-Term Investments	4a	97,487	61,051	75,004
Fixed Deposits	4b	1,553	1,548	1,545
Interest Receivable, Deposits		195	86	129
Stocks	7	2,821	3,189	2,320
Non-Current Assets				
Long-Term Investments	4a	12,602	35,861	18,581
Total Currency Reserve Assets		118,503	105,812	102,624
Operating Assets				
Current Assets				
Current and Call Deposits	4b	10,902	9,658	6,819
Fixed Deposits	4b	3,338	3,334	
Accounts Receivable	5	3,501	2,342	10,049
Other Receivables and Prepayments		464	404	839
Non-Current Assets				
Intangible Asstes	6	1,897	1,966	1,547
Property and Equipment	6	897	552	390
Total Operating Assets		20,999	18,256	19,644
TOTAL ASSETS		**139,502**	**124,068**	**122,268**
LIABILITIES, RESERVES and CONTRIBUTED CAPITAL				
Liabilities				
Demand Liabilities, Currency in Circulation	8a	106,877	94,887	91,720
Defined Benefit Pension Liability	9	3,130	861	1,694
Other Liabilities and Payables	8b	1,274	807	1,184
Total Liabilities		111,281	96,555	94,598
Reserves				
General Reserve		20,650	19,789	18,525
Currency Issue Reserve		375	375	375
Capital Expenditures Reserve		4,642	4,795	6,177
Operational Expenditures Reserve		226	226	265
Total Reserves		25,893	25,185	25,342
Contributed Capital		2,328	2,328	2,328
TOTAL LIABILITIES, RESERVES and CONTRIBUTED CAPITAL		**139,502**	**124,068**	**122,268**

Approved on 20 December 2016

Scotland

Cindy Scotland
Managing Director
Cayman Islands Monetary Authority

Moxam-Murray

Gilda Moxam-Murray
Chief Financial Officer
Cayman Islands Monetary Authority

The accompanying notes form an integral part of these financial statements

CAYMAN ISLANDS MONETARY AUTHORITY
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2016
(in Cayman Islands Dollars)

	Note	**2016**	**2015 Restated**
		$000	**$000**
			(Note 15)
INCOME			
Services Provided to The Cayman Islands Government	11a	10,693	6,865
Directors Registration and Licensing Fees		7,768	7,272
CIMA Transactional Fees		4,586	4,971
Investment Income		728	741
Commission Income		518	331
Net Gain on Numismatic Items		114	-
TOTAL INCOME		**24,408**	**20,181**
EXPENSES			
Salaries and Benefits	13	14,184	12,715
Other Operational Expenses	12	2,924	3,914
Accomodation	14	1,265	1,140
Pension Expenses	9	1,249	1,258
Depreciation	6	574	644
Professional Fees		496	399
Utilities		407	447
Training and Conferences		254	188
Official Travel		208	229
Realised Loss on Investments		177	482
Loss on Disposal of Fixed Assets		11	-
Net Loss on Numismatic Items		-	157
TOTAL EXPENSES		**21,748**	**21,572**
INCOME / (LOSS) FOR THE YEAR before:-		**2,659**	**(1,393)**
OTHER COMPREHENSIVE (LOSS) / INCOME			
Remeasurement of Employee Benefit Obligation		(1,951)	1,236
COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**708**	**(157)**

CAYMAN ISLANDS MONETARY AUTHORITY
STATEMENT OF CHANGES IN RESERVES AND CONTRIBUTED CAPITAL
For the year ended 30 June 2016
(in Cayman Islands Dollars)

	2016					2015 Restated				
	General Reserve $000	Currency Issue Reserve $000	Capital Expenditures Reserve $000	Operational Expenditures Reserve $000	Contributed Capital $000	General Reserve $000	Currency Issue Reserve $000	Capital Expenditures Reserve $000	Operational Expenditures Reserve $000	Contributed Capital $000
BALANCE AT 01 JULY	19,789	375	4,795	226	2,328	18,525	375	6,177	265	2,328
Transfers in :										
From Net Income			708					(157)		
From Capital Expenditures Reserve	861					1,225				
From Operational Expenditures Reserve						39				
Transfers out :										
Contribution Payable to CI GOVT										
To Capital Expenditures Reserve										
Currency Inventory Issued										
Fixed Assets Purchased			(861)					(1,225)		
Operational Expenses									(39)	
BALANCE AT 30 JUNE	**20,650**	**375**	**4,642**	**226**	**2,328**	**19,789**	**375**	**4,795**	**226**	**2,328**

