

<p>SUPERVISION PROFILE</p> <p>CAYMAN ISLANDS MONETARY AUTHORITY</p>

1. NAME OF SUPERVISORY AGENCY

Cayman Islands Monetary Authority ("CIMA" or the "Authority")

2. CATEGORIES OF FINANCIAL INSTITUTIONS FOR WHICH IT HAS REGULATORY OVERSIGHT (as at 31 December 2012)

Banks/Trust Companies <i>(Supervised by the Banking Supervision Division & Fiduciary Services Division)</i>	Number of Active Licences
Bank/Trust - Category A	15
Bank/Trust - Category B	207
Trust Company - Restricted	66
Trust Company - Unrestricted	52
Nominee Trust Licence	60
Company Manager (Full)	86
Corporate Service Provider	12
Money Services Business	6
Credit Unions/Development Banks	3
Building Societies	1
Controlled Subsidiaries	6

Insurance Entities <i>(Supervised by the Insurance Division)</i>	Number of Active Licences
Insurance (Class A)	27
Insurance (Class B)	741
Insurance	29
Insurance Brokers	39
Insurance Agents	60
No. of Segregated Portfolios	644

Investment Services <i>(Supervised by the Investments & Securities Division)</i>	Number of Active Licences
MF Administrator (Exempted)	2
MF Administrator (Full)	90
MF Administrator (Restricted)	32
Mutual Funds	10,841

3. PRUDENTIAL INFORMATION/DATA REQUIRED OF LICENSED INSTITUTIONS AND REPORTING INTERVALS

Banking Supervision Division

The Banking Supervision Division is responsible for the ongoing supervision and regulation of the activities of the Banks, Credit Unions, Building Societies, Development Banks, and Money Service Business providers through, receipt and analysis of regular audited and un-audited financial statements and on-site inspections. Capital adequacy, asset quality, earnings, corporate governance, liquidity etc. are all assessed on a quarterly basis. The Division is also responsible for registering the activities of controlled subsidiaries.

Fiduciary Services Division

The Fiduciary Services Division is responsible for the ongoing supervision and regulation of the activities of all trust companies not having a banking licence, company management, and corporate services business through, receipt and analysis of regular audited financial statements, annual meetings with the licensees' management, and periodic detailed reports or examinations by auditors on specific areas of internal controls and systems. Capital adequacy, asset quality, management capability and expertise, earnings and liquidity are all assessed on an ongoing basis. The Fiduciary Services Division is also responsible for the registration of private trust companies and controlled subsidiaries.

Insurance Division

The Insurance Division monitors licensed insurance entities to ensure that they are operating in a satisfactory manner and remain solvent. Monitoring is on-going and is both compliance and risk based - an assessment of whether the licensee complies with the relevant legislation, applicable instruments issued by the Authority and any conditions or enforcement directives issued to the entity. Regular reporting, on-site inspections and off-site supervision are all essential elements of monitoring.

Investments and Securities Division

The Investments and Securities Division's duties encompass the supervision and regulation of mutual funds, mutual fund administrators as well as persons licensed to conduct securities investment business, which includes market makers, broker-dealers, securities arrangers, securities advisors and securities managers. The division processes all applications for those entities specified above and makes recommendations to the Authority's Board of Directors on the issue (or non-issue) of a licence when necessary.

4. PRUDENTIAL INFORMATION/DATA PUBLISHED BY SUPERVISORY AUTHORITY AND PUBLICATION INTERVALS

Based on the collection of quarterly prudential reports from licensees, the Authority is able to obtain aggregate financial information on its licensees, which are published on the Authority's website and updated on a quarterly basis. The Authority's Annual Report is available on its website and the financial statements of the majority of banks, on a consolidated basis, are publicly available.

