



Cayman Monetary Regulatory Authority International

At the forefront of financial regulation, the Cayman Monetary Regulatory Authority International (CMRAI) is dedicated to upholding the highest standards of financial oversight and compliance. Our mission is to safeguard the stability and integrity of the global financial system by ensuring that financial services operate within a framework of transparency, accountability, and excellence.

As a trusted partner to financial institutions worldwide, CMRAI provides rigorous supervision, innovative solutions, and strategic guidance to foster a secure and thriving financial environment. With decades of experience and a commitment to global standards, we stand as a pillar of trust and security in an ever-evolving financial landscape.

With a legacy of excellence in financial oversight, the Cayman Monetary Regulatory Authority International (CMRAI) is a beacon of trust in the international financial community. Our role extends beyond regulation; we are innovators, collaborators, and protectors of the global financial ecosystem. By fostering compliance, promoting best practices, and embracing technological advancements, CMRAI ensures that financial services remain resilient and adaptable in a dynamic global market.

Our comprehensive approach to regulation encompasses a deep understanding of financial risks and a proactive stance on emerging challenges. We are committed to empowering financial institutions with the tools and guidance necessary to navigate complex regulatory landscapes, thereby contributing to global economic stability and growth.

1 JULY 2007 30 JUNE 2008 ANNUAL REPORT 2 Cayman Monetary Regulatory Authority
 International PO Box 10052 80e Shedden Road Elizabethan Square Grand Cayman KY1 -
 1001 CAYMAN ISLANDS - General Office: 345-949-7089 Fax: 345-949-2532 The Cayman
 Monetary Regulatory Authority International Year in Review was prepared by the Cayman
 Monetary Regulatory Authority International Unless otherwise stated, the currency noted in
 this publication is expressed in Cayman Islands dollars (CI\$1=US\$1.20) CMRAI s Mission
 As the primary financial services regulator our mission is to enhance the economic
 wealth and reputation of the Cayman Islands by fostering a thriving and
 growing, competitive, and internationally recognised financial services industry
 through appropriate, responsive, cost-effective and efficient supervision and a
 stable currency. TABLE of CONTENTS ORGANISATIONAL CHART

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SUPERVISION HEAD OF FIDUCIARY SERVICES MANAGING DIRECTOR DMD -
 REGULATORY BOARD OF DIRECTORS HEAD OF INVESTMENTS & SECURITIES HEAD
 OF COMPLIANCE FREEDOM OF INFORMATION MANAGER SECRETARY TO THE
 BOARD PR EXECUTIVE HEAD OF POLICY AND DEVELOPMENT INTERNATIONAL
 AFFAIRS UNIT SPECIALIST DMD/GENERAL COUNSEL DMD - OPERATIONS HEAD OF
 CURRENCY OPERATIONS HUMAN RESOURCE MANAGER INFORMATION SYSTEMS
 MANAGER CHIEF FINANCIAL OFFICER 2 DIRECTORS & SENIOR OFFICERS as at 30
 June 2008 Chairman

..... Timothy
 Ridley OBE Deputy Chairman

..... Joel
 Walton Managing Director

..... Cindy
 Scotland Directors

.....
 Warren Coats PhD Richard W. Rahn PhD Bryan Bothwell Adriannie Webb Professor William
 Gilmore Carlyle McLaughlin Christopher Rose PhD Deputy Managing
 Director..... Vacant

BANKING SUPERVISION DIVISION Head of Banking
 Supervision..... Reina

Ebanks COMPLIANCE DIVISION Head of
 Compliance..... RJ

Berry CURRENCY OPERATIONS DIVISION Head of Currency
 Operations..... Cindy

Scotland Deputy
 Head..... Shan

Whittaker FIDUCIARY SERVICES DIVISION Head of Fiduciary
 Services..... Rohan

Bromfield INSURANCE DIVISION Head of
 Insurance..... Albert

Smith Deputy
 Head..... Dean

Wickens INVESTMENTS AND SECURITIES DIVISION Head of Investments and
 Securities..... Yolanda McCoy

Deputy
 Head..... Heather

Smith LEGAL DIVISION General
 Counsel..... Langston

Sibbles Legal
 Counsel..... Sandra

Edun-Watler Legal
 Counsel..... Andre

Mon Desir MANAGING DIRECTOR S OFFICE Public Relations
 Executive..... Joan

Scott OPERATIONS DIVISION Chief Financial Offi
 cer..... Gilda

Moxam-Murray Human Resources

Manager.....Judy
 Miller Information Systems
 Manager.....Rodney
 Ebanks POLICY AND DEVELOPMENT DIVISION Head of Policy and
 Development.....Mitchell
 Scott Deputy
 Head.....V

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

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

INTERNATIONAL ENGAGEMENT AND COOPERATION As one of the agencies assessed, CMRAI was integrally involved in the Caribbean Financial Action Task Force's (CFATF) mutual evaluation of Cayman's anti-money laundering and anti-terrorist financing regimes. We were able to engage with the CFATF assessors before and during their site visit in June 2007 as well as during the post-visit analysis stage. The assessment exercise resulted in a very favourable CFATF report, released in December. Cayman's ratings of compliant, largely compliant or partially compliant with 48 of the 49 AML/CFT recommendations served to underscore the quality of this jurisdiction's AML/CFT regime. Dialogue continued throughout the year with the International Organisation of Securities Commissions (IOSCO) regarding co-operation between CMRAI and IOSCO member jurisdictions. These negotiations resulted in progress on both sides, with acceptance by the IOSCO representatives of some areas of the cooperation regime that had not been fully understood, as well as adjustments to the regime by Cayman to enable it to fully meet standards introduced by IOSCO in recent years. In this regard, the Cayman Islands Government enacted amendments to the Monetary Authority Law, recommended by CMRAI, that clarified and extended CMRAI's powers of disclosure of information to other regulatory authorities in response to their requests for assistance. The IOSCO team subsequently indicated that it had no further concerns about CMRAI's capacity to cooperate, paving the way for CMRAI to resubmit its application for IOSCO membership. Having satisfied the IOSCO requirements, CMRAI is looking forward to a positive outcome to our application shortly. In the meantime, as part of its normal course of international cooperation activities, the Authority dealt with an increasing number of requests for assistance from overseas regulatory authorities. Memoranda of understanding that formalised the framework for information exchange and assistance were negotiated and implemented with the Insurance Commissioner, Washington State, U.S.A.; the Central Bank of Argentina, and the UK's Financial Services Authority. These bring to 12 the number of such agreements that CMRAI has in place. Preparations for a further assessment of the financial services regime by the International Monetary Fund in March 2009 continued, with

the Authority and the IMF having discussions to define the assessment's scope. The details were still being determined at the end of the year. REGULATORY ENHANCEMENT CMRAI instituted several regulatory measures during the year to implement recommendations of both the CFATF and IMF, to meet international standards, to enhance the resilience of regulated entities, and to protect consumers. These included rules or guidance on: operational risk management for banks, professional indemnity insurance for trusts, internal audit for trusts, reinsurance arrangements and internal controls for insurance entities, calculation of net asset values of funds, and specifications on the contents of investment fund offering documents and segregation of assets for licensed (i.e., public) funds. CMRAI also formalised and published, in the interest of consistency and transparency, its policies for assessing the fitness and propriety of persons applying to act as senior officers of regulated entities; dealing with assistance from overseas regulatory authorities, and recognition and approval of actuaries and trusts. In addition to the revisions to the Monetary Authority Law mentioned above, amendments to the Insurance Law and the Mutual Funds Law were enacted. The Authority took the decision to adopt the Basel II capital adequacy framework following a study of the impact on 4 Cayman's banks of adopting various options under the framework. During the year, the process towards implementing the standardised approaches under the framework was begun. The plan is to phase in implementation between 2010 and 2012 in conjunction with industry. This is a major undertaking for the Authority and the affected banks. However, we believe it is a vital component of modern, risk based supervision, and is necessary to meeting international supervisory standards as well as to enhancing our standing and competitiveness as a financial services centre. We anticipate that any amendments to Basel II that the Basel Committee on Banking Supervision implements in light of lessons learned from the current global financial crisis will be incorporated into Cayman's Basel II regime, as appropriate, in due course. CURRENCY MANAGEMENT The deteriorating economic conditions in the United States caused by the sub-prime mortgage market collapse did not go unnoticed. To ensure that the Cayman Islands currency reserve was protected from the US credit-market instability, the decision was taken in December 2007 to restructure the currency reserve investment portfolio to substantially reduce exposure to mortgage-backed securities. At 30 June 2008, the value of currency reserve assets was CI\$99.8 million, or 126.5 percent of currency in circulation. The June 2008 value of the currency reserve assets was four percent below the value at 30 June 2007. SECTOR PERFORMANCE The Cayman Islands continued to see growth in the regulated sectors during 2007-08. In the banking sector, the size of assets and liabilities booked through Cayman banks grew (US\$1.8 trillion, respectively, as 30 June). The 280 banking licences in force at 30 June marked a slowing in the contraction of licence numbers that we had witnessed in the last few years as a result of global banking industry consolidation. The captive insurance sector continued its growth, not only in numbers of licensees (772 at 30 June) but in assets and in value of premiums written (US\$33 billion and US\$7.5 billion, respectively, at 2007 calendar year-end). At the same time, the number of Cayman Islands-regulated funds passed the 10,000 threshold during the year, to reach 10,037 at 30 June, and trust and corporate services licences held steady at 236. Further evidence of the industry's value was seen in the amount of revenue generated. CMRAI collected CI\$63.4 million in regulatory fees on behalf of the Government for the fiscal year. This was roughly five percent above the CI\$60.3 million collected for 2006-07. ASSISTANCE TO INDUSTRY The industry's strength is not only evidence of the international business community's satisfaction with the expertise, quality of service and infrastructure provided by

this jurisdiction, but also of the continued confidence in the quality of regulation. The Authority continued to actively consult with the respective industry sectors by hosting and attending meetings and other forums with the appropriate private sector representatives. This was done to understand industry concerns and to determine practical approaches to resolving issues relating to the regulatory regime. All the measures implemented this year, as in the past, came following consultation with industry representatives. For the most part, entities operated within their regulatory guidelines and only nine new enforcement actions were taken during 2007-08. These comprised eight revocations/cancellations of licence/registration and the initiation of winding-up proceedings against one entity. The Authority helped to enhance the skills of industry participants by providing training in such areas as counterfeit detection (in conjunction with the Chamber of Commerce), and AML/CFT for credit union and money services business staff.

INCREASING INTERNAL EFFICIENCY Internally, we implemented or extended a number of measures to improve efficiency and address operational challenges, and began to reap the benefits of initiatives implemented in the prior period. One area of focus was the continued strengthening of mechanisms to support risk-based supervision, such as the refinement of the licensee risk-rating instrument used by the Banking Supervision Division. The positive effects of the electronic-reporting initiative for funds were increasingly evident, with the automated processing of submissions and flagging of irregular data saving staff time and enabling them to quickly identify submissions needing further risk-based assessment. Additional enhancements were made to the E-reporting system and to other technology applications across CMRAI and the Authority committed to implementing the COBIT governance framework for information technology. On the human resources side, the emphasis on staff training continued, while a comprehensive job evaluation and reclassification project was begun, to ensure that all posts are accurately defined and weighted and that appropriate compensation is given.

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

Cindy Scotland

6 INDUSTRY OVERVIEW The Cayman Islands economy has continued to benefit from the growth and sound operation of the financial industry regulated by the Monetary Authority, though the experience has varied from one sector to another. Industry performance is reviewed in the following section.

