



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.

The Cayman Monetary Regulatory Authority International Annual Report 2002

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MISSION STATEMENT THE Cayman Monetary Regulatory Authority International The Cayman Monetary Regulatory Authority International (the Monetary Authority) is a statutory agency created by the Cayman Islands Government to preserve the value and integrity of the Cayman Islands currency and to maintain a sound and competitive financial services sector that is regulated efficiently and in accordance with international standards, in which the public, both local and international, can have confidence.

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DIRECTORS AND SENIOR OFFICIALS As at December 31st, 2002

BOARD OF DIRECTORS Hon. George McCarthy O.B.E. (Chairman) Michael Austin M.B.E. Dr. Richard Rahn Timothy Ridley O.B.E. Linburgh Martin Cindy Scotland

SENIOR OFFICIALS Cindy Scotland Managing Director; General Manager; Head Currency Operations Stanley Legiersky Financial Controller Neil Glasson Head of Information Systems Shan Whittaker Deputy Head Currency Operations Anna McLean Head of Banking Reina Ramos Deputy Head of Banking Gordon Rowell Head of Insurance Mary Lou Gallegos Deputy Head of Insurance Morag Nicol Deputy Head of Insurance Mitchell Scott Head of Investments Dwight Carter Deputy Head of Investments Patrick Bodden Head of Fiduciary Services Kenneth Krys Head of Compliance Robert J. Berry Deputy Head of Compliance Langston Sibblies Legal Adviser Simone March-Tomkins Legal Counsel Wendy Straker Legal Counsel Lisa Bowyer Deputy Head of Policy and Research

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CHAIRMAN S STATEMENT Internationally the equities markets tumbled to the lowest levels seen for years and the US prime interest rate reached its lowest level since 1959. Despite the signs of a soft and volatile financial market, the Cayman Islands showed amazing resilience. Overall the number of licensees licensed or registered with the Cayman Islands Monetary Authority increased by 13%, predominantly in the mutual funds and insurance sectors. The prognosis for 2003/2004 is continued positive growth, similar to the levels seen this past year. During the past year, we also saw our neighbours to the north, the United States, take steps to implement the key provisions of its USA PATRIOT Act, which was enacted near the end of 2001. Given the steps taken in 2000 and 2001 to meet international anti-money laundering standards, the

Cayman Islands were well placed to meet these new requirements. The Financial Action Task Force (FATF) continued to take an active role in setting the standard for fighting money laundering and terrorist financing in the international arena. In May 2002 the FATF issued a consultation paper on the review of the FATF Forty Recommendations. In addition, in its review of the rules and practices of countries and territories, it removed eight jurisdictions from the Non Cooperative Countries and Territories (NCCT) list and imposed countermeasures against a further two. Also during the year the FATF, in recognising the efforts of the Cayman Islands, delegated any future monitoring of the jurisdiction's anti-money laundering practices within the context of the Caribbean Financial Action Task Force's (CFATF) relevant monitoring mechanisms. In February the Cayman Islands underwent a second round review of its anti-money laundering framework conducted by the CFATF. The resulting report concluded that the commitment and resolve of the Cayman Islands Government to preserve the reputation of the jurisdiction and safeguard the financial services sector was unmistakable, and also noted that the institutional framework appeared robust and extensive and that the level of private sector collaboration and awareness on money laundering issues was high. These are commendable and demonstrate the commitment of the Cayman Islands to a regulatory regime that meets international standards. Internationally, the Monetary Authority maintained its presence on the global stage through its attendance and participation at leading international events and working parties. During 2002 the Monetary Authority was represented at the Offshore Group of Banking Supervisors (OGBS), the Working Group on Cross Border Banking, the Offshore Group of Insurance Supervisors (OGIS), the Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 4 Hon. George McCarthy Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 5 recently formed Working Group on Trust and Company Services Providers, the CFATF and the Overseas Territories Regulators. Participation in such groups is instrumental in ensuring that not only do the Cayman Islands keep abreast of the current offshore developments, but that they continue to play an active role in international regulatory developments. A primary focus of the Monetary Authority during 2002 was the preparation for independence. The independence legislation will place operational decision-making into the hands of the Board of Directors of the Monetary Authority, which will now have responsibility for issues such as licensing. It is anticipated that these changes will help increase the efficiency of the licensing process and increase the responsiveness of the Monetary Authority to the needs of the financial services industry. In addition to the legislation for the independence of the Monetary Authority, other planned regulatory actions for 2003 pertaining to the financial sector include the introduction of the Securities Investment Business Law, and updates to various financial services laws. As part of the independence from government, I will be stepping down as Chairman of the Board and I would like to take this opportunity to thank the Board of Directors and all of the staff at the Monetary Authority for their commitment and hard work over the past years. My successor, Mr. Michael Austin, has a wealth of financial services experience and has been a member of the Board since the Monetary Authority's inception in January 1997. He is amply qualified to assume the Chairmanship and I wish him the best of luck. In addition, I would like to extend a warm welcome to our new board members, Mr. Linburgh Martin, Dr. Richard Rahn, and Mr. Timothy Ridley, and give sincere thanks to outgoing board members Mrs. Jennifer Dilbert, who also served as interim Managing Director from January to June; Mr. Arthur Hunter; Mr. Peter Tomkins; and long serving director Mr. Richard Chalmers

who served on the Board since the inception of the Monetary Authority in 1997. I would also like to congratulate Mrs. Cindy Scotland, General Manager and Head of Currency Operations on her appointment to the position of Managing Director and wish the Monetary Authority a smooth journey as it enters the era of independence.

MANAGING DIRECTOR'S STATEMENT It has been yet another busy year for the Monetary Authority most notably in terms of the preparation for independence, and the introduction of the Securities Investment Business Law (SIBL) along with other legislative changes. Licensing activity has varied across sectors, but overall the financial services industry has remained buoyant. Similar to other offshore jurisdictions the Cayman Islands has experienced a downturn in the number of licences in the banking sector. This is symptomatic of the wave of mergers and consolidations that we are witnessing globally in the financial services industry. In other areas of licensing there has been both a growth in the numbers of licences and the volume of business activity, for example, the formation of captive insurance companies reached an all time high with 97 new licences being issued in 2002; a similar pattern is evident in mutual funds. The continued buoyancy of the financial services industry in aggregate is testament to the continuing reputation of the Cayman Islands as a jurisdiction that finely balances adherence to international regulatory standards with the need to preserve commercial viability for industry players. The focus of 2002 was undoubtedly the independence of the Monetary Authority. This move follows the general trend of financial service regulators globally. Independence is not a new concept and its importance has long been recognised by international regulatory bodies and incorporated into their respective principles of supervision. The International Organisation of Securities Commissions (IOSCO), the Basel Committee on Banking Supervision, and the International Association of Insurance Supervisors (IAIS) regard independence of the regulator as an essential prerequisite for proper supervision. The Monetary Authority has been working tirelessly with private sector industry associations and the Government in ensuring that the independence legislation is ready for enactment in early 2003. The introduction of two orders under SIBL has widened the regulatory mandate of the Monetary Authority to include securities investment business. This responsibility will rest with the Investments Division. The Board of Directors will be undertaking a complete review of the Monetary Authority in 2003 through a number of designated standing committees that may result in some organisational restructuring.

Cayman Monetary Regulatory Authority

INTERNATIONAL ANNUAL REPORT 2002 PAGE 6 Cindy Scotland The regulatory framework of the Monetary Authority is firmly based upon international regulatory principles and standards, namely the Basel Core Principles for Banking, the International Organisation of Securities Commissions (IOSCO), the International Association of Insurance Supervisors (IAIS), and the FATF 40 Recommendations. With regards to the private sector the Monetary Authority is committed to consultation and collaboration, and encourages financial services providers to play their part in the continuing growth of the financial services industry and adopt appropriate risk management techniques when conducting business. In carrying out its duties the Monetary Authority recognises the need to balance regulatory concerns with commercial interests and is keen to maintain the culture of co-operation that it has developed with industry. In addition to consultation on the independence legislation, the private sector industry associations were extensively consulted on a raft of new policies and guidelines designed to make the regulation of the financial services industry more transparent and user friendly. A number of other policies and guidelines are slated for consultation in 2003. During 2002, the staffing levels at the

Monetary Authority remained fairly consistent, only one net addition was made. However, the composition of staff did change. Mr. John Bourbon resigned as Managing Director in January and was replaced for an interim period of six months by Mrs. Jennifer Dilbert. Movement of senior personnel also occurred in the Compliance Division, the Policy and Research Division, the Banking Division, Insurance Division, and Operations. Mr. Kenneth Kryz was appointed as Head of Compliance and Mr. Stanley Legiersky as Financial Controller. Outstanding decisions pertaining to the positions of Head of Policy and Research, the Superintendent of Health Insurance and a Deputy Head of Banking were carried forward into 2003. The Monetary Authority is experiencing a process of internal change, which will continue into 2003. I would like to acknowledge the support and co-operation of all the Heads of Divisions and their respective staff throughout the year and look forward to leading the Monetary Authority into the challenges that lie ahead.

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SECTOR OVERVIEW BANKING The year in review has seen the Cayman Islands maintaining its status as a leading financial centre, playing host to over 40 of the world's top 50 banks, and having representation by major international banks from over 56 different countries around the world. As a leading international banking centre the Cayman Islands, like all other jurisdictions, has been susceptible to world events. The fall of interest rates and reduced consumer confidence have impacted on banks' net interest margins and profitability in general, and has led to some banks increasing their focus on fee generating business. On the other hand, some banks have returned to their core business, and this has resulted in a rationalization of banks' operations. While the last two years have been challenging for financial markets worldwide, a milestone occurred in the Cayman Islands during the fourth quarter of 2002 with total international assets reportedly exceeding US\$1,000 billion. From a regulatory standpoint, there continues to be a drive for prudential norms to be internationally consistent. At the same time there has been increased emphasis on market discipline and strong corporate governance throughout the financial industry; such pressures have been even more prevalent in the banking sector with a strong call for transparency, accountability and rigorous internal controls. Institutions' risk management models are being tested with great emphasis being placed on the compliance function.

Industry Trends There were 12 new banking licences granted during the year. Amongst those institutions making the Cayman Islands their choice jurisdiction were Abbey National, Wells Fargo and BNP Paribas Private Bank. Mergers and acquisitions continue to play their part in restructuring the financial architecture in a highly competitive and increasingly global marketplace. As institutions merge and reorganise their operations to achieve greater synergies, their international networks are also rationalised. Approximately 15 licensees surrendered their licences during 2002 as a direct result of mergers and acquisitions.

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The economic and financial crisis in Argentina also impacted on the banking sector. During the year the Banking Division monitored closely the economic crisis in Argentina and the implications of the crisis on those financial institutions with Argentine exposure. This was facilitated through the submission of additional interim BS Forms and Schedules, complemented by information relating to the arrangements the banks had in place to deal with their liquidity needs in the short-term, and where possible, meetings with the principals of licensees. Of the 12 Argentine banks operating in the Cayman Islands, four banks have gone into either compulsory or voluntary liquidation. The major change in the retail-banking sector was the joint venture between Canadian

Imperial Bank of Commerce and Barclays Bank Plc., which saw the amalgamation of the Caribbean retail business of both banks throughout 15 jurisdictions in the Caribbean, under the name of FirstCaribbean International Bank. As the Cayman Islands entity is one of the largest subsidiaries in the new joint venture, the Banking Division participated in numerous meetings with other Caribbean regulators to facilitate an effective merger within the region. Other local developments included the launch of on-line banking services by two of the retail banks in the latter part of the year. Three of the six retail banks on the Island now offer on-line banking services. Under the Banks and Trust Companies Law, (2001 Revision), banking licences are issued in two categories. Category A banks provide services to domestic and international markets. Category B banks usually provide services to international markets and facilitate inter-bank transactions. At the end of 2002, there were 30 Category A banks and 358 Category B banks; 92 of all licensees had a physical presence on the Islands. The total international assets and liabilities booked through banks in the Cayman Islands at the end of December 2002 were reported as US\$1,036.4 billion (2001: US\$847.7 billion) and US\$1,020.4 billion (2001: US\$827.2 billion), respectively. Of the international assets and liabilities booked through the Cayman Islands 70% originate from the United States. The second most significant reporting area is Europe accounting for 12% of assets and 8% of total liabilities.

Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 9 Total International Assets and Liabilities (1992-2002) 1250 Assets Liabilities USD (billions) Year 1000 1993 1992 1995 1994 1996 2000 1999 1998 1997 2001 2002 750 500 250 0 Category A Banking & Trust Category B Banking & Trust Category B Banking & Trust (Restricted) Total Banking & Trust Companies 31 386 10 427 2001 30 353 5 388 2002 NUMBER LICENCE CATEGORY Banking and Trust Licence by Category

The graphs on the left illustrate the international flows by region. The attraction of the Cayman Islands throughout North and South America, as well as Western Europe is due to a number of factors. These factors include the well-established professional infrastructure, the range of sophisticated financial products, the strategic location, and the well-developed professional community along with the English legal system and political stability of the Islands. Typical services offered include: international banking, advisory brokerage, investment management, trusts, custodial services and corporate services. In addition to banks and trust companies, there were seven non-banking financial institutions licensed in the Cayman Islands these comprised of The National Building Society, four money transmitters, and two currency exchanges. The two credit unions in operation do not require a licence under the Co-operative Societies Law (2001 Revision), but still fall under the Monetary Authority's supervisory remit along with the Cayman Islands Development Bank. To date, inspections on each of the four money transmitters and the Building Society, have been completed. Inspections of both credit unions are scheduled for the first and second quarters of 2003. Legislative Changes Commencing January 2002, privately owned banking institutions that were not subsidiaries or branches of other banks and hence not included in the consolidated supervision of a banking group, were required to have a physical presence in Cayman. As a result, a number of institutions that did not formerly have a physical presence in Cayman either (i) restructured their shareholdings to become a subsidiary of a bank, (ii) established a physical presence in Cayman, or (iii) opted to surrender their banking licence. Approximately ten banking institutions opted to surrender their banking licence. Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 10 International Assets by

Region, 2002 Africa & Middle East Europe International Bodies Latin America & Caribbean Rest of World Asia & Pacific United States 0% 16% 4% 8% 0% 2% 70% International Liabilities by Region, 2002 Africa & Middle East Europe International Bodies Latin America & Caribbean Rest of World Asia & Pacific United States 0% 12% 3% 9% 1% 6% 69% Other

legislative changes of significance to banking licensees was the extension of the deadline for the retrofitting of client identification to June 30th, 2003 by virtue of the Money Laundering (Client Identification) (Extension of Period) Order 2002. The majority of licensees have indicated that they should be in a position to meet the extended deadline of June 30th, 2003.

The Inspection Programme Continuing its on-site focus, during the year the Banking Division conducted a total of 68 on-site examinations. This total included 19 overseas focused visits, to banks operating out of New York, and three focused inspections conducted pursuant to the Memorandum of Understanding with the Central Bank of Brazil. Institutions with newly established offices on the Cayman Islands were a key focus of the 2002 programme, as well as money service providers.

Staffing At the end of 2002, the staffing complement stood at nineteen.

Looking Forward It is anticipated that the sector will experience continued consolidation as a result of the competitive nature of the banking environment. Strategic thinking, a renewed focus on the customer, and the never ending search for innovative products, coupled with the increased focus on risk management and corporate accountability, will most likely be the driving forces in redefining the banking landscape for players in the local market.

INSURANCE The insurance sector is strong and thriving in the Cayman Islands. In particular the Insurance Division has been successful in both ensuring solvency and in providing an environment where potential and existing captives can thrive with the minimal amount of bureaucracy. The Cayman Islands retained its number two world ranking for captives. Cayman's appeal as a captive domicile has two main ingredients. Firstly, the service infrastructure is very well developed over a broad range of financial services. Secondly, the regulatory style continues to recognize the business purposes of licensed operations. The Islands have an extensive network of insurance professionals, major accounting firms and law firms with unparalleled experience to assist in this process. Every licensed captive is required under the Insurance Law (2001 Revision) to have a licensed insurance manager resident on the Islands and must appoint an auditor at the time of their application. The categories of licence issued by the Monetary Authority are Class A Insurance Companies, Class B Insurance Companies, Insurance Managers, Agents, and Brokers. A Class A licence permits a local or external insurer to carry on business generally in or from within the Islands. These provide insurance to the domestic market. Class B licences permits exempted insurers to carry on insurance business other than domestic business from within the Islands.

Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 11 The table on the left provides a breakdown of insurance licensees at the end of 2002. Consistent with reporting in previous years, the total of 600 Class B Insurance Companies included Segregated Portfolio Companies (60) licensed but did not include the number of segregated portfolios contained within them (311).

Industry Trends 2002 was both an interesting and challenging year for the local insurance industry as it continued to be influenced by a number of external factors. From a global perspective, the international insurance industry continued to be in a hard market cycle, partially caused by weak investment returns, and partially by the continuing impact of the terrorist attacks of September 11th, 2001. Several international insurers and re-insurers did not survive these events, exacerbating further the reduction in insurance and re-insurance capacity

available to underwrite risks globally. One consequence of this is the sharp increase in the price of insurance products. During 2002, one health insurance company exited from the local market. Two other companies ceased writing health insurance coverage, transferring their portfolios to another approved health insurance provider. The exit from the health insurance market by these three companies was due in part to continued underwriting losses, and the inability of these carriers to gain sufficient market share to change their underwriting results in the short to medium term. While losses for the year were not as severe as in 2001, the market did suffer yet another year of losses. The health insurance industry will need to continue their efforts to improve the situation by amending terms and conditions, while improving efficiency. While no new companies entered the life insurance market during the year, three companies ceased accepting new business and began running off their existing portfolios. One of these commenced the process of reactivation and another was in the process of merging. Premiums for property and motor coverage increased in 2002, not only in the Cayman Islands but worldwide, dictated by the need for both insurers and re-insurers internationally to return to profitability. Domestic insurers are dependant on these global insurers and re-insurers to provide the support necessary to underwrite risks locally. The terms they require for this support determines the price insurers will charge locally. How long these conditions will prevail is unknown, but looking ahead to 2003 property rates appear to be stabilizing.

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Class A (Domestic) Insurance Companies Class B (Captive) Insurance Companies
Insurance Brokers Insurance Managers Insurance Agents 30 542 27 23 70 DEC 2001 29
600 27 22 69 DEC 2002 NUMBER LICENCE CATEGORY Insurance Licensees at the end of
2002 In the auto industry, international reinsurers have indicated that they will toughen
their stance on unlimited liability and that coverage will be not offered on this basis
in the next few years. It is expected that this is likely to result in legislative changes during
2003/2004. Regarding the local insurance industry, with the encouragement of the
Monetary Authority, the associations representing property and casualty insurers, health
insurers, brokers and agents came together to form the Cayman Islands Insurance
Association. This association was formed as a comprehensive trade association in
order to represent the interests of the various sectors of the insurance industry.
Overall the growth in new companies resulted in another excellent year for Cayman
captives with 120 applications received and 97 new licences issued. With respect to
Class B licensees there was a higher than normal number of cancellations for licences
compared to 2001. This was due mainly to a number of specific-purpose captives
fulfilling their purpose, the shrinking number of fronting carriers, and lack of capacity in
the reinsurance market. The chart on the right illustrates the dramatic growth in Cayman
captives in recent years. The main category of captives continued to be Pure Captives,
accounting for approximately 59% of all captive insurance licences. Cayman's Captive
Insurance Companies reported year-end premium writings in excess of \$4.1 billion (2001:
US\$2.9 billion) and total assets in excess of \$17.7 billion (2001: US\$14.9 billion). In
terms of the geographical origin of Cayman captives, companies predominantly emanated
from the USA, which represented 86% of all captives, this is followed by the Caribbean
and Latin America (5%), and then by Europe (3%). Traditionally, the Islands are known as a
world centre for healthcare captives. Fifty percent of Cayman captives licensed in
2002 were healthcare related, but the trends of recent years would suggest that all
types of captive insurers now consider Cayman the domicile of Cayman Monetary

Regulatory Authority International ANNUAL REPORT 2002 PAGE 13 Captive Insurance Companies Licensing History 700 Licence Cancelled Licence Issued Total Licences Number of Captives Year 600 500 400 1994 1995 1996 1997 1998 1999 2000 2001 2002 300 200 100 0

Captive Insurance Companies by Category Alternative Financial Vehicle Association Group Captive Open Market Insurer Pure Captive Rent-A-Captive Segregated Portfolio Company 4% 13% 7% 6% 10% 1% 59% choice. For example, the formation of captives for workers compensation, general liability and property also continued at a brisk pace, particularly in the manufacturing and construction industries, accounting for eight out of ten of all other applications. One of the main reasons for this significant growth was the medical malpractice crisis in the United States that generated a number of captive formations for physician groups and healthcare institutions, together with nursing homes and providers of Long Term Care. The formation of group captives was however hampered by the shortage of fronting carriers, but this did help to fuel considerable growth in existing group captives. The Islands also experienced a continued expansion into Special Purpose Companies (SPC) with increasing interest in securitised risks and catastrophe bonds. In 2002 the number of SPCs grew by over 45% to 60 but more importantly, the increase in the number of active cells was nearly 100% representing an additional 146 cells.

Legislative Changes The Insurance (Amendment) Law, 2001 passed by the Legislative Assembly on January 10th, 2002 was gazetted on April 8th, 2002. The amendments included a new range of enforcement powers, namely a provision enabling the Monetary Authority to issue cease and desist orders, where, in the opinion of the Monetary Authority, the licensee is committing/pursuing or about to commit or pursue an act that is unsafe or unsound practice in conducting its business. Other changes included the exclusion of credit life and term life business from the definition of long-term business; the power of the Monetary Authority to appoint any person, for example: an actuary at the expense of the licensee, to examine the affairs of any Class A licensee carrying on insurance business; licensee's auditors must be approved by the Monetary Authority; shares totalling more than 5% of the issued share capital of a licensee were prohibited from being issued or transferred without the approval of the Monetary Authority; and licensees were permitted to surrender insurance licences by voluntary cancellation.

The Inspection Programme The on-site inspection programme commenced in September 2001 for Class B Insurance Companies and Insurance Managers licensed in the Cayman Islands. The first round of inspections were designed to focus on the policies and procedures of licensees in relation to anti-money laundering. During 2002 three Insurance Managers received a full inspection, this included a representative sample of the captives managed.

Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 14 On-site inspections for Class A Insurance Companies commenced in 1998. Since the programme of inspections commenced 22 Class A inspections have taken place. During 2002 a total of six companies were inspected. Staffing At the end of 2002, the Insurance Division staffing complement stood at nine.