5. PRINCIPAL PIECES OF LEGISLATION GOVERNING THE OPERATION OF BANKING/FINANCIAL LICENSEES (inclusive of Anti Money Laundering and Anti Terrorism statues where applicable)

Principal Legislation - provides the legal framework for the various regulated entities licensed by the Authority:

- Banks and Trust Companies Law (2009 Revision)
- Banks and Trust Companies (Amendment) Law, 2012
- Banks and Trust Companies (Amendment) (No. 2) Law, 2012
- Banks and Trust Companies (Licence Applications and Fees) Regulations (2011 Revision)
- Banks and Trust Companies (Licence and Applications and Fees) (Amendment) Regulations, 2012
- Building Societies Law (2010 Revision)
- Companies Law (2012 Revision)
- Companies (Amendment) Law, 2012
- Companies (Amendment) (No. 2) Law, 2012
- Companies (Amendment) (No. 3) Law, 2012
- Companies (Amendment) Law, 2013
- Companies (Translation Certificate) Regulations, 2011
- Cooperative Societies Law (2001 Revision)
- Companies Management Law (2003 Revision)
- Companies Management Regulations (2003 Revision)
- Companies Management (Amendment) Regulations, 2012
- Cooperative Societies Law (2001 Revision)
- Cooperative Societies Regulations (1997 Revision)
- Development Bank Law (2004 Revision)
- Insurance Law, 2010
- Insurance (Amendment) Law, 2012
- Insurance (Applications and Fees) Regulations, 2012
- Insurance (Capital and Solvency) (Class A Insurers) Regulations, 2012
- Insurance (Capital and Solvency) (Class B, C and D Insurers) Regulations,

2012

- Insurance (Forms) Regulations (2003 Revision)
- Insurance (Reporting) Regulations, 2013
- Insurance (Variation of Fees) Regulations, 2009
- Monetary Authority Law (2011 Revision)
- Monetary Authority (Fees) Regulations, 2012
- Money Services Law (2010 Revision)
- Money Services Business Regulations, 2001
- Money Services Businesses (Amendment) Regulations, 2009
- Mutual Funds Law (2012 Revision)
- Mutual Funds (Amendment) Law, 2012
- Mutual Fund Administrators Licence (Applications) Regulations 2001
- Mutual Funds (Annual Returns) Regulations, 2006
- Mutual Funds (Fees) Regulations, 2007
- Mutual Funds (Annual Returns) Regulations, 2012
- Mutual Funds (Fees) Regulations (2012 Revision)
- Mutual Funds (Fees) (Amendment) (No. 2) Regulations, 2012
- Mutual Funds (Fees) (Amendment) (No. 3) Regulations, 2012
- Mutual Funds (Transitional Provision) Regulations, 2012
- Private Trust Companies Regulations (2011 Revision)
- Private Trust Companies (Amendment) Regulations, 2013
- Retail Mutual Funds (Japan) Regulations (2007 Revision)
- Retail Mutual Funds (Japan) (Amendment) Regulations, 2012
- Securities Investment Business Law (2011 Revision)
- Securities Investment Business (Amendment) Law, 2012
- Securities Investment Business (Conduct of Business) Regulations 2003
- Securities Investment Business (Financial Requirements and Standards) Regulations, 2003
- Securities Investment Business (Licence Applications and Fees) Regulations, 2003
- Terrorism Law (2011 Revision)

Licenses are also subject to the provisions of an array of other local laws, including:

- Confidential Relationships (Preservation) Law
- Dormant Accounts Law (2011 Revision)
- Money Laundering Regulations (2010 Revision)
- Money Laundering (Amendment) Regulations, 2012
- Proceeds of Crime Law, 2008
- Proceeds of Crime (Disclosure) Order, 2010
- Public Management and Finance Law (2012 Revision)
- Public Management and Finance Law (Amendment) Law, 2012
- Freedom of Information Law (2007 Revision)

6. MAJOR CHANGES TO BANKING/FINANCIAL STATUTES OVER THE PAST TEN YEARS

Legislation for the granting of full operational independence of the Cayman Islands Monetary Authority was passed by the Governor in Council (Executive Council) and officially gazetted on March 10, 2003. This places complete operational decisions and responsibility for certain decisions, such as the approval of licences, in the hands of the Board of Directors of the Authority. Operational independence enables the Authority to execute directly the key functions of licensing, ongoing supervision, enforcement and regulatory cooperation. Essentially the key area of change resulting from the Monetary Authority Law (2004 Revision) is the power of the Monetary Authority to licence.

