

Annual Report **2015**

Cayman Islands Monetary Authority



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

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

Where referenced in this publication:

\$1 trillion = \$1,000,000,000,000

\$1 billion = \$1,000,000,000

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CIMA's Mission

*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.*

CIMA's 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



Financial Year 2014-15 was one which brought a number of challenges for the Cayman Islands Monetary Authority ("CIMA"), but also provided us with the opportunity to celebrate achievements.

One of the major achievements during the financial year under review was the implementation of a new Strategic Plan to guide the Authority's operations for the period 2014-16. During the planning process, a new Mission Statement and a Vision Statement were created. The Board of Directors approved the Strategic Plan 2014-16 in August 2014.

INDUSTRY REVIEW

The Cayman Islands financial services industry experienced mixed fortunes during the year, but remains highly competitive in several areas supervised and regulated by CIMA.

In the Banking sector, the jurisdiction recorded a decrease to 196 licensed banks by 30 June 2015, and an increase to 6 controlled subsidiaries, while figures for non-bank financial institutions remained unchanged.

With regard to Investments and Securities, the funds industry in the Cayman Islands remained healthy, showing only a slight decrease. There were 11,061 regulated funds at 30 June 2015, compared to 11,296 at 30 June 2014.

This jurisdiction has been a top international location for the provision of trust services and remains so, with 390 companies providing these services in and from the Cayman Islands at financial year-end. Corporate/company management services as a sector has seen steady growth over the last several years, and 119 such companies were active at 30 June 2015.

The number of insurance companies in this market stood at 723 at 30 June 2015. These companies generated premiums of US\$11.9 billion, and held assets totalling US\$54.5 billion. The segment share also positions the Cayman Islands as the second largest domicile for captive insurance companies in the global insurance market.

However, the total number of insurance-related licensees declined from 926 at the end of 2013-14 financial year to 875 at the end of 2014-15, with the bulk of the reduction seen in the international sector. This was primarily as a result of CIMA carrying out an exercise to cancel previously surrendered licences.

REGULATORY DEVELOPMENTS

On the regulatory front, the Authority issued several measures relating to the investment funds, banking and insurance sectors. These ranged from outlining

criteria for a fund to cancel its registration or licence with the Authority; creating better alignment with standard setters' enhanced requirements for banks' management of credit risk and problem assets; enhancing the Authority's bank licensing process to more closely align with international standards; establishing criteria for the licensing of money services businesses and the approval of their agents; to updating the measures pertaining to risk management and market conduct for the insurance sector.

The Authority has been actively researching the impact of the Alternative Investments Funds Managers Directive (AIFMD) on the Cayman Islands funds and securities industry. We have been engaged in continued dialogue with the Cayman Islands Government and industry stakeholders on the creation of an appropriate regime to ensure that Cayman Islands investment managers and funds can continue to do business in the European Union and the European Economic Area.

ORGANISATIONAL EFFECTIVENESS

The Authority collected \$102.667 million in coercive fees from regulated entities on behalf of the Cayman Islands Government for financial year 2014-15, compared to \$106.832 million the prior year.

At 30 June 2015, currency in circulation (excluding numismatic coins) stood at \$84.3 million in notes and \$10.6 million in coins. This total of \$94.9 million represents a 3.5% increase from the 30 June 2014 figure of \$91.7 million.

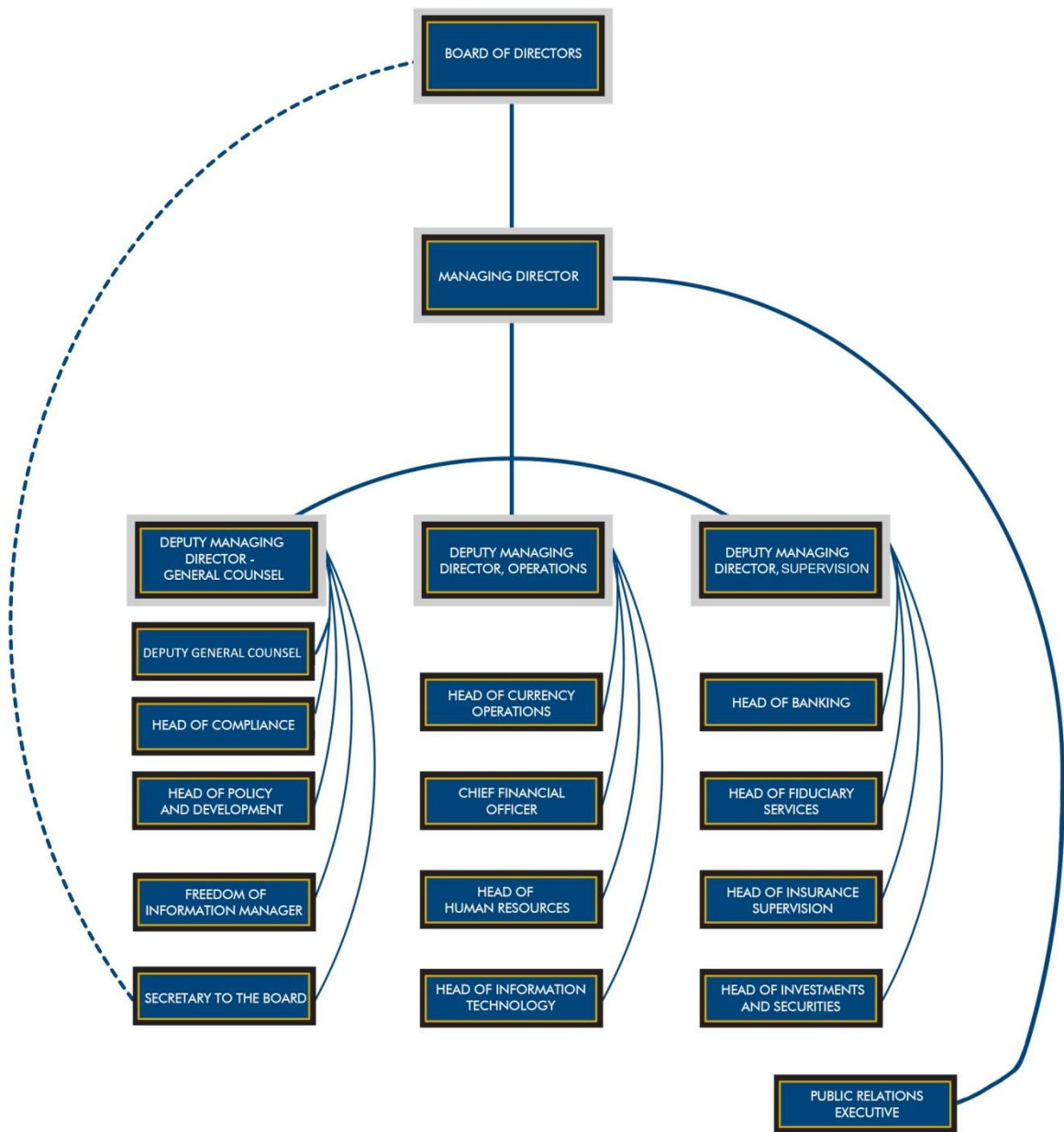
Information Technology has been employed to improve efficiency in conducting business with the Authority. A new Regulatory Enhanced Electronic Forms Submission (REEFS) system was launched in January 2015 to facilitate new applications for prospective licensed entities and change requests for existing licensees, and to submit mandatory financial returns. In addition, changes have been successfully made to the CIMA in-house system in the new Directors Registration portal to allow for surrender of registrations and the associated fees.

The staff of CIMA are to be commended for their contribution to the Authority's achievement of its objectives during the financial year.

Cindy Scotland

ORGANISATIONAL CHART

AS AT 30 JUNE 2015



BOARD OF DIRECTORS

As at 30 June 2015

At 30 June 2015, the Board of Directors of the Cayman Islands Monetary Authority comprised seven members:

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



Seated L-R: Director, Judith Watler; Chairman, George McCarthy, OBE, JP; and Managing Director, Cindy Scotland.

Standing L-R: Director, Raul Nicholson-Coe; Overseas Director, Professor William Gilmore; Deputy Chairman, Linburgh Martin; and Director, Harry Chisholm, MBE, JP.

SENIOR OFFICERS

As at 30 June 2015



Managing Director
Cindy Scotland



Deputy
Managing Director/
General Counsel
Langston Sibbles, 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

Insurance Supervision



Acting Head
Morag Nicol



Deputy 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 Pleniewicz



Deputy Head
Judiann Myles

Legal



Deputy General Counsel
André Mon Désir



Legal Counsel
Gail Goring Johnson



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 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.

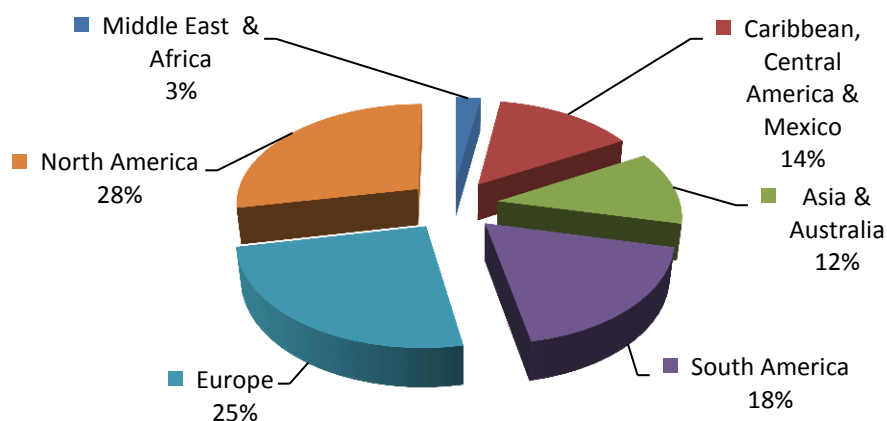


Figure 1: Region of Origin of Cayman-licensed Banks, June 2015

There were 196 banking licences in the jurisdiction at 30 June 2015 (June 2014:210). These were comprised of six retail category A banks, six non-retail category A banks and 184 category B banks (June 2014:195). Of the 196 licensees, 128 were branches, primarily from the US and Brazil; 49 were subsidiaries, and 19 were banks privately owned or affiliated to another bank or a financial institution in their Group.

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 to 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 groups and for financing external/cross-border business on their own account in the international market.

Banking Sector - Cayman Islands-licensed banks

Total international assets and liabilities (cross-border positions in domestic and foreign currency and domestic positions in foreign currency) as at June 2015 stood at US\$1.39 trillion and US\$1.44 trillion, respectively. Cross-border assets and liabilities of US\$1.37 trillion and US\$1.38 trillion were booked internationally with non-residents and domestic assets and liabilities of US\$20 billion and US\$60 billion were booked locally with other Cayman Islands-licensed entities.

Cross-Border Assets and Liabilities in Foreign and Domestic Currency 2010 – June 2015

As at June 2015, the jurisdiction ranked sixth internationally in terms of cross-border (external) assets of US\$1.37 trillion (June 2014: \$1.36 trillion)¹ and fifth by external/cross-border liabilities of US\$1.38 trillion (June 2014: \$1.39 trillion)² booked from the Cayman Islands (see Figure 2).

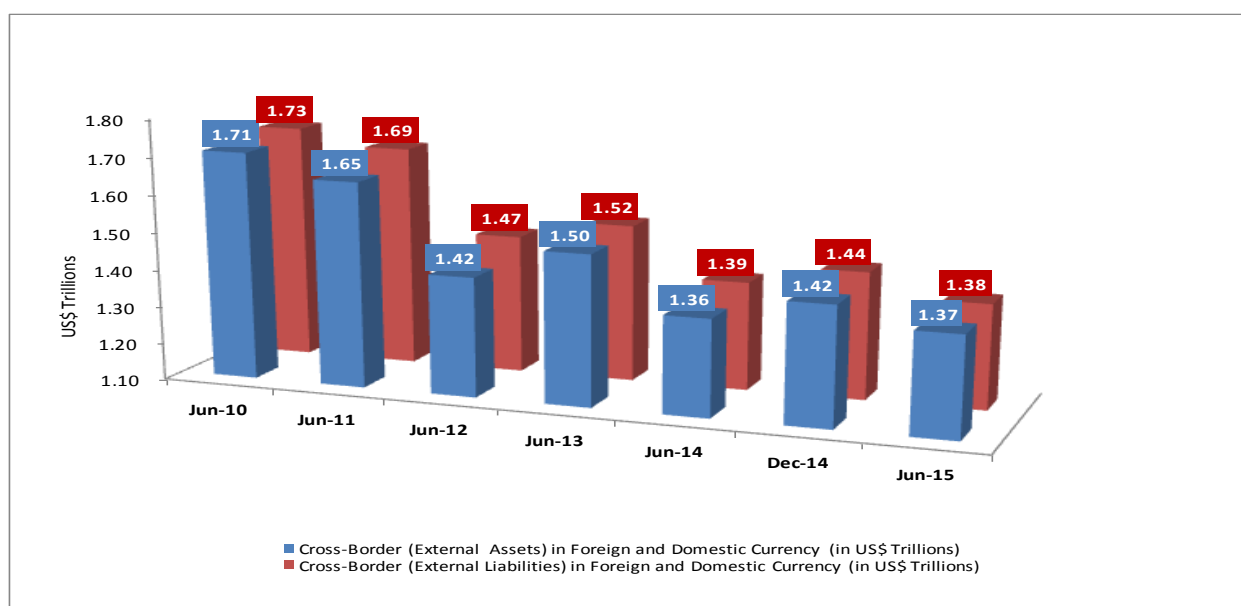


Figure 2: Cross-Border/External Assets and Liabilities of Cayman Islands-licensed banks, June 2010 - June 2015

The Cayman Islands-licensed banks' cross-border assets and liabilities have been slowly declining post-global financial crisis, mainly influenced by the contraction in global economic growth, legislative reforms to curtail the activities of banks and a reduction in the number of licensed banks. In addition, there has been a marked shift from the banking sector to the debt securities and 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

Cross-Border Assets and Liabilities By Region – June 2015

The banking sector's US\$1.38 trillion of cross-border liabilities provided credit of \$1.246 trillion to Developed Countries³, \$73 billion to Developing Latin America and the Caribbean and \$39 billion to Offshore Centres⁴, highlighting the role of the Cayman Islands banking sector as a financial intermediary providing capital for international financing and investment activities globally (see Figure 3).

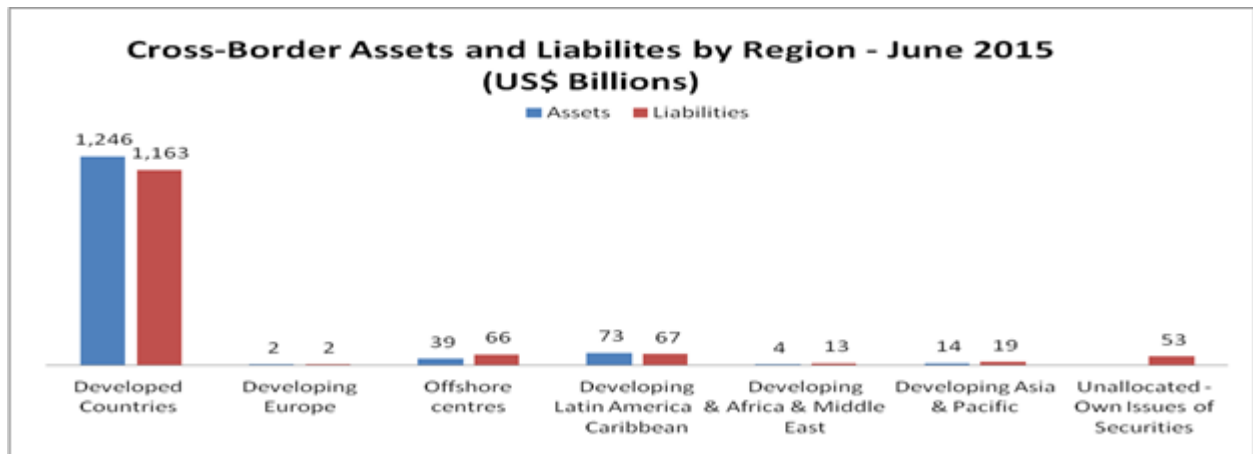


Figure 3: Cross-Border Assets and Liabilities by Region - June 2015

Cross-Border Inter-bank and Intra-bank Positions - June 2015

Of the US\$1.37 trillion and US\$1.38 trillion in cross-border assets and liabilities at June 2015, 74% or US\$1.02 trillion and 63% or US\$873 billion are inter-bank bookings, of which US\$921 billion and US\$612 billion were intra-bank bookings between related banks, reflecting the role of Cayman Islands in providing financing and liquidity within the global banking sector (see Figure 4).