INVESTMENT SERVICES Globally 2002 was another year of high growth. In particular, the offshore hedge fund industry experienced a rise in total single asset manager fund assets from \$340 billion in June 2001 to \$418 billion in June 2002, representing a rise of 23%. 1 The continued upward trend in hedge funds was assisted by the continued volatility of the equity and bond markets and the search by investors for investment products that are non-correlated to these traditional markets. Indeed the performance of hedge funds over the past three years compared to the S&P has been impressive with a double-digit annual compound rate compared to a slight decline in the equity index. 2 Industry

Trends The Cayman Islands have shared in this growth and have clearly emerged as one of the leading domiciles for offshore hedge funds. Based upon figures from the 2002 edition of The U.S. Offshore Funds Directory, Cayman holds 51% of the overall world market for offshore hedge funds, making it the largest hedge fund offshore jurisdiction. As of December 31st, 2002 there were 4,285 mutual funds registered in the Cayman Islands compared to 3,648 as at December 31st, 2001. This represents a growth rate of over 17%. The introduction of the Local Audit Sign-off Policy in March required all Cayman regulated funds to have their financial statements signed off by a local auditor. This has not had a negative effect on the sector. Cayman's prominence in the world arena for hedge funds originates from a combination of factors: market access; the availability of professional services; the flexibility afforded by the range of structures used to operate mutual funds; positive investor perception; local infrastructure; geographic location and time zone; and the legal and regulatory environment. The comprehensive infrastructure of the Cayman Islands provides investors with all the Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 15 1 Hedge Fund News 2 ibid necessary components for the commencement and continuation of quality operations. The Mutual Funds Law, first enacted in 1993, became the model for other offshore jurisdictions and provided the right regulatory environment for hedge funds to grow. Since the enactment of the Law, the Cayman Islands have been viewed as a jurisdiction of choice for the domicile of institutional/private placement mutual funds for sophisticated investors. Legislative Changes The Securities Investment Business Law 2001 (SIBL or the Law) was gazetted on March 19th, 2002 and provided a licensing regime for persons engaging in securities investment business as defined in SIBL, subject to limited exceptions and exclusions. When the Law ultimately comes into force, the Investments Services Division will be responsible for the licensing, supervision and regulation of entities covered by SIBL and for the investigation of persons where it believes that they are, or have been, undertaking securities investment business without a licence to do so. Typical activities covered by SIBL include: dealing in securities, arranging deals, investments management and investment advice. Under this legislation, market manipulation and insider dealing will be classified as criminal behaviour. Effective August 14th and 15th, 2002, two orders namely, The Securities Investment Business Law, 2001 (Commencement) Order 2002, and The Securities Investment Business (Amendment) Order 2002, issued under SIBL, were approved by Executive Council. The Securities Investment Business Law, 2001 (Commencement) Order 2002 provided for the registration of persons specified in Schedule 4 of SIBL to come into effect. This permitted entities that carry on securities investment business exclusively for a sophisticated person, as defined in SIBL, to register under SIBL's excluded person/registrant. Of most direct significance for the Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 16 Active Mutual Funds by Type 4,000 Registered Administered Licensed Number of Funds Year 3,500 3,000 2,500 199719981999200020012002 2,000 1,500 1,000 500 0 Active Administrators by Type 150 Restricted Full Exempted Number of Administrators Year 199719981999200020012002 100 50 0 Investments Division in 2002 was the impact of the order on existing licensees that held a Restricted Mutual Funds Administrators RMFA licence (such administrators can provide services for up to ten related funds) in that some licences were surrendered and declarations completed under SIBL. The second order, The Securities Investment Business (Amendment) Order, 2002, amended Schedule 1 of paragraph 1 expanding the definition of shares and stocks, and Schedule 4 paragraph 6(g) with regard to trustees. Consultation drafts of the

Regulations, to be issued under SIBL, namely The Securities Investment Business (Conduct of Business) Regulations, and The Securities Investment Business (Financial Requirements and Standards) Regulations were issued by the Portfolio of Finance and Economics to the various industry associations. Following consultation, the Portfolio of Finance and Economics worked on amended drafts and the Securities Investment Business (Financial Requirements and Standards) Regulations and the Securities Investment Business (Application and Fees) Regulations were sent to Legislative drafting in November. The Conduct of Business Regulations and the draft Statements of Guidance to accompany the SIBL will be sent to industry early in 2003. The Companies (Amendment) (Segregated Portfolio Companies) Law, 2001, gazetted on March 19th, 2002, which amended section 233 of The Companies Law, resulted in 22 mutual funds being granted permission by the Monetary Authority to apply to the Registrar of Companies to be registered as an exempted segregated portfolio company. Inspection Programme The inspection team conducted 20 full scope inspections and seven focused inspections on licensed mutual fund administrators. The primary emphasis of the focused visits was on due diligence policies, procedures and Know Your Customer (KYC). Staffing The Investments Services Division staff complement was 17 as at the end of the year.

FIDUCIARY SERVICES Indications from fiduciary service providers continue to demonstrate growth in the wake of recent legislative changes. The Fiduciary Division is responsible for the supervision and regulation of Company Managers, Corporate Service Providers and Trusts Companies without a banking licence. The latter includes restricted trust licences and nominee trust licences. Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 17

Industry Trends There are two categories of licence for Company Managers, namely a Corporate Services Licence and a Companies Management Licence. The number of Companies Management Licence holders at the end of 2002 was 81 representing a rise of 23% compared to 2001. Many of those previously holding exemptions in accordance with the Companies Management (Exemption) Regulations (1998 Revision) made application to the Governor in Council for the grant of a Companies Management Licence. The aforementioned exemption was disallowed under the Companies Management Law (2001 Revision) (CML) and the majority of companies previously exempted from the licensing requirement of the Companies Management Law (1998 Revision) became licensed under the Law. The chart on the left illustrates the increase in the number of company managers licensed to do business in the Cayman Islands. At the end of 2002, there were 125 trust services providers licensed in the Cayman Islands and 117 nominee trusts. A total of ten new trust services providers licences were issued and three licences were cancelled. Working Group on Trust and Company Services Providers Of significance to the Division in 2002 in terms of developments in regulation and supervision was the participation of the Head of Division at the Working Group on Trust and Company Services Providers. The group established by the Offshore Group of Banking Supervisors (OGBS) in June 2001, comprised of members of OGBS and relevant non-OGBS members drawn from G7 countries and international organizations 3 with the key objective of establishing international standards for the regulation of trust and company service providers. Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 18

Active Company Managers by Type

Year	Corporate Service Providers	Company Managers (Full)	Trust (Full)	Trust (Restricted)	Nominee Trust	Total
1997	60	40	20	0	0	120
1998	63	115	233	0	0	411
1999	58	67	117	242	0	484
2000	60	40	20	0	0	120
2001	60	40	20	0	0	120
2002	60	40	20	0	0	120

NUMBER LICENCE TYPE Type of Trust Service

Providers Licence 3 The group comprised of OGBS members from the Bahamas, Bermuda, Cayman, Cyprus, Gibraltar, Guernsey, the Isle of Man, Jersey; G7 Financial Stability Forum Members from France, Italy, Netherlands, United Kingdom; representatives from the FATF, IMF, OECD, and the British Virgin Islands. In September a statement of best practice was issued by the OGBS and posted to the Monetary Authority's website. The best practice statement was written in the absence of an international standard against which jurisdictions can be assessed for those trust and company service providers. The statement of best practice has been recognised by the Monetary Authority and also by members of the Fiduciary Services industry. Compliance with the best practice standards should not pose significant difficulty to high quality licensees regulated by the Monetary Authority as the standards merely document practices that should have already been adopted by experienced and professional Fiduciary Services practitioners.

Inspection Programme During 2002 the Fiduciary Division maintained its focus on the on-site inspection programme and thus 18 on-site inspections were conducted. Staffing At the end of 2002 the Fiduciary Division had seven staff.

Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 19 NON-SUPERVISORY DIVISIONS COMPLIANCE DIVISION

During 2002, the Compliance Division continued to focus its activities on fulfilling its two primary responsibilities: (i) investigating serious breaches of the regulations and directing and administering enforcement actions; and (ii) researching and conducting due diligence on persons who have applied to act as directors, shareholders, managers, officers and controllers of licensed entities. The Division's mandate also includes assisting on non-routine overseas regulatory requests. The Monetary Authority has a range of regulatory tools available to help it meet its regulatory objectives. The Compliance Division is responsible for investigating serious breaches of the regulations, collecting pertinent information and documentation, and recommending disciplinary actions. In those circumstances where the Monetary Authority does take disciplinary action in respect of the contravention of the regulations, the effective use of the enforcement powers under the regulatory laws, where necessary, will play an important role in supporting the Monetary Authority's pursuit of its regulatory objectives. The Monetary Authority will seek to ensure the fair treatment of those who are subject to the exercise of its enforcement powers. The Monetary Authority has issued Guidelines on Fitness and Propriety containing the criteria the Monetary Authority will use to indicate whether persons are fit and proper to act as directors, shareholders, managers, officers and controllers of licensed entities. In making this determination, the Division is tasked with researching and conducting due diligence on applicants as referred to them by the Regulatory Divisions. The Division has a cross-functional role and works closely with the Supervisory Divisions as well as the Managing Director, Policy and Research Division, and the Legal Division. The Head of the Division is the Money Laundering Reporting Officer (MLRO) for the Monetary Authority under the Proceeds of Criminal Conduct Law (2001 Revision) (the PCCL). Any suspicion of money laundering identified in the course of the Monetary Authority's supervisory activities by Monetary Authority staff are reported to the Monetary Authority's MLRO. The MLRO is responsible for reporting to the PCCL Reporting Authority in conformance with the Money Laundering Regulations.

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Near the end of the year, the Monetary Authority became aware of a number of fraudulent websites posted on the Internet for financial institutions with Cayman addresses that were not registered or licensed in the Cayman Islands. In order to mitigate the potential risks

and adverse effects that these websites could have on the general public and the reputation of the Cayman Islands financial industry, the Division adopted a standard procedure for dealing with these websites, which included the publication on the Monetary Authority's website of a notice identifying the subject websites. During 2002, the Division comprised of six staff.

LEGAL DIVISION The Legal Division provides in-house legal services to the Monetary Authority. The duties of the Division include: the provision of legal advice to the Board of Directors, the Managing Director, and to the supervisory and other supporting divisions, the provision of litigation services, the preparation of drafting instructions for legislative enactments or amendments to relevant laws and regulations, the drafting of directives or requirements under the Monetary Authority Law (2002 Revision) and the co-ordination of assistance to overseas regulatory authorities. In general, the Legal Division seeks to ensure that the Monetary Authority's procedures permit it at all times to act within the spirit and letter of the laws governing the work of the Monetary Authority and to keep these laws under review to ensure that they remain effective. During 2002 a priority task for the Legal Division was the preparation for operational independence. The Division worked extensively with the Board of Directors and the Management Committee in developing the framework for the operational independence of the Monetary Authority. The Division also liaised closely with the Finance and Development Portfolio of the Cayman Islands Government and consulted with the Private Sector Consultative Committee to ensure that the Monetary Authority's viewpoint on the relevant issues involved in operational independence was heard. The Division was involved in the development and review of various Bills to give effect to the operational independence of the Monetary Authority that were enacted by the Legislative Assembly in 2002. The Legal Advisor, along with the Managing Director and the Financial Controller, reviewed the Cayman Islands Registered Stock Bill and provided comments to the Government. The Cayman Islands Registered Stock Law, 2002 was enacted in the December session of the Legislative Assembly. An on-going activity for the Division in 2002 was advising on and co-ordinating responses to requests for assistance from overseas regulatory authorities. In this regard the Division worked closely with the Supervisory Divisions and the Compliance Division to ensure that requests were handled in a timely and efficient manner and that they conformed with the requirements of the Monetary Authority Law (2002 Revision).

Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 21 In conjunction with the Policy and Research Division, the Legal Division developed criteria to determine whether to enter into a memorandum of understanding with an overseas regulatory authority. Other joint projects with the Policy and Research Division included the development of criteria for the Monetary Authority to recommend the addition of countries to the list in Schedule 3 of the Money Laundering Regulations 2000. During the year one additional Legal Counsel was recruited which increased the Division's complement of professional and administrative staff to five.

POLICY AND RESEARCH DIVISION The Policy and Research Division operates in a cross-functional capacity and works closely with both the supervisory and non-supervisory divisions. During the year the Division's primary focus was the Policy Project that had commenced in the latter part of 2001 as part of the development of a formal regulatory framework for the supervisory divisions. The policy development was guided by the respective international principles (Basel, IAIS, and IOSCO) as well as research into the policy frameworks in other jurisdictions. Following internal reviews, consultation drafts were issued on a regular basis to industry. In all cases the various industry associations were consulted. The Monetary

Authority continues to put draft policies and guidelines on its website for consultation. By the end of 2002, in addition to the five policies/guidelines approved during 2002, a further 21 policies/ guidelines had been produced and posted on the Monetary Authority's website for consultation. The five approved policies/guidelines were: Minimum Standards for Reference Letters Policy; Local Auditor Sign Off on Mutual Funds Policy and accompanying guidelines; Guidelines on Fitness and Propriety; the Auditor Approval Policy; and the Prudential Reports and Statistical Returns Policy. In addition, the Division co-ordinated the revision of the procedural manuals for all of the supervisory divisions to ensure they reflected current policies and procedures. In keeping with previous years and in demonstration of the Monetary Authority's compliance with the requirements of the Money Laundering Regulations (MLR), the Division delivered a series of internal training sessions on the roles and responsibilities of Monetary Authority staff in relation to the Guidance Notes on the Prevention and Detection of Money Laundering in the Cayman Islands; the application of the MLR for on-site and off-site inspections; and in collaboration with the Compliance Division delivered a workshop on suspicious activity reporting. Other in-house training delivered included report writing techniques and a conflict resolution workshop. In addition, Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 22 the Division participated in the Cayman Islands Bankers Association Anti-Money Laundering Training and delivered a number of workshops on their behalf as well as providing anti-money laundering training for Money Services Providers and for the Government Credit Union. At the end of 2002 the staff complement was five.