CAYMAN ISLANDS MONETARY AUTHORITY
STATEMENT OF CASH FLOWS
For the year ended 30 June 2016
(in Cayman Islands Dollars)

	2016 $000	2015 Restated $000 (Note 15)
CASH FLOWS FROM OPERATING ACTIVITIES		
Comprehensive Income/(Loss) for the year	708	(157)
Adjustments for:		
Depreciation	574	644
Loss / (Gain) on Defined Benefits Assets	2,269	(833)
Loss on Disposal of Fixed Assets	11	-
(Increase) in Investments	(13,177)	(3,327)
(Increase) / Decrease in Interest Receivable - Currency Reserve Assets	(108)	44
(Increase) / Decrease in Accounts Receivable	(1,160)	7,707
(Increase) / Decrease in Other Receivables and Prepayments	(59)	434
Unearned Income - Directors Registration and Licensing Fees		
Unearned Income - CIMA Transactional Fees	34	39
(Decrease) / Increase in Other Liabilities and Payables	433	(416)
(Increase) in Stocks	368	(869)
Increase in Demand Liabilities	11,989	3,167
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,882	6,433
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of Fixed Assets	(861)	(1,225)
NET CASH USED BY INVESTING ACTIVITIES	(861)	(1,225)
INCREASE IN CASH AND CASH EQUIVALENTS	1,021	5,208
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	18,617	13,409
CASH AND CASH EQUIVALENTS, END OF THE YEAR	19,638	18,617

1. Organisation and Objectives

The Cayman Islands Monetary Authority (the "Authority") was established under the *Monetary Authority Law, 1996* on 1 January 1997. Under the *Monetary Authority Law (2013 Revision) (the "Law (2013 revision)")*, the primary functions of the Authority are: -

To issue and redeem Cayman Islands currency notes and coins and to manage the Currency Reserves
To regulate and supervise the financial services business
To provide assistance to overseas regulatory authorities, and
To advise the Cayman Islands Government on regulatory matters.

As at 30 June 2016, the Authority has 180 employees (2015: 186). 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*

i) *Statement of compliance*

The financial statements of the Authority are prepared in accordance with International Financial Reporting Standards ("IFRS")

ii) *Basis of preparation*

The financial statements have been prepared on the accrual basis under historical cost convention except for past service liability (note 9).

b) *Foreign currency translation*

i) *Functional and presentation currency*

The reporting currency is Cayman Islands dollars. All financial information is rounded to the nearest thousand dollars, except as otherwise indicated.

ii) *Transactions and balances*

Foreign currency transactions are recorded at the exchange rates prevailing on the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Assets and liabilities are translated at the exchange rate in effect at the date of these financial statements.

c) *Use of Estimates and judgements*

The preparation of financial statements, in conformity with IFRS, requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, 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.

Significant Accounting Policies (continued)

d) *Financial Instruments*

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

The classification of financial instruments at initial recognition depends on the purpose and management's intention for which the financial assets were acquired.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable to the Authority. Financial liabilities comprise accounts and other payables, accrued expenses and notes and coins in circulation.

Recognition
The Authority recognises financial instruments on its statement of financial position on the date it becomes a party to the contractual provisions of the instrument. From this date, any gains or losses arising from changes in fair value of the assets or liabilities are recognised in the statement of comprehensive income.

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

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

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

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

De-recognition
A financial asset is de-recognised when the Authority realises the rights to the benefits specified in the contract or the Authority loses control over any right that comprises the asset. A financial liability is de-recognised when it is extinguished, that is when the obligation is discharged, cancelled or expired.

Significant Accounting Policies (continued)

e) Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents consist of current and call deposits and fixed deposits maturing within three months from the date of acquisition.

f) Stock of Notes and Coins for/in Circulation

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

When currency is issued, the face value of the currency is also recognised as a liability within the "Demand Liabilities, Currency in Circulation"

g) Stocks of Numismatic Items

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

h) Numismatic Coins in Circulation

The total nominal value of numismatic coins outstanding as at 30 June 2016 is $14,497k (2015: $14,500k). No liability for redeeming numismatic coins is recognised in the financial statements, since the amount of redemption cannot be reasonably estimated and the probability of material redemption is remote. Redemption costs and sales proceeds are recorded in the statement of comprehensive income as incurred.

i) Property and Equipment

Property and equipment are stated at historical cost less accumulated depreciation. Historical costs include expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefit associated with the item will flow to the Authority and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income in the financial period in which they are incurred.