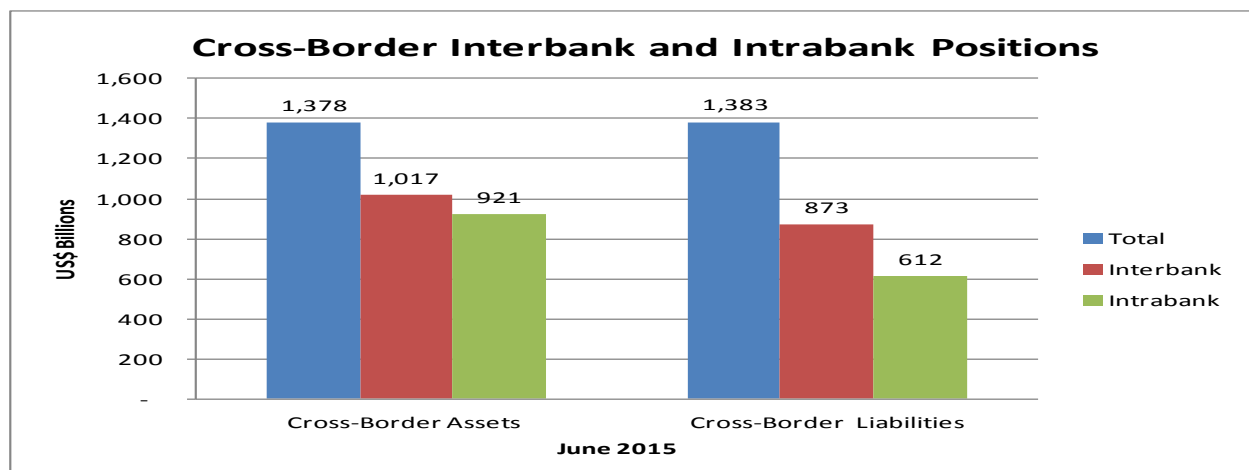


Figure 4: Cross-Border Interbank and Intra-bank Positions - June 2015

³ Developed Countries: North America, Developed Europe and Other Developed Countries (Australia, Japan and New Zealand): Source: BIS.

⁴ Offshore Centres: Europe, Asia and Latin America & Caribbean, excluding the Cayman Islands.

Domestic⁵ Assets and Liabilities in Foreign Currency 2010– June 2015

In addition to the US\$1.37 and US\$1.38 trillion in cross-border assets and liabilities, the banking sector booked US\$24 billion and US\$60 billion in assets and liabilities in foreign currencies in the domestic economy (see Figure 5). These positions are largely intra-bank positions within Cayman Islands-licensed category B banks and other financial intermediaries (OFIs) and category A banks' positions with the resident domestic sector as residential mortgages, commercial private sector lending and other financial intermediaries, namely investment funds.

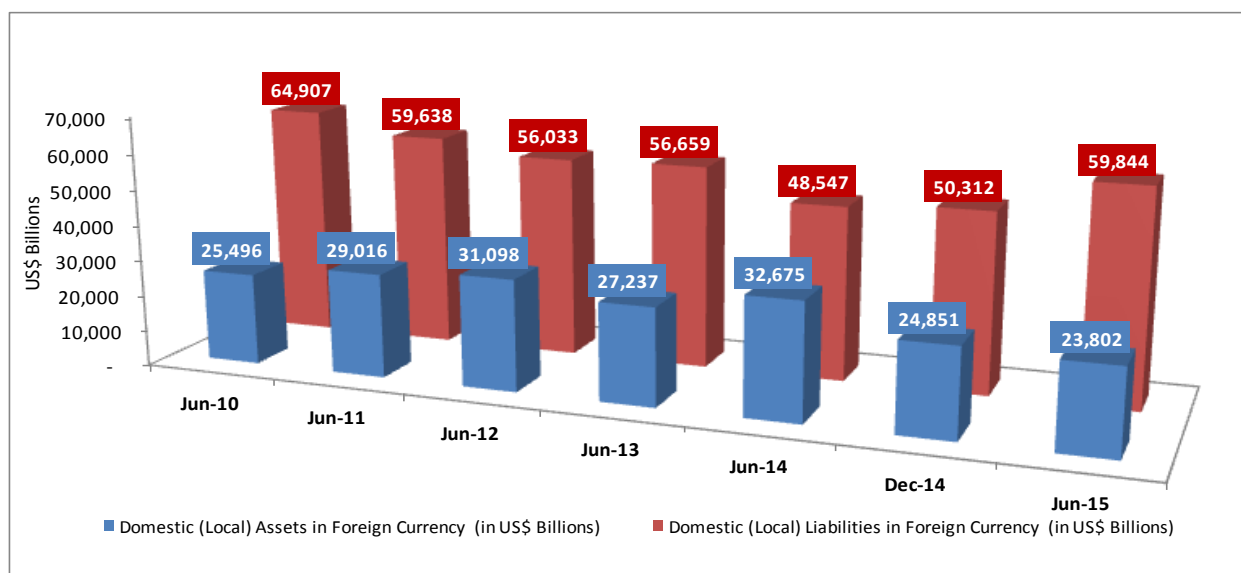


Figure 5: Domestic Assets and Liabilities of Cayman Islands-licensed Banks, June 2010 - June 2015

Domestic Sector – Category A Retail Banks

The domestic market is serviced by six retail banks (7:June 2014): Butterfield Bank (Cayman) Limited, Cayman National Bank Ltd., Fidelity Bank (Cayman) Limited, FirstCaribbean International Bank (Cayman) Limited, RBC Royal Bank (Cayman) Limited and Scotiabank & Trust (Cayman) Ltd., who held assets and liabilities of US\$13.4 billion as at June 2015 (see Table 1).

Of this US\$13.4 billion in assets, US\$4.3 billion was booked in the domestic market, of which \$3.7 billion was in loans and advances. Loans to households accounted for US\$2.17 billion; non-financial corporations (private sector business and commercial mortgages) was US\$816 million, US\$578 million was to general Government and US\$113 million to other financial corporations. Of the US\$13.4 in liabilities, US\$6 billion was held as deposit liabilities from residents, with resident households accounting for US\$1.7 billion, non-financial corporations for US\$2 billion, general Government for US\$750 million and other financial corporations for US\$1.3 billion.

Table 1: Assets and Liabilities of Domestic Retail Banks on a calendar year basis, 2011-June 2015

⁵ 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.

Category A Banks- Retail - Calendar Year (Millions U\$D)					Resident	Non-Resident	TOTAL
ASSETS	2011	2012	2013	2014	Jun-15	Jun-15	Jun-15
Cash Items	4,355	4,356	5,082	3,376	312	3,366	3,678
Financial Assets at Fair Value	9	0	14	12	10	5	15
Investments - Held-to-Maturity	123	205	200	253	0	245	245
Investments - Available-for-sale	924	1,033	865	1,307	9	1,836	1,845
Other Investments	105	101	100	89	11	77	88
Loans and Advances	7,689	8,072	8,209	7,588	3,733	3,577	7,310
Less Loan Loss Provisions	46	57	46	62	51	7	58
Net Loans	7,642	8,014	8,152	7,526	3,681	3,569	7,250
Other Assets	454	426	384	374	313	47	360
TOTAL ASSETS	13,616	14,135	14,801	12,936	4,337	9,147	13,484
							0
LIABILITIES	2011	2012	2013	2014	Jun-15	Jun-15	Jun-15
Deposits	11,916	12,478	13,144	11,369	6,320	5,428	11,748
Repurchase Agreements (REPOS)	0	0	0	0	0	0	0
Hybrid Debt and Subordinated Debt	0	0	0	0	0	0	0
Other Notes, Bonds and Commercial Paper	0	0	0	0	0	0	0
Other Borrowings	14	6	16	0	0	0	0
Creditors and Other Liabilities	179	104	106	34	133	17	150
Other Loss Provisions	22	18	31	35	29	7	36
TOTAL LIABILITIES	12,131	12,606	13,299	11,440	6,482	5,453	11,935
TOTAL SHAREHOLDERS EQUITY	1,485	1,529	1,501	1,496	106	1,442	1,548
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	13,616	14,135	14,801	12,936	6,589	6,895	13,484

Financial Soundness Indicators (FSIs) - Banking Sector

When averaging the data, the FSIs for the banking sector are moderately healthy, with capital adequacy ratios (CAR) well in excess of the 8% minimum requirement set by the Basel Committee on Banking Supervision and liquidity asset ratio of 53.5% for the sector as at end-2014 (see Tables 2 and 3).

The FSIs for the banking sector show differing trends for asset quality and earnings profitability for the retail banks and the non-retail banks, which are licensed as subsidiaries, privates & affiliates and branches. The retail banking sector indicators reflect improvements in asset quality and marginal increases in earnings and profitability, indicating signs of stabilization of this sector.

The subsidiaries indicate an aggressive deterioration in asset quality and earnings, which is reflected in the reduction in CAR and in the Return on Equity (RoE) and Return on Assets (RoA). While the ratios for the banking sector do not indicate a return to the pre-global financial crisis years, signs of improvements can be found within some key indicators.

Table 2: Banking Sector - Core Financial Soundness Indicators, 2013-2014

Banking Sector - Core Financial Soundness Indicators								
Indicator (%)	Retail Banks		Subsidiaries		Branches		Sector	
	2013	2014	2013	2014	2013	2014	2013	2014
Capital Adequacy								
Regulatory Capital to risk-weighted assets	18.3	17.6	36.0	29.5	n/a	n/a	n/a	n/a
Regulatory Tier 1 Capital to risk-weighted assets	17.5	16.0	31.9	27.1	n/a	n/a	n/a	n/a
Regulatory Tier II Capital to risk-weighted assets	0.8	1.6	14.8	8.6	n/a	n/a	n/a	n/a
Total Regulatory Capital to total assets	9.6	10.7	29.7	23.7	n/a	n/a	n/a	n/a
Asset Quality								
Nonperforming loans (net of provisions) to capital	13.8	9.8	(0.92)	0.01	n/a	n/a	n/a	n/a
Nonperforming loans to gross loans	3.8	2.7	0.5	6.9	0.4	0.5	0.4	0.6
Earnings and Profitability								
Return on equity	8.8	8.4	6.0	(5.0)	n/a	n/a	n/a	n/a
Return on assets	0.96	0.98	1.20	(0.8)	0.4	0.1	0.4	0.1
Interest margin to gross income	69.6	71.9	21.0	31.0	34.9	48.7	34.9	47.8
Noninterest expenses to gross income	58.0	58.3	54.6	51.0	12.4	22.8	20.1	29.8
Liquidity								
Liquid assets (core) to total assets	35.5	24.2	50.2	40.1	52.6	54.1	52.3	53.5

n/a - Branches are considered an entity of the Parent Group and are not required to hold capital.

Table 3: Domestic Retail Sector - Core Financial Soundness Indicators, 2011 -2014

Domestic Retail Banks - Core Financial Soundness Indicators				
Indicator (%)	2011	2012	2013	2014
Capital Adequacy				
Regulatory Capital to risk-weighted assets	22.2	19.8	18.3	17.6
Regulatory Tier 1 Capital to risk-weighted assets	21.0	18.7	17.5	16.0
Regulatory Tier II Capital to risk-weighted assets	1.2	1.1	0.8	1.6
Total Regulatory Capital to Total assets	7.8	10.3	9.6	10.7
Nonperforming loans (net of provisions) to capital	13.3	12.7	13.8	9.8
Asset Quality				
Nonperforming loans to total Gross Loans	3.0	3.4	3.8	2.7
Earnings and Profitability				
Return on equity	9.0	9.3	8.6	8.3
Return on assets	0.8	1.10	0.96	0.98
Interest margin to gross income	70.4	70.1	69.6	71.6
Noninterest expenses to gross income	57.1	53.6	58.0	58.3
Liquidity				
Liquid assets (core) to total assets ****	24.9	33.0	35.5	24.2
Liquid assets (core) to short-term liabilities ***	34.7	59.1	76.5	45.2

***Liquid assets (core) are defined as Cash Items and Short-Term Liabilities are Deposits up to 90 days

Capital Adequacy Ratios (CAR)

The capital adequacy ratio (CAR) for non-retail banks declined from 36% in 2013 to 29.5% in 2014 due mainly to the deterioration in asset quality over the end-2013 and 2014 year, and a challenging macro-economic environment in Europe and South America.

The CAR for the six retail banks decreased marginally from 18.3% to 17.6% as at end-2014, but has remained comfortably above the minimum CAR of 15%. The sector's slight decrease in CAR is correlated to the increase in loan write-offs, as well as a reduction in the number of retail banks.

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

NPLs for subsidiaries increased from 0.5% in 2013 to 6.9% in 2014, due primarily to volatility in the markets, the European sovereign debt crisis and slow economic growth in Europe and Emerging Countries. NPLs for branches, primarily from North America, had a marginal increase from 0.4% in 2013 to 0.5% in 2014.

NPLs for the retail banking sector have been averaging in the range of 3.5% over the past three years. This is well above the pre-financial crisis range of 1% - 2%, due to a slow-down in the economy and an increase in unemployment. As at end-2014, this ratio declined to 2.7%, reflecting improved asset quality due in part to loan write offs of NPLs and slower asset growth in loans.

Earnings and Profitability

Earnings and profitability indicators for the non-retail banks contracted significantly in 2014 in this category, due primarily to a significant increase in provisions for credit losses and a reduction in other income. These banks experienced significant losses over the 2014 period, which was reflected in the reduction on RoE to (5.0%) and RoA to (0.8)%. Notwithstanding, signs of improvement can be seen in the increase in net interest margin and a reduction in noninterest expenses.

Retail banks continue to show signs of stable profits, as seen in an improving net interest margin to gross income offset by a marginal increase in noninterest expenses. The sector's RoE decreased from 8.8% in 2013 to 8.4%, partly due to a reduction in trading income and a reduced capital base from the reduction in the number of banks in the sector, while the RoA increased from 0.96% in 2013 to 0.98% in 2014, indicating signs of stabilization.

Liquidity

The ratio of liquid assets to total assets decreased for the subsidiaries and retail banks, from 50.2% in 2013 to 40.1% for 2014, and from 35.5% in 2013 to 24.2% in 2014, respectively. This was due mainly to the reduction in liquid assets (cash) and total assets, largely as a result of the reduction in the number of banks. Branches' liquidity ratios increased from 52.6% to 54.1%. Overall, the banking sector's liquidity ratio reflected a marginal increase from 52.3% to 53.5%, due to the contribution of the large asset base of branches.

Authorisation Activity

Changes in the laws and regulations have led to consolidation and restructuring by banks in search of cost efficiencies and improvements. This is reflected in a steady decline in the number of bank licences issued over the last six years (see Figure 6). The 196 licences held as at June 2015 represent a 7% decline from the 210 held as at June 2014.

