



# 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.

CONTENTS MISSION STATEMENT 3 DIRECTORS AND SENIOR OFFICIALS 4  
 CHAIRMAN S STATEMENT 5 MANAGING DIRECTOR S STATEMENT 6 FINANCIAL  
 SECTOR PERFORMANCE 7 Banks and Trust Companies 7 Insurance 8 Health  
 Insurance 9 Investment Services 9 CURRENCY OPERATIONS ACTIVITIES 9 POLICY  
 AND RESEARCH 10 REGULATORY DEVELOPMENTS AND SUPERVISORY ISSUES 11  
 Establishment of On-Site Supervision 11 Cross Border Supervision 11 Emerging Markets  
 Crises 12 Year 2000 Issue 12 Prudential Returns 13 Electronic Reporting 13  
 Communication & Relationships with Other Regulators 13 ANTI-MONEY LAUNDERING  
 INITIATIVES 14 Code of Practice & Anti-money Laundering Guidelines 14 LEGISLATIVE  
 CHANGES 14 Segregated Portfolio Companies 14 Liabilities Support Law 14  
 ADMINISTRATION 15 Seminars, Meetings and Training Programs 15 Staff Recruitment,  
 Promotions and other Developments 15 Developments in information technology and  
 computer systems 15 Year 2000 activities carried out in-house 16 STATISTICS 18  
 FINANCIAL STATEMENTS 21

THE Cayman Monetary Regulatory Authority International  
 MISSION STATEMENT The Cayman Monetary Regulatory Authority International (the  
 Authority) is a statutory agency created by the Cayman Islands Government to: Regulate  
 and supervise the financial services industry in order to main- tain a first class financial  
 system, Safeguard the interests of depositors, trust beneficiaries, policyholders and mutual  
 fund investors from undue loss. Contribute to public confidence in our financial system by  
 promoting sound corporate governance, prudent business practices and compli- ance  
 with laws and regulations. Promote and maintain monetary stability and preserve the value  
 and integrity of the Cayman Islands currency and advise the government on banking and  
 monetary matters. The Authority endeavours to fulfil its regulatory and supervisory man- date  
 having due regard to international standards and the need for opera- tional freedom by  
 financial services providers and for the maintenance of a dynamic and competitive industry.  
 The Authority values a close and harmonious working relationship with all segments of the  
 industry and is committed to maintaining the highest standards and skill in our staff that  
 responds expeditiously and effectively to the challenges posed by an ever-changing financial  
 environment.

4 DIRECTORS AND SENIOR OFFICIALS AS AT DECEMBER 31 1998  
 BoarBoar BoarBoar Boar d of d of d of Dir Dir Dir Dir Dir ectorector ectorector ector  
 ss ss s Hon. George McCarthyChairman Sir Vassel Johnson Richard Chalmers Julene Banks  
 Neville GrantManaging Director Michael Austin Senior OfficialsSenior Officials Senior  
 OfficialsSenior Officials Senior Officials Neville GrantManaging Director Cindy  
 ScotlandGeneral Manager Anna McLeanDeputy Head of Banking and Trust (Off-Site) Karl  
 AdamsonsDeputy Head of Banking and Trust (On-Site) William McCulloughHead of  
 Insurance Gordon RowellDeputy Head of Insurance Chris CollinsSuperintendent, Health  
 Insurance Don SeymourHead of Investments Dwight CarterDeputy Head of Investments  
 Mitchell ScottHead of Policy and Research Neil GlassonManager, Information Technology 5

CHAIRMAN S STATEMENT During 1998, the Cayman Islands financial services  
 industry posted healthy growth, despite the turmoil created by the Asian crisis. That event  
 highlighted the degree of global integration of financial markets, and thus the concern of  
 multilateral agencies such as the IMF on financial stability issues in particular as  
 affected by the standard of supervision and regulation of the financial sector on a  
 country-by-country basis. It is therefore appropriate for the Cayman Monetary Regulatory  
 Authority International to con- tinue to ensure that its regulatory regime abides by  
 international standards such as the Basle Guidelines, the IOSCO principles and the IAIS  
 guidelines. The increased focus on regulation and transparency is common to a wide

range of offshore initiatives in the international arena, and the Cayman Islands (and by association the CMRAI itself) is positioned to participate effectively in the discussion of appropriate standards and solutions. In specific terms, the Authority has integrated an expanded programme of on-site examinations with its other supervisory processes and placed increased emphasis on cross-border cooperation. The Authority's status and legislative framework is also under analysis, with the objective of progressing it to a fully autonomous body in accordance with the government's stated commitment. The Authority during 1998 has been involved as well in advising on various legislative initiatives and regulatory matters, including: Development of a code of practice under the Proceeds of Criminal Conduct Law Amendments to the Insurance Law to protect local policyholders Amendments to the Companies Law to permit segregated portfolio companies

In my capacity as Chairman, I should like to express appreciation to my fellow Board members as well as the management and staff of the Authority for their dedication and commitment over this past year. I look forward to the Authority going from strength to strength as we maintain our distinct tradition of integrity, professionalism and security in our financial services sector.