Depreciation is charged to the statement of income on a straight-line method to allocate the cost of each asset over their estimated useful lives as follows:-

- Furniture and Fixtures 5 years
- Leasehold Improvements 5 years
- Motor Vehicle 5 years
- Office Equipment 5-7 years
- Computer Hardware 3-5 years

The assets' useful lives are reviewed and adjusted where appropriate.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset)

Significant Accounting Policies (continued)

Property and Equipment (continued)

is recognised in the statement of comprehensive income in the year the asset is derecognised.

j) Intangible Assets

Intangible assets are identifiable non-monetary assets without physical substance. The Authority's intangible assets comprise externally acquired computer software. Costs associated with maintaining computer software programmes are charged to the statement of comprehensive income in the financial period in which they are incurred.

All of the Authority's intangible assets have a finite life. Depreciation is calculated using the straight-line method to allocate the cost of each asset over their estimated useful lives which is estimated to be three to ten years. Useful lives are reviewed, and adjusted if appropriate.

An individually material intangible asset included in this reporting period is the Regulatory Electronic Enhancement Forms Submission (REEFS) system WIP project, with a carrying amount of $1,551k which will have an estimated useful life of seven years.

k) Employee Benefits

Pension Plans

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

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

A defined benefit plan is one that defines an amount of benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation. The asset or liability in respect of defined benefit plans is the difference between the present value of the defined benefit obligation at the statement of financial position date and the fair value of plan assets, adjusted for unrecognised actuarial gains/losses and past service cost. The pension costs are assessed using the Projected Unit Credit method. Under this method the cost of providing pensions is charged in the statement of comprehensive income so as to spread the regular cost over the service lives of employees in accordance with advice of the actuary. The pension obligation is measured at the present value of the estimated future cash outflows using discount estimated rates based on market yields on high quality corporate bonds at the time of the accounting date which have terms to maturity approximating the terms of the related liability.

Obligations for contributions to defined contribution and defined benefits pension plans are recognised as pension expense in the statement of comprehensive income as incurred.

Significant Accounting Policies (continued)

Employee Benefits (continued)

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 2016 is $194k (2015: $200k) and is included in the other liabilities and payables.

l) Allocation of profits

Under Section 9 and 10 of the Law (2013 Revision), the net profits of the Authority, after provision for all expenditure and reserves, shall be allocated such that the Currency Reserve Assets represent at least 100% of Demand Liabilities and the General Reserve represents at least 15% of Demand Liabilities. Any surplus not allocated in accordance with the above shall be transferred to the General Revenue of the Cayman Islands Government.

m) General Reserve

The Authority maintains a General Reserve in accordance with Section 8 of the Law (2013 Revision), to provide additional funding if necessary for Demand Liabilities and obligations arising from other business of the Authority. In accordance with section 8 of the Law (2013 Revision) the General Reserve shall represent at least 15% of Demand Liabilities. As at 30 June 2016, the General Reserve was $20,650k (2015: $19,789k) equating to 19.32% (2015: 20.86%) of Demand Liabilities.

n) Currency Issue Reserve

The Currency Issue Reserve was adjusted as the stock of notes printed prior to 2003 was all issued into circulation. The Currency Issue Reserve will then remain at $375k.

o) Capital and Operational Expenditures Reserves

Under Section 9 of the Law (2013 Revision), the net profits of the Authority for any financial year shall include, but shall not be limited to, the income from the investments of the Authority, and the profit from the sales of investments belonging to the Authority, and shall be determined by the Authority after meeting or providing for all expenditure for that year and making such provisions for contingencies and the establishment of such additional reserves as it may consider desirable. The Capital Expenditures Reserve has been established for the implementation and acquisition of key capital projects including the Regulatory Electronic Enhancement Forms Submission (REEFS) system and various other IT Projects. The Operational Expenditures Reserve will fund the operating costs associated with these key projects.

p) Contributed Capital

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

In December 2009, Section 7 (5) of the Monetary Authority Law (2008 Revision) was amended by the Monetary Authority (Amendment Law, 2009), to allow Cabinet to vary the amount of paid-up capital held by the Authority, and where the capital is reduced any excess shall be transferred by the Authority to the Government. In June 2010, the Cayman Islands Government withdrew $8.25 million. Contributed Capital as at 30 June 2016 was $2.328 million (2015: $2.328 million).