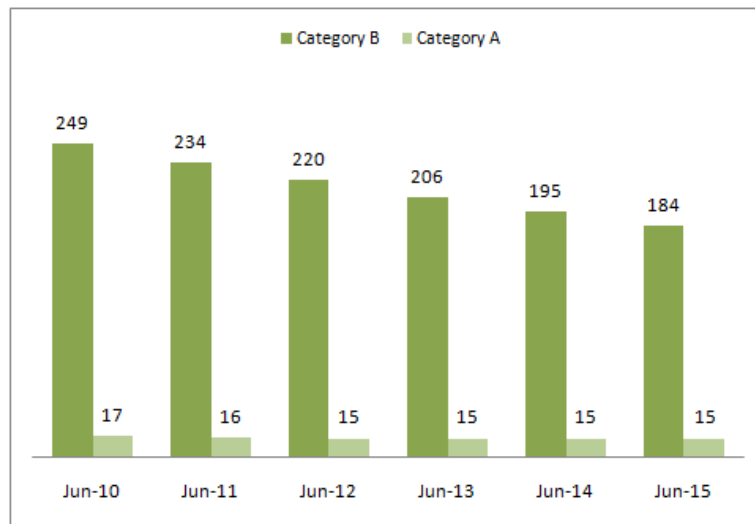


Figure 6: Number of Bank Licences, by Category, Fiscal Year-end 2010-2015

Jurisdictional Comparisons

As illustrated in Table 4, changes in the number of banks licensed in the listed jurisdictions were relatively static. Most jurisdictions experienced declines in the number of licensed banks viz-a-viz last year, while Singapore posted a modest increase. Figures for all other jurisdictions remain unchanged since the end of 2014.

Table 4: Bank Licence Numbers - Selected Jurisdictions, 2011-2015

Jurisdiction	2011	% change ('12v11')	2012	% change ('13v12')	2013	% change ('14v13')	2014	% change ('15v14')	2015
Cayman	236	-5.93%	222	-4.05%	213	-7.04%	198	-1.01%	196
Bahamas	94	6.38%	102	-0.98%	101	-3.96%	97	0.00%	97
Panama	91	-14.26%	78	1.28%	79	3.80%	82	-4.88%	78
Jersey	40	5.00%	42	0.00%	42	-21.43%	33	0.00%	33
Luxembourg	154	-1.30%	152	-5.92%	143	12.59%	161	-3.73%	155
Switzerland	256	5.86%	271	9.96%	298	-5.70%	281	-1.07%	278
Hong Kong	198	1.00%	200	0.50%	201	1.00%	203	-1.48%	200
Singapore	163	-1.79%	165	-2.42%	161	-1.24%	159	2.52%	163

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 2015 there were four licences in effect and actively involved in the remittance business.

Remittances sent from the Cayman Islands to other jurisdictions through these entities for fiscal year June 2015 increased slightly to \$183 million from \$174 million in 2014. The remittance outflows have started an upward trend which can likely be attributed to the economic upturn following the 2007-8 financial crisis.

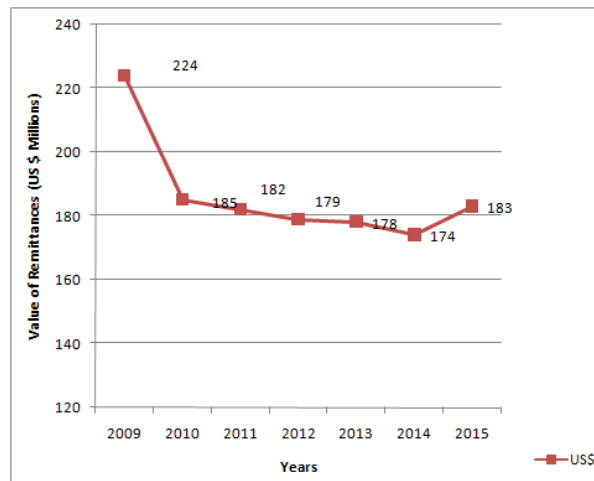


Figure 5: Total Remittance Outflows, June 2008 to June 2015

Jamaica remained the largest recipient of remittances from the Cayman Islands in fiscal year June 2015, with 59% (June 2014: 62.3%) of the US\$111 million going to that country (see Figure 6). Remittances inflows through the money service providers totalled US\$1.9 million (June 2014: \$6.9 million), with 50% of this amount coming from the United States (see Figure 7).

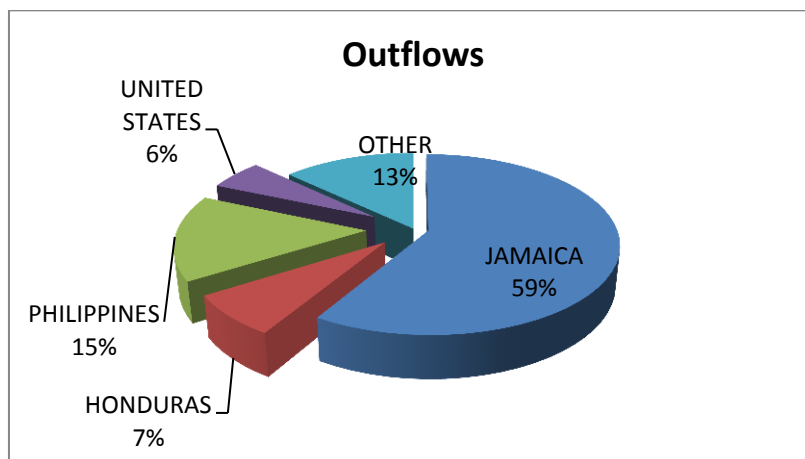


Figure 6: Proportion of Total Remittance Outflows, Fiscal Year June 2015

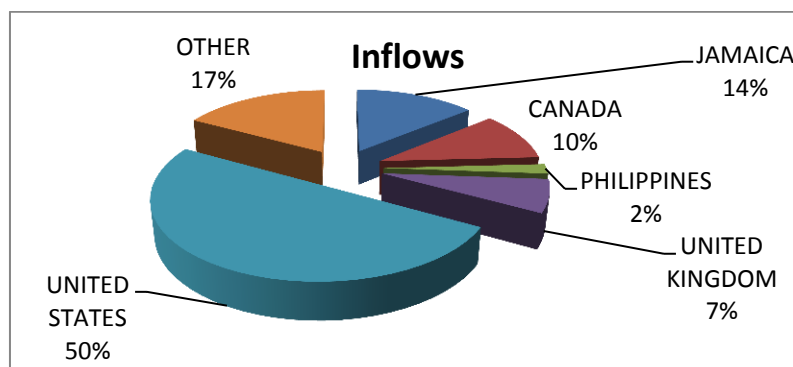


Figure 7: Proportion of Total Remittance Inflows, Fiscal Year June 2015

Cooperative societies carrying on credit union business, building societies and development banks are not required to be licensed but must be registered by CIMA. The number of cooperative credit unions (2), building societies (1) and development banks (1) supervised by the Banking Division as at June 2015 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 390 companies providing these services in and from the jurisdiction as at 30 June 2015. Figure 10 shows the breakdown of trust companies by authorisation type at fiscal year-end, 2011 to 2015.

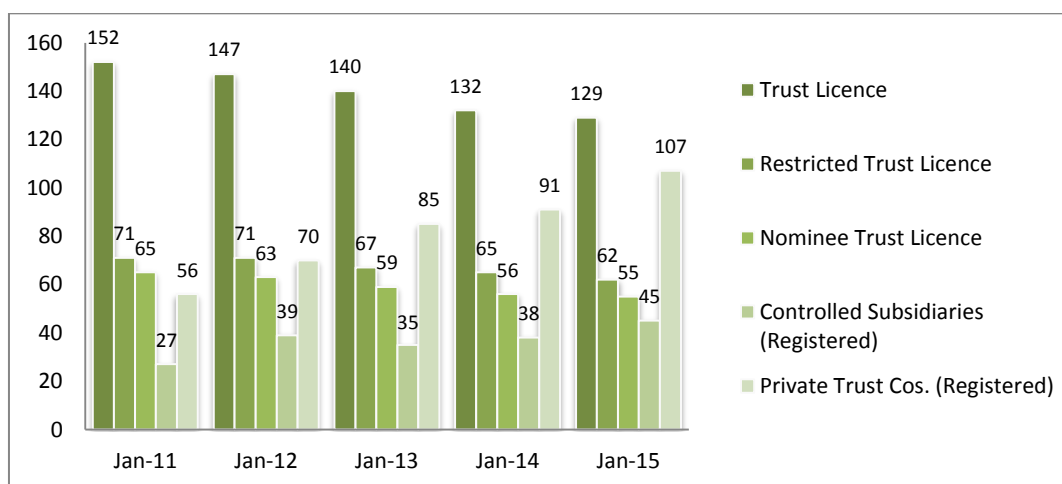


Figure 10: Number of Trust Licences by Category, 2011-2015

Licensed trust companies in Cayman 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 structuring in Cayman 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 5 shows trust company authorisation activity for the fiscal year. Overall, the sector remained fairly stable in 2014-15.

Table 5: Trust Authorisation Activity, 2014-2015

Authorisation Type	Active as at 30 June 2014	Terminated 1 July 2014 – 30 June 2015	Issued 1 July 2014 – 30 June 2015	Active as at 30 June 2015
Trust Company (Licensed)	132	9	6	129
Trust Company – Restricted (Licensed)	65	5	1*	62
Nominee Trust (Licensed)	56	2	0	55
Controlled Subsidiaries (Registered)	44**	6	7	45
Private Trust Companies (Registered)	91	7	23	107
Total	388	29	37	398

*One (1) Restricted Trust Licence transferred from the Banking Division

**Controlled Subsidiaries (Registered) previously reported as 43 for period "Active as at 30 June 2014", however the correct number should have been 44. Total Active Trusts as at 30 June 2014 previously reported as 387, however the correct number should have been 388.

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 10) is mainly attributable to licence holders choosing to surrender their licences in order to register as private trust companies. There was a total of 107 private trust companies as at 30 June 2015, with 23 being registered during the fiscal year. It is anticipated that this upward movement in registration will continue.

Jurisdictional Comparisons

Table 6 shows the number of licensed trust entities for calendar years 2010 to 2014 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.

Table 6: Number of Licensed Trust Companies - Selected Jurisdictions, 2010-2014 Calendar Year-end

Jurisdiction	2010	change	2011	change	2012	change	2013	change	2014
Cayman*	293	↓14.3%	251	↓6.8%	234	↓3.85%	225	↑5.7	221
BVI	221	↓14.9%	188	↑0.53%	189	0%	189	↓14.8	161
Bahamas	230	↑18.67%	273	↓4.8%	260	↓5.77%	245	↑3.7	254
Bermuda	31	↑3.2%	32	↓6.3%	30	0%	30	↓3.3	29
Gibraltar**	74	↓2.7%	72	↓6.9%	67	↑1.49%	68	↑5.9	72
Guernsey**	199	↓8.04%	183	↓17.49%	151	↓0.66%	150	↑0.7	151
Isle of Man	130	↓2.3%	127	↑0.8%	128	↓1.56%	126	↓4.8	120
Jersey**	181	↓2.21%	177	↑4.52%	185	↑2.16%	189	↑2.1	193
Panama	64	7.8%	69	↑2.9%	71	↑4.23%	74	↑2.7	76
Turks & Caicos	18	↓22.2%	14	↓14.3%	12	0%	12	↓8.3	11
Singapore	48	↑4.2	50	↑2.0%	51	0%	51	↑3.9	53

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.)

** 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 9 for jurisdictional comparisons) and the sector has seen steady growth over the last several years (see Figure 11), with 119 such companies active at 30 June 2015.

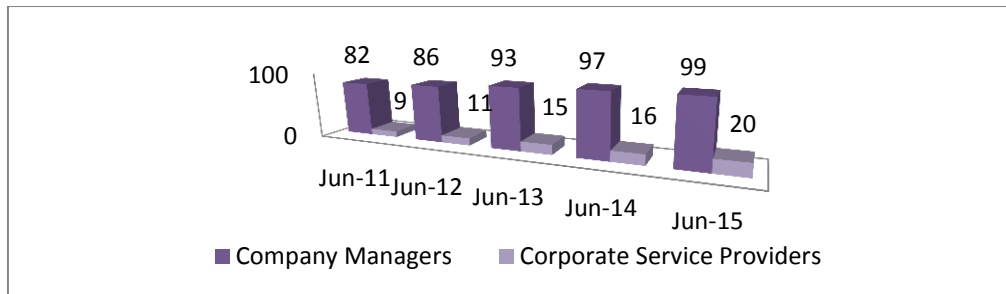


Figure 11: Number of Company Manager and Corporate Service Provider Licences, 2011-2015

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

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

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

Authorisation Activity

Table 7 shows authorisation activity for company managers and corporate service providers for 2014-2015. The 113 licences in effect at 30 June 2015 represent an increase of 4.63% over June 2014.

Table 7: Companies Management Authorisation Activity, 2014-2015

Authorisation Type	Active as at 30 June 2014	Terminated 1 July 2014 – 30 June 2015	Issued 1 July 2014 – 30 June 2015	Active as at 30 June 2015
Company Manager (Licensed)	97	6	8	99
Corporate Service Provider (Licensed)	16	0	4	20
Total	113	6	12	119

Jurisdictional Comparisons

Table 8 shows the number of active corporate services licences for calendar years 2010 to 2014 in the Cayman Islands and in other international financial centres for which figures are available.

Table 8: Corporate Services Licence Numbers - Selected Jurisdictions, 2010-2014 Calendar Year-end

Jurisdiction	2010	change	2011	change	2012	change	2013	change	2014
Cayman	84	↑9.5%	92	↑6.52%	98	↑12.24%	110	↑1.8	112
BVI	21	↓14.3%	18	↑16.67%	21	↓4.76%	20	↑65.0	33
Gibraltar	74	↓2.7%	72	↓6.9%	67	↑1.49%	68	↑5.9	72
Guernsey	199	↓8.04%	183	↓17.49%	151	↓0.66%	150	↑0.7	151
Isle of Man	201	↓10.9%	179	↑7.26%	192	↓9.38%	174	↓3.4	168
Jersey	181	↓2.21%	177	↑4.52%	185	↑2.16%	189	↑2.1	193
Turks & Caicos	31	↓3.2%	30	↓26.7%	22	↑77.27%	39	↓2.6	38

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 9 shows the number of applications recorded in respect of applications made under the DRLL.

Table 9: Director Authorisation Activity, 2014-2015

Authorisation Type	Active as at 30 June 2014	Active as at 30 June 2015
Registration - Exemption from licensing - Section 16(1)	82	75
Licence - Professional Director	35	41
Licence - Corporate Director	0	17

INSURANCE

Cayman's Insurance Industry Activity

At 30 June 2015, there were 875 licensees under supervision of the Insurance Supervision Division of CIMA (June 2014: 926). Of these, 691 were class 'B', 31 were class 'C', 29 were class 'A', one was class 'D', 50 were insurance agents, 42 were insurance brokers and 31 were insurance managers. The number of licensees under supervision as at 30 June 2014, and the number of new licences issued and cancelled during the 2014/15 fiscal year are given in Table 10 below.

Table 10: Insurance Licensing Activity 2014-2015

Licence Type	As at 30 June 2014	Cancelled 1 July 2014 - 30 June 2015	Issued 1 July 2014 - 30 June 2015	As at 30 June 2015
Class A	27	1	3	29
Class B, C, D	764	63	22	723
Insurance Managers	31	0	0	31
Brokers	41	0	1	42
Agents	63	17	4	50
TOTAL	926	81	30	875

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 licence for (re)insurance companies, namely Class 'A' for domestic insurers, Class 'B' for international insurers to carry on insurance and/or reinsurance, Class 'C' for fully collateralised international insurers, e.g. Insurance Linked Securities ("ILS") and catastrophe bonds, and Class 'D' for large open-market reinsurers. The Class 'B' licence is subdivided into three categories, namely Class 'B(i)' for insurers with at least 95% of the net premiums written originating from the insurer's related business, Class 'B(ii)' for insurers with over 50% of the net premiums written originating from the insurer's related business, and class 'B(iii)' for insurers with 50% or less of the net premiums written originating from the insurer's related business. CIMA also regulates Insurance Managers, Insurance Brokers and Insurance Agents⁶.