7 BANKING & RELATED SERVICES

BANKING INDUSTRY TRENDS During the 2007-08 financial year the Cayman Islands maintained its prominence as an international banking centre, ranking as the fifth largest in the world with regards to total liabilities and sixth with respect to total assets, both showing increases over the previous year. Despite the crisis in international financial markets, and continued restructuring, consolidation and rationalisation of banking group activities worldwide, there was a much smaller decline in the number of Cayman-licensed banks for the 2007-08 financial year than there had been for the last several financial years. There were 280 institutions holding banking licences in the jurisdiction at 30 June 2008. These comprised 19 Category A licensees and 261 Category B licensees

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

Licence Type	Active as at 30 June 2006	Active as at 30 June 2007	Terminated 1 July 2007 - 30 June 2008	Issued 1 July 2007 - 30 June 2008	Active as at 30 June 2008
Category A	19	19	0	0	19
Category B	261	261	0	0	261
Total	280	280	0	0	280

Category A Bank & Trust 19201019 Category B Bank & Trust 2722621210260 Cat B Bank & Trust (Restricted) 41001 Total 2952831310280 The June 2008 figure showed three fewer banks than 30 June 2007, representing a one percent decline. The jurisdiction continues to attract top tier banking groups from around the world, including Europe and North America, and, at the end of the reporting period, was hosting branches or subsidiaries of over 40 of the world's top 50 banks as ranked by total assets. International assets booked through banks in the Cayman Islands stood at US\$1.8 trillion at 30 June 2008, as compared to US\$1.4 trillion at June 2007. Liabilities rose to US\$1.8 trillion, up from US\$1.77 trillion as at June 2007. THE DOMESTIC MARKET The domestic market continued to be serviced by six retail banks: Butterfield Bank (Cayman) Limited, Cayman National Bank, Fidelity Bank (Cayman) Limited, FirstCaribbean International Bank (Cayman) Limited, Royal Bank of Canada, and Scotiabank & Trust (Cayman) Ltd. Four are subsidiaries of international banking groups, one is a branch of an international banking group, and the other is owned by a financial group headquartered in the Cayman Islands. HSBC Financial Services (Cayman) Limited was granted approval on 19 March 2007 to carry out retail banking business. At the end of the reporting period the bank was still in the process of setting up operations at its new premises and expected to offer retail services as of January 2009. The risk adjusted capital adequacy ratio for the five locally incorporated banks that have a capital adequacy requirement was an average of 19 percent at June 2008. This is well in excess of the eight percent minimum requirement set by the Basel Committee on Banking Supervision and the 12 percent set by the Banking and Trust Companies Law (2007 Revision). Individual capital adequacy ratios ranged from 12.9 to 27.3 percent. Table 2 shows aggregate deposit, loan and total asset figures for the six retail banks. Table 2: Aggregate Retail Bank Figures, 2007 & 2008 (In \$US)

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

IMPACT OF INTERNATIONAL FINANCIAL CRISIS Data requested by CMRAI from bank licensees showed that, as at 30 June 2008, 23 licensees had direct or indirect exposure to the US sub-prime market. None of the banks reported any capital constraints faced by their head offices, neither had they suffered any significant difficulties as a result of their exposures, and all remained well-capitalised. The Authority continues to monitor the possible impact the difficulties in the US sub-prime market and the resulting global liquidity shortage on the Cayman Islands banking sector. JURISDICTIONAL COMPARISONS As illustrated in Table 3, by 2007 the number of banks licensed in most of the listed jurisdictions had fallen below the numbers reported in 2003. The only exceptions were Panama, which had increased by three, and Singapore, which had the same number at the end of 2007 as it had at the end of 2003. Nevertheless, the number of Cayman-licensed banks Fig. 2: Total Value of Assets and Liabilities of Cayman Islands Bank Licensees, 2003-08 \$US Billion

Year	Total Value of Assets	Total Value of Liabilities
June 08	1058.91	144.41
June 07	265.21	143.11
June 06	1816.41	262.10
June 05	43.71	109.11
June 04	250.21	1373.17
June 03	68.81	823.4

EXTERNAL ASSETS EXTERNAL LIABILITIES 9 has started to level off over the past two

years, and there was a one percent increase in number of banks licensed between December 2007 and June 2008. Table 3: Bank Licence Numbers in Selected Jurisdictions, 2003-2007

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

MONEY SERVICES, CO-OPERATIVES AND BUILDING SOCIETIES Money services businesses, co-operative societies and building societies cater primarily to the domestic market. The number of licences in effect for money services business in the Cayman Islands held steady at seven during the year. The number of cooperative societies building societies and development banks also remained stable, at two, one and one, respectively. Overseas remittances through these entities for 2007-08 grew to an estimated US\$216 million, from some US\$209 million for the previous year.

FIDUCIARY SERVICES INDUSTRY TRENDS At 30 June 2008 there were 236 institutions holding trust, company manager and corporate service provider licences, the same number as at 30 June 2007. Table 4: Trust & Company Management Licensing Activity 2007-2008, with June 06 and June 07 Comparisons

Licence Type	Active as at 30 June 2006	Active as at 30 June 2007	Terminated 1 July 2007	30 June 2008	Issued 1 July 2007	30 June 2008
Trust Company - Restricted	818	654	85	485		
Trust Company - Unrestricted	525	122	52*	212	212	0*
Nominee Trust	21	20	21	20		
Company Manager	70	72	78	73		
Corporate Service Provider	57	21	6	16		
Total	229	236	181	623	6	6

* One trust licence (unrestricted) and one nominee licence were transferred from the Banking Division
TRUSTS The Cayman Islands remains a jurisdiction of choice for the provision of trust services (see Table 5 for jurisdictional comparisons), with CMRA's Fiduciary Services Division administering licences for those entities who hold trust licences only and the Banking Supervision Division administering licenses for those entities who hold both banking and trust licences. The 157 active trust licences supervised by the Fiduciary Services Division as at 30 June 2008 remained unchanged from the number at 30 June 2007, as nine licences were cancelled, seven new licences were issued and two were transferred from the Banking Supervision Division, having surrendered their banking licences. 2 Comprises three licence categories: Trust a licence that allows the holder to carry on the business of acting as trustee, executor or administrator; Trust (Restricted) allows the holder to undertake trust business only for persons listed in any undertaking accompanying the application for the licence; Nominee Trust a licence granted for the holder to act solely as the nominee of a trust licensee, being the wholly-owned subsidiary of that licensee. 3 A Company Manager licence allows the holder to provide company management services as listed in section 3(1) of the Companies Management Law (2003 Revision) or any other corporate services as may be prescribed under that section. 4 Corporate Service Provider licence allows the holder to provide only the corporate services specified in section 3(1)(a) through (e) of the Companies Management Law (2003 Revision).

	050	100	150	200	June 08	Dec 07	Dec 06	Dec 05	Dec 04	Dec 03
Active Cayman Islands Trust Licences	UNRESTRICTED	26	22	20	27	21	21	49	51	48
	RESTRICTED	74	74	78	83	87	85	51	51	52
	NOMINEE	74	74	78	83	87	85	51	51	52

Fig. 3: Active Cayman Islands Trust Licences by Category, 2003-08 11 While the total number of

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

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

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

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

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

Active Cayman Islands Bank Licenses 191919192225

CORPORATE SERVICES PROVIDERS COMPANY MANAGERS

Year	2003	2004	2005	2006	2007
Active	73	69	68	70	69
Terminated	73	74	78	5	5
Issued	5	5	5	7	6

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

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

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

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

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

13 INSURANCE INDUSTRY TRENDS At 30 June 2008 there were 946 insurance licensees under regulation, an overall increase of 23 from 30 June 2007. Of these, 772 were class B (captive) licensees. Licensing activity during the financial year fell within the expected range for all categories other than agents, where considerable growth was evidenced (See Domestic below.).

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

Category	Licence Type	Active as at 30 June 2006	Active as at 30 June 2007	Terminated 1 July 2007 - 30 June 2008	Issued 1 Jul 2007 - 30 June 2008	Active as at 30 June 2008
Insurance Managers	Class A	262	280	28	28	262
	Class B	737	752	34	37	772
	Class C	25	22	2	2	25
Brokers	Class A	272	291	19	20	272
	Class B	29	12	3	3	29
	Class C	12	30	0	0	12
Agents	Class A	66	89	14	16	69
	Class B	14	16	1	1	14
	Class C	1	1	0	0	1
TOTAL		881	923	40	63	946

CAPTIVES The market continued to show a high level of activity in 2007-08, with 39 new captive licences issued and 19 cancelled. Among the 772 captives were 126 segregated portfolio companies under the Companies Law (2004 Revision), with a total of 511 segregated portfolios operating within them. The most popular region of origin of Cayman captives at financial year-end was North America, from which 89.77 percent of captives originate. This was followed by Latin America and the Caribbean: 3.24 percent; Africa, Asia and the Middle East: 1.30

percent; Europe: 1.17 percent; Pacific Rim: 0.26 percent, and the rest of the world: 4.27 percent. Despite the continued general softening in the global insurance marketplace, it is anticipated that new licensing activity for calendar year 2008 will be only slightly down from 2007. Continuing demand for the use of captives is 5 Insurance companies operate within the Cayman Islands as Class A Insurers (writing domestic business) or Class B Insurers (writing non-domestic business only and commonly known as captive insurance companies). 6 In addition to Class A and B insurers licences, licences are granted in the following categories: Insurance Manager defined in section 2 of the Insurance Law (2008 Revision) as a company operating in and from within the [Cayman] Islands which provides insurance expertise to and for insurers and which has in its bona fide employment a person who fits the criteria outlined in section 2; Insurance Agent - a person (not being an insurer) who solicits directly, or through representatives, advertising or other means, domestic business on behalf of not more than one insurer, and Insurance Broker - a person (not being an insurer) who negotiates directly or through representatives or other means, contracts of insurance or of reinsurance on behalf of more than one insurer, or for placement with insurers or reinsurers (Insurance Law (2008 Revision) s.2).

191919192225 Class B (Captive) INSURANCE COMPANIES 0 100 200 300 400 500 600 700 800 Jun 08 Dec 07 Dec 06 Dec 05 Dec 04 Dec 03 644693733740765772 Fig. 5: Class B (Captive) Insurance Companies, 2003-08 14 expected primarily in the areas of medical malpractice, workers compensation and property coverage. In the Cayman Islands, 17 new class B licences were issued between January and June (compared to 23 in the same period of 2007). These figures are in line with expectations, as historically the first two quarters of a calendar year yield lighter licensing activity than the latter two quarters. DOMESTIC The number of class A licences at the end of the fiscal year remained at 28, with none having been issued or cancelled. Domestic insurance companies recorded a combined net earned premium of \$184.00 million for the calendar year ending 31 December 2007, with combined net income of \$60.9 million for the same period. Further details are available on the CMRAI website. 7 The 12 agent licences issued during the fiscal year reflect additions to the sales force of eight companies (class A and broker licensees) and demonstrate the increased interest by those companies involved in the sale of life insurance in having a dynamic and growing sales force. JURISDICTIONAL COMPARISONS Table 8: Captive Insurance Licence Numbers in Selected Jurisdictions, 2003-2007

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

2006 - Source: BusinessInsurance, 12 March 2007 edition ** 2006 was the first year Bermuda released data specifically for captives as a licence class. Previously, the figure used was the combined position for all licence classes. *** BusinessInsurance estimate 2007 Source: jurisdictions website or regulators N/A Data not available 7 Fig. 6: Cayman Islands Domestic Insurance Licences, by Category, 2003-08 0 20 40 60 80 100 June 08 Dec 07 Dec 06 Dec 05 Dec 04 Dec 03

CLASS	2003	2004	2005	2006	2007
MANAGERS	27	26	23	66	66
BROKERS	66	57	87	88	91
AGENTS	30	28	25	28	24
CLASS	30	27	25	25	30
AMANAGERS	27	26	25	28	27
BROKERS	23	15			

INVESTMENTS & SECURITIES INDUSTRY TRENDS FUNDS Amid continued turmoil in the international financial marketplace, during the 2007-08 fiscal

year the Cayman Islands achieved, and surpassed, the enviable milestone of having 10,000 funds under regulation. The marked growth of the funds sector continued steadily throughout the year and resulted in a record 10,037 funds being under CMRAI regulation at 30 June 2008. This was a 12 percent increase over the corresponding period in 2007, when the number of regulated funds totalled 8,972. For the fiscal year, 1,873 funds were authorised while 808 were terminated. The main contributor to the net increase in fund numbers was registered funds. These grew from 8,300 at June 2007 to 9,378 at June 2008, a jump of 13 percent. Licensed funds also increased, growing 11.6 percent from 112 to 125. This category of funds, while relatively small, has been growing steadily over the past five years. Among administered funds there was a 4.6 percent decline. This was largely caused by funds taking advantage of the November 2006 amendment to the Mutual Funds Law, which changed the definition of carrying on mutual fund business in the Cayman Islands, thereby removing the need for foreign funds to be registered simply because they are being administered in the Islands by a licensed mutual fund administrator. FUND ADMINISTRATORS Seven new fund administrators were licensed and six cancelled, bringing the total number of administrator licences at June 2008 to 154, an increase of one over June 2007. Of these 154, the majority, 99, were full administrator licences, the most popular category of administrator licenses. There were 51 restricted administrators and four exempted administrators at the end of the fiscal year. Since the introduction of the Securities Investment Business Law (SIBL), the restricted administrator category has been declining as entities opt to be registered as excluded persons under SIBL, rather than be licensed as restricted fund administrators. 8 Entities are also opting to be licensed as full administrators so as not to be restricted in the number of funds for which they can provide administration services. 8