Significant Accounting Policies (continued)

q) *Revenue recognition*

The Authority's main source of income has historically been derived from the services it provides to the Government of the Cayman Islands. In 2013-14, the Output Funding was reduced in anticipation of the new revenue stream for the Authority, the Directors Registration and Licensing Fees (DRL fees) for which the Law and Regulations came into effect in June 2014. In 2015-16, the Output Funding was increased due to the uncertainty of the DRL fees and the Authority's target net income. The Authority's other sources of income are generated from its investments, bank balances, and other currency transactions.

Revenue is recognised when it is probable that the economic benefits will flow to the Authority and the amount of revenue can be measured with reliability. Revenue is measured at the fair value of consideration received or receivable.

DRL fees received for a calendar year are recognised as revenue in the respective financial year; this includes such fees received within three months subsequent to the year end from all directors that were recognized as of the year end. Other DRL fees are recognised as revenue in the financial year in which they are collected.

Commission Income is recognised as earned on redemption of currency in circulation.

Rendering of Services (Services provided to the Cayman Islands Government and CIMA Transactional Fees) are recognised as revenue when the related service is rendered.

Net Gain on Numismatic Items – bullions stocks are stated at year-end market values. Numismatic coins sales and expenses are accounted for with the revaluation gain/loss.

Investment Income and other sources of income are accrued as earned.

r) *Leases*

Those in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on as straight line basis over the period of the lease.

2.1 Changes in Accounting Standards/IFRS

Standards issued but not yet effective up to the date of issuance of the Authority's financial statements are listed below. This listing of standards and interpretations issued are those that the Authority reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Authority intends to adopt these standards when they become effective.

a. **IFRS 9, Financial Instruments(Amendment):**
   In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. The Authority is in the process of evaluating the impact of the new standard.

Changes in Accounting Standards/IFRS (continued)

b. IFRS 15, Revenue from Contracts with Customers(Amendment):
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers.

Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Authority is in the process of evaluating the impact of the new standard.

c. IAS 16, Property, Plant and Equipment and IAS 38, Intangible Assets(Amendment):
The amendments to these standards clarify that the use of a revenue-based amortization method is not appropriate, and provide a rebuttable presumption for intangible assets. The amendments to the standards are effective for years beginning on or after January 1, 2016. The Authority has not yet assessed the impact of the amendments.

3. Financial Risk Management

a) *Interest Rate Risk*
The Cayman Islands Monetary Authority is subject to interest rate risk on the cash placed with local and international institutions which attracts interest. No interest payments are charged to customers on late payments on accounts receivable. The Authority is not exposed to significant interest rate risk as the cash and cash equivalents are placed on call and available on demand.

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

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

<u>Financial Risk Management (continued)</u>

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

4. Currency Reserve Assets

Sections 32(8) of the *Law (2013 Revision)* mandates the preservation of Currency Reserve Assets, separately from all other assets of the Authority. These assets are to be used to fund the Authority's currency redemption obligations. (See Note 8) They shall not be used to satisfy liabilities arising from any other business of the Authority. After all Demand Liabilities are extinguished, any surplus Currency Reserve Assets would form, in part, the assets of the General Reserve. (See Note 2 m)

Under the *Law (2013 Revision)*, sections 32(2) and 32(6) respectively, the Currency Reserve Assets consist of external assets (not less in value than an amount equivalent to ninety percent of Demand Liabilities) and local assets (not to exceed ten percent of Demand Liabilities).

As at 30 June 2016, the value of Currency Reserve Assets was $118,503k (2015:$105,812k) representing 110.88% (2015: 111.51%) of total Demand Liabilities. The value of external assets equated to 105.65% (2015: 105.19%) while the value of local assets as at 30 June 2016 equated to 5.23% (2015: 6.32%) of Demand Liabilities.

Currency Reserve Assets comprise the following:

a) <u>Investments</u>
The classification of financial instruments at initial recognition depends on the purpose and management's intention for which the financial assets were acquired. The investments are actively traded, classed as available-for-sale, and meet the principal investment objectives of the Authority - security, liquidity and income.