⁶ 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, through 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 procures, directly or through representatives, contracts of insurance or of reinsurance on behalf of existing or prospective policyholders".

The International Insurance Segment

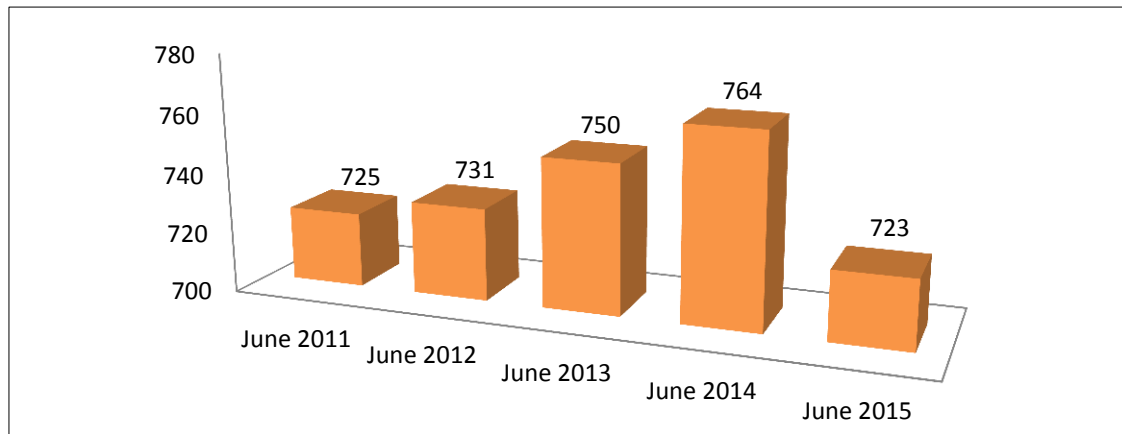


Figure 12: Number of Cayman Islands International (Class B, C, D) Insurer Licences, 2011-2015

The Cayman Islands insurance industry is dominated by the international segment comprised primarily of international insurers, including captive insurance companies⁷ and their Insurance Managers. The size of this market is evidenced by the number of insurance companies: 723 at 30 June 2015 (see Figure 12); the premiums generated: US\$11.9 billion total at 30 June 2015, and the assets held: US\$54.5 billion total at 30 June 2015 (Figure 12). 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 dropped from 926 at the end of 2013/14 fiscal year to 875 as at the end of 2014/15 fiscal year, with the bulk of the reduction (41 of total 51) seen in the international sector (refer Figure 12). 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, re-domestication of companies, maturing catastrophe bonds etc. However, cancellations can only be processed once all supporting documents have been received by CIMA, hence the records tidy up exercise.

⁷ 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#](http://www.iaisweb.org/index.cfm?pageID=47&vSearchLetter=c#)

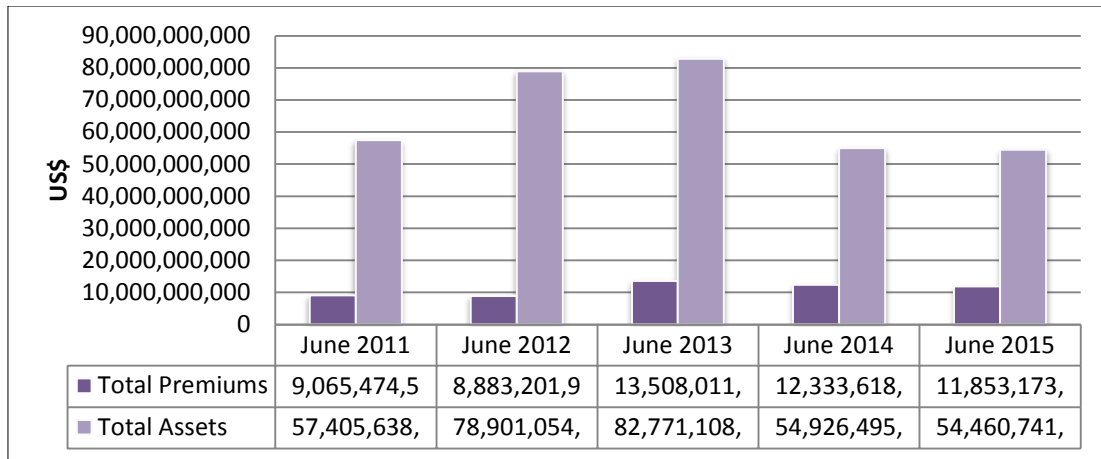


Figure 13: Total Premiums & Assets of Cayman Islands Class B Insurance Licensees, Fiscal Year-end 2011-2015

As depicted in Figure 13, both premiums written by the Cayman-domiciled international insurance companies and their total asset position reduced by 3.9% and 0.8% respectively, compared to 30 June 2014.

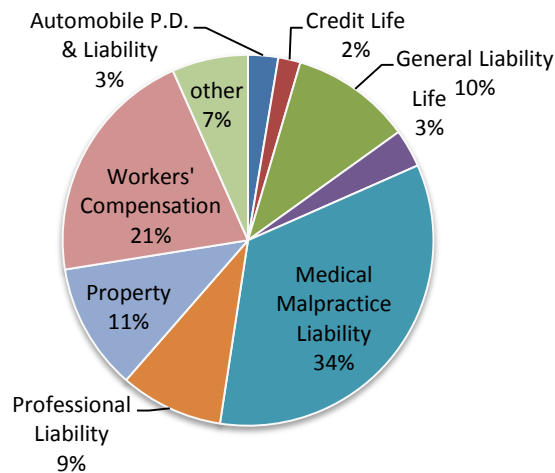


Figure 14: Cayman-Domiciled International Insurance Companies by Type of Coverage, 30 June 2015

With 34% of Cayman's captives covering healthcare risks (see Figure 14), the jurisdiction is the number one domicile for healthcare captives. Other types of coverage provided by Cayman captives include: general and professional liability, workers' compensation, property, auto and product liability, and life and annuity.

While the vast majority of companies in the international segment of Cayman's insurance industry are self-insured captives 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 15).

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.

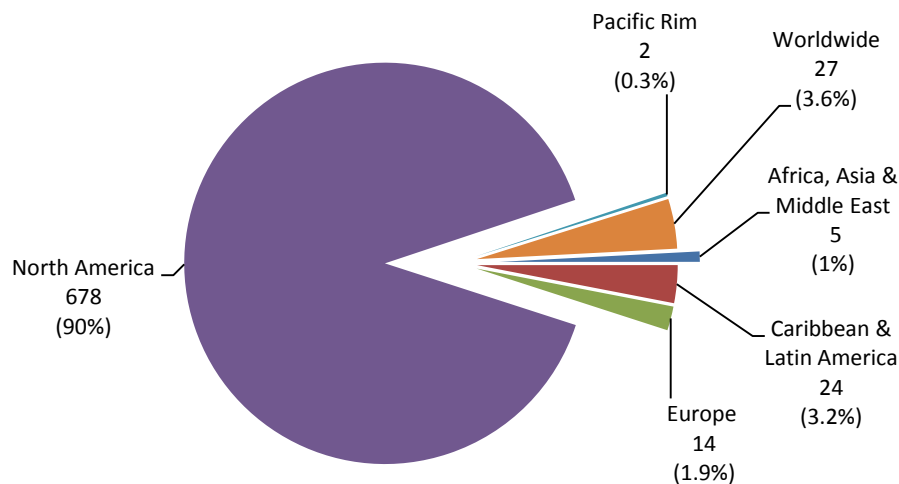


Figure 15: Cayman-Domiciled International Insurance Companies by Location of Risks Covered, 30 June 2015

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 ("SPC") that typically provide insurance coverage for smaller organisations became a significant part of the market. As at 30 June 2015, there were 130 Cayman SPCs with a total of 608 segregated portfolios operating within them.

More recently, Alternative Financing Vehicles (e.g. ILS/catastrophe bonds) have been formed to allow reinsurers access to capital markets for catastrophe cover.

The Domestic Insurance Segment

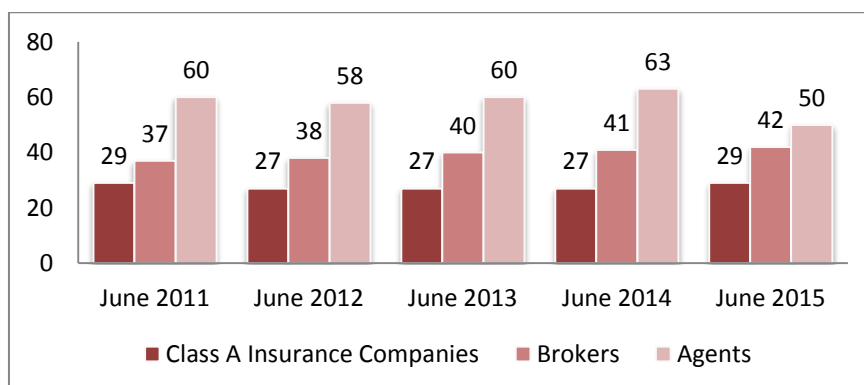


Figure 16: Number of Cayman Islands Domestic Insurance Licences, by Category, Fiscal Year-end 2011-2015

The domestic 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. Domestic insurers provide a range of coverage to local policyholders, with health, property, marine & aviation and liability insurance being the top four categories, accounting for approximately 88% of premiums written by the sector for calendar year 2014 (see Figure 17).

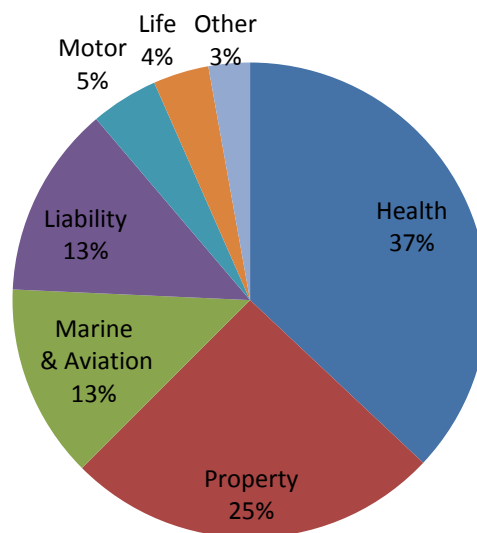


Figure 17: Coverage Provided by Class A Insurers, Measured by Gross Written and Assumed Premiums, 2014 Calendar Year

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 2015, there were 29 insurance companies operating in the Cayman Islands' domestic insurance industry. Of the 29 Class 'A' insurer licence holders in the market, 23 licensees actively engaged in insurance business in the Cayman Islands. Of the six '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), one under controllership, one undergoing liquidation and one surrendered its licence and was awaiting cancellation.

As depicted in Table 12, total gross written premium (GWP) generated by the domestic insurance companies as at 31 December 2014 amounted to CI\$454.8 million, compared to the previous year GWP of CI\$445.0 million. In addition, domestic insurers recorded assumed premium of CI\$79.8 million in 2014. Assumed premium figures for the corresponding period of 2013 were not captured under the reporting requirements then in place.

The International Insurance Segment Activity

The Cayman Islands remains the second largest offshore jurisdiction in terms of the number of international insurers including captives, Bermuda being the first. It also continues to be the leading jurisdiction for healthcare captives. During the 2014/15 fiscal year, 22 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, and healthcare reforms introduced by the Patient Protection and Affordable Care Act (commonly called the "Affordable Care Act") in the United States posed significant challenges to Cayman's captive market in 2014/15. The Affordable Care Act has increased consolidation among hospitals and healthcare service providers in the United States, thus resulting in consolidation in the healthcare captive industry. 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 2014/15 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.

During the 2014-15 fiscal year, the Cayman Islands' Cabinet approved the Insurance (Portfolio Insurance Companies) Regulations, 2015 and the Insurance (Amendment) Law, 2013 (Commencement) Order, 2015, to enable insurers formed as SPCs to establish Portfolio Insurance Companies ("PIC"). A PIC, which is an incorporated company within an SPC structure, offers several benefits including ability to transact with other PICs and standalone companies, ability to have a different board of directors to that of its controlling SPC, recognition as a separate legal entity etc. This innovative latest addition to the international insurance segment further enhances the risk management options available to insurance participants in the Cayman Islands. On 17 February 2015, CIMA granted approval to the first PIC incorporated in the Cayman Islands.

Total premiums, net income, total assets and net asset position of (re)insurers operating in the Cayman Islands international market are reported in Table 11.

Table 11: International Insurance Company Statistics by Company Category and Licence Class, 30 June 2015

Category	Total Licences	%	Total Premiums	Net Income	Net Worth	Total Assets
Commercial Insurer	45	6.22%	848,260,793	36,712,762	1,442,534,390	7,853,154,466
Group Captive	123	17.01%	2,302,514,566	473,847,336	3,459,843,744	6,568,736,181
Pure Captive	393	54.36%	7,580,138,612	1,017,028,588	7,442,448,854	27,005,655,626
Reinsurance Companies	1	0.14%	252,339,000	113,286,000	1,200,434,000	2,962,199,000
Segregated Portfolio Company	130	17.98%	540,668,819	101,470,260	714,780,976	4,024,190,749
Special Purpose Vehicle	31	4.29%	18,873,894	18,873,894	13,058,788	6,046,805,800
Totals:	723	100.00%	11,853,173,913	1,761,218,840	14,273,100,752	54,460,741,822

As in past years, general insurance business, which includes health insurance business, led the market with a share of 92.8% of the total GWP. In 2014, general insurance business recorded a gross written premium income of CI\$421.9 million with a growth of approximately 2.2%, compared to CI\$412.9 million in 2013. The life insurance market reported negative growth of approximately 10.2% in 2014. A protracted low interest rates environment and stagnant population growth in the Islands may have contributed to the negative growth of the life insurance industry.

Table 12: Domestic Insurance Company Statistics by Primary Class of Business as at 31 December 2014

	Property	Motor	Health	Liability	Marine & Aviation	Other	Life	Grand Total
Direct premiums	106,214	22,704	197,119	30,176	65,712	12,598	20,285	454,808
Assumed premiums	30,152	1,927	752	39,709	4,894	2,456		79,890
Ceded premiums	-75,461	-11,214	-28,219	-3,051	-86	-124	3,430	-114,725
Unearned premium adjustment	412	302	-30	311	21	2		1,018
TOTAL UNDERWRITING INCOME	61,317	13,719	169,622	67,145	70,541	14,932	16,855	414,130
Net loss and loss adjustment expenses paid	1,582	6,732	124,180	16,794	22,609	1,366	6,816	173,263
Change in reported outstanding claims	-503	-1,455	4,802	2,958	27,624	41	895	33,467
Change in IBNR	66	-14	2,208	-226	-6	3		2,031
Incurred Loss Sub Total	1,145	5,263	131,190	19,526	50,227	1,410		208,761
Acquisition and General Expenses	-361	543	24,344	4,154	256	29	8,512	37,477
TOTAL UNDERWRITING EXPENSES	784	5,806	155,534	23,680	50,483	1,439	16,223	253,948
TOTAL UNDERWRITING INCOME (LOSS)	60,533	7,913	14,088	43,465	20,058	13,493	632	160,182
Net Investment Income	n/a	n/a	n/a	n/a	n/a	n/a	n/a	10,919
Other Revenue/(Expenses)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-4,898
TOTAL INCOME (LOSS)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	166,203

(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, more than twenty years ago. Today, the Cayman Islands is the premier domiciliation of choice for funds. The jurisdiction also continues to surpass other fund domiciles (Table 14). Despite an overall decline in new fund authorisations globally, the funds industry in the Cayman Islands remains healthy showing only a slight decrease. There were 11,061 regulated funds at 30 June 2015, compared to 11,296 at 30 June 2014; 11,209 at 30 June 2013; 9,990 at 30 June 2012; 9,409 at 30 June 2011 and 10,037 in mid-2008. The total funds at June 2015 includes 2,773 master funds, 7,795 registered funds, 390 administered funds and 103 licensed funds. (See Figure 18)

The Mutual Funds Law (MFL) makes provision for three categories of regulated funds: licensed, administered and registered, and charges the Cayman Islands Monetary Authority with responsibility for their regulation and ongoing supervision. Licensed funds, commonly known as retail or public funds, are governed by a more prescriptive regime than registered and administered 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 interests 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 2013 Investment Statistical Digest, of the 8,705 regulated funds that filed a 2013 Fund Annual Return (FAR) with CIMA, 50% required a minimum initial investment of US\$1,000,000 or greater (see Figure 20).