Approved Regulatory Policies and Guidelines The following policies and guidelines were approved and posted on the Monetary Authority's website in 2002.

Reference Letters Policy The regulatory laws impose a fitness and propriety requirement on licensees and their respective accompanying regulations require that licensees submit financial and character references to the Monetary Authority. The Reference Letters Policy lays down the minimum standards for the provision of references to the Monetary Authority.

Local Auditor Sign Off on Mutual Funds Effective July 1st, 2002, local auditor sign off was required on all mutual funds and mutual fund administrators regulated by the Monetary Authority except for branches of international companies licensed in the Cayman Islands and foreign domiciled funds that are administered in the Cayman Islands but not otherwise registered as foreign companies doing business in the Islands.

Guidelines to Local Auditor Sign-off Policy The guidelines detail the transitional provisions for mutual funds and mutual fund administrators that do not have a local auditor. A list of all approved auditors with a physical presence in Cayman was issued including a provisionally approved section providing details of approved auditors who do not yet have a physical presence, but whom have committed to establishing a physical presence by June 30th, 2003, and an extension granted section for any auditor who has been granted an extension past the deadline.

Auditor Approval Policy This policy sets out the requirements of auditors to become approved auditors as determined by the Monetary Authority. The Monetary Authority applies criteria in order to assess the acceptability of an auditor to audit a regulated institution. This includes sufficient expertise and resources, continuing professional development, quality assurance reviews, independence, and professional indemnity insurance. Lack of compliance with this policy may lead to removal of the auditor from the list of approved auditors.

Fitness and Propriety Guidelines These Guidelines set out the criteria the Monetary Authority will use to determine whether persons are fit and proper to act as directors, managers and officers of licensed entities. The

guidelines provide transparency on the criteria for assessment detailed in the regulatory laws, namely: honesty, integrity and reputation; competence and capability; and financial soundness. Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 23 Prudential Reports and Statistical Returns Policy The Monetary Authority is empowered by the various statutory laws to obtain information from licensees in order to carry out its regulatory functions and meet its international obligations. The policy requires licensees to submit prudential reports and statistical returns in accordance with the accompanying guidance notes and by the dates stipulated. The policy provides for the Monetary Authority to request other relevant information where it believes it is material to the financial situation or the assessment of the risks of the institution. OPERATIONS DIVISION The Operations Division is charged with the responsibilities for human resources, information systems, procedures, internal policies and the financial operations of the Monetary Authority. The post of Financial Controller was re-established and Mr. Stanley Legiersky was appointed. Within Information Systems a designated Systems Support Manager was appointed in order to provide additional support and training to Monetary Authority users. Developments in Information Technology and Computer Systems During the start of 2002 the in-house software development team focused on the implications of the changes to the underlying mechanisms used to calculate the annual licence fees. This process provided the Information Systems Division with the opportunity to improve the clarity of the fees due reports. Progress was made on the alignment of the Monetary Authority's Information Systems Security process with ISO17799 best practices. The introduction of a new change management software application allowed the division to centralise all requests, and enable them to be logged and resolved in a timely fashion. The Monetary Authority's website continued to be developed with the inclusion of a site-wide search engine and an institutional search feature. These changes enable visitors to find specific information located on the site more easily. The Monetary Authority made a large investment in a leading business intelligence product to give analytical staff the ability to explore and interact with the vast arrays of data more freely, create their own ad hoc reports without requiring constant help from the Information Systems Division. The range of electronically filed forms increased with the recent addition of the Money Services Business Form, Version 2 of the Domestic Banking Analysis Form and a new application/declaration Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 24 form Security Investments Annual Declaration Form for Excluded Persons, bringing the total number of electronic forms now handled by the Monetary Authority's systems to eight. The Division was instrumental in managing the implementation of the technical platform to enable this to take place. The increasing staff complement of the Monetary Authority has seen a greater need for support matters to be handled expediently, to compliment the in-house team of IS professionals the new post of Support Manager was formed, the new recruit brought a wealth of experience in many diverse areas of technology. Staff Recruitment, Promotions and other Developments The Monetary Authority is committed to ensuring that it attracts and retains quality professional staff. During 2002 the Monetary Authority recruited 14 new employees and accepted 13 resignations increasing the staffing total by one. Six persons were promoted during the year and two persons promoted to an acting capacity. Plans to recruit additional staff have been delayed due to budgetary constraints. Restructuring plans are due to commence in 2003 following independence. The Monetary Authority has maintained its presence on the local and international financial playing field through staff participation and attendance at local and international conferences

and training events. Monetary Authority staff, in partnership with the Cayman Islands Government and representatives from industry associations, has an important role in preserving the reputation of the Cayman Islands as a centre of excellence in the provision of financial services. The Managing Director along with Heads of Division, Deputies, Chief and Senior Analysts, have endeavoured to ensure that financial service providers are kept abreast of all developments impacting the industry, and have been active in both attending and presenting at conferences and seminars. Participation and Attendance at Conferences and Seminars On the local front the Monetary Authority gave three presentations to the Cayman Islands Compliance Association (CICA) including a seminar to CICA on, Regulatory Inspections and Audit; amendments to the Guidance Notes on the Prevention and Detection of Money Laundering in the Cayman Islands made in June 2002 and their implications; and a presentation on the impact that independence would likely have on the Monetary Authority and licensees, along with topical issues pertaining to the Anti-Money Laundering Guidance Notes. Other contributions to local conferences included at a seminar hosted by the Cayman Islands Bankers Association on the USA PATRIOT Act in June, and at The New Regulatory Climate Conference in November. The presentations included an outline of divisional responsibilities and the core supervisory tools used at the Monetary Authority, and an update on the current position of the Monetary Authority in respect of independence and the scope and implementation of the new Securities Investment Business Law. Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 25 The Managing Director and Human Resources Manager both attended the Cayman Islands Society of Human Resource Professionals inaugural conference in February. Human Resources Manager, Ms Deborah Musson, along with other members of her team, is a member of the local association, which provides a forum for the discussion of a variety of human resource issues lead by both private and public sector human resource experts. The Monetary Authority continued its presence at international conferences and seminars demonstrating its commitment to keeping abreast of international initiatives that may impact on the jurisdiction. Participation internationally included attendance at the Caribbean Financial Action Task Force Plenary held in Tobago in April and subsequent meeting in the Bahamas in October; attendance at the Regulators Forum in Miami, and at the US Securities and Exchange Commission in Washington. The Monetary Authority was represented at the Financial Services Authority at the International Regulators Seminar, in London, UK; The Financial Crimes Seminar at the Federal Financial Institutions Examination Council in Washington, D.C.; the Annual STEP Caribbean Conference in Miami, Florida; the IBC USA's 14th Annual Offshore Trust & Tax Planning Summit in Coral Gables, Florida; the Institute for Securities Market Development Programme in Washington D.C., and the Collective Investments Schemes Supervisors Meeting in the Bahamas. The Head of Fiduciary Services was involved in the Working Group on Trust and Company Services Providers established by OGBS to establish international standards for the regulation of trust and company service providers. The Head of Currency and the Financial Controller along with division members attended various currency and finance meetings during the year in order to keep abreast of latest initiatives and developments in their respective fields of expertise. Representatives from the Monetary Authority were actively involved in a number of meetings of the Basel Committee Cross Border Banking Working Group during the year and the Association of Supervisors of Banks of the Americas V Annual Assembly in Argentina. The Head of Banking was part of the Cayman Islands delegation comprised of Mr. Sam Bulgin, Solicitor General; and

Ms. Letitia Solomon, Assistant to the Financial Secretary; that attended the review and approval process at the CFATF Second Round Mutual Evaluation meetings in Nassau, Bahamas. Banking staff attended a number of conferences/seminars for which the recurrent theme was the New Basel Capital Accord. Representatives from the Banking Division attended the 12th International Conference of Banking Supervisors, South Africa; a workshop jointly organised by the Financial Stability Institute and Caribbean Banking Supervisors on Consolidated Supervision and the New Capital Accord; and a workshop on the Basel II Capital Accord conducted by the Deputy Secretary General of the Bank for International Settlements on the proposed new Basel II Capital Accord and the issues surrounding its implementation. The Insurance Division helped maintain its prominent position as a leading jurisdiction of choice for captive formations through its attendance and participation at a number of international events. In particular, International Business Conferences organised a conference in the Cayman Islands in Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 26 December at which 280 persons were in attendance. This provided an excellent opportunity for service providers in the Insurance industry to show case the Cayman Islands. The Insurance Division manned the Cayman Islands Financial Services booth. The Monetary Authority was represented at the Captive Insurance Companies Association's annual conference in Tucson, Arizona; the International Captives Congress, held in Miami; the Innovative Captive Services (ICS) 3rd Annual Captive Owners Conference, in Iowa; and the OGIS 9th Working Meeting in the Turks & Caicos Islands. Mrs. Gallegos, Deputy Head of Insurance, has been the Secretary to the Group for the past five years. Other notable conferences at which the Monetary Authority was represented included the National Association of Insurance Commissioners Forum and the 22nd American Society for Healthcare Risk Management (ASHRM) Annual Conference & Exhibition in Seattle, Washington. As the second largest captive insurance jurisdiction in the world attendance at ASHRM by the Monetary Authority is beneficial in many ways, including enhanced professional development, interaction with other insurance regulators and an opportunity to highlight the Cayman Islands as a premier captive domicile. The Information Systems Division along with the Policy and Research Division were invited by the International Monetary Fund to address the workshop for National Compilers held in Jersey. Presentations were made demonstrating the web-based solution developed in-house to facilitate data gathering in the Coordinated Portfolio Investment Survey (CPIS), and on public relations and valuation issues surrounding the CPIS. Professional Development and Training Opportunities Staff continued their professional development through a number of in-house and external training courses. The Monetary Authority sponsors a number of employees in their professional development as well as providing study leave for all employees engaged in professional development. During 2002 14 persons were sponsored in pursuing a variety of courses/programmes including Masters degree programmes; Insurance Associates; NASD certification; Associate degrees, and various professional certifications. Congratulations went to Ms. Dresden Lightbourne and Ms. Talia Connor who completed their Associate degrees; to Mrs. Leticia Frederick who passed the STEP Foundation Diploma and is now entitled to become a member of the Society of Trust and Estate Practitioners and use the designation TEP ; Ms. Monique Jackson who passed the Associate in Risk Management from the Insurance Institute of America and earned the designation ARM ; and Ms. Bethea Christian who graduated from the Cayman Islands Law School, LLB (Honours). Banking Analysts and Senior Analysts continued their programme of professional

development through successful completion of banking supervision courses run by the Federal Bank and the US Office of the Comptroller of the Currency. Three Analysts from the Banking Supervision Division and one Officer from the Policy and Research Division attended the Bank Analysis and Examination two-week training session; five Banking Analysts attended an intermediate training course on Credit Risk Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 27 Analysis; one Analyst attended the Junior Banking Examiners Training course; and one attended the Anti-Money Laundering School. Other training included attendance at the Federal Reserve's Bank Management course and attendance at the Risk Management and Internal Controls training seminar. All courses were highly interactive with participants being involved in presentations and discussions, culminating with a final examination, which all Monetary Authority participants successfully passed. Other courses attended by the Banking Division included participation at the Banking and Finance Training Programme, held in Malta, on Banking and Finance in Small States: Issues and Policies. As part of the management development programme, staff attended the Leadership Training at the Toronto International Leadership Centre for Financial Sector Supervision in Canada. Training opportunities for personnel in the Investments Division comprised of The Office of Compliance Inspections and Examinations Phase III IA/IC Examination Training Programme run by the Securities Exchange Commission and the International Institute's Securities Enforcement and Market Oversight training course hosted by the Securities and Exchange Commission. Within the Information Systems Division, staff continued to keep abreast of the latest developments in software and other technological developments. The Systems Project Manager attended, Administering a SQL (Structured Query Language) Server 2000 Database, this facilitates the collation of statistical and non-statistical information for ease of extraction by the Monetary Authority staff. In order to implement a Monetary Authority-wide user-friendly approach to data extraction, the Systems Project Analyst/Programmer attended a Business Objects Training programme at Business Objects Americas in Atlanta with a view to creating a technology infrastructure that can be utilised by Monetary Authority Analysts to interrogate the information store directly and to create their own dynamic reports. This will ultimately reduce the time spent by IS staff on data retrieval and contribute to a more efficient use of Monetary Authority resources. In addition, the Systems Support Manager attended a computer security course on Fire Wall Management attaining full certification. Board of Directors Mrs. Cindy Scotland was appointed Managing Director by the Governor in Council (Executive Council) in June 2002. Mrs. Scotland replaced Mrs. Jennifer Dilbert, the Cayman Islands Government representative in the UK, who was appointed interim Managing Director in January following the resignation of Mr. John Bourbon. Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 28 Mrs. Scotland is a familiar figure within the regulatory environment of the Cayman Islands. Her career commenced at the Currency Board in 1991 where she served as Currency Board Manager from 1993-1996. Mrs. Scotland was Head of Currency Operations upon the establishment of the Monetary Authority in January 1997, and was subsequently promoted to General Manager in July 1997. As General Manager her responsibilities included Currency Operations, Finance, Information Systems and Human Resources. In her role as General Manager, Mrs. Scotland has acted for the Managing Director on various occasions and has been actively involved in the regulatory work of the Monetary Authority. The Board composition has also changed. Effective July 2002, three new board members, namely Mr. Linburgh Martin, Dr. Richard W. Rahn, and Mr.