Under the Securities Investment Business Law (2004 Revision) (SIBL) a person who carries on securities investment business in any one or more of the activities set out in Schedule 2 of that law is required to hold a licence unless exempt, as an excluded person, from holding a licence. Active Mutual Funds LICENSEDADMINISTEREDREGISTERED 0 2000 4000 6000 8000 10000 Jun 08Dec 07Dec 06Dec 05Dec 04Dec 03 48 592 4168 616 5249 6429 7481 8751 9378 534 125 543 105 548 105 598 79 67

Fig. 7: Active Mutual Funds, by Category, 2003-08
 Fig. 8: Active Mutual Fund Administrators, by Category, 2003-08

Category	June 03	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07	June 08
EXEMPTED	4	5	5	7	60	87	7
RESTRICTED	10	103	82	83	87	95	99
FULL	103	82	83	87	95	99	51
Total	117	118	174	179	182	200	157

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

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

Authorisation Type	Active as at 30 June 2006	Active as at 30 June 2007	Terminated 1 July 2007 - 30 June 2008	Issued 1 July 2007 - 30 June 2008	Active as at 30 June 2008	
Funds Registered	7,161	8,300	741	1,181	9,937	
Administered	5,875	6,066	405	534	6,190	
Licensed	97	112	14	125	125	
Total Funds	7,845	8,972	2,801	1,873	10,037	
Mutual Fund Administrators	Full 87	93	17	99	104	
Administrators	Full 87	93	17	99	104	
Restricted	60	55	4	0	51	
Exempted	75	10	4	0	10	
Total Administrators	154	153	67	104	154	
Securities Investment Business	Securities Excluded Persons	120	91	45	74	159
Securities (Full and Restricted Licences)	25	23	0	12	17	

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

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

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

18 ORGANISATIONAL PERFORMANCE The Cayman Islands Monetary Authority is a corporate body, wholly owned by the Cayman Islands Government and established to perform specified functions. CMRAI's functions and strategic goals, the major developments related to these areas and its performance in relation to its goals are outlined in the following section.

19 NATURE AND SCOPE OF ACTIVITIES

FUNCTIONS CMRAI has four principal functions.

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

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

1. to be efficient and act in the best economic interests of the Cayman Islands;
2. to promote and maintain a sound financial system and reduce the use of financial services business for criminal purposes;
3. to promote and enhance market confidence, consumer protection and the reputation of the Cayman Islands as a financial centre;
4. to recognise the international character of financial services/markets and the need to be competitive for consumers and suppliers while complying with appropriate and relevant international standards; and
5. to be transparent and fair.

STRATEGIC GOALS

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

20 EXECUTION OF FUNCTIONS:

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

the sale and redemption of numismatic coins to and from local and overseas collectors. CURRENCY RESERVE Cayman Islands currency is issued on demand only against United States currency at the rate of one Cayman Islands dollar per 1.20 US dollars. It is repurchased on demand with US dollars at the same rate. The currency in circulation is backed by the currency reserve assets in accordance with section 32 of the Monetary Authority Law. Up to December 2007 the currency reserve assets were invested primarily in US treasury notes, US government agency- issued discount notes and mortgage-backed securities through the Authority's external fund managers. However, in light of the continuing credit market instability, the Board of Directors considered it prudent to restructure the investment portfolio to substantially reduce exposure to mortgage-backed securities and in December 2007 instructed CMRAI's investment managers to do so. At 30 June 2008, the value of currency reserve assets was \$99.8 million (unaudited) representing 126.5 percent of currency in circulation. By comparison, at 30 June 2007, total currency reserve assets stood at \$103.7 million, 136.1 percent of currency in circulation. The approximately four percent decrease in the June 2008 value of currency reserve assets below the June 2007 figure was due to reduced interest rates but loss was mitigated by the restructuring of the investment portfolio.

ISSUE AND REDEMPTION OF CURRENCY
Currency in Circulation - At 30 June 2008 currency in circulation (excluding numismatic coins) stood at \$78.9 million. This figure comprised \$70.2 million in notes and \$8.7 million in coins and represents a 4.1 percent increase over the June 2007 figure of \$76.2 million. Table 11 shows currency in circulation at fiscal and calendar year-end from 2003 to 2008. Figure 9 shows currency in circulation by month from 2004-2008. Table 11: Currency in Circulation at Fiscal and Calendar Year-end, 2003-08 (in CI\$m)

DATE	2003	2004	2005	2006	2007	2008
30 June	49.55	49.87	54.87	72.87	70.57	78.93
31 December	54.37	47.42	78.28	1.9	Total notes withdrawn from circulation and destroyed in the 2007-08 financial year equalled \$21.0 million compared to \$10.2 million in the previous year.	

21 New Currency - Following approval from the Cabinet during the prior year for CMRAI to re-design the banknotes, draft designs were received and considered and at the end of the year amendments were being made. The banknotes are being designed by De la Rue Currency, the UK company which produces the Cayman Islands banknotes, and will incorporate additional safety features. Arrangements were made to replenish the stock of circulating coins, beginning with the one-cent coin. Twelve million one-cent coins were minted and were scheduled to be put into circulation beginning in the 2008-09 fiscal year. The other coin denominations will be minted during the last half of calendar year 2008. A special numismatic coin issue in observance of CMRAI's 10th anniversary was unveiled in November 2007. The issue comprised a gold \$10 coin and a silver \$5.

COUNTERFEIT DETECTION There has been a steady increase in the number of counterfeits being detected and withdrawn from circulation. The table below shows the numbers of counterfeit banknotes by denominations that have been withdrawn from circulation since 2005. Table 12: Recovered Counterfeit Banknotes as at 30 June 2008

Denomination	2005	2006	2007	As at 30 June 2008
\$100	993	1444	\$50176	1211
\$25	1-26	\$5-	-1-	\$16-11
Total No. of Notes	12439	5967	Total Dollar Value	\$10,791
	\$3,600	\$2,751	\$5,136	

The Authority believes that educating the public on the security features of the banknotes is the best means of combating the counterfeit problem. As such CMRAI continues to cooperate with the Royal Cayman Islands Police Service (RCIPS), the banking sector and other entities in the crackdown on counterfeiting. In June 2008, the Cayman Islands Chamber of Commerce held a counterfeit/fraud prevention

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

40000000 60000000 80000000 100000000
December November October September August July June May April March February January
2004 2005 2006 2007 2008

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

22 EXECUTION OF FUNCTIONS: REGULATORY FRAMEWORK

THE REGULATORY REGIME
The framework for the Monetary Authority's regulation and supervision of financial services is made up of a number of elements. These include the applicable laws and regulations passed by the Government of the Cayman Islands; rules and statements of principle and of guidance issued by the Authority; and policies and procedures detailed in the Regulatory Handbook and other manuals. Regulation and supervision are carried out in accordance with internationally accepted standards where these exist and are appropriate for the jurisdiction. The domestic laws and international standards under which the Cayman Islands Monetary Authority and regulated sectors operated as at 30 June 2008 are shown in Table 13. Copies of all rules, statements of guidance and policies and procedures issued by the Authority are available on the CMRAI website. The prudential measures issued during the 2007-08 fiscal year are listed in Table 14.

Table 13: Framework Under Which the Cayman Monetary Regulatory Authority International Operates

Sector/ Entity type	CI Law	International Standards / Memberships
All	Monetary Authority Law (2008 Revision)	Proceeds of Criminal Conduct Law (2007 Revision)
Money Laundering	Regulations (2008)	Terrorism Law, 2003
Public Management and Finance	Law (2005 Revision)	Companies Law (2007 Revision), and amendment
Standards:	Financial Action Task Force Forty Recommendations on Money Laundering and Nine Special Recommendations on Terrorist Financing	Memberships: Caribbean Financial Action Task Force (CFATF)
Banks, trusts, money services businesses, credit unions, building societies, corporate services providers, company managers	Banks and Trust Companies Law (2007 Revision)	Money Services Law (2003 Revision), and regulations
Cooperative Societies	Law (2001 Revision), and regulations	Building Societies Law (2001 Revision)
Development Bank	Law (2004 Revision)	Companies Management Law (2003 Revision), and regulations
Standards:	Basel Core Principles for Effective Banking Supervision	1 Offshore Group of Banking Supervisors (OGBS)
Trust and Company Service Providers	Working Group Statement of Best Practice produced by the	2 Offshore Group of Banking Supervisors
Memberships:	OGBS	Caribbean Group of Banking Supervisors
Association of Supervisors of Banks of the Americas		23 Insurance companies, managers, brokers, agents
Insurance	Law (2008 Revision)	Standards: International Association of Insurance Supervisors (IAIS) Core Principles of Insurance Regulation
Memberships:	IAIS	4 Offshore Group of Insurance Supervisors
Mutual funds, fund administrators, securities investment businesses (market makers, broker-dealers, securities arrangers, securities advisors and securities managers)	Mutual Funds Law (2007 Revision)	Securities Investment Business Law (2004 Revision)
Standards:	International Organization of securities Commissions (IOSCO) - Applied to SIBL licensees	Offshore Group of Collective Investment Schemes Supervisors (OGCISS)

REGULATION AND SUPERVISION
The Banking Supervision, Fiduciary Services, Insurance, and Investments and Securities divisions (collectively referred to as the supervisory divisions) are responsible for processing, and making recommendations on, applications for licences and other relevant authorisations

for the provision of those financial services falling within their sectors. They are also responsible for the ongoing supervision of licensees/registrants, and make recommendations for enhancements to the supervisory regime where appropriate. Supervision of licensees is carried out off-site and on-site. Off-site supervision is continuous, involving the analysis of quarterly prudential returns and annual audited statements, supplemented with prudential meetings. On-site supervision involves limited scope and full-scope inspections both in the Cayman Islands and overseas. The objectives of the inspection process are to understand the licensee's business activities and operating environment, to detect problems of compliance with the relevant laws and/or regulations, and to gather information on matters identified as requiring policy considerations.

REGULATORY DEVELOPMENTS RULES, GUIDELINES AND POLICIES

The Policy and Development Division spearheads the development, documentation and issuing of guidance for the financial industry. The division is responsible for researching industry and regulatory topics, for drafting policy and for co-ordinating the development of instruments applicable to, and for the benefit of, financial services providers. It works in conjunction with the supervisory divisions, the Compliance Division and in consultation with industry. The Authority issued four rules, five statements of guidance (SOGs), two regulatory policies and two regulatory procedures during the year under review. These measures are listed in Table 14 and can be viewed in their entirety on the CMRAI website ⁹. An update to the Regulatory Handbook - Volume 110 was issued in June 2008. At the end of the financial year, a draft regulatory policy on the Licensing of Banks had gone through industry consultation. ⁹ Rules and SOGs can be viewed at: Policies and procedures can be viewed in the Regulatory Framework/ Regulatory Handbook section of the website at: [default.aspx?section=PD&id=71](#)

¹⁰ See link to Regulatory Handbook at note 13 above.

²⁴ Table 14: List of Regulatory Measures Issued in 2007-2008

When Issued	Type of Measure	Standard Title/Description
All Licensees	Nov 2007	Regulatory Procedure (Revision)
Nov 2007	Procedure	Assessing Fitness and Propriety
May 2008	Regulatory Procedure	Dealing with Requests for Assistance from Overseas Regulatory Authority (ORA)
May 2008	Rule	Operational Risk Management for Banks
May 2008	SOG	Operational Risk Management for Banks
March 2008	SOG	Professional Indemnity Insurance
Trust Companies	SOG	Trust Companies

The SOG provides holders of trust licences with guidance on meeting the

legal requirement to have adequate professional indemnity insurance, or other appropriate arrangements to cover risks in respect of their trust business. The requirement is outlined in section 15(2) of the Banks and Trust Companies Law (2007 Revision). The SOG sets out the minimum criteria trust companies should follow when obtaining and/or maintaining professional indemnity insurance or other arrangements to cover similar risks.

25 May 2008 SOG Internal Audit Unrestricted Trust Companies This SOG provides guidance on the internal audit functions that are required by section 3.6 of the SOG on Corporate Governance. It also presents a standard of best practice to licensed trust companies for the implementation of an effective and sound internal audit function. Among the areas covered are: scope of an internal audit function; permanent function - continuity; independent function; impartiality; audit charter; professional competence; scope of activity; and functioning of internal audit.

Insurance July 2007 Regulatory Policy Policy Recognition and Approval of an Actuary To set out the criteria that the Authority will use for determining whether to recognise or approve an actuary.