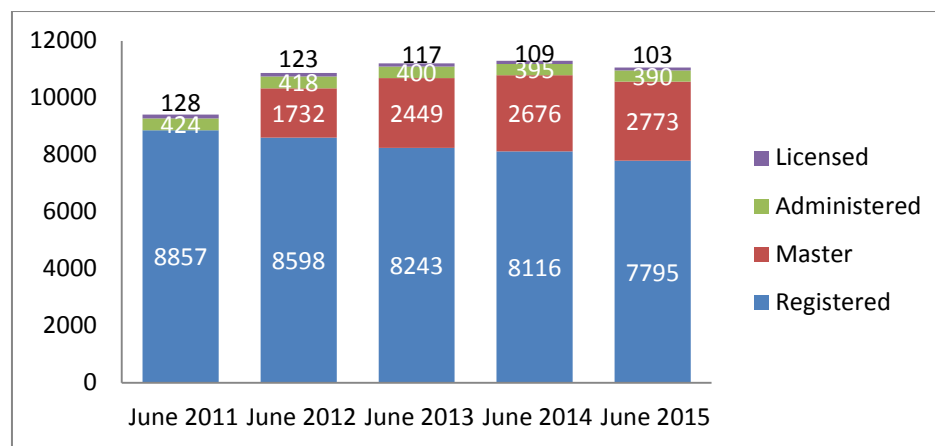


Figure 18: Number of Cayman Regulated Funds, by Category, Fiscal Year-end 2011-2015

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., director, trustee or general partner) to the fund.

Two categories of mutual fund administrator licence⁸ 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 19, Mutual Fund Administrators by Category, 2011-2015.

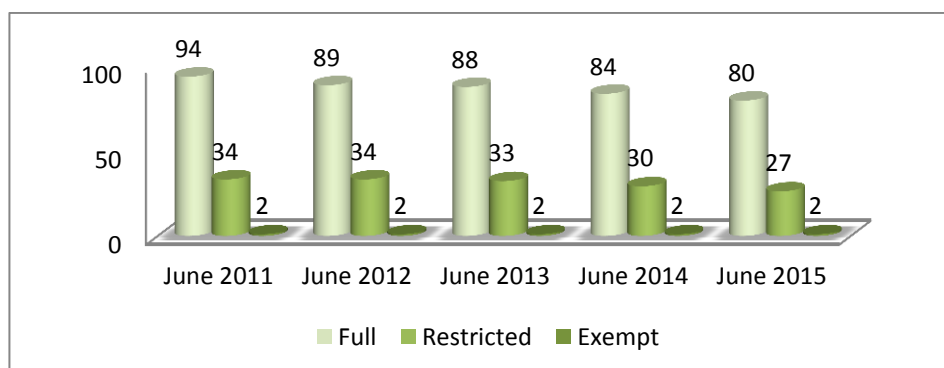


Figure 19: Number of Mutual Fund Administrators, by Category, 2011-2015

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 8,705 regulated funds that had a financial year end in 2013 and that submitted the required FAR form via CIMA's electronic reporting system.⁹ These 8,705 funds had total assets of US\$2.3 trillion combined, and net assets of US\$2.0

⁸ A third authorization category, Exempted Administrators, which previously existed, has been discontinued. However, administrators already authorized in this category remain.

⁹ See [CIMA's Investments Statistical Digest 2013](#) available on CIMA's website at www.cimoney.com.ky

trillion. The 2013 Investment Statistical Digest also captured information specific to master funds and indicated that the Ending Net Assets of the Master Funds was US\$1,230 billion, which increased from the Opening Net Assets of US\$1,010 billion. This increase was due to subscriptions of US\$370 billion, redemptions of US\$305 billion, Dividends of US\$3 billion and Net Income of US\$158 billion. The data indicate that funds overall had a profitable year, with returns on both gross and net assets increasing from 5.3% and 7.4% in 2012, to 7.9% and 9.4% in 2013, respectively. There were no changes in the top five investment manager locations, as measured by net assets held by managers in these locations, with the five locations remaining New York, UK, Connecticut, California and Massachusetts. Cayman remained the primary location from which fund administration services (registrar and transfer (R&T) service) were provided for the funds that reported.

The Cayman Islands continues to be a jurisdiction of choice in the offshore hedge fund industry, with investment managers exhibiting a high 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. 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 accepted 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). CIMA has signed Memoranda of Understanding with 27 EU member States to allow for continued cooperation under the AIFMD, and is currently updating the relevant regulatory laws and regulations to facilitate full compliance with the Directive for those funds that market into the EU. Strict anti-money laundering requirements are also in place within the jurisdiction to prevent the flow of funds from proceeds of crime or to terrorist organizations, with information exchange agreements relating to AML/CFT signed with many countries, including the United States and United Kingdom.

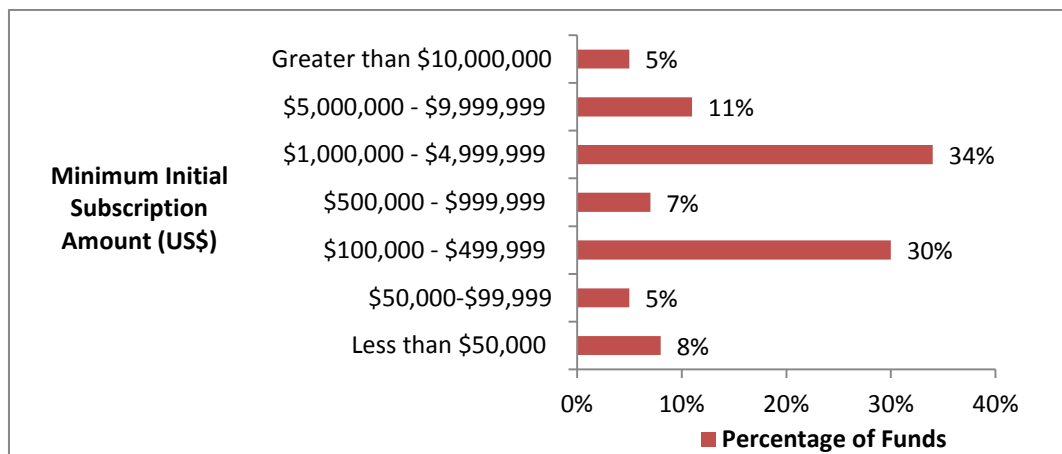


Figure 20: Minimum Initial Investment Required by Cayman-Regulated Funds Filing a Fund Annual Return for 2013

Authorisation Activity

Funds - Fiscal year to date, 1,423 regulated entities were authorized and 1,465 regulated entities were terminated, compared to 1,653 and 1,674 respectively during the same period in 2014. The total number of regulated funds as at 30 June 2015 was 11,061 (comprising 7,795 registered funds, 2,773 master funds, 390 administered funds and 103 licensed funds), compared to 11,296 for the same period in 2014 (comprising 8,116 registered funds, 2,676 master funds, 395 administered funds and 117 licensed funds).

Administrators - The number of licensed mutual fund administrators decreased during the fiscal year from 116 to 109. There were two new mutual fund administrators' licence applications approved and seven licences cancelled during the fiscal year. The trend to downsize through mergers and acquisitions continues. As of 30 June 2015, there were 109 licensed mutual fund administrators (2 Exempted, 80 Full and 27 Restricted), compared to 116 for the same period in 2014.

Jurisdictional Comparisons - Funds

Table 13 shows the number of active funds for calendar years 2010 to 2014 in Cayman and other financial jurisdictions for which figures are available. As the figures demonstrate, the number of Cayman-authorized 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 2014 largely reflects the impact of the US recession and the continued instability in the global financial markets.

Table 13: Regulated Fund Numbers - Selected Jurisdictions, 2010-2014 Calendar Year-end

Jurisdiction	% change ('10 v '09)	2010	% change ('11 v '10)	2011	% change ('12 v '11)	2012	% change ('13 v '12)	2013	% change ('14 v '13)	2014
Bahamas	↓4%	753	↓1.8%	713	↓8.6%	652	↑15%	750	↑12.9%	*847
Bermuda	↓1%	1,181	↓11.8%	772	↓1.3%	762	↓8.4%	698	↓5.3%	661
BVI	↑1%	2,951	↓12.3%	2,627	↓11.8%	2,318	↓3.5%	2,238	↓4.3%	2,142
Dublin	↑6.3%	1,022	↑9.7%	1,121	↑3.3%	1,158	↑3.2%	1,195	↓1.3%	1,179
Jersey	↑2%	1,324	↑3.0%	1,392	↓0.3%	1,388	↓3.9%	1,334	↓0.8%	1,323
Cayman	↓1%	9,438	↓1.9%	9,258	↑17.2%	10,841	↑5%	11,379	↓3.2%	11,010

* Restatement of number due to enhancements made by Regulator.

SECURITIES INVESTMENT BUSINESS

The Sector

Securities investment business activities carried out in or from the Cayman Islands include: dealing in securities, arranging deals in securities, investment 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 21). Most of the entities in this category conduct securities investment business exclusively for institutional or other 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.

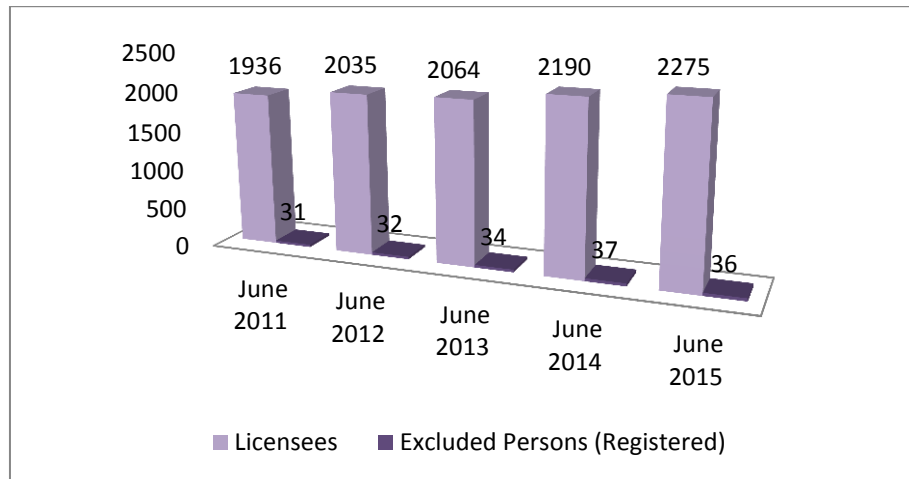


Figure 21: Number of Regulated Securities Investment Business Entities, 2011-2015

Authorisation Activity

The securities investment business sector continues to show steady growth. Two new licence applications were approved in the fiscal year. As of 30 June 2015, there were 36 licensed Securities Investment Business holders and 2,275 SIBL Excluded Persons, compared to 37 and 2,190 respectively during the same period in 2014.

ORGANISATIONAL DEVELOPMENTS

NATURE AND SCOPE OF ACTIVITIES

FUNCTIONS

CIMA has four principal functions.

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

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 2015, the value of the currency reserve assets was CI\$105.812m (2014: \$102.624m) representing 111.51% (2014: 111.88%) 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 61 and following).

Issue and Redemption of Currency

Currency in Circulation - At 30 June 2015, currency in circulation (excluding numismatic coins) stood at \$84.3 million in notes and \$10.6 million in coins, totalling \$94.9 million. This represents a 3.5% increase from the 30 June 2014 figure of \$91.7 million. Table 14 shows currency in circulation at fiscal and calendar year-end from 2011 to 2015. Figure 22 shows currency in circulation by month from 2011 to 2015.

Table 14: Currency in Circulation at Fiscal and Calendar Year-end, 2011-2015 (in CI\$m)

DATE	2011	2012	2013	2014	2015
30 June	84.9	88.7	87.2	91.7	94.9
31 December	89.7	94.0	96.2	95.5	107.7

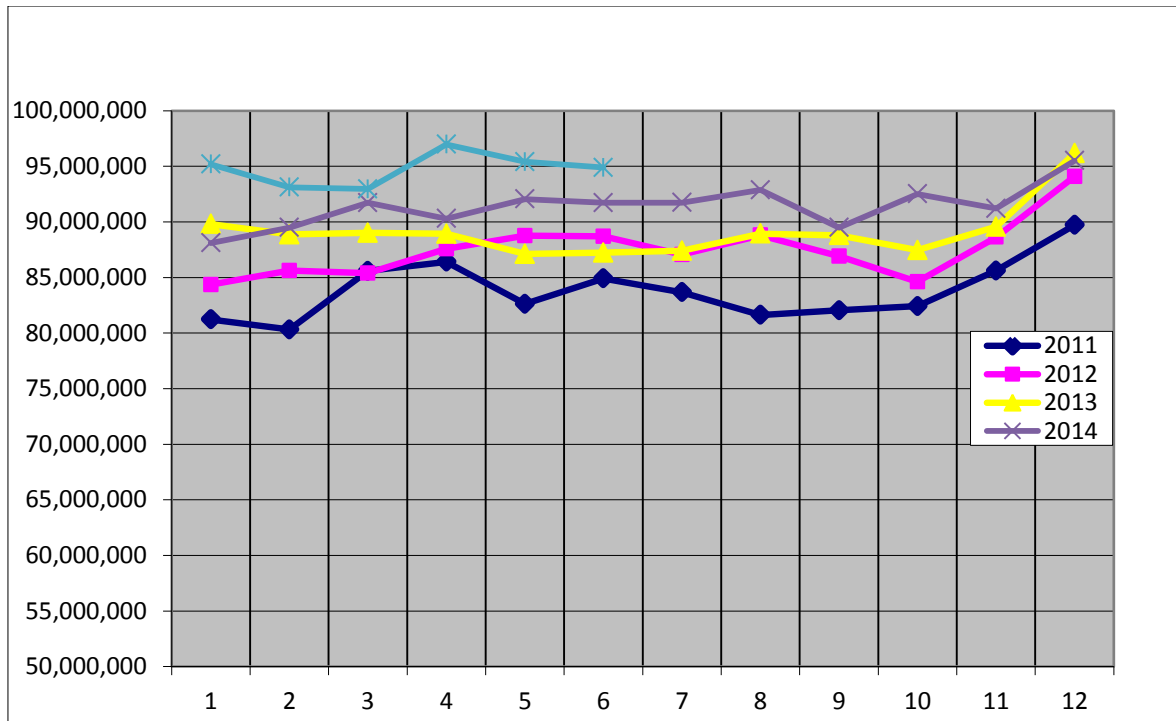


Figure 22: Cayman Islands Currency in Circulation by Month: 2011-2015

Counterfeit Detection

A total of 3 forged banknotes was detected and withdrawn from circulation in 2014-15, compared to 11 detected and withdrawn in the prior fiscal year.