The Banks and Trust Companies Law (BTCL) was amended in 2006 to increase the protection of depositors, and beneficiaries of a trust; to increase the regulatory powers of the Cayman Islands Monetary Authority in relation to Banks and Trust Companies; to re-define the obligations of auditors; and for incidental and connected purposes. The BTCL was again amended in 2007 to make further provision in respect of restrictions imposed on Banks; to re-state certain duties imposed on Trust Companies; and to make provision for related matters. Further changes were made during 2008, when a new class of trust entity i.e. controlled subsidiary was created. This type of entity is not required to be licensed by CIMA but is instead required to be registered.

Private Trust Companies Regulations, 2008 was issued during September 2008. These regulations create a new regime for trust companies that are defined as private trust companies. Private Trust Companies are locally incorporated companies that conduct no trust business other than connected trust business.

The Monetary Authority Law was amended in 2007 to revise the Monetary Authority's powers to disclosures; and to make provision for incidental and connected matters. The Monetary Authority Law was again amended in 2009 to make provision for the Governor in Cabinet to vary the paid-up capital of the Authority, and that where such variation reduces paid-up capital, any excess capital shall be transferred to general revenue of the Islands; to create new administrative fees; and to make provision for incidental and connected matters.

The independence of CIMA was further enhanced when, in March 2010, the Legislative Assembly enacted the Monetary Authority (Amendment) Law, 2010. This extended CIMA's ability to issue Rules, Statements of Guidance

and Statements of Principles not only to licensees but to all regulated entities without the approval of the Cabinet of the Cayman Islands. Prior to this, the power to issue these measures was subject to Cabinet approval and limited only to licensees. The amendments also allow CIMA to enter into memoranda of understanding with overseas regulatory authorities for the purpose of consolidated supervision without the need for Cabinet approval, as previously obtained, following consultation with the Financial Secretary. In addition, the amendments allow for CIMA to apply for a warrant to obtain documents in pursuance of providing assistance to an overseas regulatory authority to address those limited circumstances in which CIMA's existing powers of direction under section 34 of the Monetary Authority Law may not be sufficient or appropriate. Additionally, Section 52 of the MAL, as amended, gives authority for a licensee/regulated entity to provide information to the Authority or, in the case of a foreign branch or subsidiary, to an overseas regulatory authority that regulates its parent company, for the purpose of consolidated supervision. The provision of the information will not be considered a breach of any restriction upon the disclosure of information by or under any Law and will not give rise to any criminal or civil liability.

The **Money Services Law** was amended in 2009 to make provision for a fee in relation to every subsidiary, branch, agency or representative office of a money services business; to provide for a transaction fee; and for incidental and connected purposes.

The **Building Societies Law** was amended in 2009 to introduce a regulatory fee for societies registered under that law; and for incidental and connected purposes.

The **Securities Investment Business Law** was amended in 2009 to increase the annual fee in respect of certain categories of securities investment business; and for incidental and connected purposes.

7. AREAS IDENTIFIED FOR FURTHER LEGISLATIVE CHANGE AND DETAILS/STATUS OF ANY NOW IN PROCESS

- Proposed Bank Holding Company legislation
- Proposed Rule on Regulatory Reporting Standards

8. FORMAL DIRECTIVES, POLICIES, GUIDELINES/GUIDANCE NOTES ISSUED BY SUPERVISORY AUTHORITY TO LICENSEES

The Guidance Notes on the Prevention and Detection of Money Laundering in the Cayman Islands (the "GN"), which were initially issued in June 2001, and revised in September 2003 were further revised in March 2007, May

2007, December 2008, and March 2010.

In December 2008 revisions were made to include provisions to cover countering the financing of terrorism, which prompted the renaming of the GN to the Guidance Notes on the Prevention and Detection of Money Laundering and Terrorist Financing in the Cayman Islands. Other amendments included ongoing sector specific guidance for Insurance, the Banking Section, issues pertaining to the Eligible Introducers Form, customer due diligence, maintenance of files for complex and unusual transactions, etc.

Further amendments were made in March 2010 due to changes in the Money Laundering Regulations (the "MLR"), these amendments are as follows:

- Amendment to sector specific guidance for Mutual Funds and Fund Administrators (section 8). Replacement of the sub-section "Procedures for reporting of suspicious activity" with a new sub-section titled "Compliance Officer, Money Laundering Reporting Officer and Internal Audit Procedures". The amendment outlines ways by which mutual funds and fund administrators may comply with the requirements of regulation 5(1)(e) of the Money Laundering Regulations (2009 Revision); and
- Additions and amendments to section 3 and section 8 of the Guidance Notes to incorporate Private Trust Companies into the Guidance Notes. These amendments provide guidance that is in line with the addition of registered offices of private trust companies to the second schedule of the Money Laundering Regulations (2009 Revision).