Timothy Ridley, O.B.E., were appointed. Mr. Linburgh Martin is the Managing Director of Close Brothers (Cayman) Ltd; a member of the Institute of Chartered Accountants in England and Wales; a member of the Society of Trust and Estate Practitioners; a council member of the Cayman Islands Society of Professional Accountants; and a trustee of the Public Services Pension Board. For the year of 2002 he was appointed a member of the National Advisory Council, which provides advice to the Governor in Council on fiscal, economic, socio-cultural and legal matters. Dr. Richard W. Rahn is an economist and syndicated columnist. He is Chairman of Novecon Financial Ltd. and the Prosperity Institute; a senior fellow of the Discovery Institute; and an adjunct scholar at the Cato Institute. During his career, Dr. Rahn has advised senior government officials on tax and monetary matters; taught at graduate level at a number of US universities; written hundreds of articles for renown newspapers and journals; and appeared as an economic commentator on programmes such as the Today Show, Wall Street Week and Crossfire. In addition, Dr. Rahn has served on numerous boards including the Advisory Board of the Private Sector Council, the American Council for Capital Formation, and the Institute for Political Economy. Mr. Timothy Ridley, O.B.E., is a former senior partner of Maples and Calder. He is a member of the International Bar Association, the International Union of Advocates and the Society of Trust and Estate Practitioners. He is a member of the board of editorial advisors of Trusts and Trustee, and The Journal of International Trust and Corporate Planning. Mr. Ridley has served on various consultative committees advising the Cayman Islands Government on financial matters and is currently a member of the Fiscal Advisory Group, The National Advisory Council, and the Private Sector Consultative Committee. He was awarded the OBE in 1996 for services to the financial industry and the local community, and currently also serves on the Board of The Health Services Authority. The Monetary Authority would like to extend its sincere thanks to outgoing board members Mrs. Jennifer Dilbert, who also served as interim Managing Director for the period January June 2002; Mr. Arthur Hunter, Mr. Peter Tomkins and in particular to Mr. Richard Chalmers, who had served as a Board member since the inception of the Monetary Authority in 1997 and previously on the Currency Board since 1993. Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 29

CURRENCY ACTIVITIES The Monetary Authority continues to be the sole issuing authority of the Cayman Islands currency. The Monetary Authority, through its department Currency Operations, is responsible for the issue, re-issue, and withdrawal of the Cayman Islands currency notes and coins against the US dollar in its dealings with the six local retail banks (any issue of Cayman Islands currency is preceded by a deposit of US\$ equivalent into the Currency Reserve Assets account). These banks are British American Bank, First Caribbean International Bank (formerly CIBC Bank & Trust Company (Cayman) Ltd. and Barclays Bank plc), Bank of Butterfield International (Cayman) Ltd., Cayman National Bank, Scotiabank, and the Royal Bank of Canada. The department is also responsible for administering the sale and redemption of numismatic coins to and from local and overseas collectors. During 2002 the Monetary Authority re-minted the twenty-five, ten, five and one cent circulation coins to replenish stocks. The first in a two-part series of numismatic coins were also issued to commemorate Her Majesty's Golden Jubilee. Depicted on these gold and silver coins is St. Edward's Crown. At December 31st, 2002 currency in circulation (excluding numismatic coins) stood at \$51,638,886 million comprised of \$45,573,259 in notes and \$6,065,627 million in coins. This represented a \$284,500 increase from \$51,354,386 million in 2001. Total notes withdrawn from

circulation and destroyed in 2002 was \$14,293,880. The breakdown of currency by denomination is illustrated below. The currency in circulation is backed by the Currency Reserve Assets invested primarily in US Government agency-issued discount notes and mortgage-backed securities with outside Fund Managers. The investment guidelines used by the Fund Managers are security, liquidity, and income. As at December 31st, 2002, total Currency Reserve Assets stood at \$67,235,416 representing 130% of currency in circulation (see Note 3 in the Notes to the Financial Statements for more detail).

Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 30 Currency in Circulation by Denomination

Denomination	Percentage
\$100 note	11%
\$50 note	38%
\$25 note	7%
\$10 note	5%
\$5 note	8%
\$1 note	13%
Total Coins	18%

FINANCIAL REPORTING AND DATA COLLECTION Data Collection Update In May, the Monetary Authority launched the new Data Collection Update. The aim of the Data Collection Update is to assist licensees who submit statistical returns to the Monetary Authority through the facilitation of greater awareness of common problems encountered in completing the Monetary Authority's reporting schedules and how to overcome them. The Data Collection Update also provides an update on any new developments on a regular basis. The inaugural issue featured updates on the changes to the Locational Banking Survey, the Domestic Banking Survey, and provided information on the Co-ordinated Portfolio Investment Survey. Licensees in particular, were encouraged to regularly review this document in order to ensure they were up-to-date with the requirements and instructions of the Monetary Authority's reporting schedules.

ELECTRONIC FILING Money Services Businesses In 2002 electronic filing was expanded to include the collection of data from Money Service Businesses. Under the Money Services Business Law 2000, Money Services Business includes money transmission, cheque cashing, currency exchange, and the issue and redemption of travellers cheque. Money Services Businesses are required to complete and return the form to the Monetary Authority on a quarterly basis based on the calendar year. The Money Services Business Survey is designed to capture data on money transfer businesses to and from the Cayman Islands for regulatory and statistical purposes.

Company Managers Reporting Schedule The Company Managers Reporting Schedule launched in 2001 produced an 88% response rate. The report provides the Fiduciary Services Division with prudential and non-prudential information useful for off-site monitoring and the identification of industry trends. The Division has used the information in its risk-based approach to on-site supervision. As a result of feedback from the pilot reporting schedule, the Division will be issuing supplementary guidance notes to aid licensees in the completion of the form.

Class B Annual INForm The Monetary Authority requires every licensed Class B Insurer to submit a completed INForm along with its annual financial statements, which are due within six months of the insurance entity's financial year-end. This return assists the Insurance Division in the analysis of company financials.

Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 31 LOCATIONAL BANKING STATISTICS The Locational Banking Statistics average response rate over the course of 2002 was 95%; this represented an increase of 7% over 2001. The level of response was encouraging, demonstrating that reporting institutions were increasingly aware of the importance of statistics. Due to the high level of offshore banking activity in the Cayman Islands, the pattern of financial flows through the reporting banks can give a clear indication of international financial developments.

BANK SUPERVISORY REPORTING FORM (BS FORM) The Bank Supervisory Form provides a breakdown of assets, liabilities and shareholders equity, a statement of income and expense

as well as related party transactions, the concentration of lending and deposits, fiduciary activities, and security investments. The information is used by the Banking Division to compute various ratios and to conduct a general assessment of the financial condition of licensees. DOMESTIC BANKING SURVEY In June, version 2 of the Domestic Banking Activities Form was issued to Category A banks. The new changes included monthly report of volume of deposits, interest rates on loans, and interest rates on deposits. In addition, details of loans and advances were further divided into four new categories: Banks - branches and head offices; Trusts; Securities Dealers, and other financial intermediaries. Weighted average rate calculations were also introduced to acquire information on both loans and deposit portfolios and the former ESO form I (Quarterly Statement of Assets and Liabilities) was incorporated. THE COORDINATED PORTFOLIO INVESTMENT SURVEY (CPIS) The aim of the CPIS is to collect information on investment holdings by banks and mutual funds domiciled in the Cayman Islands in equity, short-term debt and long term debt securities issued by unrelated residents. Participation in the CPIS contributes to improved understanding of Cayman s international financial centre, its impact on global financial intermediation and enables the Cayman Islands to emphasize its positive role in facilitating the free flow of cross-border investments. The first issue of the survey was for the reporting period December 31st, 2001, this produced a low response rate and consequently the Board of Directors decided not to publish the results of the survey. However, banks were requested to complete the CPIS form for December 2002 as the Monetary Authority wishes to have the data contained therein for its own internal regulatory purposes. Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 32 LEGISLATIVE CHANGES LEGISLATIVE CHANGES TO COMBAT MONEY LAUNDERING A number of amendments were made during 2002 to the Money Laundering Regulations resulting in the updating of The Guidance Notes on the Prevention and Detection of Money Laundering in the Cayman Islands. The Proceeds of Criminal Conduct Law (2001 Revision) The Money Laundering (Amendment) Regulations, 2002 Regulation 5(1) of The Money Laundering Regulations 2000 were amended by repealing the words in the Islands and substituting the words in or from the Islands . The substantive change resulting from this amendment to the Regulations was in relation to the delegation of duties by financial services providers. The resultant amendments to the Guidance Notes seek to recognise that as best practice measures one can rely on the Schedule 3 regime to satisfy the requirements of the Guidance Notes. This does not remove the responsibility from the financial services provider in Cayman but allows for certain functions to be carried out elsewhere. Money Laundering (Client Identification) (Extension of Period) Order 2002 Section 17(1A) of the Money Laundering Regulations that specified the deadline of December 31st, 2002 for the retrofitting of client identification was extended until June 30th, 2003. This means that for client relationships in existence prior to the enactment of the Money Laundering Regulations 2000, licensees have an additional six months within which to carry out identification procedures in accordance with regulations 7 and 9 of the Money Laundering Regulations. The order was officially gazetted on July 8th, 2002. MONETARY AUTHORITY LAW (2002 REVISION) Following extensive consultation with the Cayman Islands Government and private sector associations, legislation for the granting of full operational independence for the Cayman Islands Monetary Authority was tabled in the Legislative Assembly in November. The anticipated date of effectiveness is Spring 2003. Operational independence will enable the Monetary Authority to execute directly the key functions of