Table 15 shows the number of forged banknotes, by denomination, which were withdrawn from circulation in each of the six-month periods between 1 July 2011 and 30 June 2015.

Table 15: Counterfeit Cayman Islands Currency Notes Recovered, July 2011-June 2015

	Jul - Dec 2011	Jan - Jun 2012	Jul - Dec 2012	Jan - Jun 2013	Jul - Dec 2013	Jan - Jun 2014	Jul - Dec 2014	Jan - Jun 2015
\$100	7	0	0	4	3	1	0	2
\$50	5	1	1	2	1	0	0	0
\$25	23	1	4	7	0	0	0	0
\$10	7	2	2	4	4	2	1	0
\$5	0	0	0	0	0	0	0	0
\$1	0	0	0	0	0	0	0	0
Total No. of Notes	42	4	7	17	8	3	1	2
Total Dollar Value	\$1,595	\$95	\$170	\$715	\$390	\$120	\$10	\$200

Numismatic Coin Programme

Under a March 2014 Agreement with the Royal Mint, the Authority participated in the Royal Mint's Princess to Monarch numismatic coin programme, a coin collection that celebrates Queen Elizabeth II's reign. It features a series of coins celebrating Her Majesty's achievements during her time on the throne.

The two coins assigned to the Authority under the topic Prince Philip - Endurance/Loyalty, to reflect an enduring marriage through years of service to her country were well received, and all coins purchased by the Authority for local sales have been sold.

In July, the Authority also took up the offer from the Royal Mint to issue a gold coin to commemorate the 25th Anniversary of Ronald Reagan being awarded an honorary knighthood by the Queen, which will generate additional revenue for the Authority through royalties from coins sold by the Royal Mint. These coins were not offered for local sale.

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 2015 are shown in Table 16.

Table 16: The Cayman Islands Monetary Authority Regulatory Framework (as at 30 June 2015)

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, 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	Standards: - Basel Core Principles for Effective Banking Supervision¹⁰ - Trust and Company Service Providers Working Group Statement of Best Practice produced by the Offshore Group of Banking Supervisors¹¹

¹⁰ As promulgated by the Basel Committee on Banking Supervision

¹¹ The working group comprised representatives of various offshore financial centres, the FATF, IMF and OECD, as well as representatives of four G7 countries. The Statement was disseminated to the fiduciary sector via the Society of Trust and Estate Practitioners (STEP) and the Company Managers Association, and was accepted locally.

	regulations • Cooperative Societies 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 Regulation¹² 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), 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

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

¹² Issued by the International Association of Insurance Supervisors (www.iaisweb.org). The Cayman Islands is a charter member of this association.

within their sectors. They are also responsible for the on-going supervision of licensees/registrants, and making recommendations for enhancements to the supervisory regime where appropriate.

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

REGULATORY DEVELOPMENTS

Rules, Guidelines and Policies

The Policy and Development Division is responsible for the continuous development of the financial services regulatory framework within the Cayman Islands in accordance with international standards. Its cross-functional role supports and advises the Authority's senior management, 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 providing policy advice to the Authority, including during the industry consultation process. In addition, the division assists in the provision of responses, of both a statistical and non-statistical nature, on the financial sector to various international and domestic organisations.

During the year under review, the Authority issued several measures that impacted the investment funds, banking and insurance sectors. A Rule and Regulatory Procedure were issued to outline criteria for a fund to cancel its registration or licence with the Authority. To better align with standard setters' enhanced requirements, a new Rule and Statement of Guidance on Management of Credit Risk and Problem Assets were issued for banks.

The Regulatory Policy on Banking Licensing was also revised in order to enhance the Authority's licensing process and to more closely align with international standards. The Regulatory Policy - Licensing and Approving Money Services Business established criteria for the licensing of money services businesses and the approval of their agents. Lastly, the measures pertaining to risk management and market conduct were updated for the insurance sector. The regulatory measures issued during the 2014-15 fiscal year are listed in Table 17. Copies of all rules, statements of guidance and policies and procedures issued by the Authority are available on the CIMA website.

Table 17: List of Regulatory Measures Issued in 2014-15

When Issued	Type of Standard	Title	Description
August 2014	Policy	Regulatory Policy - Licensing and Approving Money Services Business	The Policy establishes criteria for the licensing of money services providers and approving their agents.
August 2014	Policy	Regulatory Policy on Licensing Banks	The Policy on Licensing was revised to include more robust criteria for licensing home regulated banks as well as to enhance those requirements that pertain to the management and control and the track record of applicants.
March 2015	Rule	Rule - Management of Credit Risk and Problem Assets	The Rule is designed to streamline the management of credit risk and problem assets. The Rule requires the credit risk holders to adversely classify assets when contractually in arrears and to document the rationale of provisioning as part of a sound credit risk and problem asset management framework.
March 2015	Statement of Guidance	Statement of Guidance - Credit Risk Classification, Provisioning and Management	The SOG aims to provide more clarity, certainty and uniformity to the treatment of credit risk and problem assets in the jurisdiction. It also outlines what the Authority expects when dealing with asset classification and provisioning.
March 2015	Rule	Rule – Risk Management Insurers	The Rule amends the Rule on Risk Management issued in 2009. The Rule sets out key principles that insurers must adopt in the implementation of a risk management framework with a focus on the need to identify, measure, assess, report and control the risks that they are exposed to in their business
March 2015	Rule	Rule Market Conduct – Insurers, Agents and Brokers	The Rule was amended to better align with the Insurance Core Principles and make the measure applicable to Class B Insurers that write domestic business under the Insurance Law as approved by the Authority.
March 2015	Statement of Guidance	Statement of Guidance - Market Conduct – Insurers, Agents and Brokers	The SOG provides guidance on the requirement imposed on licensees by the Rule on Market Conduct. It further provides a standard of best practice to insurance licensees in conducting business with customers.
March 2015	Rule	Rule Cancellation of Licence or Certificate of Registration of Regulated Mutual Funds	The Rule requires regulated mutual funds to properly cancel their licence or registration in order to systematize the cancellation process.
March 2015	Procedure	Regulatory Procedure - Cancellation of Licence or Certificate of Registration of Regulated Mutual Funds	This Procedure outlines steps and documents necessary to properly cancel a fund's registration/licence based on various scenarios.

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 has been actively researching the developments and impact of the AIFMD on the Cayman Islands Funds and Securities Industry. Further, the Authority has been engaged in continued dialogue with the Cayman Islands Government and industry stakeholders on the creation of an appropriate regime to ensure Cayman Islands Investment Managers and Funds can continue to do business in the EU and EEA. The Authority has also conducted an industry survey on the impact of the delegation provisions of the AIFMD on the local industry and the concept of depository in the AIFMD.

Anti-Money Laundering

The Cayman Islands Government launched a Working Group in efforts to identify, assess and understand the money laundering and terrorists financing risks the Cayman Islands faces. This exercise is necessary for the country to comply with Recommendation 1 of the Financial Action Task Force (FATF) Recommendations. The Working Group has eight work streams in which the Authority plays an active role. More than 10 members of staff are engaged as members of the Working Group.

Mutual Funds (Annual Returns) Regulations

The Authority has been working with the Cayman Islands Government to amend the Mutual Funds (Annual Returns) Regulations. The Regulations, which had not been updated since 2006, will be modernized to recognize the evolution of fund structures in the jurisdiction, such as Master Funds, and to allow the Authority to comply with certain international obligations.

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*¹³. The Compliance Division, which is tasked with conducting due diligence on applicants that the regulatory divisions refer to it, received 299 such applications during the 2014-2015 fiscal year. This compares to 196 during 2013-14. The breakdown of the applications for 2014-15 and 2013-14, by division, is shown in Table 18.

Table 18: Due Diligence Applications Referred to the Compliance Division, 2014-15 with 2013-14 Comparison

	Banking	Fiduciary	Insurance	Investments	Total
Applications as at 30 June 2014:	71	86	1	38	196
Applications as at 30 June 2015:	108	148	3	40	299

Enforcement

CIMA's *Enforcement Manual*¹⁴ 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 18 formal enforcement actions during 2014-15 (compared to 12 during 2013-14). Table 19: lists the formal enforcement actions initiated¹⁵.

Table 19: Formal Enforcement Actions, 2014-2015

Name of Entity	Type of Authorisation Held	Enforcement Action	Effective Date
Excel Global Opportunities Fund, Ltd.	Registered Fund	Registration Cancelled	1-Jul-14
Saadgroup Financial Services Company Limited	Class 'B' Bank	Licence Revoked	10-Jul-14

¹³ Regulatory Policy – Assessing Fitness and Propriety: Appendix E3 (page 66) of the [Regulatory Handbook Appendices](http://www.cimoney.com.ky/WorkArea/DownloadAsset.aspx?id=3825). Address: <http://www.cimoney.com.ky/WorkArea/DownloadAsset.aspx?id=3825>. Also see information on Fitness and Propriety at page 28 of the [Regulatory Handbook - Volume 1 March 2011](http://www.cimoney.com.ky/WorkArea/linkit.aspx?LinkIdentifier=id&ItemID=3714). Address: <http://www.cimoney.com.ky/WorkArea/linkit.aspx?LinkIdentifier=id&ItemID=3714>

¹⁴ The [Enforcement Manual](http://www.cimoney.com.ky/WorkArea/linkit.aspx?LinkIdentifier=id&ItemID=672): Address: <http://www.cimoney.com.ky/WorkArea/linkit.aspx?LinkIdentifier=id&ItemID=672>

¹⁵ See the Regulatory and Enforcement Notices section of CIMA's website. Address: <http://www.cimoney.com.ky/enforcement/notices.aspx?id=164>

Saad International Bank Limited	Class 'B' Bank	Licence Revoked	10-Jul-14
Osiris Fund, Ltd.	Registered Fund	Registration Cancelled	22-Jul-14
Infinium Global Fund	Registered Fund	Controllers Appointed	10-Sep-14
Saadgroup Financial Services Company Limited	Class 'B' Bank	Winding Up	10-Sep-14
Saad International Bank Limited	Class 'B' Bank	Winding Up	10-Sep-14
Quanto Strategic Currency Fund Ltd	Registered Fund	Controllers Appointed	19-Sep-14
AWAL Trust Company Limited	Restricted Trust	Licence Revoked	28-Nov-14
Melstrep Neural Network No.1 Fund Limited	Registered Fund	Controllers Appointed	30-Dec-14
Caledonian Bank Limited	Class 'A' Bank	Controllers Appointed	10-Feb-15
Caledonian Securities Limited	Full Securities	Controllers Appointed	10-Feb-15
Caledonian Bank Limited	Class 'A' Bank	Licence Revoked	16-Feb-15
Caledonian Securities Limited	Full Securities	Licence Revoked	16-Feb-15
Caledonian Bank Limited	Class 'A' Bank	Winding Up	23-Feb-15
Caledonian Securities Limited	Full Securities	Winding Up	23-Feb-15
CentreInvest Russian Fund	Registered Fund	Registration Cancelled	24-Feb-15
Brighton SPC	Registered Fund	Controllers Appointed	1-Jun-15

Litigation

There was no litigation with regard to enforcement actions during the 2014-15 fiscal period.

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

¹⁶ The complete list can be viewed in the Enforcement/ Information and Alerts section of the website: Address: http://www.cimoney.com.ky/enforcement/info_alerts.aspx?id=168.

EXECUTION OF COOPERATIVE AND ADVISORY FUNCTIONS

CROSS-BORDER COOPERATION

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

Memoranda of Understanding

While not a prerequisite for the provision of assistance, MOUs and similar agreements establish a framework for mutual assistance and cooperation by CIMA and the regulatory body with which the MOU is signed. The agreements specify when consultation should take place and the type of supervisory and enforcement information that may be exchanged. In this way, they enhance the existing working relationships between the authorities. Copies of the Authority's current MOUs and cooperation agreements are available on the CIMA website.¹⁷

During this period, CIMA signed three bi-lateral MOUs. These are listed in Table 20.

Table 20: International Information Exchange and Cooperation Agreements Concluded, 2014-2015

Agreement	Effective Date
▪ Labuan Financial Services Authority – Memorandum of Understanding	6 Aug 2015
▪ Guernsey Financial Services Commission – Memorandum of Understanding	6 Mar 2015
▪ Insurance Commission of the Bahamas – Memorandum of Understanding	6 Nov 2014

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*

¹⁷ 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

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

The Compliance Division assists primarily on those requests on which the Authority will be required to issue a 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 207 requests for assistance from ORAs during the 2014-15 financial year, compared to 154 requests during 2013-14 and 175 during 2012-13.

International Initiatives Involving CIMA

Group of International Financial Centre Supervisors (GIFCS)

During the year, the Authority remained active in the Group of International Financial Centre Supervisors (GIFCS). In 2013-2014, CIMA was a member of the GIFCS working group tasked with developing a new international standard for trusts and corporate services providers. The group's report was completed by year-end 2014.

Financial Stability Board Regional Consultative Group for the Americas (RCGA)

Similarly, the Authority contributes to the work of the Financial Stability Board Regional Consultative Group for the Americas (RCGA). Since 2013, CIMA has been participating in as a member of the working group undertaking the RCGA initiative on shadow banking. Following a similar initiative in FSB member countries, the working group is attempting to determine the size and nature of the shadow banking sector in the Americas. The working group is continuing the shadow banking monitoring exercise.

International Association of Insurance Supervisors (IAIS)

The Authority participated in various initiatives of the International Association of Insurance Supervisors (IAIS) during the year. These included the validation of applications to join the IAIS Multilateral Memorandum of Understanding and contributing to a report on international development needs for insurance supervisors. The Authority continues to contribute to the work of the IAIS by its active participation in the IAIS Implementation Committee, Market Conduct Subcommittee, Education Subcommittee and Signatories Working Group. In October 2013, the Cayman Islands was re-elected to the IAIS Executive Committee for a two-year term, representing the Caribbean and Offshore region.

¹⁸ 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>.

IAIS Solvency and Actuarial Subcommittee (SSC)

At the special request of the National Association of Insurance Commissioners (NAIC), which chairs the IAIS Solvency and Actuarial Subcommittee, in 2012, the IAIS had requested permission from CIMA to create an additional seat on the subcommittee to allow the Authority's Chief Actuary to join as a special member, due to his extensive actuarial knowledge in the field of regulation. As a member of the SSC, in 2014, the Chief Actuary provided presentations on longevity risk, stress testing, and alternative risk transfer and has been actively involved in assessing and developing capital requirements for alternative risk transfer and catastrophe risk. The Chief Actuary was appointed as a member of the SSC Drafting Working Group. In addition, the Chief Actuary was asked to participate in the proceedings of the NAIC Working Group on Catastrophe Risk, which is charged with the responsibility of developing the catastrophe risk load for the NAIC's revised Risk Based Capital Regime.

Group of International Insurance Centre Supervisors (GIICS)

In June 2014, the Authority was elected deputy chair of the Group of International Insurance Centre Supervisors. The Authority is also the Chair of the GIICS Education Committee. In that role, in 2014, the Authority drafted a report on development needs of GIICS members and developed a strategy to enhance the training and development of supervisors of GIICS members.

International Banking Regulatory Groups

CIMA is an active member of the Caribbean Group of Bank Supervisors (CGBS) and a member of the CGBS' Basel II Implementation Working Group. Coming out of the CGBS' 32nd annual conference held in June 2014, the Authority was asked, and has since provided, feedback on the assessment methodology for Globally Systemically Important Banks. CIMA representatives also shared, via a presentation at the annual conference, its experience on the implementation of the revised Basel core principles for effective banking supervision.