The following Rules and Statements of Guidance were issued to industry during the 4th quarter of 2006:

- Rule on Country and Transfer Risk Management for Banks;
- Rule on Credit Risk Management for Banks;
- Rule on Interest Rate Risk Management for Banks;
- Rule on Investment, Securities, and Derivatives Risk Management for Banks;
- Rule on Liquidity Risk Management for Banks;
- Rule on Loan Loss Provision for Banks;
- Rules on Large Exposure and Credit Risk Concentration for Banks;
- Statement of Guidance on Large Exposures and Credit Risk Concentration for Banks; and
- Statement of Guidance on Credit Risk Asset Classification.

During the 2nd quarter of 2006 the following Statements of Guidance were issued to industry:

- Investment Securities and Derivatives Risk Management for Banks

During the 1st and 2nd quarters of 2007 the following Rule and Statements of Guidance were issued to industry:

- Rule on Internal Controls
- Statement of Guidance on Minimum Criteria for Maintaining Physical Presence for Banks Subject to Section 6(6) of the BTCL
- Statement of Guidance on Cancellation of Licence - Company Managers & Corporate Services Providers
- Statement of Guidance on Business Continuity Management
- Statement of Guidance on Internal Controls - Insurance (Revised)
- Statement of Guidance on Internal Controls for Trust Companies, Company Managers, and Corporate Service Providers

During 2008 the following Rules and Statements of Guidance were issued to industry:

- Rule on Operational Risk Management - Banks
- Statement of Guidance on Operational Risk Management - Banks
- Statement of Guidance on Internal Audit for Unrestricted Trust Companies
- Statement of Guidance on Professional Indemnity Insurance for Trust Companies
- Statement of Guidance on Reinsurance Arrangements - Insurance Companies
- The Guidance Notes on the Prevention and Detection of Money Laundering and Terrorist Financing in the Cayman Islands was updated in December 2008.

During 2009 the following Rules and Statements of Guidance were issued to industry:

- Rule on Risk Management for Insurers
- Rule on Market Conduct for Class A Insurers
- Regulatory Policy on Consolidated Supervision
- Regulatory Policy Licensing Banks
- Regulatory Policy Major Acquisition or Investments by Banks
- Rule on Risk Management for Insurers
- Statement of Guidance Market Conduct – Class A Insurers, Agents and Brokers
- Regulatory Policy on Exemption from Audit Requirement for a Regulated Mutual Fund
- The Guidance Notes on the Prevention and Detection of Money Laundering and Terrorist Financing in the Cayman Islands was updated in December 2008.

During 2010 the following Rules and Policies were issued to industry:

- Regulatory Policy on Approved Stock Exchanges

- Rules, Conditions and Guidelines on Minimum Capital Requirements (Pillar I) – Basel II
- The Guidance Notes on the Prevention and Detection of Money Laundering and Terrorist Financing in the Cayman Islands was updated in March 2010

9. STATUS OF JURISDICTION VIS A VIS BASEL CORE PRINCIPLES OF BANKING SUPERVISION

Based on a self-assessment of the Revised Basel Core Principles, the Authority is compliant with the majority of the Core Principles and largely compliant with the remaining Core Principles.

10. JURISDICTION STATUS VIS A VIS FINANCIAL SECTOR ASSESSMENT PROGRAMME (FSAP)

The Cayman Islands received an Assessment of the Supervision and Regulation of the Financial Sector by the IMF. The on-site assessment was carried out during a two-week mission from 2 to 13 March 2009. The IMF Cayman Islands assessment report is published on the Authority's website.

11. Basel II Implementation

The Authority continues to focus its efforts on the rollout of the various phases of the Basel Framework with Pillar II in effect 1 January 2013 and Pillar III scheduled for the latter part of 2013. The Pillar II Policy document was issued following feedback from the Cayman Islands Bankers Association Basel II Working Committee.

December 2012