The investment portfolio is managed by independent fund managers in accordance with investment guidelines established by the Board of Directors of the Cayman Islands Monetary Authority, in accordance with the Law (2013 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.

<u>Long-term Investments.</u> US Treasury Notes, AAA Corporate Bond and U.S. Government Sponsored Enterprise ("GSE") stated at market value, with interest rates ranging from 0.692% to 2.25% and maturity dates between 31 December 2017 and 20 October 2042.

Included in long-investments are five securities totalling $4,366k (2015 five totalling $6,172k) with maturity dates over ten years. These securities are of the class for

Currency Reserve Assets (continued)

which the average life shall be used in place of maturity, under the investment guidelines.

	2016	2015
Range of maturities	$000	$000
1-5 years	8,236	29,689
6-10 Years	-	-
Over 10 Years	4,366	6,172
	12,602	35,861

Short-term Investments. US Treasury Bills, AAA Corporate Bonds and US Treasury Notes with maturity dates ranging between 03 August 2016 and 30 April 2017, and the Federal Reserve Repurchase Agreement with a maturity date 01 July 2016.

	2016	2015
	$000	$000
US Treasury Bills	23,544	16,413
Federal Reserve Repurchase Agreement at 0.15 %	44,333	31,750
US Treasury Notes	2,508	7,395
US Fed Farm Disc note	-	4,156
AAA Corporate Bonds	27,102	1,337
Total Short-term Investments	97,487	61,051

The US Treasury Bills are measured at amortised cost. All other investments are measured at fair value; designated as such upon initial recognition.

b) *Cash and Cash Equivalents*

The Authority maintains current, call and fixed term deposits with domestic and foreign banks; the fixed deposit account has a maturity date of three months. Under the *Law (2013 Revision)*, domestic deposits (as part of the Currency Reserve Assets) cannot exceed 10% of Demand Liabilities. As at 30 June 2016, domestic deposits represent 3.36% (2015: 3.70%) of Demand Liabilities.

	Holding Currency	2016 $000	2015 $000
i) Operating Assets			
Current	KYD	(244)	(172)
Savings	KYD	1,787	3,098
Savings	USD	9,116	6,529
CI Cash on Hand		243	203
Total Current and Call Deposits		10,902	9,658
Fixed Deposits	KYD	3,338	3,334
Total Cash and Cash Equivalent - Operating Assets		14,240	12,992

	Holding Currency	2016 $000	2015 $000
ii) Currency Reserve Assets			
Domestic Deposits			
Savings	GBP	6	8
Savings	KYD	904	891
Savings	USD	1,122	1,063
Foreign Deposits			
Federal Reserve Bank	USD	216	272
Investment Portfolio	USD	1,597	1,843
Total Call Deposits		3,845	4,077
Domestic - Fixed Deposits	USD	1,553	1,548
Total Cash and Cash Equivalent - Currency Reserve		5,398	5,625

Currency Reserve Assets (continued)

Interest was earned on domestic call accounts at a rate of 0.01% during the year ended 30 June 2016 (2015: 0.01%). The domestic fixed deposit earned interest at rates ranging between 0.05% to 0.45% during the year ended 30 June 2016 (2015: 0.2322% to 0.50%).

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 2016 no interest was earned (2015: $nil).

5. Accounts Receivable

	2016	2015
	$000	$000
Trade Receivables, C.I. Government	2,694	1,145
Accounts Receivables - CIMA Transactional Fees	632	329
Directors Registration and Licensing Fees	1,315	2,170
Provision for doubtful accounts	(1,140)	(1,302)
Accounts Receivable, net	3,501	2,342

Aged profile of Trade Receivable

	2016	2015
Period Outstanding Days	$000	$000
1-30	1,368	901
31-60	1,244	573
61-90	889	868
	3,501	2,342

There was $0k (2015:$1,293) bad debt expense included in the statement of comprehensive income. $18k (2014 -15: $9k) was recovered during the year in relation to 1 individual; full provision had been made.

The creation and release of provision for impairment of receivables has been included in Other Operating expenses (Note 12) in the statement of comprehensive income. The Authority provides 100% for all trade balances where management believes that the collectability of the account is unlikely, based on an evaluation of collectability and prior bad debt experience.