LOCAL COOPERATION

Money Laundering Reporting

The Head of Compliance is the Authority's Money Laundering Reporting Officer (MLRO) under the Proceeds of Crime Law, 2008. Any suspicion of money laundering identified by CIMA's staff in conducting their supervisory activities is reported to the MLRO, who has the responsibility to report to the Financial Reporting Authority (FRA) in conformance with the Money Laundering Regulations (2015 Revision).

The MLRO filed 1 suspicious activity report (SAR) with the FRA during 2014-15, compared to 5 filed during 2013-14. The FRA made 39 onward disclosures during 2014-15 to the Authority, pursuant to the MOU between the FRA and CIMA. This compares to 46 made by the FRA during 2013-14. 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 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 2014-15 are covered in the Regulatory Developments section of this report, beginning on page 44.

OPERATIONAL SUPPORT AND ADMINISTRATION

HUMAN RESOURCE MANAGEMENT AND DEVELOPMENT

February 2015 realised the launch of CIMA's strategic plan, with its revised Mission Statement that speaks to protecting and enhancing ...*"the reputation of the Cayman Islands as an International Financial Centre by fully utilising a team of highly skilled professionals..."* – CIMA Strategic Plan 2014-2016.

It is evident that every aspect of the functions performed by the Human Resources Division has the common denominator of our people. This is managed through the fundamental Units of Recruitment and Employee Services, to provide training, growth and development of our employees in financial services regulation and operations throughout their life with our organisation.

The past year focused on our people, their objectives and development directly correlated to the overall strategic plan to be better equipped to meet the goals of the organisation; recognising that CIMA's success and effectiveness in fulfilling its mission and meeting objectives is highly dependent on having employees with specialised knowledge, skills and experience.

For the past year and into 2015/2016, our vision and objective is to source, attract and recruit persons who are not only qualified but more advantageously experienced in financial services regulation. This means having a robust team of experienced supervisors to ensure proactive oversight and enforcement. Each area of responsibility is highly technical and involves experience, knowledge and expertise with domestic laws, global policies and the principles of current financial industry regulation.

Recruitment and Staffing

The overall staff complement of CIMA has increased by 8% with total staff numbers at 186 at the end of the financial year, up from 172 as at 30 June 2014. As with other regulatory bodies, CIMA is challenged by industry licensees who recognise and benefit from the efforts that organisations such as CIMA invest in our people. We are a lucrative ground for sourcing staff with experience and training, and this is widely known.

Learning and Development

During the year 2014-2015, we built on the existing Learning & Development of our employees by establishing specific regulatory modules to CIMA's learning unit. This was further enhanced by establishing relationships with industry subject experts to either facilitate or co-facilitate in-house training workshops along with CIMA's own experts. The table below illustrates the types of courses (internally and externally) facilitated across the organisation that included regulatory specific, supervisory soft skills and partnerships with industry experts.

Table 21: Learning and Development Programme Statistics, 2014-2015

Course Type		Total Held	Total Attendance
Internal Courses : Led by External Experts		16	284
Regulatory with Industry Partners		12	
Soft Skills		4	
Internal Courses : Led by CIMA Experts		27	627
Regulatory (2 led by Industry Partners)		22	
Soft Skills		5	
Internal Web Seminars:		36	220
Regulatory		28	
Soft Skills		8	
External Local Events:		31	116
Regulatory		18	
Soft Skills		9	
Overseas Conferences/Seminars			24

Employee Services

In 2014-2015, 12 persons were recognised and promoted at various levels in the organisation from Executive Administrative Assistant to Manager/Supervisory and Head of Department levels. Employees are provided with guidance throughout their life with the organisation towards being well-rounded professionals with technical exposure and training, as well as soft skills development. The Human Resources Division aims to achieve this by having established competences at the top management, middle management and supervisory levels. Progression Indicators and Development Plans serve to equip employees with an outline of the details needed for them to progress to the next stage within the organisation and these, together with the performance management process and feedback, facilitate succession planning and upward mobility with clear expectations.

These initiatives are aimed at enabling professional and experienced persons within the public arena, our graduates and students to recognise CIMA as the workplace with which to build an exciting career in financial services regulation. Students are invited to apply for the Thomas Jefferson Memorial Scholarship that was established in 2007 and through which three winners have gained an invaluable formal education in the fields of Finance, Accounting, Economics, Enterprise Risk Management, and Business Administration.

The Authority also prides itself on the number of students who are afforded internships as well as those who have been offered work experiences from high school through to college and university levels. Most recently, CIMA became involved in the work experience pilot programme that was established by Cayman Finance and the Ministry of Education, by exposing a college student to the world of financial services from an introductory regulatory perspective. It is the intention of the Human Resources Division to continue to work in tandem with all divisions to ready the Authority's people to fulfil the mandate of the organisation.

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 2014-2015 year again exceeded the industry standards, and were above the 99.8% level. The division continued to provide high availability, security, and reliability of information technology systems and services during this period. Our system availability for the first half of 2015 continues to be exceptional, with an average availability of 99.996% during business hours and the almost unattainable "5-nine" uptime when measured on a 24-hour basis. (These numbers are derived from unplanned/unexpected outages). This is comfortably ahead of the industry benchmark for small to medium businesses.

Major Initiatives During 2014-2015

Disaster Recovery – Our tests for business continuity were completed prior to the annual hurricane season, and proved very successful. Slight improvements from last year's test have been implemented and all systems 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 and the inclusion of additional tiers of firewall protection. Additional layers of email, network and web security have been added, with work continuing in this area.

New REEFS System – Industry have been able to log into the new 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 and Insurance divisions – are being processed online as part of Phase 1. The focus has now shifted to the Investments and Securities Division and the Banking Supervision Division. Their transaction forms are currently being designed and coded for availability in Phase 2. Online payments will be a new feature in Phase 2, allowing 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 account and to process the transactions more quickly and more efficiently.

Directors Registration Portal – Changes have been successfully made to the CIMA in-house system in the new Directors Registration portal to allow for a surrender of registration and the fees associated with it. CIMA is approaching nearly 20,000 online web payments which have been successfully transacted via the e-commerce credit card platform for Directors' registration.

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

CIMA co-hosted an insurance seminar with Fitch Ratings, which was held in October 2014. There were approximately 90 participants from the Authority, the Cayman Islands insurance industry and from abroad. A major objective of the seminar was to increase the captive insurance industry's awareness of Fitch Ratings having insurance rating capability, and in particular, the capability to rate captive insurance. The PR Unit organised publicity for the event and set up the CIMA display booth, which was used to register attendees and disseminate informational brochures.

The PR Unit also assisted the Banking Supervision Division and the Policy and Development Division in presentations made at the University College of the Cayman Islands on various aspects of the Authority's work.

CIMA also participated in the John Gray High School's careers day. Students had the opportunity to interact with the Authority's staff representatives and learn about career options at CIMA. In addition, for the second consecutive year, the Authority participated in Clifton Hunter High School (CHHS) 'Take Your Child To Work' programme. CIMA accepted two CHHS students, assigning one to the PR Unit and the other to the Human Resources Division.

External Publications and Media Liaison

The PR Unit assisted the Managing Director and senior management in producing articles for publications such as Cayman Captive, Cayman Funds, Captive Review, the Global Banking & Financial Policy Review, Cayman Finance and a book on hedge fund governance.

CIMA Publications

The Investments and Securities Division and the PR Unit collaborated on the production of the Investments Statistical Digest 2013. The PR 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.

Direct Public Information and Assistance

The PR Unit provided information to the public and media via numerous press releases, and frequently responded to media requests and queries from the general public. The Unit also expanded CIMA's social media presence with regular LinkedIn updates during the period, in addition to regularly updating the CIMA website, which provides free public access to relevant information.

Staff Community Involvement

A variety of charitable and community initiatives received support from CIMA's staff. For example, staff delivered meals for Meals on Wheels, served as advisors for the Junior Achievement programme, and gave career advice at the John Gray High School Careers Day. The various divisions organised donations to a number of charities and deserving causes at Christmas. Staff also completed several community projects organised by the CIMA Green Team, a group which promotes environmental causes. It is also a matter of great pride that the team entered by the Authority in the Government Football League tournament emerged the winner in 2014.

Internal Support

PR Unit staff worked closely with the divisions to provide communication support for several external conferences and other activities, and collaborated with the Human Resources Division on activities to promote the well-being of staff. In an effort to keep staff abreast of local and international market, regulatory and political developments, the Unit monitored, collected, and disseminated relevant information.

FREEDOM OF INFORMATION INITIATIVE

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

Between July 2014 and June 2015, nine FOI requests were received and processed. Full access was granted to five of the requests. Two requests were denied; the first because the Authority did not hold the requested record, and the second because the information requested was otherwise publically available. In addition, two requests were Internally Reviewed by the Authority. One request was granted in full after the Internal Review process; the second was denied after the Internal Review, and this denial of access was upheld by the Information Commissioners Office.

FINANCIAL CONTROL

Finance Division

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

Coercive Revenue Collection

The Authority collected \$102.667m in coercive fees from regulated entities on behalf of the Cayman Islands Government for the 2014-15 financial year, compared to \$106.832m 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 2014-15, for a total of \$6.865m 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

In June 2014 the new Directors Registration and Licensing Law came into effect; this provided CIMA with \$7.853m of income, compared to \$4.499m for the prior year. The other sources of income are from the CIMA Transactional Fees \$4.971m, Investments \$0.741m, commission and the sale of numismatic items \$0.331m.

Net Income

The Authority's net income for the 2014-15 financial year was \$0.410m (2013-14 net income \$0.684m), which was allocated to CIMA's Capital Expenditures Reserves and General Reserves.

Details of CIMA's financial position for the year ending 30 June 2015 can be seen in the Audited Financial Statements that follow.

AUDITED FINANCIAL STATEMENTS

**For Year Ending
30 June 2015**



CAYMAN ISLANDS MONETARY AUTHORITY

Statement of Responsibility For Financial Statements 30 June 2015

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 2015.

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 2015;
- (b) fairly reflect the financial position as at 30th June 2015 and performance for the Year ended 30th June 2015;
- (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 of Auditing.


Grant Stein
Chairman
Cayman Islands Monetary Authority

Date: 31 March 2016


Cindy Scotland
Managing Director
Cayman Islands Monetary Authority

Date: 31 March 2016



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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 2015 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 25 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 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Garnet Harrison, CPA, CA
Acting Auditor General

31 March 2016

**CAYMAN ISLANDS MONETARY AUTHORITY
STATEMENT OF FINANCIAL POSITION**

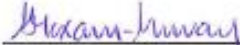
At 30 June 2015

(in Cayman Islands Dollars)

	Note	2015 \$000	2014 \$000
ASSETS			
Currency Reserve Assets			
<i>Current Assets</i>			
Call Deposits	4b	4,077	5,045
Short-Term Investments	4a	61,051	75,004
Fixed Deposits	4b	1,348	1,545
Interest Receivable, Deposits		86	129
Stocks	7	3,189	2,320
<i>Non-Current Assets</i>			
Long-Term Investments	4a	35,861	18,581
Total Currency Reserve Assets		105,812	102,624
Operating Assets			
<i>Current Assets</i>			
Current and Call Deposits	4b	9,658	6,819
Fixed Deposits	4b	3,334	
Accounts Receivable	5	1,862	6,002
Other Receivables and Prepayments		481	846
<i>Non-Current Assets</i>			
Intangible Assets	6	1,966	1,547
Property and Equipment	6	552	390
Total Operating Assets		17,853	15,604
TOTAL ASSETS		123,665	118,228
LIABILITIES, RESERVES and CONTRIBUTED CAPITAL			
Liabilities			
Demand Liabilities, Currency in Circulation	8a	94,887	91,720
Defined Benefit Pension Liability	9	861	1,694
Other Liabilities and Payables	8b	4,235	1,542
Total Liabilities		99,983	94,956
Reserves			
General Reserve		19,789	18,525
Currency Issue Reserve		375	375
Capital Expenditures Reserve		965	1,780
Operational Expenditures Reserve		225	264
Total Reserves		21,354	20,944
Contributed Capital		2,328	2,328
TOTAL LIABILITIES, RESERVES and CONTRIBUTED CAPITAL		123,665	118,228

Approved on 31 March 2016


Cindy Scotland
Managing Director


Gilda Moxam-Murray
Chief Financial Officer

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 2015
(in Cayman Islands Dollars)

	Note	2015 \$000	2014 \$000
INCOME			
Directors' Registration and Licensing Fees		7,853	4,499
Services Provided to The Cayman Islands Government	11a	6,865	9,865
CIMA Transactional Fees		4,971	4,740
Investment Income		741	398
Commission Income		331	328
Net Gain on Numismatic Items		-	68
TOTAL INCOME		20,761	19,898
EXPENSES			
Salaries and Benefits		12,715	12,394
Other Operational Expenses	12	3,928	2,315
Accommodation		1,140	953
Pension Expenses	9	1,258	1,115
Depreciation	6	644	600
Realised Loss on Investments		482	170
Utilities		447	471
Professional Fees		399	257
Official Travel		229	269
Training and Conferences		188	173
Net Loss on Numismatic Items		157	-
TOTAL EXPENSES		21,587	18,717
(LOSS) / INCOME FOR THE YEAR before:-		(826)	1,181
OTHER COMPREHENSIVE INCOME / (LOSS)			
Remeasurement of Employee Benefit Obligation		1,236	(497)
COMPREHENSIVE INCOME FOR THE YEAR		410	684

The accompanying notes form an integral part of these financial statements

CAYMAN ISLANDS MONETARY AUTHORITY
STATEMENT OF CHANGES IN RESERVES AND CONTRIBUTED CAPITAL
For the year ended 30 June 2015
(in Cayman Islands Dollars)

	General Reserve \$000	Currency Issue Reserve \$000	2015 Capital Expenditures Reserve \$000	Operational Expenditures Reserve \$000	Contributed Capital \$000		General Reserve \$000	Currency Issue Reserve \$000	2014 Capital Expenditures Reserve \$000	Operational Expenditures Reserve \$000	Contributed Capital \$000
BALANCE AT 01 JULY 2014	18,525	375	1,780	264	2,328		17,263	375	2,319	303	2,328
Transfers in :											
From Net Income							188		496		
From Capital Expenditures Reserve	1,225		410				1,035				
From Operational Expenditures Reserve	39						39				
Transfers out :											
Contribution Payable to CI GOVT											
To Capital Expenditures Reserve											
Currency Inventory Issued											
Fixed Assets Purchased			(1,225)						(1,035)		
Operational Expenses				(39)						(39)	
BALANCE AT 30 JUNE 2015	19,789	375	965	225	2,328		18,525	375	1,780	264	2,328

CAYMAN ISLANDS MONETARY AUTHORITY
STATEMENT OF CASH FLOWS
For the year ended 30 June 2015
(in Cayman Islands Dollars)

	2015 \$000	2014 \$000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income for the year	410	684
Adjustments for:		
Depreciation	644	600
(Gain) / Loss on Defined Benefits Assets	(833)	760
(Increase) in Investments	(3,327)	(4,154)
Decrease / (Increase) in Interest Receivable - Currency Reserve Assets	44	(42)
Decrease / (Increase) in Accounts Receivable	4,140	(1,885)
Decrease / (Increase) in Other Receivables and Prepayments	365	(704)
Unearned Income - Directors Registration and Licensing Fees	3,068	359
Unearned Income - CIMA Transactional Fees	40	129
(Decrease) / Increase in Other Liabilities and Payables	(416)	201
(Increase) in Stocks	(869)	(68)
Increase in Demand Liabilities	3,167	4,491
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>6,433</u>	<u>371</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of Fixed Assets	(1,225)	(1,035)
NET CASH USED BY INVESTING ACTIVITIES	<u>(1,225)</u>	<u>(1,035)</u>
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	5,208	(664)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>13,409</u>	<u>14,073</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u><u>18,617</u></u>	<u><u>13,409</u></u>

The accompanying notes form an integral part of these financial statements

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

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 2015 the Authority has 186 employees (2014: 172). 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.