licensing, on-going supervision, enforcement and regulatory cooperation. In practice, independence places operational decision-making into the hands of the Board of Directors of the Monetary Authority. Essentially the key area of change is the power of the Monetary Authority to licence. Licence fees will continue to be collected by the Monetary Authority and paid to government. Many of the other functions of the Monetary Authority, such as currency operations and its advisory role to Government, will remain unaffected by independence. Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 33 The implementation of the Monetary Authority Law (2002 Revision) will result in amendments to the various regulatory laws in order to bring the increased regulatory powers of the Monetary Authority into effect and to make provision for related matters. THE CAYMAN ISLANDS REGISTERED STOCK LAW, 2002 The Cayman Island Registered Stock Law, 2002 enacted in the December session of the Legislative Assembly adds a significant new responsibility to the Monetary Authority for the registration and transfer of Government stock. The Law also gives the Managing Director and another director of the Monetary Authority responsibility for acting as Trustees to any sinking fund established under the Law. The Monetary Authority will need to meet with Government to determine the extent of stock issues, planned in the near future in order to properly plan for additional resources that may be required to deal with these new tasks. THE COMPANIES (AMENDMENT) (SEGREGATED PORTFOLIO COMPANIES) LAW, 2001 This Law amended The Companies Law (2001 Second Revision) section 233 by allowing any exempted company formed after the commencement of the Law to apply to the Registrar of Companies to be registered as an exempted segregated portfolio company subject to the provision that where the exempted company is regulated by the Monetary Authority, permission to do so is given by the Monetary Authority. Prior to the amendment application for registration as an exempted segregated portfolio company was permissible only for companies holding either a Restricted or an Unrestricted Class B Insurer's licence granted under the Insurance Law (2001 Revision). The amendment was gazetted on March 19th, 2002. ANTI MONEY LAUNDERING BODIES There are three groups set up to deal with various money-laundering issues. The Anti-Money Laundering Oversight Group The group is comprised of the Managing Director of the Monetary Authority, the Financial Secretary, the Attorney General, the Commissioner of the RCIP, and the Director of the Reporting Authority. The group is responsible for the overseeing of the Cayman Islands anti-money laundering regime; ensuring effective collaboration between regulators and law enforcement; advising government on anti-money laundering issues, and monitoring the interaction and co-operation with overseas agencies. Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 34 The Guidance Notes Committee The committee, comprised of representatives from the Monetary Authority the Policy and Research Division acts as Secretariat to the Committee, the Financial Secretary's Office, the Attorney General's Office and Industry Groups, met during 2002 to discuss and approve amendments to the Guidance Notes on the Prevention and Detection of Money Laundering in the Cayman Islands (the Guidance Notes). The review of the Guidance Notes is an on-going commitment of this Committee. Following discussion by the Guidance Notes Committee a number of substantive changes were made to the Guidance Notes and a new version was posted to the website in June 2002. Changes included clarification of the circumstances under which financial services providers may rely on the due diligence performed by professional intermediaries and managed service providers; the delegation of anti-money laundering compliance functions and the

conditions of such; and internal reporting procedures and record keeping procedures where functions have been delegated and/or in circumstances where the financial services provider does not have any staff. An on-going area of discussion has been the role of the Money Laundering Reporting Officer (MLRO) and the need to distinguish between the functions of a MLRO and a Compliance Officer. A special sub-committee was set up to discuss this topic and to revise the sector specific guidance for Mutual Funds. The Cayman Islands Anti-Money Laundering Group The Cayman Islands Anti-Money Laundering Group (CAMLG) comprised of members from the Monetary Authority, industry, Financial Reporting Unit, and Customs, originally set up to co-ordinate training and awareness was largely inoperative during 2002, its role is being absorbed into the work of the Guidance Notes Committee.

Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 35 REGULATORY DEVELOPMENTS AND INTERNATIONAL ISSUES CARIBBEAN FINANCIAL ACTION TASK FORCE S (CFATF) SECOND ROUND OF MUTUAL EVALUATION During February 2002, the Cayman Islands participated in the Caribbean Financial Action Task Force s (CFATF) second round of Mutual Evaluation. The Mutual Evaluation Survey provides one of the mechanisms by which the CFATF Secretariat ensures that its members fulfil their obligations and is consequently a crucial part of the work of the CFATF. The examination was based on the Revised 40 Recommendations of the Financial Action Task Force (FATF), the Revised 19 Recommendations of the CFATF, and the FATF 25 Point Criteria used in the Non-Co-operative Countries and Territories exercise. During their visit, Examiners from the CFATF Secretariat met with the management team of the Monetary Authority, government officials and private sector representatives. The subsequent report issued on October 17th concluded that the commitment and resolve by the Cayman Islands Government to preserve the reputation of the jurisdiction and safeguard the financial services sector was unmistakable. The report also noted that the institutional framework appeared robust and extensive and that the level of private sector collaboration and awareness on money laundering issues was high. IMF Assessment The International Monetary Fund (IMF) assessment originally scheduled for December is now expected to take place in 2003. The focus of the assessment will be the extent to which the regulatory and supervisory arrangements for the financial sector in the Cayman Islands complies with internationally accepted standards and measures of good practice. It is anticipated that the IMF mission will be undertaking a review of all relevant legislation and will be holding discussions with the regulatory authorities, certain government officials, and a broad cross-section of private sector representatives.

FIGHT AGAINST TERRORISM The Cayman Islands continued to play its part in the international fight against terrorism and encouraged all licensees to maintain their vigilance and help stop the flow of funds to fuel terrorist activities. The United Nations Security Council Resolution 1390 of January 16th, 2002 (regarding Usama bin Laden, Al Qa ida and the Taliban) was implemented in the United Kingdom by the Al Qa ida and the Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 36 Taliban (United Nations Measures) Order 2002, which came into force on January 25th, 2002. This revoked the earlier Afghanistan (United Nations Sanctions) Order 2001. The Cayman Islands as an Overseas Territory is committed to act in parallel with the United Kingdom in combating terrorist financing. On October 10th, 2002, the New Consolidated List pursuant to Security Council Resolutions 1267 (1999), 1333 (2000) and 1390 (2002) was updated. The resolution designates those entities and persons subject to sanctions. The resolution specifies three measures that all States are required to ensure are applied to all of the individuals, groups,

undertakings and entities included in the list. The three measures are: freeze without delay any funds and other financial assets or economic resources; prevent the entry into or the transit through their territories; and prevent the direct or indirect supply, sale and transfer of all arms and related material, spare parts and technical advice, assistance, or training related to military activities. The list is posted on the Monetary Authority's website. The Monetary Authority was consulted on the drafting of the Cayman Islands Terrorism Bill. The responsibility for policing the Bill once enacted, will fall to the Attorney General's office and the anti-money laundering Reporting Authority. The Monetary Authority's responsibility will be in terms of on-ward reporting.

TRUST AND COMPANY SERVICE PROVIDERS STATEMENT OF BEST PRACTICE

The Monetary Authority was represented by the Head of Fiduciary Services at the Trust and Company Service Providers Working Group set up by the Offshore Group of Banking Supervisors to produce a statement of best practice for Trust And Company Service Providers. The Working Group comprised of OGBS members from the Bahamas, Bermuda, Cayman, Cyprus, Gibraltar, Guernsey, the Isle of Man, Jersey; G7 Financial Stability Forum Members from France, Italy, Netherlands, United Kingdom; and representatives from the FATF, IMF, OECD, and the British Virgin Islands. The terms of reference of the Working Group were To produce a recommended statement of minimum standards/guidance for Trust and Company Service Providers; and to consider and make recommendations to the Offshore Group of Banking Supervisors for transmission to all relevant international organisations/authorities on how best to ensure that the recommended minimum standards/guidance are adopted as an international standard and implemented on a global basis. The Working Group decided that a statement of best practice should be prepared rather than a statement of minimum standards. At the time many jurisdictions did not regulate trust and company service providers, and in some cases such providers are not presently embraced by anti-money laundering legislation. Accordingly it was considered that a statement of best practice was more appropriate.

Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 37 This statement of best practice is intended for use by jurisdictions generally in reviewing the position of their trust and company service providers. It is also intended for use by international organisations such as the IMF when they are engaged in an assessment of individual jurisdictions in respect of their policies, procedures and practices from a financial regulation and anti-money laundering standpoint. This statement of best practice is intended to fill the gap that exists where trust and company service providers are not subject to standards set by bodies such as the Basel Committee on Banking Supervision and IOSCO. In those cases where such standards do apply, nothing in this statement of best practice alters the existing obligations to comply with those standards.

FATF REVIEW OF THE FORTY RECOMMENDATIONS

In 2001, the FATF began a review of the Forty Recommendations. A number of factors for the review were identified by the FATF, these included the changes in money laundering techniques and trends, areas of weakness identified through the FATF mutual evaluation process, and other international developments. A consultation paper for review was issued in May 2002 to countries, international organisations, the financial sector, and other interested parties to enable them to express their views on the issues discussed to the FATF along with their proposals for dealing with them. Three major categories in which possible changes could be made to FATF standards were identified.

1. Customer identification and due diligence, suspicious transaction reporting and regulation and supervision Customer identification, suspicious

transaction reporting and proper supervision have been key components of anti-money laundering regimes for several years; however, in recognition that international standards and guidance have evolved, the FATF proposed a clarification and refinement of a number of important issues. These included covered financial activities, obligations for necessary due diligence, categories of customers or transactions where there is potentially a higher risk, simplified or alternative measures for certain lower risk scenarios, the role of financial intelligence units, feedback to reporting institutions, and the regulation and supervision of institutions.

2. Corporate vehicles

The FATF has been concerned for several years about the availability of information on the persons that are the true owners and controllers of assets held by various types of corporate vehicles and derived from criminal activity. FATF typologies exercises have consistently identified difficulties in identifying the ultimate beneficial owners and controllers of corporate vehicles (companies, trusts, foundations etc.). The FATF therefore invited comment on the risks, current obligations, purposes for which beneficial ownership and control information is required, essential requirements, and possible measures to be taken. The FATF also gave particular attention to bearer shares and trusts.

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3. Non-financial businesses and professions

The FATF considered whether the Forty Recommendations should be extended to cover seven categories of non-financial businesses and professions: casinos and other gambling businesses, dealers in real estate and high value items, company and trust service providers, lawyers, notaries, accounting professionals and investment advisors. In particular, the FATF considered options for several key issues relevant to the implementation of anti-money laundering standards. These options include (a) businesses or professions to be covered; (b) the application of customer due diligence rules; (c) obligations concerning suspicious transaction reporting and increased diligence; and (d) options for regulation and supervision. In addition to these issues, the FATF also internally reviewed other aspects of the Forty Recommendations, including topics such as the scope of the offence of money laundering, how to enhance recommendations dealing with international co-operation, and the need for adequate resources to combat money laundering. As part of the Monetary Authority's review of the Forty plus Eight Recommendations, industry associations were specifically consulted on the FATF proposed Interpretative Note for its special recommendation VII regarding wire transfers. A coordinated response was then forwarded to Government in January 2003 for submission to the FATF.

THE NEW BASEL CAPITAL ACCORD

More than a decade has passed since the Basel Committee on Banking Supervision introduced its Capital Accord. Since that time the business of banking, supervision, risk management approaches and financial markets have undergone significant change. Consequently in June 1999, the Basel Committee issued a proposal to replace the 1988 Accord with a more risk-sensitive framework. The new framework also has more emphasis on banks' own internal methodologies, supervisory review, and market discipline, and a greater menu of approaches, flexibility and incentives for risk management. The New Accord consists of three mutually reinforcing pillars, these are: minimum capital requirement, supervisory review process, and market discipline. The new framework maintains both the current definition of capital and the minimum requirement of 8% of capital to risk-weighted assets but this will be extended on a consolidated basis to holding companies of banking groups to ensure that the risks within the entire banking group are considered. The revision focuses on improvements in the measurement of risks. The second pillar, the

supervisory review process requires supervisors to ensure that each bank has sound internal processes in place to assess the adequacy of its capital based on a thorough evaluation of its risks. The New Accord stresses the importance of bank management developing an internal capital assessment process and setting targets for capital that are commensurate with the bank's particular risk profile and control environment.

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The third pillar aims to increase market discipline through enhanced disclosure by banks. The core set of disclosure requirements includes more detailed requirements for supervisory recognition of internal methodologies for credit risk, credit risk mitigation techniques and asset securitisation. The New Accord is less prescriptive than the original however because it offers a range of approaches for banks capable of using more risk-sensitive analytical methodologies, they will require more detail in their application and more guidance. Following the process of consultation over Basel 2 the final phase of agreement on the New Capital Accord is expected to be completed towards the end of 2003, and to be implemented in 2006. The Monetary Authority has been represented at a number of meetings and seminars on the New Accord and is considering the implications of the New Accord for the supervision of the banking industry and subsequent guidance to licensees.