George A McCarthy, OBE, JP Chairman

#### 6 MANAGING DIRECTOR'S STATEMENT

As the central regulatory and supervisory body overseeing financial institutions, the Cayman Monetary Regulatory Authority International (CMRAI) made significant strides during 1998. Such strides were made during a year which saw the occurrence of a financial crisis in the Far East and the increased global awareness of the need to strengthen international financial stability. Working in conjunction with the Private Sector Anti-Money Laundering Guidelines Committee, intensive efforts were made to develop and put in place an industry Code of Practice. The code builds on Cayman's reputation as a well-regulated and responsible jurisdiction, committed to the fight against international crime. In keeping with Basle Committee principles governing cross-border and other international supervisory standards for banks and other financial institutions, CMRAI also worked in 1998 to enhance its supervisory framework. On-site reviews of banks, trust and insurance companies, and mutual fund administrators all commenced. In conducting supervisory risk assessment of financial institutions, it is now standard for the Monetary Authority to use a mix of both off-site surveillance and on-site examination. Cayman's commitment to cross-border co-operation is demonstrated by our signing of one Memorandum of Understanding (MOU) this year and our continued discussions with a number of countries aimed at establishing several others. Finally in 1998, the Monetary Authority continued to build on our recruitment and training of personnel, which we recognise as an important ingredient of a first class regulatory regime. At the conclusion of its second year and in spite of global financial crises, the Cayman Islands Monetary Authority continues its central role in promoting financial accountability and implementing improved standards and practices. I would like to extend my thanks to all the staff for their dedication and hard work towards maintaining a vital sector of our economy and for upholding the international financial standing of the Cayman Islands.

Neville Grant Managing Director, Cayman Monetary Regulatory Authority International

#### 7 FINANCIAL SECTOR PERFORMANCE

Banks and Trust Companies During 1998 a total of 24 new licences were issued, this represented a 22.2% decline compared to 1997. The number of licences terminated during the review period was 37, an increase of 68.2% when compared to 1997. The licences issued and terminated reflected the global trend in mergers and acquisitions as major players seek to create a strategic competitive advantage and economies of scale in terms of market share, product diversification and capital. In addition, the financial crisis that affected emerging markets in 1998 also contributed to the

decline in licences issued and the increase in licences terminated. The banking sector experienced a growth rate of 9% in external assets and 5.5% in liabilities over the previous year. The growth in external assets and liabilities indicated the level of confidence investors have in the Cayman Islands financial system as they shifted their investments from jurisdictions affected by the emerging market crisis. In the domestic banking sector, Loan and advances to residents increased by 6.8% in 1998 to CI\$1.2 billion, reflecting the level of buoyancy in the local economy which grew by approximately 5.5% in 1998. This level of growth in loans and advances to residents was attributed primarily to a 72% increase to CI\$43.1 million in loans and advances to the construction industry, and is an indication of the high level of demand for residential and commercial properties. The rise in tourism activities in 1998 contributed to increases of 43.4% and 47.5% in credit to the retail and wholesale sectors, respectively. Liquidation proceedings of First Cayman Bank, which was closed in 1997 and had its licence revoked due to irregularities, continued throughout 1998. The Liquidators, Deloitte and Touche, are currently at different stages of settlement negotiation or legal action with various third parties with the intention of maximising the return to creditors of the Bank. The Cayman Islands remains among the top international financial centres, with forty-four of the top fifty banks holding licences here. Licensees represent sixty-two countries, with 27% from European countries, 24% from North America and 20% from South America.

**Licences Issued and Terminated (1994 to 1998)**

Year	# of Licences Terminated	Issued	Total
1994	10	20	30
1995	4	19	23
1996	1	9	10
1997	1	9	10
1998	8	54	62

**Assets (US\$ Billions)**

Year	Assets	Liabilities
1994	460	455
1995	499	495
1996	497	492
1997	642	635
1998	700	670

**Licences by Region**

Region	Percentage
Europe	27%
S. America	20%
Caribbean	10%
Asia	14%
N. America	24%
Africa & the M. East	5%

**Insurance**

During 1998, 62 insurance licences were issued bringing the total number of insurance licences to 652. For captive insurance licenses, 1998 was a record year for licenses issued, with 52 new captives formed. The offshore or captive companies grew from 449 licences at the end of 1997, to 485 licences at the end of 1998. These 52 new licences demonstrate that Cayman continues to be the leading offshore domicile for organisations wishing to establish their own captive insurance company. Regulatory response and market changes together with the practical and professional experience of the financial sector providers have contributed considerably to this extraordinary growth. Traditionally, the Cayman Islands have been known as the world's premier centre for healthcare captives as 35% of captives are healthcare related. This is the same proportion as in 1997 and demonstrates the continuing professional relationship with organisations engaged in all aspects of health service provision including managed care. The islands have made significant progress in the innovative area of risk securitization and the convergence of the traditional insurance and the capital markets. A total of 18 Catastrophe Bonds have been placed worldwide since their inception and 13 of these issues have been placed through Cayman Islands captives. The purpose of these vehicles is to seek additional capacity from the capital markets as opposed to the traditional reinsurance markets. The third area of increasing interest is workers compensation and employee benefits. Historically, losses from these lines have been volatile and the captive concept can provide a risk management discipline that can promote stability. The offshore insurance industry is mainly composed of companies emanating from the USA, which represent 81% of all captives. The next most important geographical source is the Caribbean and Latin America with 10% and Europe with 6%. Insurance managers operating in the islands manage the offshore captives. There were no changes to the total number of licences in this category at the end of 1998 with 26

managers. Two new managers licences were issued in 1998 and two licences were cancelled as consolidation in the world insurance-broking scene continued to facilitate mergers. Captive Insurance Licensing Activity (1994 - 1998)