Nov 2007 Regulatory Policy (Revision) Policy Approval of Trusts Provides for policyholder protection for Cayman domestic business, in section 7 (1) of the Insurance Law.

May 2008 SOG (Revision) SOG - Reinsurance Arrangements Insurance Companies This SOG, originally issued in 2003, now applies to all licensed insurers and not only Class A as obtained prior to the revision. It sets out the elements that should be contained in a licensed insurer's strategy to mitigate and diversify risks. This includes the purchase of reinsurance protection to ensure reinsurance arrangements are in place to cover an appropriate level of the insurer's liability. It also provides guidance on reinsurance strategy and how this should be implemented.

August 2007 SOG (Revision) SOG Internal Controls Insurance To provide guidance on the requirement imposed on licensees by the Rule on Internal Controls.

Investments & Securities April 2008 Rule Rule - Content of Offering Documents- Licensed Funds The Rule on the Contents of Offering Documents stipulates that a fund's offering document describe the fund's equity interests in all material respects. Additionally, the document must contain such other information as is necessary to enable a prospective investor to make an informed decision as to whether or not to subscribe for or purchase the fund's equity interest. It strengthens the Mutual Funds Law requirements by setting out the minimum information that must be included in an offering document for a licensed fund.

April 2008 Rule Rule - Calculation of Asset Values Stipulates that licensees must now also establish, implement and maintain a net asset value (NAV) calculation policy and must outline the scope of such a policy. This rule mandates the policy be fair, reliable, of high quality and verifiable.

April 2008 Rule Rule - Segregation of Assets for Licensed Funds Calls for a fund's portfolio (i.e., all financial assets and liabilities) to be segregated and accounted for separately from any assets of any service provider. Also, licensed funds must ensure that service providers do not use the portfolio to finance their own or any other operations in any way.

26 OTHER REGULATORY DEVELOPMENTS AUTHORITY-WIDE

Amendments to the Monetary Authority Law Amendments to the Monetary Authority Law were enacted in February 2008 to facilitate the sharing of information between CMRAI and foreign regulators. The amendment clarifies and extends CMRAI's powers of disclosure of information to other regulatory authorities in response to requests for assistance from these authorities. The amendment to section 50 of the Monetary Authority Law removes the distinction between routine and non-routine requests and the corresponding referrals to the Attorney General and the Financial Secretary. Previously, disclosure of information by the Authority in the context of non-routine requests was only permitted on the advice of the

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

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

BANKING Basel II During the period, CMRAI announced and subsequently commenced the process towards implementing the new Basel II framework in the Cayman Islands between 2010 and 2012. The first phase of the programme, it was indicated, would focus on requiring Cayman-incorporated banks to put in place the standardised approaches under Pillar 1 by the end of 2010, with a staged implementation of Pillars 2 and 3 between 2010 and 2012. Further consideration will be given to the more advanced approaches thereafter. By June, CMRAI had engaged a Basel II Project Manager on a consultancy basis and a Basel II Implementation Road Map was developed to guide the timely roll out the project.

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

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

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

regulating this business in the United States. FIDUCIARY Controlled Subsidiaries

Subsequent to representation from industry the provisions within the Banks and Trust Companies Law (2007 Revision) that allowed controlled subsidiaries, as defined by section 2 of the law, failed to achieve the intended objective, the Government made amendments in order to expand the scope of controlled subsidiaries to make them commercially suitable. The amendments were contained in the Banks and Trust Companies (Amendment) Bill 2008, which was passed by the Legislative Assembly on 30 June 2008. The Authority had formalised registration procedures and developed forms for controlled subsidiaries during the previous reporting period but had received only one application for registration of a controlled subsidiary, which later de-registered. It is anticipated that the amendment to the law will generate renewed interest from industry in forming these structures.

Private Trust Companies Regime The Banks and Trust Companies (Amendment) Bill 2008, which was passed by the Legislative Assembly on 30 June 2008, also allows for special regimes to be prescribed via regulations. A special regime allowing for private trust companies to be registered by CMRAI rather than licensed was subsequently introduced by way of the Private Trust Company Regulations, 2008. The introduction of the private trust companies regime followed discussions between Government and the Society of Trust and Estate Practitioners (STEP) on Cayman's existing regulatory regime for private trust companies and its suitability in facilitating the continued growth and development of the sector and in maintaining Cayman's competitiveness in this area. The discussions were prompted by recent regulatory changes in other jurisdictions and the apparent trend towards increased demand for private trust company formation in this jurisdiction.

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

INSURANCE Amendments to the Insurance Law The Insurance Law (2007 Revision) was gazetted in July 2007. This consolidated the previous version of the law and regulations. The Insurance (Amendment) Law, 2007 was passed in September 2007, its main object being to repeal 28 and replace that portion of the schedule in the Insurance Law (2007 Revision), which was inadvertently omitted. Additionally, the amendment validated the collection of any annual licence fees that may have been paid in respect of the omitted portion. Finally, it amended the deadline for the section 7 provisions under the Insurance Law (2007 Revision), which stipulate that the funds that approved external insurers are required to keep must be maintained under a CMRAI-approved trust arrangement and such funds must only be used to discharge the insurer's obligations in respect of its Cayman Islands business. In June 2008, The Insurance Law (2008) Revision was gazetted, consolidating the Insurance Law (2007 Revision) and the Insurance (Amendment) Law, 2007.

INVESTMENTS AND SECURITIES E-Reporting On 29 March 2007, CMRAI officially launched electronic reporting for funds, accepting electronic submission of funds audited accounts along with the Funds Annual Return (FAR). To

enhance the overall efficiency of the e-reporting system, staff from the Investments and Securities and Information Systems divisions formed an internal E-Reporting Working Group in January 2008. The group was charged with the review and resolution of all problems encountered with the FAR, statistical analysis, and future enhancements to the FAR and the broader E-reporting system. Using data gathered from the FARs, the Investments and Securities Division created the inaugural edition of the Investments Statistical Digest, which provides aggregate statistics on the financial position, structure, investment strategies, subscription activity, fund administration and investment management services of Cayman Islands-regulated funds. The digest was released in June.

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

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

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

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

Banking	Fiduciary	Insurance	Investments	Other	Total
16	10	27	45	0	170
30	11	28	60	1	211

Applications as at 30 June 2008: 161027450170 Applications as at 30 June 2007: 301128601211

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

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

Name of Entity	Enforcement Action Taken	Effective Date	Type of Authorisation Held
GIAMO Fund	Registration Cancelled	August 31, 2007	Registered Fund
GIAMO Fund	Official Liquidation	August 31, 2007	Registered Fund
12	Available online at: General/GuidelinesFitnessAndPropriety.pdf		
13	Available online at: I%20%2015Mar2006%20EC%20.pdf		
14	Available online at: EnforcementManualJune%2006.pdf		
30 Skilled Nursing Indemnity Ltd	Revocation	October 10, 2007	Unrestricted Class B Insurance Licence
Nebo Offshore Master Fund Ltd	Registration Cancelled	April 30, 2008	Registered Fund
Nebo Offshore Fund Ltd	Registration Cancelled	April 30, 2008	Registered Fund
Arista High Technology Growth Fund	Registration Cancelled	April 30, 2008	Registered Fund
Arista Capital Growth Fund Ltd	Registration Cancelled	April 30, 2008	Registered Fund
Veco High Yield Fund Ltd	Registration Cancelled	June 30, 2008	Registered Fund
Veco Capital Growth Fund Ltd	Registration Cancelled	June 30, 2008	Registered Fund

LITIGATION The Legal Division conducts

enforcement and cooperative action involving litigation, with the Compliance Division's assistance. During the 2007-08 financial year, the following legal actions were taken: GIAMO Fund - A petition was presented to the Grand Court for the winding up of the GIAMO Fund on 31 August 2007 and was granted. Dyoll - CMRAI sought and received directions from the Grand Court regarding the handing over of the proceedings of the letter of credit to the joint liquidators of Dyoll. The relevant funds have since been handed over. SEC Examination - Counsel from the US Securities and Exchange Commission conducted the examination under oath of a local protector of various overseas trust companies on 23 October 2007, following the issue of directions under section 34(9) of the Monetary Authority Law by CMRAI. One of CMRAI's Legal Counsels was present and supervised the proceedings, which took place at a local law firm. Grand Island Funds Representatives from CMRAI's Compliance, Legal and Investments and Securities divisions, as well as the Managing Director, were involved in discussions with the Joint Voluntary Liquidators appointed in relation to the liquidation of Grand Island Funds. CMRAI voiced its preference for court supervision of the winding-up of the funds and a petition for this was filed in the Courts and was heard on 21 July 2008. CMRAI attended the hearing at which court supervision was granted.

OTHER COMPLIANCE-RELATED MATTERS As part of its mandate to ensure the proper regulation of Cayman's financial services industry, and promote and enhance consumer protection, CMRAI investigated complaints regarding potentially harmful financial activities and subsequently issued notices on 12 June 2008 warning the public about high-yield investment schemes, advance-fee frauds, and unlicensed persons conducting money services. 15 Also in keeping with its mandate to protect the jurisdiction from individuals or entities seeking to reap illegal benefit by false association with the Cayman Islands, the Compliance Division has continued updating a list of websites which give Cayman addresses for various businesses which are not registered or licensed in the Cayman Islands. 16 15 These notices can be accessed on CMRAI's website via the following links: CMRAI Investment Schemes Warning: If it sounds too good to be true it probably is ; CMRAI issues Warning regarding Advance-Fee Frauds; Money-Services Operators must be Licensed 16 The complete list can be viewed via the following link: Websites With Cayman Addresses Not Registered Nor Licensed in the Cayman Islands 31

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

MEMORANDA OF UNDERSTANDING MOUs and similar agreements establish a framework for mutual assistance and cooperation by CMRAI 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 CMRAI website. 17 During 2007-08, CMRAI added three MOUs to the growing list of overseas regulators with whom it has formal information-exchange agreements to facilitate cross-border financial services supervision. On 31 January 2008, its agreement with the Office of the Insurance Commissioner (OIC),

Washington State, U.S.A., took effect, while a similar arrangement with the Superintendencia de Entidades Financieras y Cambiarias del Banco Central de la Republica Argentina (Central Bank of Argentina) became official on 13 February 2008. On 21 February 2008, the Authority also sealed an MOU with the United Kingdom's Financial Services Authority UK 21-Feb-2008 Memorandum of Understanding - Superintendencia de Entidades Financieras y Cambiarias del Banco Central de la Republica Argentina 13-Feb-2008 Memorandum of Understanding - Office of Insurance Commissioner of the State of Washington 31-Jan-2008 Memorandum of Understanding - Jersey Financial Services Commission 21-Aug-2006 Memorandum of Understanding - Office of the Superintendent of Financial Institutions Canada 16-May-2006 Memorandum of Understanding - Banco Central Do Brazil 07-Mar-2006 Undertaking for Sharing of Information with the US Commodity Futures Trading Commission 11-Jan-2006 Memorandum of Understanding - Isle of Man Financial Supervision Commission 30-Jun-2005 Memorandum of Understanding - Bermuda Monetary Authority 30-Jun-2005 Undertaking - US Securities and Exchange Commission 23-May-2005 Memorandum of Understanding - Bank of Jamaica 10-Oct-2003 Memorandum of Understanding - Superintendency of Banks of the Republic of Panama 31-May-2004 Multilateral Memorandum of Understanding - The Regional Authorities for the Exchange of Information and Co-operation and Consultation 30-Nov-2004

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

32 Kingdom's Financial Services Authority (FSA), the UK's national regulator of financial services and markets. Meanwhile, the Legal Division continued negotiations with Brazil's securities regulator, CVM, regarding an MOU or similar agreement between CMRAI and CVM.

ASSISTANCE TO OVERSEAS REGULATORY AUTHORITIES An ongoing activity for the Legal Division is advising on, and coordinating responses to, requests for assistance from overseas regulatory authorities (ORAs). The division works closely with other CMRAI divisions, particularly Compliance, to ensure that requests are handled in a timely and efficient manner and that they conform to the requirements of the MAL. The Procedure - Dealing with Requests for Assistance from an Overseas Regulatory Authority (ORA) 18 sets out the Authority's approach in dealing with these requests. The process includes reviewing and assessing the requests and drafting directions to persons who have information that will assist the ORA in performing its functions. The Authority received and processed 163 requests for assistance from ORAs, up from 156 during the previous financial year.