6. Property, Equipment and Intangibles

	Furniture & Fixtures	Leasehold Improvement	Computer Equipment Hardware	Office Equipment	Motor Vehicle	TOTAL TANGIBLE	Intangible	GRAND TOTAL
Original Cost	$000	$000	$000	$000	$000	**$000**	**$000**	**$000**
Balance as at 30/06/15	836	868	1,486	647	23	**3,860**	**4,608**	**8,468**
Additions	101	314	172	31	-	**618**	**243**	**861**
Disposals			(9)	(44)	-	**(53)**	**(92)**	**(145)**
Balance as at 30/06/16	937	1,182	1,649	634	23	**4,425**	**4,759**	**9,184**
Accumulated Depreciation								
Balance as at 30/06/15	711	868	1,167	539	23	**3,308**	**2,642**	**5,950**
Depreciation for the year	40	5	173	44	-	**262**	**312**	**574**
Relieved on disposals			(8)	(34)		**(42)**	**(92)**	**(134)**
Balance as at 30/06/16	751	873	1,332	549	23	**3,528**	**2,862**	**6,390**
Net Book Value as at 30/06/16	186	309	317	85	-	**897**	**1,897**	**2,794**
Net Book Value as at 30/06/15	125	-	319	108	-	**552**	**1,966**	**2,518**

Included in the intangible assets is $1,664k (2015: $1,510k) representing work in progress for the development of software for the Regulatory Electronic Enhancement Forms Submission (REEFS) system and the Great Plains fees collection system.

7. Stocks

	2016	2015
	$000	$000
External		
Bullion from the melt-down of coins	519	439
Coins for resale	225	195
Museum items	74	66
	818	700
Local		
Inventory of unissued currency notes and coins	2,003	2,489
Total Stocks	2,821	3,189

The inventory of unissued currency notes and coins are stated at cost of production. All associated cost such as shipping, handling and insurance are expensed immediately. The Bullion stocks are stated at year-end market values for gold and silver bullion.

8. Liabilities

a) *Demand Liabilities*

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

Total Demand Liabilities comprise:

	2016	2015
	$000	$000
Currency notes in circulation	95,739	84,251
Currency coins in circulation	11,138	10,636
Total Demand Liabilities	106,877	94,887

b) *Other Liabilities*

	2016	2015
	$000	$000
Unearned income - CIMA Transactional Fees	202	168
Annual leave accrual	194	200
Other accruals	800	341
Accounts payable	65	98
Other Payables	13	
	1,274	807

As at 30 June 2016, Other Liabilities included unsettled investment management and custody fees of $10k (2015:$17k).

9. Public Service Pension Plan

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

Using the Projected Unit Credit method of measuring costs and obligations, the actuarial assessment for the Authority assessed the minimum normal annual contribution to be 13 % in the 'Actuarial Valuation as of 1 January 2005 for the purposes of establishing required contribution rates towards the Public Service Pensions Fund'. This rate included a 1% for the cost of all of the benefits that are provided over and above those related to the participant's total account balance. The Authority pays this 1% for all employees. In addition, for some employees in the defined benefit plan, the Authority pays both the employer and employee contributions.

Public Service Pension Plan (continued)

The Plans are funded at rates of: -

	2016	2015
	%	%
Defined Contribution Plans		
Employee	6	6
Employer	7	7
Defined Benefit Plans		
Employee	6	6
Employer	7	7

The Actuary to the Pensions Board has valued the Fund as at 30 June 2016. The defined contribution part of the Fund is not subject to actuarial valuation due to the nature of the benefits provided therein.

The total amount recognised as a pension expense for the year ended 30 June 2016 was $3,200k (2015: $22k). The actual amount of pension expense relating to the defined benefits for staff should also include the effect of any changes in the actuarial determined liability. Pension expense is the expense under IAS 19, inclusive of service cost, amortisations and net Interest. Current service cost represents the pension cost to the Authority associated with the financial year benefit accruals and is net of participant contributions.