Year	Number of Licences Issued	Licences Cancelled	Total Licences
1994	0100200300400500600		
1995			
1996			
1997			
1998			

Group: Association  
 Category: Captive 18%, Open Market 8%, Insurer 6%, Pure Captive 61%, Rent-a-captive 3%, AFV 4%

9 Health Insurance

The Monetary Authority now has responsibilities for implementing the Health Insurance Law and Regulations (1997), which came in to effect during 1998. Under this law, it is now compulsory for private sector employers to effect private health insurance to a prescribed minimum level on behalf of their employees and their dependants and likewise for all other residents in the Cayman Islands to effect health insurance in respect of themselves and their dependants. Currently ten insurance companies are approved to conduct health insurance business in the Islands.

Investment Services Despite the global economic crisis, the growth in registration of mutual funds continued steadily throughout the year as new fund promoters adjusted and aligned their investment strategies to suit the current market conditions, or timed their market entry to coincide with periods of stabilisation. During 1998, a total of 570 regulated mutual funds were authorised to conduct business under the Mutual Funds Law (1996 Revision), outpacing the previous record of 491. In addition, 3 full mutual fund administrators and 18 restricted mutual fund administrators were authorised. The total number of regulated mutual funds increased by 17.4% to 1,979 at the end of 1998. The number of administered funds and registered mutual funds increased by 2.5% to 607 and 28.1% to 1,328 respectively. It is expected that the strong growth in regulated mutual funds will continue through 1999, especially among recovery funds that seek to capitalise on depressed financial conditions worldwide. In 1999, the number of regulated mutual funds domiciled in the Cayman Islands should surpass 2,000 and assets under management should exceed \$200 billion. The total number of company managers increased by 4 to 42 at the end of 1998 when compared to 1997. It is expected that the proposed new Company Managers Law would be passed in 1999. During 1998, inquiries and investigations were carried out into the business conduct of several regulated mutual funds and company managers, including large hedge funds. One case remains under investigation and all other cases were successfully closed during the year. The Monetary Authority expects that enforcement cases will continue at a modest pace due to its increasing vigilance and resolute commitment to maintaining a first-class regulatory regime.

Currency Operations Activities Under The Monetary Authority Law, 1996, the Monetary Authority has the sole right of issuing the Cayman Islands currency. The Monetary Authority through its Currency Operations unit is responsible for the issuing

Year	Number of Mutual Funds Administered	Licensed	Registered	Total
1994	41	37	4	82
1995	146	95	5	246
1996	557	57	9	623
1997	575	75	26	676
1998	592	607	1328	1979

Mutual Funds Administrators

Year	Exempted	Full	Restricted	Total
1994	7	16	20	43
1995	12	46	56	114
1996	20	66	64	150
1997	19	20	92	131
1998	10	465	405	880

10 and redemption of the Cayman Islands currency notes and coins. The Cayman Islands Dollar is fully backed by the United States Dollar. This takes the form of local and overseas US dollar investments such as Treasury Notes and Bills, Certificates of Deposits, etc. The Currency Operations unit is also responsible for the issue and redemption of numismatic coins. The Monetary Authority participates in numismatic coin programmes, which commemorate significant events locally as well as internationally. At 31 December 1998, currency in circulation (excluding numismatic issues) stood at CI\$44.8 million with \$40 million in notes and \$4.8 million in coins. This represented a

10.9% increase over that of \$40.4 million in 1997. In 1998 mutilated notes totalling \$20.6 million were withdrawn from circulation for destruction, an increase of 119.2% over 1997. The Authority commissioned De La Rue Security Print and Paper to manufacture a new family of banknotes, the C/1 series. The first to be introduced were the \$10, \$5, and \$1 banknotes, which went into circulation in August 1998. The new series maintains the design of the circulating 1996 B series with several added features. The notes reflect the change in the issuing Authority, The Cayman Monetary Regulatory Authority International, and the change in the law under which the notes are issued, Monetary Authority Law, 1996. Other features include a woven silver metallic thread, and a turtle watermark highlight that reads CMRAI. Currency issued of the new C/1 series to end of 1998 amounted to \$10 - \$727,370, \$5 - \$114,580 and \$1 - \$177,317. All indications are that the notes are being widely accepted by the public. The Authority plans to issue the remainder of the series, the \$100 and \$25 denominations during 1999. With the release of the new notes, the Authority embarked on a public awareness campaign and issued leaflets detailing the main features of the new notes. The Monetary Authority in conjunction with De La Rue Cash and Security Print also hosted a workshop to introduce these notes to representatives from the retail banking sector and the Royal Cayman Islands Police Service (RCIP). During 1998, the Monetary Authority issued a 1997 commemorative numismatic coin marking the establishment of the Cayman Monetary Regulatory Authority International. To commemorate this occasion the design chosen was the logo of the Monetary Authority, which reflects the seafaring history of the Islands. This \$2 silver-proof coin bears a beautiful illustration of a Cayman Schooner modelled by Royal Mint engraver Robert Elderton. The obverse features an elegant portrait of Her Majesty the Queen by Raphael Maklouf.