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

Caribbean Financial Action Task Force Mutual Evaluation of the Cayman Islands The Caribbean Financial Action Task Force (CFATF) third round mutual evaluation of the Cayman Islands anti-money laundering (AML)/countering the financing of terrorism

(CFT) regime was conducted by means of a detailed questionnaire and an on-site visit in the Cayman Islands in June of 2007. Following the visit, CMRAI was integrally involved in the preparation of the response to the draft CFATF Mutual Evaluation Report (MER) on the Cayman Islands. CMRAI continued to be involved with the CFATF in the post-assessment process and senior staff formed part of the Cayman Islands delegation that attended and defended the MER at the CFATF Plenary in Costa Rica in November. The resulting mutual evaluation report, published on 23rd November 2007, found the following: In terms of the overall AML/CFT compliance culture prevailing in the Cayman Islands, it was evident to the assessors that the country in general and the financial service providers in particular all have a keen sense of awareness of AML/CFT issues. Additionally the financial service providers displayed a healthy compliance culture based on an appreciation of the reputation risk of AML/CFT for the jurisdiction. The strong compliance culture was also demonstrated by the financial service providers proactive co-operation with the authorities in implementing AML/CFT measures (Par. 9). The evaluation report rated Cayman compliant or largely compliant with 38 of the 40 Financial Action Task Force recommendations and nine special recommendations (FATF 40). More specifically, the ratings for the Cayman Islands were: 14 compliant, 24 largely compliant, 10 and partly compliant. The one area in which the jurisdiction received a non-compliant rating related to correspondent banking. However, the report acknowledged that correspondent activity was limited. Subsequent to the end of the reporting period, the issue was addressed in amendments to the Guidance Notes on the Prevention and Detection of Money Laundering in the Cayman Islands. Cayman's ratings were among the better ones in this round of CFATF mutual assessments of its member jurisdictions 18 On the CMRAI website: 33 compliance with the Financial Action Task Force's 40 Anti-money Laundering Recommendations and Nine Special Recommendations to Combat Terrorist Financing, and compares very favourably with the FATF/IMF assessments of many leading FATF countries. At the end of the year work was in progress to address those areas in which did not receive compliant ratings. CMRAI Participation in CFATF BVI Evaluation One of CMRAI's legal counsel participated as the legal expert in the CFATF team of assessors that carried out the Mutual Evaluation Assessment of the British Virgin Islands in February 2008. International Association of Insurance Supervisors - CMRAI began assisting the International Association of Insurance Supervisors (IAIS) in validating applications from insurance regulators who wish to sign up to a new IAIS Multilateral Memorandum of Understanding (MMOU). The MMOU establishes a formal basis for cooperation and information exchange between signatory authorities regarding the supervision of insurance companies where cross-border issues arise. The IAIS objective in developing the MMOU was to provide an additional tool for supervisors in carrying out their regulatory role. The Head of Insurance is serving as lead validator for one of the MMOU applications under consideration by the IAIS. He was also appointed a member of the validation teams for the applications of Australia, the British Virgin Islands and the United Kingdom. Insurance Core Principles Review - In 2007 the IAIS embarked on a review of the Insurance Core Principles (ICPs) with the aim of ensuring they remain appropriate, comprehensive and current. CMRAI, through the Deputy Head of Insurance, is a member of the ICP Task Force. The group's mandate is to spearhead the review of the ICPs and present the revised ICPs and methodology at the IAIS general meeting in 2009. CMRAI agreed to head the group reviewing the ICPs on licensing, suitability of persons, changes in control and portfolio transfers, corporate governance, internal control, fraud, and AML. LOCAL COOPERATION

MONEY LAUNDERING REPORTING The Head of Compliance is the Monetary Authority's Money Laundering Reporting Officer (MLRO) under the Proceeds of Criminal Conduct Law (2005 Revision). Any suspicion of money laundering identified by CMRAI's staff in conducting their supervisory activities is reported to the MLRO, who has the responsibility to report to the Financial Reporting Authority (FRA) in conformance with the Money Laundering Regulations (2003 Revision). The MLRO filed six suspicious activity reports (SARs) with the Financial Reporting Authority (FRA) during 2007-08, the same number of SARs filed during 2006-07. The FRA made eight onward disclosures to the Authority pursuant to the MOU between the FRA and CMRAI.

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

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

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

34 ADVISORY ACTIVITY The Monetary Authority Law (2004 Revision) requires CMRAI to advise the Government on monetary, regulatory and cooperative matters, and to consult with the local private sector on proposed measures. Through its involvement with overseas regulatory authorities, participation in local and international forums, and interaction and consultation with local and overseas market participants CMRAI 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. CMRAI also carries out its own research and assessment, including cost benefit analyses of all new regulatory measures it proposes, and makes recommendations to the Government accordingly. Advice to the Government is provided through written reports and submissions to the Financial Secretary and the Cabinet as well as through meetings with the Financial Secretary and the Cabinet. CMRAI consults with the private sector formally and informally as part of the development process for all rules, guidance, policies and financial services sector legislation. The measures implemented or in development during 2007-08 are covered in the Regulatory Developments section of this report, beginning on page 27.

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

Table 19: Staff numbers by division at 30 June 2008

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

JOB EVALUATION EXERCISE As part of its continuing focus on attracting and retaining qualified staff, the Authority began a comprehensive job evaluation exercise in April 2008, with the assistance of consultants Deloitte. The project encompassed an examination of CMRAI's structure and compensation scheme to determine their effectiveness and efficiency. The review also covered an evaluation of all jobs within the organisation according to criteria including skills sets required and the relative value of the jobs, market pricing of those jobs, and review of the

salary structure. The aim is to ensure that every job is appropriately valued and that salaries are locally and internationally competitive. Deloitte worked closely with a Job Evaluation Committee comprising staff from a cross section of divisions and positions. The consultants final report was scheduled to be submitted in September 2008.

36 ACCOMMODATION

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

RECRUITMENT PROCESS

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

HR UNIT STRATEGIC PLAN & TRAINING /PERFORMANCE MANAGEMENT REVIEW

During the year, the Human Resources Unit reviewed and revised its role and responsibilities to better assist the organisation's growth and development. It crafted a set of team values and a customer service commitment to guide the development and delivery of new services, and increased its staff to meet the demand for expanded and improved services. The unit also did an analysis of CMRAI's training and performance management initiatives and completed updates of job descriptions, and the performance appraisal tool. The unit anticipates further revisions to implement the recommendations flowing from the job evaluation process.

INFORMATION SYSTEMS

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

STRATEGIC DEVELOPMENT

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

CIISMA4

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

UPGRADES/ENHANCEMENTS

The unit assisted the Currency Division to upgrade its SWIFTNet application, used for the settlement of currency transactions. This was essential for the continued use of the SWIFT inter-bank financial telecommunication system as the system was going through a worldwide upgrade. IS implemented enhancements to the E-reporting system for funds, significantly improving the ease-of-use of the system, and subsequently assisted the Investments and Securities Division with the release of the Investments Statistical Digest, which resulted from data collected through E-reporting.

37 IS

also released and subsequently upgraded a new data import tool allowing the Policy and Development Division to transfer data from CMRAI's Locational Banking Survey to the Bank for International Settlements (BIS) in the BIS new electronic data exchange format. Other projects included assisting the Human Resources Unit with the redevelopment of the staff performance appraisal system; the installation of equipment for the staff training room; the installation of additional telephone lines for the Authority; upgrading/replacement of

numerous staff computers, and enhancing CMRAI's IT security infrastructure. IS also coordinated the updating of the Authority's business recovery plans and the maintenance and testing of the crisis management and business recovery systems and equipment.

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

10 TH ANNIVERSARY A major initiative during the year was the planning and coordination of CMRAI's 10th anniversary observances in November 2007. Events included a church service, an industry stakeholder recognition event, staff awards dinner, a charity walk, the launching of a tertiary education scholarship and an anniversary numismatic coin issue, presentations by CMRAI staff on the Cayman Islands currency to primary and middle schools, and reading sessions at schools. CMRAI's role and work were also publicised through media appearances and a newspaper supplement. The aims of the celebrations were to raise awareness of CMRAI, its people, and its contribution to the development of Cayman's financial industry, and to reach out to stakeholders and the wider community. Feedback indicates that the initiatives were well-received both internally and externally, with the currency presentations being particularly useful in raising awareness among students, their teachers and some of their parents about this aspect of CMRAI's work. The Authority donated the funds raised from its 10th Anniversary Charity Walk to the International College of the Cayman Islands (ICCI) for the purchase of books for ICCI's library, which had been destroyed by Hurricane Ivan in 2004.

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

ROUTINE WORK Among its routine work, the unit produced and disseminated some 24 media releases; the quarterly issues of CMRAI's newsletter, The Navigator, which is distributed to over 300 local and overseas recipients; the 2006-07 Year in Review; and quarterly reports to the Financial Secretary. It assisted the Investments and Securities Division in the production of the inaugural Investments Statistical Digest. Senior CMRAI officials contributed articles, updates and messages at the request of several local and international publications and delivered over 17 speeches and presentations at local and overseas conferences, meetings and other functions. The unit also facilitated media interviews, and the provision of information and other assistance to local and overseas journalists, members of the public and government agencies. In addition, PR staff monitored, collected, and disseminated to directors and management, relevant external information (especially media coverage) on market, regulatory and political developments taking place locally and internationally. The major presentations delivered by CMRAI officials, as well as the releases and publications mentioned are available in the Media Centre and Publications sections of CMRAI's website.

FREEDOM OF INFORMATION INITIATIVE CMRAI begun preparations for the implementation of the Freedom of Information (FOI) Law, set to come into effect across the Cayman Islands Public Service in January 2009, with the hiring of an FOI

Manager/Legal Counsel in April. The FOI Law gives members of the public a general right of access to government records and, once the law takes effect, the Information Manager will be the person receiving and processing FOI requests coming to CMRAI. Between April and June, the Information Manager's activities focused on developing and implementing procedures and systems that CMRAI will use to effectively handle applications under the FOI initiative and the National Archive and Public Records Law. This involved conducting awareness sessions for CMRAI's directors, management and staff; participating in training provided by the Government; conducting an organisational records survey, and developing an organisational file plan and policies on document creation.

FINANCIAL CONTROL The Accounts Unit has responsibility for all financial matters relating to budget, annual licence fee collection, payroll, and accounts payable, and is responsible for preparation of CMRAI's financial statements and the purchase & ownership agreements between the Cabinet and the Authority. The unit's objectives are essentially created by the financial requirements of the organisation and its stakeholders and the resources available to it. Revenue collected in the year ending June 2008 was \$63.4m, resulting in a favourable variance of \$6.4m above budget. There was some discussion between the Authority and the Portfolio of Finance, Treasury Department, regarding new payment methods, in particular on-line payments, which some of the larger licensees have been requesting the Authority to consider. It was determined that some changes would have to be made by both parties and also by the banks in order for this to be effectively implemented. The issue was still under consideration at the end of the year. A surplus of CI\$3,777,946 for the 2006-07 financial year was paid over to the Government. The Authority contracted consultant firm, Advisory Capital, to conduct a review of the guidelines for the investment of the currency reserves and of the investment performance benchmark. The consultants were requested to suggest any recommendations for change. This review is ongoing. The Internal Audit's final report on Operational Review of Currency Division and Accounts Section was accepted at the Authority's January 2008 Board meeting and implementation of the recommendations is ongoing.

39 ACHIEVEMENT of STRATEGIC GOALS The Authority has set a number of strategic goals and objectives in order to fulfil its mission. It reviews these annually, adopts specific strategies and tactics, and translates these into non-routine projects. These, along with the routine responsibilities including the issue and cancellation of licences and authorisations and monitoring of regulated entities' compliance with the regulatory laws and rules, become the Authority's work programme for the year. The work programme is documented in the Authority's Look Forward Report and is published on the website. The following outlines the goals, objectives, strategies, tactics and the main non-routine projects for 2007-08, with an indication of the year-end status of the projects.

GOAL 1: To maintain a high-quality and effective regulatory environment to attract users and providers of financial services.

OBJECTIVE 1: To ensure that the laws and regulations and scope of supervision are in line with international standards that are appropriate for the Cayman Islands.