FINANCIAL REPORT The annual financial statements and accompanying notes of the Monetary Authority as at December 31st, 2002 are shown on pages 43 to 56. Total Assets of \$68.3 million (2001: \$68.5 million) included \$67.2 million (2001: \$67.8 million) of Currency Reserve assets representing investments and current, call and fixed deposits. Short-term investments are comprised of US issued discount notes. Long-term investments are comprised of US government agency-issued mortgage-backed securities. Investment decisions were made in accordance with the Monetary Authority's principle investment objectives of security, liquidity and income. A total return of 2.13% (2001: 5.27%) was earned in 2002 on the investment portfolio. The lower return in 2002 was due to the significant drop in interest rates experienced during the year. Total liabilities of \$53.1 million (2001: \$54.0 million) included \$51.6 million (2001: \$51.4 million) of demand liabilities for currency in circulation, which are fully secured by the Currency Reserve assets as required by Section 28 (7) of the Monetary Authority Law, (2001 Revision). Total reserves and capital was \$15.2 million (2001: \$14.6 million) and the General Reserve was maintained at 15% of demand liabilities as required by Section 6 (2) of the Law. The General Reserve Requirement increased by \$0.04 million (2001: increased by \$0.1 million). Net income of \$2.1 million (2001: \$3.5 million) for the fiscal year was mainly due to sound investment decision-making and the implementation of effective cost reduction techniques. The Board approved the transfer of \$0.08 million (2001: \$0.4 million) to the Currency Issue Reserve to provide for future currency reprints. Approval was also given for the transfer of \$0.53 million (2001: \$0.5 million) to the Paid Up Capital Account. After these transfers, the Monetary Authority was still able to exceed its budgetary target by transferring \$1.3 million (2001: \$2.6 million) to the General Revenue of the Cayman Islands Government.

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APPENDIX A RELEVANT LEGISLATION The Monetary Authority Law (2002 Revision) The Banks and Trust Companies Law (2001 Revision) The Building Societies Law, (2001 Revision) The Cooperative Societies Law, 2001 The Money Services Law, 2000 The Insurance Law (2001 Revision) The Health Insurance Law (2000 Revision) The Mutual Funds Law (2001 Revision) The Securities Investment Business Law, 2001 The Companies Management Law, (2001 Revision) The Proceeds of Criminal Conduct (2001 Revision) The

Money Laundering Regulations, 2000 The Misuse of Drugs Law (2000 Revision) The Confidential Relationships (Preservation) Law (1995 Revision) Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 41 Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 The notes on pages 47 to 56 are an integral part of these financial statements. PAGE 42 Cayman Monetary Regulatory Authority International CERTIFICATE OF THE AUDITOR GENERAL To the Shareholder and Directors of the Cayman Monetary Regulatory Authority International In accordance with the provisions of Section 36(2) of the Monetary Authority Law (2002 Revision) and Section 45(1) of the Public Finance and Audit Law (1997 Revision), I have audited the financial statements of the Cayman Monetary Regulatory Authority International for the year ended 31 December 2002 as set out on pages 43 to 56. RESPECTIVE RESPONSIBILITIES OF MANAGEMENT AND THE AUDITOR GENERAL These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit. BASIS OF OPINION My examination was made in accordance with International Standards on Auditing. Those Standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion. OPINION In my opinion, these financial statements present fairly, in all material respects, the financial position of the Cayman Monetary Regulatory Authority International as at 31 December 2002 and the results of its operations and its cash flows for the year then ended, in accordance with International Accounting Standards and comply with the Monetary Authority Law (2002 Revision). N K Esdaile Auditor General 05 May 2003 Cayman Islands Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 The notes on pages 47 to 56 are an integral part of these financial statements. PAGE 43 FINANCIAL STATEMENTS Cayman Monetary Regulatory Authority International BALANCE SHEET For the year ended 31 December 2002 (Expressed in Cayman Islands Dollars) ASSETS Note 2002/2001 Currency Reserve Assets Long-Term Investments 2b, 3a 28,107,149 9,592,698 Short-Term Investments 2b, 3a 34,932,932 254,484,862 Fixed Deposits 3b 1,287,501 1,268,760 Current and Call Deposits 3b 2,907,834 2,406,217 Total Currency Reserve Assets 67,235,416 67,752,537 Other Assets Fixed Assets 2e, 4342,684 430,396 Stocks 2f, 5286,435 249,070 Accounts Receivable 244,215 12,529 Other Receivables and Prepayments 76,991 34,455 Interest Receivable, Foreign Deposits 114,808 51,763 Interest Receivable, Local Deposits 1,505 6,371 Total Other Assets 1,066,638 784,584 TOTAL ASSETS 68,302,054 68,537,121 LIABILITIES Demand Liabilities, Currency in Circulation 6a 51,638,886 51,354,385 Payable to the CI Government 8b 1,245,246 2,566,928 Other Liabilities and Payables 6b 222,089 62,651 Total Liabilities 53,106,221 53,983,964 RESERVES and CAPITAL General Reserve 8a 7,745,833 7,703,157 Currency Issue Reserve 8c 375,000 300,000 Total Reserves 8,120,833 8,003,157 Paid Up Capital 8d 7,075,000 6,550,000 Total Reserves and Capital 15,195,833 14,553,157 TOTAL LIABILITIES, RESERVES and CAPITAL 68,302,054 68,537,121 Signed on behalf of the Board, 05 May 2003

George McCarthy,

OBE, JPCindy Scotland Chairman Managing Director Cayman Monetary Regulatory Authority International Cayman Monetary Regulatory Authority International Cayman Monetary

Regulatory Authority International ANNUAL REPORT 2002 The notes on pages 47 to 56 are an integral part of these financial statements. PAGE 44 FINANCIAL STATEMENTS Cayman Monetary Regulatory Authority International INCOME STATEMENT For the year ended 31 December 2002 (Expressed in Cayman Islands Dollars) INCOMENote20022001
 Government Grants2d,117,800,0007,010,136 Investment Income2b1,369,1212,841,912
 Commission Income564,480491,506 Other Income2,22419,153 Numismatic
 Income53,10418,159 Asset Disposal Gain504,550 Total Income9,788,97910,385,416
 EXPENSES Salaries and Other Benefits5,301,0644,623,143 General and
 Administrative755,588835,005 Pension Contributions9436,078356,775
 Depreciation2e,4219,970284,417 Lease Rental7291,533276,345 Staff Training and
 Recruitment177,845201,607 Official Travel257,827156,190 Management and Custody
 Fees3106,613106,375 Professional Fees81,74575,278 Directors Fees18,50016,500 Foreign
 Currency Loss2c3,793245 Total Operating Expenses7,650,5566,931,880 NET
 INCOME2,138,4233,453,536 Cayman Monetary Regulatory Authority International
 ANNUAL REPORT 2002 The notes on pages 47 to 56 are an integral part of these financial
 statements. PAGE 45 FINANCIAL STATEMENTS Cayman Monetary Regulatory Authority
 International STATEMENT OF CHANGES IN RESERVES AND CAPITAL For the year ended
 31 December 2002 (Expressed in Cayman Islands Dollars) 2002 GeneralCurrency
 IssuePaid-Up ReserveReserveCapital Balance at 1 January:7,703,157300,0006,550,000
 Transfers In: From Net Income2,138,423 From General Reserve325,501525,000 Transfers
 Out: To Currency Issue Reserve(325,501) To Paid-Up Capital(525,000) Contribution Payable
 to C.I. Government(1,245,246) To Fund Cost of Currency Re-mint(250,501) Rounding
 Adjustment BALANCE AT 31 DECEMBER7,745,833375,0007,075,000 2001
 GeneralCurrency IssuePaid-Up ReserveReserveCapital Balance at 1
 January:7,672,478350,0006,050,000 Transfers In: From Net Income3,453,536 From General
 Reserve355,928500,000 Transfers Out: To Currency Issue Reserve(355,928) To Paid-Up
 Capital(500,000) Contribution Payable to C.I. Government(2,566,928) To Fund Cost of
 Currency Reprint(405,928) Rounding Adjustment(1) BALANCE AT 31
 DECEMBER7,703,157300,0006,550,000 Cayman Monetary Regulatory Authority
 International ANNUAL REPORT 2002 The notes on pages 47 to 56 are an integral part of
 these financial statements. PAGE 46 FINANCIAL STATEMENTS Cayman Monetary
 Regulatory Authority International STATEMENT OF CASH FLOWS For the year ended 31
 December 2002 (Expressed in Cayman Islands Dollars) CASH FLOWS FROM OPERATING
 ACTIVITIES20022001 Net Income2,138,4233,453,536 Adjustments for Items not Involving
 Cash: Add: Depreciation219,970284,417 Less: Gain on Fixed Assets Disposal(50)(4,550)
 Operating Profit Before Working Capital Changes2,358,3433,733,403 Interest
 Receivable(58,179)178,025 Accounts Receivable(231,686)88 Other Receivables and
 Prepayments(42,536)(11,643) Other Liabilities and Payables159,438(9,318)
 Stocks(37,365)(21,321) Cash Generated from Operations2,148,0153,869,234 Increase in
 Demand Liabilities284,501204,531 Cost of Currency Re-mint (Reprint for
 2001)(250,501)(405,928) Net Cash From Operating Activities2,182,0153,667,837
 INVESTING ACTIVITIES Net Sale of Investments1,037,4791,180,163 Acquisition of Fixed
 Assets(132,258)(279,247) Proceeds from Fixed Assets Disposal504,550 Net Cash Provided
 by Investing Activities905,271905,466 FINANCING ACTIVITIES Contribution Paid to CI
 Government(2,566,928)(4,473,305) Net Cash Used in Financing
 Activities(2,566,928)(4,473,305) Increase in Cash and Cash Equivalents520,35899,998
 MOVEMENT IN CASH AND CASH EQUIVALENTS Balance at 1 January3,674,9773,574,979

Increase 520,358,999 BALANCE AT 31 DECEMBER (Note 3) 4,195,335,674,977 Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 47 NOTES TO THE FINANCIAL STATEMENTS Cayman Monetary Regulatory Authority International For the year ended 31 December 2002 (Expressed in Cayman Islands Dollars)

1. ORGANIZATION AND OBJECTIVES The Cayman Monetary Regulatory Authority International (the Authority) was established under The Monetary Authority Law, 1996 (the Law) on 1 January 1997. Prior to 1 January 1997, The Cayman Islands Currency Board (the Board) was responsible for currency management and the Financial Services Supervision Department (FSSD) was responsible for financial services regulation in the Cayman Islands. Under the Law, the Board and FSSD were terminated and their assets, liabilities, reserves and responsibilities transferred and vested in the Authority on 1 January 1997. For 2002, under the Monetary Authority Law (2002 Revision), the primary objectives of the Authority were (a) to issue and redeem currency notes and coins; (b) to promote and maintain monetary stability; (c) to promote and maintain a sound financial system; (d) to advise the Cayman Islands Government on regulatory matters and (e) to provide assistance to overseas regulatory authorities. An amendment to the Law revised the objectives for 2003 by eliminating (b) and (c) and replacing it with one - to regulate and supervise the financial services business and leaving (a), (d) and (e) essentially unchanged.

2. SIGNIFICANT ACCOUNTING POLICIES

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 Accounting Standards. The reporting currency is Cayman Islands Dollars.

b) Investments. Short-term investments are valued, on a monthly basis at amortized cost and long term investments are valued at quoted market value. Unrealized 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 recognized in the income statement. Assets and liabilities are translated at the exchange rate in effect at the Balance Sheet date.

d) Government Grants. The Authority is dependent upon annual operating grants from the Cayman Islands Government to meet its obligations. The full amount of the grant is treated as income in the year of receipt.

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, Office Equipment and Motor Vehicle; and 25% to 33 1 / 3 % for Computer Hardware and Software, which is sufficient to write-off the cost of the assets over their estimated useful lives. Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 48 NOTES TO THE FINANCIAL STATEMENTS Cayman Monetary Regulatory Authority International For the year ended 31 December 2002 (Expressed in Cayman Islands Dollars)

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

g) Numismatic Coins. The total nominal value of numismatic coins outstanding at 31 December 2002 is \$14,760,969 (2001: \$14,859,702). No liability for redeeming numismatic coins is recognized 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.) i) Employee Benefits. Obligations for contributions to defined contribution pension plans are recognized as an expense in the income statement as incurred. (See also Note 9.)