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

Significant Accounting Policies (continued)

Financial Instruments (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 derecognised when the Authority realises the rights to the benefits specified in the contract or the Authority loses control over any right that comprise the asset. A financial liability is derecognised when it is extinguished, that is when the obligation is discharged, cancelled or expired.

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.

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

Significant Accounting Policies (continued)

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 2015 is \$14,500k (2014: \$14,501k). 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 the 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) is recognised in the statement of comprehensive income in the year the asset is derecognized.

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.

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

Significant Accounting Policies (continued)

Intangible Assets (continued)

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 Filing System (REEFS), with a carrying amount of \$1,397k and an estimated remaining 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.

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 2015 is \$200k (2014: \$168k) 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.

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

Significant Accounting Policies (continued)

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 2015, the General Reserve was \$19,789k (2014: \$18,525k) equating to 20.86% (2014: 20.19%) 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 Filing System (REEFS) 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 2015 was \$2.328 million (2014: \$2.328 million).

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. Commencing in 2012-13, Output funding to the Authority was reduced; this reduction was supplemented by reclassifying as entity revenue, CIMA Transactional Fees charged for administrative services provided by the Authority to the Financial Services Industry. In 2013-14 the Output Funding was further reduced in anticipation of the new revenue stream for the Authority, the Directors Registration and Licensing Fees, for which the Law and Regulations came into effect in June 2014. In addition, 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.

Directors Registration and Licensing annual fees are recognised over the calendar period to which it relates.

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

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

Significant Accounting Policies (continued)
Revenue Recognition (continued)

Rendering of Services (Services provided to the Cayman Islands Government and CIMA Transactional Fees) are recognised as a 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 a 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.

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.

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

Significant Accounting Policies (continued)
Revenue Recognition (continued)

Rendering of Services (Services provided to the Cayman Islands Government and CIMA Transactional Fees) are recognised as a 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.

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CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

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.

d) Market risk

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

4. Currency Reserve Assets

Sections 32(8) of the *Law (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 2015, the value of Currency Reserve Assets was \$105,812k (2014:\$102,624k) representing 111.51% (2014: 111.88%) of total Demand Liabilities. The value of external assets equated to 105.19% (2014: 105.88%) while the value of local assets as at 30 June 2015 equated to 6.32% (2014: 6.01%) of Demand Liabilities.

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

Currency Reserve Assets (continued)

Currency Reserve Assets comprise the following:

a) Investments

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.

Long-term Investments. US Treasury Notes, AAA Corporate Bond and U.S. Government Sponsored Enterprise ("GSE") stated at market value, with interest rates ranging from 0.433% to 3.25% and maturity dates between 30 June 2016 and 20 October 2042.

Included in long-investments are five securities totalling \$6,172k (2014 eight totalling \$9,570k) with maturity dates over ten years. These securities are of the class for which the average life shall be used in place of maturity, under the investment guidelines.

	<u>2015</u>	<u>2014</u>
Range of maturities	\$000	\$000
1-5 years	29,689	6,336
6-10 Years	-	2,675
Over 10 Years	<u>6,172</u>	<u>9,570</u>
	<u>35,861</u>	<u>18,581</u>

Short-term Investments. US Treasury Bills, AAA Corporate Bonds and US Treasury Notes with maturity dates ranging between 23 July 2015 and 15 June 2016, and the Federal Reserve Repurchase Agreement with a maturity date 01 July 2015.

	<u>2015</u>	<u>2014</u>
	\$000	\$000
US Treasury Bills	16,413	17,500
Federal Reserve Repurchase Agreement at 0.15 %	31,750	29,083
US Treasury Notes	7,395	24,913
US Fed Farm Disc note	4,156	-
AAA Corporate Bonds	<u>1,337</u>	<u>3,508</u>
Total Short-term Investments	<u>61,051</u>	<u>75,004</u>

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

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

Currency Reserve Assets (continued)

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 2015, domestic deposits represent 3.70% (2014: 4.44%) of Demand Liabilities.

	Holding	2015	2014
	Currency	\$000	\$000
i) Operating Assets			
Current	KYD	(172)	(33)
Savings	KYD	3,098	5,795
Savings	USD	6,529	904
CI Cash on Hand		203	153
Total Current and Call Deposits		9,658	6,819
Fixed Deposits	KYD	3,334	-
Total Cash and Cash Equivalent - Operating Assets		12,992	6,819
ii) Currency Reserve Assets	Holding	2015	2014
	Currency	\$000	\$000
Domestic Deposits			
Savings	GBP	8	8
Savings	KYD	891	1,496
Savings	USD	1,063	1,028
Foreign Deposits			
Federal Reserve Bank	USD	272	272
Investment Portfolio	USD	1,843	2,241
Total Call Deposits		4,077	5,045
Domestic - Fixed Deposits	USD	1,548	1,545
Total Cash and Cash Equivalent - Currency Reserve		5,625	6,590

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

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

Interest was earned on domestic call accounts at a rate of 0.01% during the year ended 30 June 2015 (2014: 0.01%). The domestic fixed deposit earned interest at rates ranging between 0.2322% to 0.50% during the year ended 30 June 2015 (2014: 0.2228% to 0.2638%).

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 2015 no interest was earned (2014: \$0).

5. Accounts Receivable

	<u>2015</u>	<u>2014</u>
	\$000	\$000
Trade Receivables, C.I. Government	1,474	1,946
Directors Registration and Licensing Fees	1,690	4,047
Other Receivables	-	18
Provision for doubtful accounts	<u>(1,302)</u>	<u>(9)</u>
Accounts Receivable, net	<u>1,862</u>	<u>6,002</u>

Aged profile of Trade Receivable

	<u>2015</u>	<u>2014</u>
Period Outstanding Days	\$000	\$000
1-30	901	5,180
31-60	573	822
61-90	-	-
91-120	-	-
>120	<u>388</u>	<u>-</u>
	<u>1,862</u>	<u>6,002</u>

There was \$1,293k (2014:\$-16) bad debt expense included in the statement of comprehensive income. \$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.

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

6. Fixed Assets and Intangibles

	Furniture & Fixtures	Leasehold Improvements	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 30/06/14	741	871	1,266	608	23	3,509	3,799	7,308
Additions	108	-	220	39	-	367	858	1,225
Disposals	(13)	(3)	-	-	-	(16)	(49)	(65)
Balance as at 30/06/15	836	868	1,486	647	23	3,860	4,608	8,468
Accumulated Depreciation								
Balance as at 30/06/14	708	871	1,020	497	23	3,119	2,252	5,371
Depreciation for the year	16	-	147	42	-	205	439	644
Relieved on disposals	(13)	(3)	-	-	-	(16)	(49)	(65)
Balance as at 30/06/15	711	868	1,167	539	23	3,308	2,642	5,950
Net Book Value as at 30/06/15	125	-	319	108	-	552	1,966	2,518
Net Book Value as at 30/06/14	33	-	246	111	-	390	1,547	1,937

Included in the intangible assets is \$1,510k (2014: \$817k) representing work in progress for the development of software for the Regulatory Electronic Enhancement Filing System (REEFS) and the Great Plains fees collection system.

7. Stocks

	2015 \$000	2014 \$000
<i>External</i>		
Bullion from the melt-down of coins	439	588
Coins awaiting melt-down	-	-
Coins for resale	195	219
Museum items	66	75
	700	882
<i>Local</i>		
Inventory of unissued currency notes and coins	2,489	1,438
Total Stocks	3,189	2,320

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.

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

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:

	<u>2015</u>	<u>2014</u>
	\$000	\$000
Currency notes in circulation	84,251	81,495
Currency coins in circulation	10,636	10,225
Total Demand Liabilities	<u>94,887</u>	<u>91,720</u>

b) Other Liabilities

	<u>2015</u>	<u>2014</u>
	\$000	\$000
Unearned income - Directors Registration and Licensing Fees	3,427	359
Unearned income - CIMA Transactional Fees	168	129
Annual leave accrual	200	168
Other accruals	342	685
Accounts payable	98	201
	<u>4,235</u>	<u>1,542</u>

As at 30 June 2015, Other Liabilities included unsettled investment management and custody fees of \$17k (2014:\$19k).

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 January 1, 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.

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2015

Public Service Pension Plan (continued)

The Plans are funded at rates of: -

	<u>2015</u>	<u>2014</u>
	%	%
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 2015. 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 2015 was \$22k (2014: \$1,611k). 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 Company Service Cost, amortisations and net Interest. Company Service represents the pension cost to the Authority associated with the financial year benefit accruals and is net of participant contributions.

	<u>2015</u>	<u>2014</u>
	\$000	\$000
Public Service Pension Board Defined Benefit	174	195
Public Service Pension Board Defined Contribution	503	504
Private Pension Plans	178	152
Defined Liability	(833)	760
Total Pension Expense All Plans	<u>22</u>	<u>1,611</u>

The actuarial position is as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
	\$000	\$000	\$000	\$000	\$000
Net Present Value of Funded Obligation	(9,319)	(9,560)	(7,401)	(6,649)	(5,554)
Fair Value of Plan Assets	8,458	7,866	6,467	5,415	5,022
Funded Status	(861)	(1,694)	(934)	(1,234)	(532)
Unrecognised Actuarial Loss	-	-	-	1,138	580
Net (Liability)/Asset	<u>(861)</u>	<u>(1,694)</u>	<u>(934)</u>	<u>(96)</u>	<u>48</u>

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For the year ended 30 June 2015

Public Service Pension Plan (continued)

Components of defined benefit cost	<u>30 June 2015</u>	<u>30 June 2014</u>
	\$000	\$000
Current service cost	437	339
Interest expense on DBO	430	385
Interest (income) on plan assets	(359)	(344)
Administrative expenses and taxes	-	-
Defined benefit cost included in P&L	<u>508</u>	<u>380</u>
 Remeasurements (recognised in other comprehensive income)		
Effect of changes in demographic assumptions	(7)	-
Effect of changes in financial assumptions	(581)	1,489
Effect of experience adjustments	(463)	(155)
(Return) on plan assets (excluding interest income)	(185)	(837)
(Return) on reimbursement rights (excluding interest income)	-	-
Changes in asset ceiling/onerous liability (excluding interest income)	-	-
Total remeasurements included in OCI	<u>(1,236)</u>	<u>497</u>
 Total defined benefit cost recognised in P&L and OCI	<u>(728)</u>	<u>877</u>
Reconciliation of defined benefit liability	<u>30 June 2015</u>	<u>30 June 2014</u>
	\$000	\$000
Previous year net defined benefit liability	1,694	934
Defined benefit cost included in P&L	508	380
Total remeasurement included in OCI	(1,236)	497
Employer contributions	<u>(105)</u>	<u>(117)</u>
Net defined benefit liability	<u>861</u>	<u>1,694</u>
Change in defined benefit obligation	<u>30 June 2015</u>	<u>30 June 2014</u>
	\$000	\$000
Defined benefit obligation at end of prior year	9,560	7,401
Current service cost	437	339
Interest expense	430	385
Benefit payments from plan asset	(147)	-
Plan participant contributions	90	101
Remeasurements:-		
Effect of changes of demographic assumptions	(7)	-
Effect of changes of financial assumptions	(581)	1,489
Effect of experience adjustments	(463)	(155)
Defined benefit obligation at end of year	<u>9,319</u>	<u>9,560</u>

CAYMAN ISLANDS MONETARY AUTHORITY
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For the year ended 30 June 2015

Public Service Pension Plan (continued)

	<u>30 June 2015</u>	<u>30 June 2014</u>
Change in fair value of plan assets	\$000	\$000
Fair value of plan assets as at end of prior year	7,866	6,467
Interest income	359	344
Employer contributions	105	117
Plan participant contributions	90	101
Benefit payments from plan assets	(147)	-
Return on assets (excluding interest income)	185	837
Fair value of plan assets at end of year	<u>8,458</u>	<u>7,866</u>

Allocation of Assets

The distribution of the plan assets, as at 30 June 2015 and 2014, based on the share of the total fund allocated to the Authority was as follows: -

	<u>30 June 2015</u>	<u>30 June 2014</u>
	%	%
Global equity securities	80	79
Debt securities	19	20
Real estate/infrastructure	-	-
Cash	1	1
Total	<u>100</u>	<u>100</u>

Actuarial Assumptions

The principal actuarial assumptions used to determine benefit obligations at 30 June 2015 and 2014 are as follows:

	<u>30 June 2015</u>	<u>30 June 2014</u>
	%	%
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

CAYMAN ISLANDS MONETARY AUTHORITY
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For the year ended 30 June 2015

Public Service Pension Plan (continued)
Actuarial Assumptions (continued)

The economic assumptions used to determine Net Periodic Benefit Cost for the year ending 30 June 2015 and 2014 are as follows:

	%	%
Discount rate	4.50	5.20
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

	<u>30 June 2015</u>	<u>30 June 2014</u>
	%	%
Sensitivity analysis on defined benefit obligation		
Discount rate		
Discount rate - 25 basis points	9,900	10,160
Discount rate + 25 basis points	8,782	9,007
Inflation rate		
Inflation rate - 25 basis points	8,807	9,067
Inflation rate + 25 basis points	9,871	10,091
Mortality rates		
Mortality - 10% of current rates	9,496	9,726
Mortality + 10% of current rates	9,157	9,407
Weighted Average Duration of DBO (in years)		
Discount rate - 25 basis points	24.19	24.35
Discount rate + 25 basis points	23.74	23.83
Expected cash flows for following year		
Expected employer contributions	108	
Defined benefit obligation by participant status		
Activities	7,460	8,103
Vested deferreds	1,859	1,457
Total	<u>9,319</u>	<u>9,560</u>

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10. Commitments

a) Capital Commitments

This relates the contract for the Regulatory Electronic Enhancement Filing System (‘REEFS’) project, awarded to SQL Power in May 2014 for US\$1,998k.

b) Operating Commitments

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 effective 1 September 2013 for a period of five years at a monthly cost of US\$6k plus electricity.
- ii. An agreement with the Brac Informatics Centre effective 1 April 2014 at a monthly cost of CI\$4.9k for a five year period.
- iii. An agreement with the Brac Informatics Centre effective 1 April 2014 at a monthly cost of CI\$2.640k to 31 August 2016.

Other Operating Commitments These relate to annual software support maintenance fee for the REEFS system, professional fees and the Thomas Jefferson Memorial scholarship.

	<u>2015</u>	<u>2014</u>
	\$000	\$000
Capital Commitments	297	995
Business Continuity Leases	493	610
Other Operating Commitments	1,447	946
	<u>2,237</u>	<u>2,551</u>

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 each financial year the Authority contributes to the Government the net operating surplus after fulfilling Reserve requirements.

b) Directors. The Board of Directors of the Authority is appointed by the Governor in Cabinet, and consisted of the Managing Director (‘MD’) and six directors as of 30 June 2015. The fees of \$143k (2013-14: \$140k) 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 of the Senior Management Team was 16 in 2014-15 (2013-14: 16) and salaries & other short term benefits expensed in 2014-15 was \$2,208k (2013-14: \$2,112k).

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 2014-15 in the amount of \$605k (2013-14: \$573k).

CAYMAN ISLANDS MONETARY AUTHORITY
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For the year ended 30 June 2015

12. Other Operating Expenses

	<u>2015</u>	<u>2014</u>
	\$000	\$000
Doubtful Debt Expense	1,293	16
Maintenance and software licences	864	725
Other expenses	608	499
Currency Stock issues	418	402
Business Continuity	361	383
eMerchant Discounts	177	101
Directors Fees	143	139
Management and Custody Fees	64	50
Total	<u>3,928</u>	<u>2,315</u>

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