Policy and Research The primary responsibility of the Policy and Research Division is to assist the Authority in the formulation of appropriate policies for the regulation of the financial industry. This is achieved by monitoring developments in the industry both domestically as well as internationally. During 1998, the division commenced projects relating to the supervision of non-bank financial institutions such as credit unions, building societies and Currency In Circulation (Millions)

	1995	1996	1997	1998
\$100	10.85	13.56	15.23	18.42
\$50	6.25	6.25	6.25	6.25
\$25	4.66	4.16	4.87	4.19
\$10	2.51	2.77	2.92	3.03
\$5	1.54	1.66	1.87	1.95
\$1	12.63	2.93	23.44	Total Notes
	29.28	33.49	36.06	39.91
Coins	3.73	4.05	4.42	4.84
Total	33.01	37.54	40.48	44.75

11 other non-bank money services businesses. The division also co-ordinated the in-house training programme for interest rate risk management. Some of the main projects for 1999 include an updated internal review of the Authority's policies to ensure alignment with the Basle Core Principles as well as the production of a compendium of policies, which comprises all of the various Divisions within the Authority. The Division is also in the process of producing the first edition of the Monetary Authority's Statistical Digest, which is to be published bi-annually at the end of June and December. The publication will combine selected statistical data obtained from the BS Form and financial sector data, which is currently collected by the Government's Economic and Statistics Office (ESO). Data collection and processing has increased in efficiency with the use of CIISMA, the new database system developed by the Authority's Information Technology Division.

Regulatory Developments and Supervisory Issues Establishment of On-Site Supervision The Monetary Authority commenced the on-site inspection of banks, mutual fund administrators and insurance companies in 1998. On-site examinations provide the Monetary Authority with a means of verifying or assessing a range of matters including: The accuracy of reports received from banks, trust companies, insurance companies and mutual fund

administrators The adequacy of risk management systems and internal control procedures  
The overall operations and conditions The competence of management A key objective of  
the supervisory programme is to gain a thorough understanding of financial institutions  
operations, risks and how these risks are managed and controlled. The Monetary Authority's  
on-site inspection process involves a review of the corporate governance practices of  
financial institutions including the roles of the board of directors and senior management in  
establishing risk levels, and the control mechanisms employed by financial institutions to  
monitor these risks. On-site examinations also include an assessment of the bank's  
compliance with laws, regulations and supervisory directions. Cross Border Supervision The  
Cayman Islands subscribes to the Basle Committee's Minimum Standards for the  
Supervision of International Banking Groups and their Cross-border Establishments and to  
the Core Principles for Effective Banking Supervision. Consequently, in 1998, the Cayman  
Islands and Brazil commenced negotiation to enter into a Memorandum of Understanding  
(MOU) for the sharing of supervisory information. The authority to share information with  
other banking regulators for consolidated supervision is granted under the Banks and Trust  
Companies Law (1995 Revision). The MOU with Brazil should be signed in February 1999.  
The MOU allows the Brazilian authorities to conduct on-site inspections of Brazilian banks in  
the Cayman Islands, subject to the appropriate statutory confidentiality restrictions. The  
Cayman Islands has initiated dialogue with a number of other jurisdictions with a view of  
entering into similar supervisory arrangements. 12 Emerging Markets Crises The financial  
problems that began in Asia in mid-1997, exposed weaknesses in emerging market countries  
and in the international financial system. As host to a large number of foreign  
financial institutions, the Cayman Islands continues to monitor international developments in  
these markets. Of particular concern to the Monetary Authority has been the financial crises  
affecting countries in Asia and Latin America and the possible contagion effect on the  
Cayman Islands. A number of institutions from these regions have either failed or  
merged as a result of this crisis. Against this background, the Monetary Authority has taken a  
number of measures to enhance surveillance of licensed financial institutions operating from  
the affected regions. These include a more rigorous programme of prudential meetings with  
bank representatives, enhanced disclosure requirements of financial data, and an increased  
emphasis on maintaining minimum capital ratios for banks which vary from 12% to 15%. The  
lessons from the Asian Crisis relevant to the Cayman Islands includes, inter alia: The need  
for accurate and timely information on financial institutions, especially those operating in vola-  
tile regions. The speed of contagion across financial markets requires constant and  
close regulatory vigilance of these markets and their institutions operating from within  
Cayman. Weak financial systems increase vulnerability to economic crises and deepen such  
crises when they occur. Consequently, the Monetary Authority will continue to rigorously set  
standards that are consistent with the Basle Committee's Core Principles for Effective  
Banking Supervision. Year 2000 Issue Throughout 1998, the Monetary Authority actively  
promoted the need for financial institutions to address the Year 2000 (Y2K) issue. The issue  
confronts every organisation around the world as the problem affects the majority of  
computer systems and embedded chip mechanisms in place today. Communication was  
established with financial institutions to alert them to the risk posed to the financial  
system, and the need to prepare for Y2K challenges at an early date so that time could be  
devoted to testing and contingency planning. From meetings with financial institutions and the  
surveys conducted by the Monetary Authority, most financial institutions were well  
advanced with Y2K preparations. Nevertheless, contingency planning is always good

business practice. In our recent letter to financial institutions, we have stressed the importance of testing to achieve broad business goals. Public confidence If Y2K issues are not addressed properly, public confidence in financial institutions could be undermined, particularly if the media sensationalises the potential problems that could develop. Successful testing can offset or even pre-empt adverse media attention by indicating that dire predictions may be overstated. 13 Legal risk mitigation The failure to deal properly with Y2K issues introduces the possibility that financial institutions may face legal liability to customers and counterparties who demonstrate damage from the failure to complete transactions normally. Testing strategies appropriate to the perceived business risk may be a way both to avoid problems and to mitigate claims of not taking prudent business precautions. From this perspective, testing should be both comprehensive and transparent.