	2016	2015
	$000	$000
Public Service Pension Board Defined Benefit	206	174
Public Service Pension Board Defined Contirbution	532	503
Private Pension Plans	193	178
Defined Liability	2,269	(833)
Total Pension Expense All Plans	3,200	22

The actuarial position is as follows:

	2016	2015	2014	2013	2012
	$000	$000	$000	$000	$000
Net Present Value of Funded Obligation	(12,201)	(9,319)	(9,560)	(7,401)	(6,649)
Fair Value of Plan Assets	9,071	8,458	7,866	6,467	5,415
Funded Status	(3,130)	(861)	(1,694)	(934)	(1,234)
Unrecognised Actuarial Loss	-	-	-	-	1,138
Net (Liability)	(3,130)	(861)	(1,694)	(934)	(96)

Public Service Pension Plan (continued)

Components of defined benefit cost	30 June 2016	30 June 2015
	$000	$000
Current service cost	382	437
Interest expense on DBO	443	430
Interest income on plan assets	(407)	(359)
Defined benefit cost included in P&L	418	508
Remeasurements (recognised in other comprehensive income)		
Effect of changes in demographic assumptions	-	(7)
Effect of changes in financial assumptions	1,988	(581)
Effect of experience adjustments	(17)	(463)
(Return) on plan assets (excluding interest income)	(20)	(185)
Total remeasurements included in OCI	1,951	(1,236)
Total defined benefit cost recognised in P&L and OCI	2,369	(728)
Employer Contributions	(100)	(105)
Total net defined benefit cost recognised in P&L and OCI	2,269	(833)

Reconciliation of defined benefit liability	30 June 2016	30 June 2015
	$000	$000
Previous year net defined benefit liability	861	1,694
Defined benefit cost included in P&L	418	508
Total remeasurement included in OCI	1,951	(1,236)
Employer contributions	(100)	(105)
Net defined benefit liability	3,130	861

Change in defined benefit obligation	30 June 2016	30 June 2015
	$000	$000
Defined benefit obligation at end of prior year	9,319	9,560
Current service cost	382	437
Interest expense	443	430
Benefit payments from plan asset	-	(147)
Plan participant contributions	86	90
Remeasurements:-		
Effect of changes of demographic assumptions	-	(7)
Effect of changes of financial assumptions	1,988	(581)
Effect of experience adjustments	(17)	(463)
Defined benefit obligation at end of year	12,201	9,319

Public Service Pension Plan (continued)

Change in fair value of plan assets	30 June 2016	30 June 2015
	$000	$000
Fair value of plan assets as at end of prior year	8,458	7,866
Interest income	407	359
Employer contributions	100	105
Plan participant contributions	86	90
Benefit payments from plan assets	-	(147)
Return on assets (excluding interest income)	20	185
Fair value of plan assets at end of year	9,071	8,458

Allocation of Assets

The distribution of the plan assets, as at 30 June 2016 and 2015, based on the share of the total fund allocated to the Authority was as follows: -

	30 June 2016	30 June 2015
	%	%
Global equity securities	80	80
Debt securities	19	19
Cash	1	1
Total	100	100

Actuarial Assumptions

The principal actuarial assumptions used to determine benefit obligations at 30 June 2016 and 2015 are as follows:

	30 June 2016	30 June 2015
	%	%
Discount Rate	4.75	4.50
Rate of salary increase	3.50	3.50
Rate of price inflation	2.50	2.50
Rate of pension increases	2.50	2.50

Public Service Pension Plan (continued)

Actuarial Assumptions (continued)

The economic assumptions used to determine Net Periodic Benefit Cost for the year ending 30 June 2016 and 2015 are as follows:

	30 June 2016	30 June 2015
	%	%
Discount rate	4.75	4.50
Rate of salary increase	3.50	3.50
Rate of price inflation	2.50	2.50
Rate of pension increases	2.50	2.50

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

	30 June 2016	30 June 2015
	%	%
Sensitivity analysis on defined benefit obligation		
Discount rate		
Discount rate - 25 basis points	12,979	9,900
Discount rate + 25 basis points	11,483	8,782
Inflation rate		
Inflation rate - 25 basis points	11,570	8,807
Inflation rate + 25 basis points	12,878	9,871
Mortality rates		
Mortality - 10% of current rates	12,466	9,496
Mortality + 10% of current rates	11,960	9,157
Expected cash flows for following year		
Expected employer contributions	155	108
Defined benefit obligation by participant status		
Actives	9,578	7,460
Vested deferreds	2,623	1,859
Total	12,201	9,319

10. Commitments

a) *Capital Commitments*
This relates to the contract for the Regulatory Electronic Enhancement Forms Submission (REEFS) system project, awarded to SQL Power in May 2014 for US$1,998k.

b) *Operating Commitments*

Office Accommodation The Authority has the following:-

i. Office Accommodation Leases with Montpelier Properties Ltd. effective 1 February 2016 for 2 years at a cost per square foot of $33 for rent and $6 CAMs;
ii. Storage Agreement with Rosseau Ltd. effective 1 June 2015 for two years at a monthly cost of $6.7k rent and $0.6k CAMS.