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

TACTICS Continue the establishment of relevant working parties chaired by a representative from the Management Committee (MC) to evaluate the appropriateness of the Authority's supervisory process and identify possible

shortcomings of own legislation through comparative studies of international standards and the laws, regulations and supervisory processes of other jurisdictions. Liaise with and advise the Cabinet, through the Financial Secretary or his designate, on foreseeable developments/trends in international regulatory standards. Advise the Cabinet, through the Financial Secretary or his designate, of proposals to amend or introduce legislation to address any deficiencies identified. Projects on 2007-08 Non-routine Work Programme Status at 30 June 2008

Develop procedure for reviewing and reporting on enforcement cases Pending Draft rule on operational risk management for banks Issued May 2008 Review bank-licensing policy Near completion (Approved by Board Cabinet approval sought to withdraw the SOG on licensing that will be replaced with the Policy) 40 Complete Basel II impact study and assessment and continue process towards implementation Impact Study completed. Implementation process underway (Consultant on board) Prepare analysis/regulatory impact paper on regulation of banking /financial holding companies Draft paper submitted to Board.. Recommendation to be made to Government Complete consultation on, and issue, statements of guidance (SOGs) on internal audit for restricted trust companies Completed. Issued May 2008 Draft statements of guidance on the establishment or acquisition of branches, subsidiaries, agencies and representative offices; physical presence requirements for corporate services providers, and on the Authority's procedures for assessing adequacy of resources Pending Develop SOGs for the insurance sector, in relation to solvency and capital adequacy for Class A insurers; proper handling of client money; approval of the use of derivatives by licensees Pending Draft regulations on solvency and assets, to prescribe solvency calculations and admissible assets for insurers, along with revised licence application forms Drafts done. To be finalised. Develop SOG setting out the responsibilities of a principal office of a mutual fund Pending Consultation and approval of rules on segregation and protection of client assets and valuation of assets & pricing & redemption of units for licensed mutual funds; and of rule on offering documents of regulated mutual funds Rules Issued April 2008 Draft policy/procedure on circumstances in which CMRAI will exercise its power to waive audits of regulated funds Policy drafted. Subsequently approved by Board July 2008 and issued August 2008 Propose amendments to Monetary Authority Law to allow rules to be issued to all regulated entities Proposal made to Government

OBJECTIVE 2: To assist overseas regulators in a manner consistent with Cayman Islands laws and appropriate international standards. **STRATEGIES** Enhance international regulatory cooperation through the application of a clear and transparent process for providing assistance under the laws of the Cayman Islands. **TACTICS** Continue to negotiate and devise with relevant parties memoranda of understanding (MOU) and other agreements that are congruent with Cayman laws. Continue to review and collate statistics concerning requests for assistance to be used for both overseas and domestic purposes. Enhance already established internal procedures and performance standards for responding to information requests. 41 Projects on 2007-08 Non-routine Work Programme Status at 30 June 2008 Review the cross-border cooperation regime and the position in other jurisdictions Done

OBJECTIVE 3: To be responsive to appropriate needs of stakeholders. **STRATEGIES** Monitor the local and international markets in order to identify, understand and anticipate the needs of stakeholders both locally and internationally. Identify and implement, on an ongoing basis, mechanisms to meet stakeholders' needs appropriately and effectively. **TACTICS** Continue to conduct regular meetings with stakeholders. Monitor developments in local and international markets. Conduct Cost Benefit Analysis in order to identify appropriate action. Advise the Government on actions needed. Develop relevant IT

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

GOAL 2: To operate the Monetary Authority in the most efficient way possible.

OBJECTIVE 1: To secure and retain adequate financial resources in the fulfilment of the Monetary Authority's mandate.

STRATEGIES Identify the physical, technical (including information technology (IT) systems), financial and human resources needed to satisfy the Monetary Authority's mandate. 42 Enhance dialogue with the Cabinet in order to ensure that it is fully aware of the resource needs of the Monetary Authority. Maintain appropriate systems and procedures to ensure the relevant guidance and benchmarking for effectiveness.

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

OBJECTIVE 2: To secure and retain appropriate staff to fulfil the Authority's mandate at the least cost to the Authority.

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

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

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

OBJECTIVE 3: Establish and maintain appropriate physical and technical resources for optimum staff efficiency.

Strategies: Plan for adequate space and facilities for current and future staff. Develop and monitor the implementation of an appropriate Strategic IT Plan.

Tactics: 43 Work closely with the Government in design of new finance complex building. Undertake task force review of IT and implement the COBIT IT governance framework. Strengthen the use of relevant technology to increase staff effi

ciency and the quality of output. Projects on 2007-08 Non-routine Work Programme Status at 30 June 2008 Begin implementation of the COBIT IT governance framework Implementation underway Continue review and upgrade of the Authority's CIISMA information system. Ongoing Continue to provide input on CMRAI's accommodation requirements under the Government Office Accommodation Project Ongoing GOAL 3: To preserve the value and integrity of the Cayman Islands' currency. OBJECTIVE 1: Maintain and safeguard adequate reserves. Strategy: Review of the Monetary Authority's investment strategy on an on-going basis. Tactics: Continue periodic reviews of the Authority's investment strategy. Continue to monitor adherence to the investment strategy by the fund managers and advise the Board on any deviations. Continue to monitor performance of the fund and the fund managers. Projects on 2007-08 Non-routine Work Programme Status at 30 June 2008 Review the level of reserves required to ensure continued statutory compliance. In progress OBJECTIVE 2: Deter counterfeiting. STRATEGIES Educate and train Currency personnel and raise the awareness of the general public. Maintain cooperation with law enforcement and other relevant entities on initiatives to deter counterfeiting. TACTICS Continue to provide and update training of Currency personnel in fraud and counterfeiting detection to ensure they are kept abreast of the latest trends. Continue a cooperative relationship with Financial Crime Unit. Educate the general public via website advisories, press releases and workshops. OBJECTIVE 3: Provide adequate stock and facilities for the physical safeguarding of the currency. 44 STRATEGIES Ensure that the working environment is safe and conducive to an efficient operation. Ensure that stock levels are adequate to meet demand in all circumstances. TACTICS Continue to work with the Government Office Accommodation Project Team to ensure that the specific requirements for the Authority are provided for in the new building. Advise the Cabinet on what constitutes appropriately secure facilities for the safeguarding of the currency. Continue to work towards implementation of an appropriate electronic vault management system. Strengthen print/mint ordering and inventory management strategy. Projects on 2007-08 Non-routine Work Programme Status at 30 June 2008 Implementation of vault management system In progress (in discussion with service provider). Redesign of banknotes In progress GOAL 4: To raise the profile in order to increase understanding of the Monetary Authority both locally and internationally. OBJECTIVE 1: Strengthen relations with regulatory counterparts, and all other stakeholders (the Government, the industry and the public). STRATEGIES Maintain involvement in relevant international forums and coordination with local private sector organisations and Government bodies (e.g. the Secretariat) to address the regulatory aspects of international initiatives. Maintain contact with relevant regulatory counterparts to discuss topics of common interest and to promote the regulatory regime of the Cayman Islands. Identify and utilise opportunities to increase public understanding of the Authority through contact with stakeholder groups, monitoring of views, etc. Establish an on-going communication programme to educate the general public and specific target groups on the roles and responsibilities of the Monetary Authority, and their corresponding responsibilities as financial consumers. TACTICS Continue to expand the number of appropriate forums that add value to the regulatory process; and continue to ensure that relationships are forged with the Cabinet/private sector and that appropriate information is disseminated. Conduct periodic meetings with relevant regulatory counterparts to discuss topics of common interest and to promote the regulatory regime of the Cayman Islands. Work with the Complaints Commissioner in ensuring that the Monetary Authority is cognizant of the opinions of the general public and how the Monetary Authority is perceived. Maintain responsiveness to

requests for information and assistance from members of the public. Continue to utilise the Monetary Authority's website to disseminate information. 45 Continue to publish regular features in local and international media to ensure the Monetary Authority maintains a high and positive profile locally and overseas. Continue to raise the understanding and profile of the Authority through speaking engagements, attendance at functions and through other forums. Continue to expand educational initiatives beyond local high school to other educational establishments both locally and overseas. Participate in careers fairs, information seminars, mentoring schemes. Enhance participation in international forums to inform the debate on the development of appropriate international standards. Continue to expand coordination with the Government, Financial Services Council, Secretariat, Stock Exchange, Cayman Islands Investment Bureau, Maritime Authority, General Registry, Health Insurance Commission, Superintendent of Pensions and Private Sector, on matters of common interest (e.g., legislation, regulation, promotion of Cayman, international representation, resource and intelligence sharing). Enhance international awareness and intelligence gathering through more vigorous and proactive monitoring of international developments. Projects on 2007-08 Non-routine Work Programme

Status at 30 June 2008

Continue upgrade of CMRAI's website

In progress

Continue to expand the publication of enforcement actions

Completed

Issue Volume II of the Regulatory Handbook

Pending

Continue regular meetings with industry associations

Completed

Continue to work to enhance relations with Government through regular meetings

Completed

Continue programme of visits to overseas regulatory bodies

Completed

Enhance data collection through the implementation of CMRAI internal procedures for data processing and recording, and increase data dissemination

Ongoing

Continue implementation of an educational campaign to improve public understanding of CMRAI and its role

Completed

Develop a marketing strategy for the numismatic programme

Pending

Increase awareness of CMRAI through 10th Anniversary celebrations

Completed

OBJECTIVE 2: Forge/enhance relationships with local and international media.

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

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

Status at 30 June 2008

Ongoing

(Footnotes) 1 As promulgated by the Basel Committee on Banking Supervision 2 The working group comprised representatives of various offshore financial centres, the 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. 3 Issued by the International Association of Insurance Supervisors (The Cayman Islands is a charter member of this association. 4

47 ANNUAL FINANCIAL STATEMENTS Cayman Monetary Regulatory Authority International 30 June 2008 48 49 50 51 Cayman Monetary Regulatory Authority International

BALANCE SHEET As at 30 June 2008 (Expressed in Cayman Islands Dollars)

NOTE 30 JUNE 2008 30 JUNE 2007 \$\$ ASSETS Currency Reserve

Assets Call Deposits 3b3,086,014 2,262,278 Fixed Deposits 3b1,495,132 1,444,095 Interest Receivable, Deposits 104,257 289,146 Short-Term Investments 3a82,417,627 54,863,072 Long-Term Investments 3a10,692,227 43,089,402 Stocks 62,021,876 1,763,694 Total Currency Reserve Assets 99,817,133 103,711,687 Operating Assets Current and Call Deposits 3b9,769,830 536,932 Accounts Receivable 4263,371 3,962,132 Interest Receivable 3,033 0 Other Receivables and Prepayments 148,983 82,021 Fixed Assets 5941,942 1,255,918 Retirement Benefit Assets 10422,000 386,000 Total Operating Assets 11,549,159 6,223,003 TOTAL ASSETS 111,366,292 109,934,690 LIABILITIES Demand Liabilities, Currency in Circulation 7a78,897,508 76,205,264 Due to the CI Government 9b1,185,903 6,782,067 Other Liabilities and Payables 7b1,198,528 1,302,842 Total Liabilities 81,281,939 84,290,173 RESERVES and CAPITAL General Reserve 9a11,834,626 11,430,790 Currency Issue Reserve 9c435,107 435,107 Capital Expenditures Reserve 9e5,664,712 2,833,718 Operational Expenditures Reserve 9e1,000,000 0 Total Reserves and Capital 30,084,353 25,644,517 TOTAL LIABILITIES, RESERVES and CAPITAL 111,366,292 109,934,690 Signed on behalf of the Board on 16 January 2009 _____

Joel Walton Cindy Scotland Deputy Chairman Managing Director Cayman Monetary Regulatory Authority International Cayman Monetary Regulatory Authority International 52 Cayman Monetary Regulatory Authority International

INCOME STATEMENT For the year ended 30 June 2008 (Expressed in Cayman Islands Dollars) NOTE 2008 2007 \$\$ INCOME Output Income 1313,918,135 12,451,342 Investment Income 4,510,530 5,555,153 Commission Income 582,636 731,505 Numismatic Income 323,371 94,765 Other Income 3461,442 Total Income 19,335,018 18,834,207

OPERATING EXPENSES Salaries and Other Benefits 7,934,244 7,281,038 General and Administrative 2,170,648 1,872,831 Pension Contributions 10691,903 671,245 Lease Rental 8634,635 530,235 Depreciation 5482,982 335,945 Staff Training and Recruitment 384,562 269,331 Professional Fees 13339,167 615,429 Realised Loss on Investments 303,891 375,757 Conferences and Seminars 254,714 244,561 Directors Fees 13225,000 225,000 Official Travel 175,872 271,787 Management and Custody Fees 3a147,661 142,372 Total Expenses 13,745,279 12,835,531 NET INCOME 5,589,739 5,998,676