Contingency planning The potential problems that could develop from failure to deal with Y2K issues properly are so numerous that it is virtually impossible to develop effective contingency plans for all possible problems. Testing will help identify those vulnerabilities that are most likely to occur, allowing resources for contingency planning and implementation to be deployed most effectively.

Prudential Returns During 1998, the Monetary Authority commenced a review of the existing reporting arrangements for banks and trust companies licensed under the Banks and Trust Companies Law. This review was aimed at identifying areas for improving the efficiency in data collection, enhancing the analytical capability of banking analysts and maximising the use of human resources. Concurrent with the need for operational efficiency, the review also provided the opportunity for designing a more comprehensive early warning system and for achieving greater convergence with international supervisory practices, particularly those recommended by the Basle Committee. The revised reporting arrangements are also expected to assist in planning on-site examinations. The new reporting system is expected to be implemented in March 1999.

Electronic Reporting With the revision of the BS Forms, Banks and Trust companies are expected to commence submitting prudential returns electronically via or on computer diskettes in early 1999. This electronic reporting platform allows institutions to use a standard desktop spreadsheet package, from which data is imported into our internal systems. The new reporting arrangement will improve the timeliness and accuracy of reporting as a number of data validation features have been incorporated to vet the integrity of information prior to submission. It will also relieve staff of data entry time allowing analysts to concentrate more on analytical work.

Communication & Relationships with Other Regulators It is imperative that the Monetary Authority keeps abreast of current issues and world trends with regard to supervision in order to ensure that its supervisory capabilities continue to evolve and meet the requirements of today's diverse financial market. The Monetary Authority continues to be an active member of various financial supervisory groups including the International Group of Bank Supervisors, The Offshore Group of Bank Supervisors, The Caribbean Group of Bank Supervisors, The Offshore Group of Insurance Supervisors, International Association of Insurance Supervisors (IAIS), Offshore Group Investment Scheme Supervisors, Caribbean Financial Action Task Force (CFATF) and several other regional groups. 14 Anti-money Laundering Initiatives Code of Practice & Anti-money Laundering Guidelines The Cayman Islands has developed an integrated approach to the introduction of rules against money laundering applicable to licensed institutions and individuals. During 1998, a project was undertaken by the

PriPri PriPri Pri vv vv v ate Sector Anti-Moneate Sector Anti-Mone ate Sector Anti-Moneate Sector Anti-Mone ate Sector Anti-Mone y Launderiny Launderin y Launderiny Launderin y



Launderin g Guidelines Committeeg Guidelines Committee g Guidelines Committeeg Guidelines Committee g Guidelines Committee to develop a Code of Practice (the Head Code ) to be issued by the Governor pursuant to Section 20 (1) of The Proceeds of Criminal Conduct Law, 1996. The Head Code will serve as the umbrella instrument under which industry sectors covered by the Code will issue their own detailed guidelines for the prevention of money laundering. To date, only the Mutual Funds Admin- istrators Association and the Bankers Association have submitted their anti-money laundering guidelines to the CMRAI for review. Other industry sectors are in process of drafting their own guidelines to give effect to the Head Code. The Head Code is intended to give practical guidance to financial service providers doing business in or from within the Cayman Islands in the prevention of money laundering. It forms part of a wider effort in Cayman, and internationally, to mitigate abuse of our financial system by criminals. It will also serve to enhance the reputation of Cayman as a well-regulated and responsible jurisdiction in the fight against international crime. The Head Code includes the following: An outline of money laundering offences in Cayman legislation. Guidance on policies, internal controls and procedures for the identification of customers. Training programmes for financial institution staff Policies and procedures for record keeping. Procedures to be adopted for recognising and reporting suspicious transactions. Although the Code is being issued under the Proceeds of Criminal Conduct Law, it was developed as a private sector self-regulatory mechanism to foster good industry practice relating to financial transactions. However, the Monetary Authority has indicated that it will expect licensed financial institutions to observe the Code and related guidelines as a matter of prudent industry practice to ensure that Cayman conforms with the highest international standards.

Legislative Changes Segregated Portfolio Companies The Cayman Islands introduced legislation in 1998 allowing the formation of Segregated Portfolio Compa- nies. A segregated portfolio company is a single legal entity divided into an unlimited number of cells whose assets and liabilities are legally separated from each other. The potential uses include rent-a-captives, life insurance, reinsurance, composites and conglomerates. Liabilities Support Law In 1998, the Liabilities Support Law, 1997 was introduced to ensure that all domestic insurance companies maintain sufficient assets in the Cayman Islands to match their technical liabilities. This provides an addi- tional safeguard in the protection of policyholder obligations. The insurance division of the Monetary Au- thority provides a quality regulatory service tailored to the needs of both the domestic insurance industry and the offshore captive insurance industry, as well as fully satisfying the responsibilities delegated to it by gov- ernment.