Business Continuity Leases As a part of its Business Continuity Plan the Authority has the following agreements:-

i. An agreement with the Disaster Recovery Centre (Cayman Islands) Limited for dedicated seats effective 1 July 2014 for a period of three year at a monthly cost of US$17k.
ii. An agreement with the Disaster Recovery Centre (Cayman Islands) Limited for a dedicated suite effective 1 September 2013 for a period of five years at a monthly cost of US$6k plus electricity.
iii. An agreement with the Brac Informatics Centre effective 1 April 2014 at a monthly cost of CI$4.9k for a five year period.
iv. An agreement with the Brac Informatics Centre effective 1 April 2014 at a monthly cost of CI$2.640k to 31 August 2016.

	2016	2015
	$000	$000
Capital Commitments	147	297
Office Accomodation and Storage	2,082	-
Business Continuity Leases	493	833
Other Operating Commitments	831	1,447
	3,553	2,577

11. Related Party Transactions

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

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

Related Party Transactions (continued)

b) Directors.

The Board of Directors of the Authority is appointed by the Governor in Cabinet, and consisted of the Managing Director ("MD") and seven directors as at 30 June 2016 (six directors at 30 June 2015). The fees of $143k (2014-15: $143k) relates to payments made to the directors only.

c) Key Management Personnel.

For the purposes of IAS 24 disclosure the MD is included in the number and cost of the Senior Management Team. The total number of personnel on the Senior Management Team was 16 in 2015-16 (2014-15: 16) and salaries & other short term benefits expensed in 2015-16 was $2,378k (2014-15: $2,208k).

d) Services Provided by Government Entities.

The Authority obtained various goods and services from other Government departments/entities of the Cayman Islands Government, at prevailing market prices on an arm's length basis, during 2015-16 in the amount of $597k (2014-15: $605k).

12. Other Operating Expenses

	2016	2015
	$000	$000
Other expenses	1,038	608
Maintenance and software licences	777	864
Currency Stock issues	525	418
Business Continuity	358	361
eMerchant Discounts	170	164
Directors Fees	143	143
Management and Custody Fees	67	64
Doubtful Debt Expense	(154)	1,293
Total	2,924	3,915

13. Salaries and Benefits

	2016	2015
	$000	$000
Salaries and Allowances	13,000	11,715
Medical Expense	1,184	1,000
	14,184	12,715

14. Accommodation

Accommodation expenses are comprised primarily of the cost of office and storage rental, and any related stamp duty and registration expense. Other rental expenses are for conference room and parking. As of 30 June 2016, total accommodation expense amount to $1,265k (2014/15:$1,140k)

15. Restatement of Financial Statements – Accounting for Directors Registration and Licensing fees

The financial statements for the year ended 30 June 2015 were restated due to the significance of the adjustments required to account for the change in the accounting policy for the Directors Registration and Licensing Fees.

Effect of Restatement

Statement of Financial Position (extract)	30 June 2015	Increase/ (Decrease)	30 June 2015 Restated
	$000	$000	$000
Accounts Receivable	1,862	480	2,342
Other Receivables and Prepayments	481	(77)	404
Other Liabilities and Payables	4,234	(3,427)	807
Capital Expenditures Reserves	965	3,830	4,795

Statement of Financial Position (extract)	30 June 2014	Increase/ (Decrease)	01 July 2014 Restated
	$000	$000	$000
Accounts Receivable	6,002	4,047	10,049
Other Receivables and Prepayments	847	(8)	839
Other Liabilities and Payables	1542	(358)	1184
Capital Expenditures Reserves	1780	4,397	6177

Statement of Comprehensive Income (extract)	30 June 2015	Increase/ (Decrease)	30 June 2015 Restated
	$000	$000	$000
Director Registration and Licensing Fees	7,853	(581)	7,272
Other Operational Expenses	(3,928)	14	(3,914)
Income/(Loss) for the Year	410	(567)	(157)

Statement of Comprehensive Income (extract)	30 June 2014	Increase/ (Decrease)	01 July 2014 Restated
	$000	$000	$000
Director Registration and Licensing Fees	4,499	4,499	8,998
Other Operational Expenses	(2,315)	(101)	(2,416)
Income for the Year	684	4,398	5,082