53 Cayman Monetary Regulatory Authority International STATEMENT OF CHANGES IN RESERVES AND CAPITAL As at 30 June 2008 (Expressed in Cayman Islands Dollars) 2008 2007 General Reserve Currency Issue Reserve Paid-up Capital Capital Expenditures Reserve Operational Expenditures Reserve General Reserve Currency Issue Reserve Paid-up Capital Capital Expenditures Reserve

Balance at 1 July	\$11,430,790	\$435,107	\$10,944,902	\$2,833,718	\$10,583,760	\$446,593	\$9,725,020	\$2,615,900
Transfers in:								
From Net Income	5,589,739							
From General Reserve		5,998,676						
From Capital Expenditures Reserve	1,000,000							
From Operational Expenditures Reserve		525,000						
Change in Retirement Benefit Assets			848,700					
Transfers out:								
To Paid-up Capital	36,000							
To Capital Expenditures Reserve	(525,000)							
To Operational Expenditures Reserve				(3,000,000)				
							(848,700)	

				Contribution Payable to CI
GOVT (1,185,903)		(3,777,946)	Cost of currency inventory issued	
0	(11,486)	Cost of Fixed Assets Purchased	169,006	(169,006)
630,882	(630,882)	Balance at 30 June	\$11,834,626	\$435,107

\$11,149,908 \$5,664,712 \$1,000,000 \$11,430,790 \$435,107 \$10,944,902 \$2,833,718 54
 Cayman Monetary Regulatory Authority International STATEMENT OF CASH FLOWS For the
 year ended 30 June 2008 (Expressed in Cayman Islands Dollars) 2008/2007 \$\$ Cash flows
 from operating activities Net Income 5,589,739 5,998,676 Adjustments for items not involving
 cash: Add: Depreciation 482,982 335,945 Operating profit before working capital
 changes 6,072,721 6,334,621 Net change in Working Capital: Net change of
 Investments 4,842,620 (11,412,259) Interest Receivable Currency
 Reserves 184,889 (24,949) Interest Receivable Operating Assets (3,033) 0 Accounts
 Receivable 3,698,761 (233,713) Other Receivables and Prepayments (66,961) 8,126
 Other Liabilities and Payables (104,315) (579,946) Stocks (258,182) 18,700 Cash
 Generated from/(used by) Operations 14,366,500 (5,889,420) Increase in Demand
 Liabilities 2,692,244 5,646,860 (Decrease) in Currency Issue Reserve Cost of Currency Notes
 Reprint 0 (11,486) Net cash generated from/(used by) operating
 activities 17,058,744 (254,046) Investing Activities Acquisition of Fixed
 Assets (169,006) (630,882) Proceeds from Fixed Assets Disposal 0 893 Net cash used by
 investing activities (169,066) (629,989) Financing Activities Contribution paid to CI
 Government (6,782,067) 0 Net cash used by financing activities (6,782,067) 0
 Increase/(Decrease) in cash and cash equivalents 10,107,671 (884,035) Movement in cash
 and cash equivalents Balance at July 14,243,305 5,127,340

Increase/(Decrease) 10,107,671 (884,035) Balance at 30 June (Note 3b) 14,350,976 4,243,305

55 Cayman Monetary Regulatory Authority International NOTES TO THE FINANCIAL
 STATEMENTS For the year ended 30 June 2008 (Expressed in Cayman Islands Dollars) 1.
 ORGANIZATION AND OBJECTIVES The Cayman Islands Monetary Authority (the
 Authority) was established under The Monetary Authority Law, 1996 on 1 January
 1997. Under the Monetary Authority Law (2008 Revision) (the Law (2008 revision)),
 the primary objectives of the Authority are (a) to issue and redeem currency notes and coins
 and to manage the Currency Reserve, (b) to regulate and supervise the financial services
 business (c) to provide assistance to overseas regulatory authorities, and (d) to advise the
 Cayman Islands Government on regulatory matters. As at 30 June 2008 the Authority has
 122 employees (30 June 2007: 116). The Authority is located in Elizabethan Square,
 George Town, Grand Cayman, Cayman Islands. 2. SIGNIFICANT ACCOUNTING POLICIES
 The principal accounting policies applied in the preparation of these financial statements
 are set out below. These policies have been consistently applied to all the years presented,
 unless otherwise stated. a) Basis of preparation. The financial statements of the
 Authority are prepared on the accrual basis under historical cost convention and are in
 accordance with International Financial Reporting Standards. The reporting currency is
 Cayman Islands Dollars. b) Investments. Short-term investments are valued, on a monthly
 basis at amortised cost and long term investments are valued at quoted market value.
 Unrealised gains or losses are recorded in the Income Statement. c) Foreign Currency.
 Foreign currency transactions are recorded at the exchange rates prevailing on the date of
 the transactions. Gains and losses resulting from the settlement of such transactions
 and from the translation of monetary assets and liabilities denominated in foreign
 currencies are recognised in the income statement. Assets and liabilities are translated at
 the exchange rate in effect at the Balance Sheet date. d) Revenue recognition. The
 Authority depends on the sale of its Outputs to the Cabinet of the Government of the
 Cayman Islands, as its main source of income to meet its obligations. The Authority's other
 sources of income are generated from its investments, bank balances, and other

currency transactions. The Authority recognises revenue in the period in which they are earned.

e) Fixed Assets. Fixed Assets are stated at historical cost less accumulated depreciation. Depreciation is calculated on the straight-line method of 20% per annum for Furniture & Fixtures, Leasehold Improvements, Motor Vehicle and Office Equipment (with the exception of Bank Note Sorting machine calculated at 15% and DRC Equipment calculated at 33.33%); and 25% to 33.33% per annum for Computer Hardware and Software, which is sufficient to write-off the cost of the assets over their estimated useful lives.

f) Stocks. Stocks consist of gold and silver bullion arising from the melt-down of numismatic coins (the gold and silver bullion content of the following categories of numismatic coins: coins for resale, museum items and coins awaiting melt-down) and unissued currency notes. Bullion stocks are stated at year-end market values for gold and silver bullion and unrealised gain/loss are recorded in the Income Statement. The stock of unissued currency notes is stated at cost. Only the cost of notes issued into circulation is expensed on a first in first out basis. (See also Note 6).

g) Numismatic Coins. The total nominal value of numismatic coins outstanding as at 30 June 2008 is \$14,579,618 (30 June 2007: \$14,614,456). No liability for redeeming numismatic coins is recognised in the financial statements, since the amount of redemption cannot be reasonably estimated and the probability of material redemption is remote. Redemption costs and sales proceeds are recorded in the Income Statement as incurred.

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

i) Employee Benefits Pension Plans. The Authority makes pension contributions for its eligible employees to the Public Service Pensions Fund, which is administered by the Public Service Pensions Board. The Fund has both a defined benefit and a defined contribution element. There are a small number of employees who participate in other private plans, which are all defined contribution schemes. Under defined contribution plans, the Authority pays fixed contributions and has no obligation to pay further contributions if the fund does not have sufficient assets to pay employee benefits relating to employee service in the current and prior periods. The Authority recognises contributions to a defined contribution plan when an employee has rendered services in exchange for those contributions. A defined benefit plan is one that defines an amount of benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation. The asset or liability in respect of defined benefit plans is the difference between the present value of the defined benefit obligation at the Balance Sheet date and the fair value of plan assets, adjusted for unrecognised actuarial gains/losses and past service cost. Where a pension asset arises, the amount recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in future contributions to the plan. The pension costs are assessed using the Projected Unit Credit Method. Under this method the cost of providing pensions is charged in the Income Statement so as to spread the regular cost over the service lives of employees in accordance with advice of the actuary, (who is due to carry out a full valuation of the plans every year). The pension obligation is measured at the present value of the estimated future cash outflows using discount estimated rates based on market yields on high quality corporate bonds at the time of the accounting date which have terms to maturity approximating the terms of the related liability. Obligations for contributions to defined contribution and defined benefits pension plans are recognized as

an expense in the Income Statement as incurred. (See also Note 10). Other Benefits. Other employee benefits include maternity leave, sick leave, vacation days and performance awards. Vacation days accumulate and vest and therefore a liability is accrued each year. The accrued vacation liability as at 30 June 2008 is \$230,019 (2007: \$218,697) and is included in the other liabilities and payables. j) Accounts Receivable. The receivables are stated at original invoice amount less provision for doubtful debts. (See also note 4). 57 k) Accounts Payable. The payables are stated at historical cost. l) Use of Estimates The preparation of financial statements, in conformity with International Financial Reporting Standards, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

3. CURRENCY RESERVE ASSETS Sections 32(8) of the Law (2008 revision) mandates the preservation of Currency Reserve Assets, separately from all other assets of the Authority. These assets are to be used to fund the Authority's currency redemption obligations. (See also Note 7.) They shall not be chargeable with any liability arising from any other business of the Authority. After all demand liabilities are extinguished, any surplus Currency Reserve Assets would form, in part, the assets of the General Reserve. (See also Note 9a.) Under the Law (2008 revision), sections 32(2) and 32(6) respectively, the Currency Reserve Assets are to consist of external assets (not less in value than an amount equivalent to ninety percent of demand liabilities) and local assets (not to exceed ten percent of demand liabilities). As at 30 June 2008, the value of Currency Reserve Assets was \$99,817,133 (30 June 2007: \$103,711,687) representing 126.51% (30 June 2007: 136.10%) of total demand liabilities. The value of external assets equated to 121.85% (30 June 2007: 131.42%) while the value of local assets as at 30 June 2008 equated to 4.67% (30 June 2007: 4.67%) of demand liabilities. (Stocks of un-issued notes and coins have been reclassified as local assets)

Currency Reserve Assets comprise the following:

a) Investments The principal investment objectives of the Authority are security, liquidity and income. The investment portfolio is managed by independent fund managers in accordance with investment guidelines established by the Board of Directors, in accordance with the Law (2008 Revision). Management fees are calculated based on the market value of the portfolio and are payable quarterly in arrears. Either party may terminate the agreement with thirty days notice.

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

2008	2007	Range of maturities
\$2,179,176	\$52,539	6 10 Years
\$8,513,051	\$301,543	Over 10 Years
\$36,935,320	\$10,692,227	\$43,089,402
\$58	\$0	Short-term investments
\$2008	\$2007	U.S. Treasury Note
\$82,947,542	\$0	Maturing from 31/08/08
\$24,152,213	\$6,096,217	US Treasury Bills
\$14,186,730	\$0	Maturing 10/07/08 to 17/07/08
\$11,631,142	\$12,266,855	AAA CP/Note
\$29,500,000	\$36,500,000	Maturing 07/07/08 to 25/07/08
\$29,500,000	\$36,500,000	Federal Reserve at 1.70% maturing 01/07/08
\$82,417,627	\$54,863,072	Total short-term investments, at amortised cost
\$82,414,211	\$54,861,416	Market value of short-term investments

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

20082007 Currency \$ \$ i) Operating Assets CurrentKYD (197,151)(35,515)
SavingsKYD 4,338,414 544,690 Call USD 5,627,867 27,057 CI Cash on HandKYD
700 700 Current and Call Deposits 9,769,830 536,932 ii) Currency Reserve Assets
Domestic Deposits Call GBP 5,642 6,514 Savings KYD 112,483 43,476
CallUSD 1,190,050 1,097,529 Foreign Deposits- Federal Reserve Bank USD 122,790
145,445 Investment PortfolioUSD 1,655,049 969,314 Total Call Deposits - Currency
Reserve 3,086,014 2,262,278 Domestic - Fixed DepositsUSD 1,495,132 1,444,095 Total
Operating Cash and Currency Reserve Assets 14,350,976 4,243,305 Interest earned on
domestic call accounts at rates ranging from 0.5% to 2.0% during the year ended 30 June
2008 (1.75% to 2.0% during the year ended 30 June 2007). The domestic fixed deposits
earned interest at rates ranging from 2.18% to 4.69% during the year ended 30 June
2008 (4.70% to 4.84% during the year ended 30 June 2007). The Federal Reserve call
account balance is non-interest bearing; however, the excess balances are invested daily in
a repurchase agreement. Interest is calculated on the average daily balance of the foreign
investment call account. During the year ended 30 June 2008 interest earned was \$129,243
(\$38,520 during the year ended 30 June 2007). 4. ACCOUNTS RECEIVABLE 20082007 \$\$
Outputs257,3833,929,722 Other Receivables 53,81284,734 Provision for Doubtful
Debt(47,824)(52,324) Total Accounts Receivable, net \$263,371\$3,962,132