15 Administration Seminars, Meetings and Training Programs During 1998, the Managing Director represented the Monetary Authority at several meetings and seminars overseas. These included the World Bank Symposium of Regulation in Miami in April, the Annual Interna- tional Conference of Banking Supervisors in Australia in October, the Year 2000 Council Hemispheric meet- ing in Miami in November and a series of promotional trips to South America. Various members of the Authority s senior management team attended several conferences throughout the year. These included the Caribbean Financial Action Task Force Plenary 5 in Trinidad, the World Council of Credit Unions in Washington, the Globalisation of Mutual Funds Seminar in Bermuda, the CEMLA confer- ence on the Year 2000 Issue in Mexico and the 8 th World Captive & Alternative Risk Financing Forum. The training of the Authority s analysts continued with the attendance of seminars covering a wide range of topics. Seminars included the Bank and Credit Risk Analysis in Jamaica, the Principles of Insurance Regula- tion Seminar in New York, the Mutual Funds and Investment Management Conference in

Orlando, the Annual Conference of Caribbean Bank Supervisors in Barbados and the Risk Management and Internal Controls seminar in Trinidad. The Authority hosted the Financial Innovations and Risk Management Seminar at the end of March. Speakers at the seminar included members from the Caribbean Centre of Monetary Studies, the Bank of Mexico and the Monetary Authority. Topics included: the impact of financial innovations on risk management approaches, and the taxonomy of financial innovations in the Caribbean Region and the regulatory implications of innovations. Staff Recruitment, Promotions and other Developments During the year, Mr. Christopher Collins was appointed as Superintendent of the Health Insurance Scheme, Mrs Shan Whittaker as Accountant and Mrs Mary-Lou Gallegos as Chief Analyst-Insurance. A number of acting appointments were also made including Mr Don Seymour as Acting Head of Investments services and Mr Gordon Rowell as Acting Deputy Head of Insurance. As at December 31 1998 the total staff complement was 48. There were eleven new recruitments and six persons resigned, during 1998. Developments in information technology and computer systems Whilst assessing the readiness of CMRAI for processing of transactions after the year 2000 it was decided to take a systemic approach to retrofitting potential problems. The internal database systems of CMRAI were fragmented due to the manner in which the organisation was formed from several quite separate governmental departments. The first internal system to be replaced was the support database for the banking statistics gathering exercise; this being carried out each year to obtain a breakdown of claims and liabilities for all bank and trust companies registered here. The new system allows for institutions to submit their data to CMRAI in the form of a spreadsheet via diskette or . These mechanisms are helping to increase the timeliness and accuracy of the information supplied to us. 16 Connectivity with the Internet is seen as extremely important because of the global nature of the institutions CMRAI regulates. The Internet allows fast and efficient two-way communications without the barrier of time zones. The island's communication company Cable and Wireless provided CMRAI with a permanent link to the internet in February of 1998, which was only the second of its kind in Cayman. Utilising communications in the first instance CMRAI is now relying far more on this fast and efficient means of dealing with many international institutions. Due to the volume of institutions sending annual registration fees, the next most important module to be written with Year 2000 compatible software was the fee receipting and logging system. This module went live in November of 1998 allowing for a year-end to be carried out with the compliant software. CMRAI now uses a secure telex communication for daily updates from the Federal Bank of New York. This uses an improved telex modem product that does not rely on mechanical movements to operate and has proved to be very reliable. Year 2000 activities carried out in-house The first exercise undertaken in preparing for any Year 2000 renovations was to undertake a full inventory of all hardware and software used by CMRAI. This included vaults, fire alarms, security systems, air-conditioning system, fax machines as well as the computer systems in use. Due to the relatively recent acquisition of this equipment it was found that CMRAI had very few potential points of failure. Despite this, each manufacturer and supplier was contacted to determine what level of compliance they foresaw for the various products. In the first instance, any recommendations made by the respective manufacturers were implemented. This ranged from complete replacement of software to just upgrading to the latest versions. Very little hardware was found to need replacement, and those needed were carried out before the end of June 1998. The next phase for CMRAI's Year2000 project was the testing of all systems for the century rollover as well as several key dates that might be affected. This testing has been completed for all