3. CURRENCY RESERVE ASSETS Section 28 of the Law 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 and must equate in value to at least 100% of demand liabilities arising from such obligations - see Note 6. They shall not be chargeable with any liability arising from any other business. After all demand liabilities are extinguished, any surplus Currency Reserve Assets would form, in part, the assets of the General Reserve (see Note 8a). Under the Law, 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 twenty-five percent of demand liabilities). At 31 December 2002, the value of Currency Reserve Assets was \$67,235,416 (2001: \$67,752,537) representing 130% (2001: 132%) of total demand liabilities. The value of external assets equated to 122% (2001: 125%) while the value of local assets equated to 7.8% (2001: 7.2%) of demand liabilities. Currency Reserve Assets comprise the following:

Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 49 NOTES TO THE FINANCIAL STATEMENTS Cayman Monetary Regulatory Authority International For the year ended 31 December 2002 (Expressed in Cayman Islands Dollars) CURRENCY RESERVE ASSETS (Continued)

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 Monetary Authority Law (2002 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 Mortgage-backed Securities stated at market value, with interest rates ranging from 1.8% to 8.5%. Maturity dates range from 01/12/2004 to 25/12/2031. Although the stated maturity date on several securities is over 10 years the expected duration is less than 10 years. Range of maturities:

2002	2001
0 - 1 Year	0
2 - 5 Years	4,588,750
6 - 10 Years	3,604,424
Over 10 Years	16,195,799
Total	28,107,149

Short-Term Investments Discount notes / Treasury Bills Maturing from 02/1/03 to 14/1/03 14,432,932 232,069,166 Repurchase Agreement Federal Reserve at 1.09% maturing 2/1/03 20,500,000 22,415,696 Total short-term investments, at amortized cost 34,932,932 254,484,862 Market value of short-term investments 34,933,158 254,481,096

Subsequent Event The investment managers were given added investment flexibility following Executive Council's approval in May 2001 to invest in mortgage-backed securities issued by US Government agencies and AAA-rated corporate bonds. Executive Council also advised that the Law be amended to allow marketable securities issued by approved government agencies as separate category under permitted external assets. As at the Balance Sheet date, such investments totaled 55% of external assets, which exceeded the 20% previously allowed under the Law. The relevant amendment to the Law authorising these investments was passed prior to the Balance Sheet date but was not gazetted until January 2003.

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STATEMENTS Cayman Monetary Regulatory Authority International For the year ended 31 December 2002 (Expressed in Cayman Islands Dollars) CURRENCY RESERVE ASSETS (Continued) B) BANK DEPOSITS The Authority maintains current, call and fixed deposits with domestic and foreign banks. Under the Law, domestic deposits cannot exceed 25% of demand liabilities. At 31 December 2002, domestic deposits represent 7.8% (2001: 6.8%) of demand liabilities. CURRENT AND CALL DEPOSITS Domestic Deposits Currency 2002 2001 Call Deposits KYD 2,044,541 1,570,131 Call Deposits USD 713,929 671,457 Call Deposits GBP 5,601 4,902 Cash on Hand KYD 225 169 Current Account KYD (42,753) (18,757) Foreign Deposits U.S. Federal Reserve Call Account USD 100,596 160,095 Investment Portfolio, Call Account USD 85,695 18,220 2,907,834 2,406,217 DOMESTIC FIXED DEPOSITS Fixed Deposits USD 1,287,501 1,268,760 Cash and Cash Equivalents 4,195,335 3,674,977 Interest is paid on domestic call and fixed deposits at rates ranging from 0.35% to 1.00% (2001: 0.65% to 1.4375%) per annum. Interest of 1.23% (2001: 1.85%) p.a. is paid on foreign call deposits. Deposits with the Federal Reserve are non-interest bearing; however, excess deposit balances are invested daily in repurchase agreements. Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 51 NOTES TO THE FINANCIAL STATEMENTS Cayman Monetary Regulatory Authority International For the year ended 31 December 2002 (Expressed in Cayman Islands Dollars) 4. FIXED ASSETS Furniture Leasehold Computer Office Motor Original Cost & Fixtures Improvement Equipment Vehicle Total Balance at 01/01/02: 418,070 422,915 56,574 188,771 24,600 1,610,930 Additions: 4,838 96,149 31,271 132,258 Disposals: (804) (804) Balance at 31/12/02: 422,908 422,915 651,919 220,042 24,600 1,742,384 Accumulation Depreciation Balance at 01/01/02: 254,576 387,982 356,265 159,147 22,564 1,180,534 Depreciation Expense: 53,647 34,933 116,648 12,706 2,036 219,970 Depreciation on Disposals: (804) (804) Balance at 31/12/02: 308,223 422,915 472,109 (171,853) (24,600) (1,399,700) Net Book Value Cost at 31/12/02: 422,908 422,915 651,919 220,042 24,600 1,742,384 Accumulated Depreciation: (308,223) (422,915) (472,109) (171,853) (24,600) (1,399,700) Net Book Value at 31/12/02: 114,685 179,810 48,189 342,684 Net Book Value at 31/12/01: 163,494 34,933 200,309 29,624 2,036 430,396 5. STOCKS 2002 2001 Bullion from the Melt-Down of Coins 140,846 136,551 Coins Awaiting Melt-Down 62,696 51,080 Coins for Resale 63,557 45,717 Museum Items 19,336 15,722 Total Stocks 286,435 249,070 Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 52 NOTES TO THE FINANCIAL STATEMENTS Cayman Monetary Regulatory Authority International For the year ended 31 December 2002 (Expressed in Cayman Islands Dollars) 6. 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: 2002 2001 i) Currency Notes in Circulation 45,573,259 45,518,002 ii) Currency Coins in Circulation 6,065,627 5,836,383 Total 51,638,886 51,354,385 B) OTHER LIABILITIES At 31 December 2002, other liabilities included unsettled investment management and custody fees of \$76,725 (2001: \$26,487). 7. LEASE OBLIGATION The Cayman Islands Government leases the premises used by the Authority under a lease agreement dated 15 December 1996. The lease for 8,950 sq. ft. was for an initial period of three years at \$25 per sq. ft., with an option for an additional two years at \$26 per sq. ft, payable monthly in advance. The Authority has taken advantage of this option and renewed the lease agreement at \$26 per sq. ft. effective December 14, 1999. The Authority acquired an additional 2,279 sq. ft. of office space in its own name during 2001. Effective January 1, 2002

the lease agreement was converted into the Authority's name for the total office space of 11,229 sq. ft at \$26 per sq. ft. The lease is for an initial 2-year period with 2 x 1-year options to renew. Rental payments under operating leases are charged to the income statement in equal installments over the period of the lease.

8. RESERVES AND CAPITAL

A) GENERAL RESERVE The Authority maintains a General Reserve in accordance with Section 6(1) of the Law. Under Section 8(b) of the Law, the General Reserve must be maintained 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.

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B) RESERVE ALLOCATION Under Section 8 of the Law, the net income of the Authority, after provision for all expenditure and reserves, must be allocated such that the Currency Reserve Assets represent at least 100% of demand liabilities and the General Reserve equals 15% of demand liabilities. Any surplus, after complying with these requirements, must be transferred to the General Revenue of the Cayman Islands Government. On 25 March 2003, Executive Council approved a transfer of \$1,245,246 (2001: \$2,566,928) to the General Revenue of the Cayman Islands Government.

C) CURRENCY ISSUE RESERVE During the year, \$250,501 (2001: \$405,928) was transferred from the Currency Issue Reserve to fund the re-mint of circulation coins. The Board allocated \$325,501 (2001: \$355,928) to replenish the Currency Issue Reserve to fund the 2003 re-print of banknotes.

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 \$7,075,000 as at 31 December 2002 (2001: \$6,550,000). The Executive Council of the Cayman Islands Government has committed to increasing the Paid-Up capital of the Authority to a minimum of \$10 million by the year 2008, by yearly transfers from surplus, after complying with reserve requirements.

9. PENSIONS

A) PUBLIC SERVICE PENSIONS PLAN Pension contributions for eligible Caymanian 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 non-contributory Fund, whereby the employer pays both employer and employee contributions. 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. Participants joining after that date became members of the defined contribution element. The Pensions Board has originally prepared separate actuarial assessments and funding schemes for each participating employer. The main actuarial assumptions used were: a retirement age of 55 years, expected rate of return on the Fund's assets of 8%, and expected salary and pension increases of 5% and 3% respectively.

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PENSIONS (Continued) Using the projected unit credit method of measuring costs and obligations, the amended actuarial assessment for the Authority, effective 1 January 1999, assessed the normal annual contribution to be 10.15% of pensionable emoluments, plus an additional 6.44% in respect of the Authority's unfunded past service liability (PSL),

which was estimated at \$479,114. In July 2001, the minimum normal contribution requirement for Statutory Authorities was revised to 13% effective 1 January 1999. This rate includes a 1% non-retirement benefit contribution that has not yet been implemented by the Authority. The Authority did not accept the Pensions Board PSL calculation because it included accrual for participants pensionable service prior to 1997 when the Authority was created, for service in departments and agencies other than the Cayman Monetary Regulatory Authority International. As a result of insufficient relevant and reliable information acceptable to, and agreed by, the Authority, the pension plan has been accounted for under paragraphs 44-46 of International Accounting Standard 19 as if it were a defined contribution plan. The Authority therefore continued to fund 6% employee and 6% employer contributions during 1999 to 2002. A further actuarial assessment effective 1 January 2002 has been completed but has not been approved by Executive Council as of the date of this report. An updated actuarial assessment for the whole of government is scheduled for 30 June 2003. Subsequent Event In April 2003, the Pensions Fund management advised that it was agreed that the unfunded PSL would remain a central liability of the entire public sector. Accordingly there is now no requirement for the Authority to recognise any unfunded PSL in its financial statements. Pensions management also confirmed that the contribution rate would be 13% effective 1 January 1999. The unpaid additional 1% retirement contribution expense from 1999 - 2002 has been assessed at \$97,108. This has not been recognised as an expense in these financial statements and will be adjusted in the subsequent period. The total amount recognised as a pension expense during 2002 was \$436,078 (2001: \$356,775).

B) CASH SUPPLEMENT IN LIEU OF PENSION Prior to 1 January 2000 employees on overseas and certain local contracts were not eligible to participate in the pensions schemes underlying the Fund. These employees received cash supplements of 12% (2001: 12%) of salary in lieu of pension contributions. With effect from 1 January 2000 all overseas and certain categories of locally employed staff became entitled to participate in the Defined Contribution plan. The Authority has elected to implement this option as of 1 July 2002 for contracts expiring after that day. Employees affected by such contracts will have the option to continue contributions to their existing pension schemes as long as those are properly approved or join the Fund. The Authority paid \$142,929 (2001: \$173,748) in cash supplements during the year in respect of these officers.

Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 55 NOTES TO THE FINANCIAL STATEMENTS Cayman Monetary Regulatory Authority International For the year ended 31 December 2002 (Expressed in Cayman Islands Dollars) 10. FINANCIAL INSTRUMENTS 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. Interest Rate Risk The Authority's investments and deposits are at fixed interest rates. The ranges of interest rates and maturity dates are presented in Note 3. Fair Values The carrying amount of current, call, and fixed deposits, accounts and interest receivable, other receivables and prepayments, demand liabilities, and 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. 11.

RELATED PARTY TRANSACTIONS The board of directors of the Authority is appointed by the Governor and consisted of the Financial Secretary by virtue of his office and six other directors as of 31 December 2002. Due to the changes in The Monetary Authority Law (2002 Revision) and the move to make the Authority independent, the Financial Secretary will not be a member of the board of directors of the Authority effective January 2003. The following Government departments/entities provided services to the Authority during 2002: i) Audit Office at a cost of \$10,350 (2001: \$10,350). ii) Public Service Pension Board (see Note 9). iii) Legal Department. Cayman Monetary Regulatory Authority International ANNUAL REPORT 2002 PAGE 56 NOTES TO THE FINANCIAL STATEMENTS Cayman Monetary Regulatory Authority International For the year ended 31 December 2002 (Expressed in Cayman Islands Dollars) RELATED PARTY TRANSACTIONS (Continued) The Authority acts as the Government's custodian of the Cayman Islands currency as well as collector of the annual license fees and issuer of licences relating to the financial industry. These services are provided at no direct cost to the Government. The Authority operates on a grant from the Government to cover its Recurrent and Capital Expenditures (see Note 4 for fixed asset purchases). At the end of each financial year the Authority contributes to the government the net operating surplus after fulfilling reserve requirements.