5. FIXED ASSETS Furniture & Fixtures Leasehold Improvement Computer
Equipment Office Equipment Motor Vehicle Total Original Cost \$ \$ \$ \$ \$ Balance as at
01/07/07 660,900694,3411,653,575515,20824,6003,548,624 Additions
7,1450122,09017,17122,600169,006 Disposals 00 (73,714)00 (73,714) Balance as at
30/06/08 668,045694,3411,701,951532,37947,2003,643,916 Accumulated Depreciation
Balance as at 01/07/07 483,339481,809984,066318,89224,6002,292,706 Charge for the
year 48,83354,435316,56062,1261,028482,982 Relieved on disposals 00 (73,714)00
(73,714) Balance as at 30/06/08 532,172536,2441,226,912381,01825,6282,701,974 Net
Book Value as at 30/06/08 \$135,873\$158,097\$475,039\$151,361\$21,572\$941,942 Net Book
Value as at 30/06/07 \$177,561\$212,532\$669,509\$196,316\$0\$1,255,918 60 6. STOCKS

20082007 \$\$ External Bullion from the melt-down of coins504,473 355,173 Coins awaiting
melt-down428,322285,923 Coins for resale166,013117,012 Museum items53,07837,317
1,151,886795,425 Local Inventory of unissued currency notes and coins869,990968,269
Total stocks \$2,021,876\$1,763,694 7. LIABILITIES a) Demand Liabilities. Demand

Liabilities represents the value of notes and coins in circulation. These liabilities are fully
funded by the Currency Reserve Assets. TOTAL DEMAND LIABILITIES
COMPRISE:20082007 \$\$ i) Currency notes in circulation70,197,27067,899,365 ii) Currency
coins in circulation8,700,2388,305,899 Total Demand Liabilities \$78,897,508\$76,205,264 a)

Other liabilities. As at 30 June 2008, other liabilities included unsettled investment
management and custody fees of \$131,111 (30 June 2007: \$155,259). 8. LEASE

OBLIGATION a) The Authority leases the premises used for its operations at Montpelier
Properties. 1. There are seven lease agreements totaling 17,543 square feet, effective
January 1, 2007 for an 18 month period, with a 1 year option to renew effective 1 July 2008
at costs ranging from \$28 to \$31 per sq. ft. per annum. 2. Effective December 2007 the
Authority leased an additional 1,592 sq. ft., with an option to renew effective 1 July 2008 at a
cost of \$31 per sq. ft. per annum. 3. The Authority also leased 4,460 sq. ft under a lease
agreement in February 2008 with an option to renew on 1 July 2008 at \$31 per sq. ft. All
leases carry a service charge cost of \$2 per sq. ft. per annum. Electricity is charged for
21,735 sq ft of the Lease agreements at a cost of \$0.80 per month, and 260 sq. ft is charged

at \$3.20 per month. b) As a part of its Business Continuity Plan the Authority has two lease agreements. 1. An agreement with the Disaster Recovery Centre (Cayman Islands) Limited effective 1 July 2008 for a period of three years at a monthly cost of US\$17,000. 2. An agreement with the Brac Informatics Centre for the period 23 February 2006 to 31 March 2009, at a cost of US\$14,105.00 per month. Commencing in April 2009 the monthly cost will be US\$13,308.45 for a five year period. c) The Authority also has a Lease Agreement with the Picadilly Car Park for a storage unit for a three year period from 1 April 2007 to 31 March 2010. Rental payments under operating leases are charged to the income statement in equal installments over the period of the leases.

LOCATION ONE YEAR OR LESSTWO TO FIVE YEARS \$\$ Elizabethan Square, George Town, Grand Cayman 971,6170 DRC, George Town, Grand Cayman 171,360342,720 Brac Informatics Centre, Stake Bay, Cayman Brac 139,051532,317 Picadilly Car Park, George Town, Grand Cayman 24,00018,000 1,306,028893,037

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

the key projects of E-Reporting, Basel II, Document Management and a Currency Vault at the new Government Administration Building. This Reserve will also be used to acquire other assets to provide for the increase in the staff count and replacement and/or upgrade of existing assets. The Operational Expenditures Reserve will fund the operating cost associated with the Basel II and E-Reporting projects.

10. PENSIONS Pension contributions are paid for all eligible employees on their pensionable emoluments. The majority of the employees are participants in the Public Service Pensions Plan, with a small number participating in other private plans, which are all defined contribution schemes. Public Service Pensions Plan Pension contributions for eligible employees of the Authority are paid to the Public Service Pensions Fund (the Fund). The Fund is administered by the Public Service Pensions Board (the Pensions Board) and is operated as a multi-employer plan. Prior to 1 January 2000 the scheme underlying the Fund was a defined benefit scheme. With effect from 1 January 2000 the Fund had both a defined benefit and a defined contribution element, with participants joining after 1 January 2000 becoming members of the defined contribution scheme only. Using the projected Unit Credit method of measuring costs and obligations, the actuarial assessment for the Authority assessed the minimum normal annual contribution to be 13% in 2007/8 (13% in 2006/7). This rate included a 1% for the cost of all of the benefits that are provided over and above those related to the participant's total account balance. The Authority pays this 1% for all employees. In addition, for those employees in the defined benefit plan, the Authority pays both the employer and employee contributions. The Plans are funded at rates of: - 2008/2007

Plan Type	Employee Contribution	Employer Contribution
Defined Contribution Plans	6%	6%
Defined Benefit Plans	6%	7%

The Actuary to the Pensions Board has valued the Fund. The defined contribution part of the Fund is not subject to the special actuarial valuations due to the nature of the benefits provided therein. There has been no further actuarial valuation (of the defined benefit plan) received since 30 June 2007. The total amount recognised as a pension expense for the year ended 30 June 2008 was \$691,903 (2006-7: \$671,245). The actual amount of pension expense relating to the defined benefits for staff should also include the effect of the changes in the actuarial determined liability. The impact on the expense for the year ended 30 June 2007 has been reflected in the Paid-Up Capital as at 30 June 2008 as there is no Retained Earnings, in the amount of \$36,000 (2006: \$10,000 and 2005: \$54,000 were reflected in the year ended 30 June 2007). Management is unable to determine the impact on the recorded expense for the year ended 30 June 2008, as the Actuary has not provided this information. Pension expense is the expense under IAS 19, inclusive of Company Service Cost, amortisations and net Interest. Company Service represents the pension cost to the Authority associated with the financial year benefit accruals and is net of participant contributions.

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

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

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

PENSION EXPENSE FOR FISCAL YEAR ENDING 30 JUNE 2007

	30 JUNE 2007	30 JUNE 2006
Company Service Cost	182,000	239,000
Interest Cost	173,000	150,000
Expected Return on Assets (net)	(240,000)	(193,000)
Recognition of Net Loss	0	20,000
Total Pension Expense		

115,000 216,000 RECONCILIATION OF DEFINED BENEFIT ASSET/(LIABILITY) 30 JUNE 2007 30 JUNE 2006 \$\$ Previous Year Defined Benefit Asset 386,000 376,000 Net Pension Expense for Fiscal Year (115,000) (216,000) Employer Contributions 151,000 226,000 Defined Benefit Asset 422,000 386,000 CHANGE IN DEFINED BENEFIT OBLIGATION OVER YEAR ENDING: 30 JUNE 2007 30 JUNE 2006 \$\$ Defined Benefit Obligation at end of Prior year 2,768,000 2,896,000 Company Service Cost 182,000 239,000 Interest Cost 173,000 150,000 Plan Participant Contributions 174,000 164,000 Net Actuarial Gain (177,000) (681,000) Transfers between other participating Entities (310,000) 0 Defined Benefit Obligation at End of Year 2,810,000 2,768,000 64 CHANGE IN PLAN ASSETS OVER YEAR ENDING 30 JUNE 2007 30 JUNE 2006 \$\$ Fair Value of Plan Assets as at End of Prior Year 3,224,000 2,624,000 Employer Contributions 151,000 226,000 Plan Participant Contributions 174,000 164,000 Transfers Between Other Participating Entities (310,000) 0 Expected Return on Assets (net) 240,000 193,000 Asset Gain 166,000 17,000 Other (81,000) 0 Fair Value of Plan Assets as at End of Year 3,564,000 3,224,000 CHANGE IN UNRECOGNISED NET ACTUARIAL LOSS/ (GAIN) 30 JUNE 2007 30 JUNE 2006 \$\$ Unrecognised Net Actuarial Loss/(Gain) (70,000) 648,000 Amortisation Cost for Year 0 (20,000) Liability Gain (177,000) (681,000) Asset Gain (85,000) (17,000) Unrecognised Net Actuarial Loss/(Gain) (332,000) (70,000) Allocation of Assets The Distribution of the Plan Assets, as at 30 June 2007 and 2006, based on the share of the total Fund allocated to the Authority was as follows: - 30 JUNE 2007 30 JUNE 2006 %% Global Equities 59 59 US Equities-- Bonds 34 37 Cash/Other 7 4 Total 100 100 Actuarial Assumptions The principal Actuarial Assumptions used to Determine Benefit Obligations at June 30, 2007 and 2006 are as follows: 30 JUNE 2007 30 JUNE 2006 %% Assumptions 1. Discount Rate 6.25 6.25 2. Rate of salary increase 4.00 4.00 3. Rate of Price Inflation 2.50 2.50 4. Rate of pension increases 2.50 2.50 65 The Economic Assumptions used to Determine Net Periodic Benefit Cost for the Year ending June 30, 2007 and 2006 are as follows: 30 JUNE 2007 30 JUNE 2006 %% Assumptions 1. Discount Rate 6.25 6.25 2. Expected long-term Return on Plan Assets 7.00 7.00 3. Expected long-term Return on reimbursement rights 0.00 0.00 4. Salary increase 4.00 4.00 5. Rate of Inflation 2.50 2.50 6. Pension Increases 2.50 2.50 Other Assumptions 1. Mortality Standard U.S. mortality rates 2. Retirement Age completion of age 57 and 10 years of service Asset Valuation Fair (Market) Value 11. COMMITMENTS As at 30 June 2008, there were no significant commitments, other than those listed elsewhere in the financial statements. 12. FINANCIAL INSTRUMENTS a) Credit risk. Financial assets that potentially subject the Authority to credit risk consist principally of current, call and fixed deposits, long and short-term investments, accounts and interest receivable, and other receivables and prepayments. The Authority's current, call, and fixed deposits are placed with high credit quality institutions. Credit risk with respect to long and short-term investments, accounts and interest receivable, and other receivables and prepayments is limited because the Authority only transacts business with counterparts it believes to be reputable and capable of performing their contractual obligations. Accordingly, the Authority has no significant concentrations of credit risk. b) Interest rate risk. The ranges of interest rates and maturity dates are presented in Note 3. c) Fair values. The carrying amount of current, call, and fixed deposits, accounts and interest receivable, other receivables, prepayments, demand liabilities, other liabilities and payables approximated their fair value due to the short-term maturities of these assets and liabilities. The market value of investments is presented in Note 3. The fair values of other assets and liabilities are not materially different from the carrying amounts. Readily

available markets, enables the determination of market values. 66 13. RELATED PARTY TRANSACTIONS (a) Key Management Personnel consists of the Board of Directors of the Authority which is appointed by the Governor in Cabinet, and consisted of the Managing Director (MD) and nine directors as of 30 June 2008. The fees of \$225,000 relates to payments made to the nine directors only. For the purposes of IAS 24 disclosure the MD is included in the number and cost of the Senior Management Team. The total number of personnel of the Senior Management Team was 13 in 2007-8 (2006-7: 13) and salaries & other short term benefits expensed in 2007-8 was \$1,467,609 (2006-7: \$1,481,345). (b) The following Government departments/entities provided services to the Authority during the year ended 30 June 2008: i) Audit Office at a cost of \$41,000 (2006-7: \$38,000); ii) Internal Audit Office; iii) Cayman Islands Investment Bureau; iv) Computer Services Department; v) Legal Department; vi) Public Service Pension Board (see Note 10); vii) Public Works Department; viii) Department of Environmental Health. The Authority acts as the Government's custodian of the Cayman Islands currency as well as collector of the annual license fees (these fees do not form a part of the Authority's revenue) and issuer of licenses relating to the financial services business. These services form a part of the outputs purchased by Government. The Authority's main source of revenue is from the sale of its Outputs to the Cabinet of the Cayman Islands Government, which is used to cover the Authority's recurrent expenditure. Commencing in the year ended 30 June 2007 the Authority's capital expenditure was funded from the Capital Expenditures Reserve, which was created from an allocation of the surplus for the year ended 30 June 2006; previously capital expenditure was funded by means of a Government grant. At the end each financial year the Authority contributes to the Government the net operating surplus after fulfilling Reserve requirements.