Utilities 15,356 20,379 14,400 19,973 25,792 72,657 52,543  
 Construction 20,411 26,329 22,956 21,382 31,952 25,142 43,176 Real estate 105,446 130,482  
 135,207 130,672 141,059 162,446 180,683 Personal 269,486 326,593 61,545 377,809  
 421,933 472,101 433,181 Other 124,662 140,277 130,951 133,610  
 163,918 243,395 310,648 Total Total Total Total Total 658,476 658,476 658,476 658,476  
 767,264 767,264 767,264 767,264 784,842 784,842 784,842 784,842  
 809,977 809,977 809,977 809,977 809,977 910,347 910,347 910,347 910,347  
 1,082,446 1,082,446 1,082,446 1,082,446 1,082,446 1,156,570 1,156,570 1,156,570 1,156,570  
 1,156,570 SOURCE : Economics & Statistics Office, Cayman Islands Government 19  
 Consumer Price Index and Inflation (1988 - 1998) 0 20 40 60 80 100 120 140 160 180 1988  
 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 CPI 0% 1% 2% 3% 4% 5% 6% 7%  
 8% 9% Inflation CPI Inflation CurCur CurCur Cur rr rr r encenc enc enc y in Ciry in Cir y in  
 Ciry in Cir y in Cir culation culation culation culation culation 11 11 1 and Mone and Mone  
 and Mone and Mone and Mone y Supply Suppl y Supply Suppl y Suppl yy yy y CI\$  
 Thousands 1992 1992 1992 1992 1992 1993 1993 1993  
 1993 1993 1994 1994 1994 1994 1994 1995 1995 1995  
 1995 1995 1996 1996 1996 1996 1996 1997 1997 1997  
 1997 1997 1998 1998 1998 1998 1998 \$100 10,884 7,987  
 12,150 10,848 13,564 15,228 18,423 \$40/\$50 1,303 5,056 3,085  
 6,290 6,186 6,001 5,877 \$25 4,359 5,386 5,290 5,457  
 6,414 6,843 7,194 \$10 1,818 1,960 2,291 2,512 2,770  
 2,920 3,028 \$5 1,147 1,309 1,380 1,540 1,656 1,875  
 1,954 \$1 1,946 2,193 2,432 2,632 2,900 3,198 3,441 25  
 cents 1,487 1,646 1,845 2,040 2,222 2,433 2,676 10 cents  
 791 856 946 1,025 1,109 1,203 1,307 5 cents 289  
 316 349 384 419 458 496 1 cents 207 233  
 257 278 303 329 358 Total Total Total Total Total 24,231  
 24,231 24,231 24,231 26,942 26,942 26,942 26,942 26,942  
 30,025 30,025 30,025 30,025 30,025 33,005 33,005 33,005 33,005  
 33,005 37,543 37,543 37,543 37,543 37,543 40,488 40,488 40,488  
 40,488 40,488 44,754 44,754 44,754 44,754 44,754 Demand Deposits 2  
 41,637 47,053 54,163 58,321 76,004 75,716 102,129 Money Supply (M 1  
 ) 3 65,868 73,995 84,188 91,326 113,547 116,204 146,883 Percent  
 Change 7.8 12.3 13.8 8.5 24.3 2.3 26.4 Notes Notes Notes Notes Notes 1 \$100  
 and \$40 notes were introduced in 1981, \$50 notes in 1987. 2 Demand deposits held in  
 Category A Banks & Trust Companies 3 Currency in circulation plus demand deposits with  
 commercial banks. SOURCE : Currency Board and Economics & Statistics Office, Cayman  
 Islands Government Money Supply and Growth Money Supply and Growth Money Supply and Growth  
 Money Supply and Growth 0 20,000 40,000 60,000 80,000 100,000 120,000 140,000  
 160,000 1234567 0.00% 5.00% 10.00% 15.00% 20.00% 25.00% 30.00% Money Supply  
 Percentage change CERTIFICATE OF THE AUDITOR GENERAL To the Shareholder and  
 Directors of the Cayman Monetary Regulatory Authority International In accordance with  
 the provisions of Section 35(2) of the Monetary Authority Law (1998 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 1998 as set out on pages 23 to 32. 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. I conducted my audit 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 the financial statements present fairly, in all material respects, the financial position of the Cayman Monetary Regulatory Authority International as at 31 December 1998 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 (1998 Revision). N. K. Esdaile Auditor General 11 October 1999

23 CACA CACA CA YMAN ISLYMAN ISL YMAN ISLYMAN ISL YMAN ISL ANDS MOANDS MO ANDS MOANDS MO ANDS MO NETNET NETNET NET ARAR ARAR AR Y AY A Y AY A Y A UTHORITYUTHORITY UTHORITYUTHORITY UTHORITY BB BB B ALAL ALAL AL ANCE SHEETANCE SHEET ANCE SHEETANCE SHEET ANCE SHEET 31 December 199831 December 1998 31 December 199831 December 1998 31 December 1998 In CaIn Ca In CaIn Ca yman Islands Dollaryman Islands Dollar yman Islands Dollaryman Islands Dollar ss ss s ASSETSASSETS ASSETSASSETS ASSETS NoteNote NoteNote Note 19981998 19981998 1998 19971997 19971997 1997 Currency Reserve Assets Short-Term Investments2b,3\$44,141,628\$46,948,772 Long-Term Investments2b,311,929,002- Current and Call deposits42,057,0014,771,174 Fixed Deposits41,090,9112,017,333 Total currency reserve assets59,218,54253,737,279 Other Assets Accounts Receivable22,5459,734 Other Receivables and Prepayments40,11673,871 Interest Receivable, local deposits4,1847,376 Interest Receivable, foreign deposits159,428- Stocks2f,5210,673233,341 Fixed Assets6637,008802,807 Total other assets1,073,9541,127,129 TOTTOT TOTTOT TOT AL ASSETSAL ASSETS AL ASSETSAL ASSETS AL ASSETS \$60,292,496\$60,292,496 \$60,292,496\$60,292,496 \$54,864,408\$54,864,408 \$54,864,408\$54,864,408 \$54,864,408 LIABILITIESLIABILITIES LIABILITIESLIABILITIES LIABILITIES Demand Liabilities, Currency in Circulation7a\$44,754,521\$40,488,518 Payable to the CI Government9b1,785,9662,500,000 Other Liabilities and Payables7b1,273,331636,779 Lease obligation8115,500218,797 Total liabilities47,929,31843,844,094 RESERRESER RESERRESER RESER VES and CAPITVES and CAPIT VES and CAPITVES and CAPIT VES and CAPIT ALAL ALAL AL General Reserve9a6,713,1786,073,278 Currency Issue Reserve9c 650,000697,036 Total reserves7,363,1786,770,314 Paid Up Capital9d5,000,0004,250,000 Total reserves and capital12,363,17811,020,314 TOTTOT TOTTOT TOT AL LIABILITIESAL LIABILITIES AL LIABILITIESAL LIABILITIES AL LIABILITIES ,, ,, , RESER RESER RESER RESER RESER VES and CAPITVES and CAPIT VES and CAPITVES and CAPIT VES and CAPIT ALAL ALAL AL \$60,292,496\$60,292,496 \$60,292,496\$60,292,496 \$60,292,496 54,864,40854,864,408 54,864,40854,864,408 Signed on behalf of the Board, 11 October, 1999

George McCarthy,

OBE, JPNeville Grant ChairmanManaging Director Cayman Islands Monetary AuthorityCayman Islands Monetary Authority 24 CACA CACA CA YMAN ISLYMAN ISL YMAN ISLYMAN ISL YMAN ISL ANDS MOANDS MO ANDS MOANDS MO ANDS MO NETNET NETNET NET ARAR ARAR AR Y AY A Y AY A Y A UTHORITYUTHORITY

UTHORITY UTHORITY UTHORITY INCOME ST INCOME ST INCOME ST INCOME ST  
 INCOME ST AA AA A TEMENT TEMENT TEMENT TEMENT TEMENT For the y For the y For the y For the y For the y For the y  
 the y For the y For the y ear ended 31 December 1998 ear ended 31 December 1998 ear ended 31 December 1998 ear ended 31 December 1998 ear ended 31 December 1998 ear ended 31 December 1998 In  
 Ca In Ca In Ca In Ca In Ca In Ca yman Islands Dollaryman Islands Dollar yman Islands Dollaryman  
 Islands Dollar yman Islands Dollar ss ss s INCOME INCOME INCOME INCOME INCOME  
 Note Note Note Note Note 1998 1998 1998 1998 1998 1997 1997 1997 1997 1997 Government  
 Grants 2 \$4,000,000 \$3,482,124 Investment Income 22,802,421 2,554,966 Commission  
 Income 270,437 238,928 Numismatic Income 6,366 54,950 Other income 4,785 12,376 Foreign  
 Currency Loss 2(178)(478) Total income 7,083,831 6,342,866 EXPENSES EXPENSES  
 EXPENSES EXPENSES EXPENSES Salaries and Other Benefits 2,097,589 1,640,459  
 General and Administrative 453,606 294,280 Lease rental 8223,750 233,975  
 Depreciation 6247,912 172,563 Official travel 125,760 113,624 Pension  
 contributions 10201,895 99,364 Management and Custody fees 388,546 85,270 Audit and  
 Professional fees 22,955 62,680 Staff training and Recruitment 101,042 54,800 Interest  
 expense 2e,819,398 30,339 Directors fees 13,000 8,000 Total operating  
 expenses 3,595,453 2,795,354 Net income Net income Net income Net income Net income  
 \$3,488,378 \$3,488,378 \$3,488,378 \$3,488,378 \$3,488,378 3,547,512 3,547,512  
 3,547,512 3,547,512 3,547,512 25 CACA CACA CA YMAN ISLYMAN ISLYMAN ISLYMAN  
 ISLYMAN ISLYMAN ISLYMAN MOANDS MOANDS MOANDS MOANDS MOANDS MO NET NET NET NET  
 NET ARAR ARAR AR Y AY AY AY AY A UTHORITY UTHORITY UTHORITY UTHORITY  
 UTHORITY ST ST ST ST ST AA AA A TEMENT OF CASH FLO TEMENT OF CASH FLO  
 TEMENT OF CASH FLO TEMENT OF CASH FLO TEMENT OF CASH FLO WS WS WS WS WS  
 WS For the y For the y For the y For the y For the y ear ended 31 December 1998 ear ended  
 31 December 1998 ear ended 31 December 1998 ear ended 31 December 1998 ear ended  
 31 December 1998 In Ca In Ca In Ca In Ca In Ca In Ca yman Islands Dollaryman Islands Dollar  
 yman Islands Dollaryman Islands Dollar yman Islands Dollar ss ss s 1998 1998 1998 1998  
 1998 1997 1997 1997 1997 1997 Cash f Cash f Cash f Cash f Cash f lolo lolo lo ws frws fr ws  
 frws fr ws fr om operatin om operatin om operatin om operatin om operatin g actig acti g actig  
 acti g acti vities vities vities vities vities CI Government grant received \$4,000,000 \$3,482,124  
 Net proceeds from currency operations 4,564,163 3,721,333 Payments to CI  
 Government (2,500,000) (1,527,269) Payments to employees (2,297,931) (1,781,795)  
 Payments to suppliers (1,417,181) (931,878) Net cash used by operating  
 activities 2,349,051 2,962,515 In In In In In vv vv v estin estin estin estin g Actig Acti g  
 Actig Acti g Acti vities vities vities vities vities Investment income received 2,762,305 2,460,441  
 Net purchases of investments (8,559,578) (2,294,155) Acquisition of fixed  
 assets (172,975) (709,571) Net cash provided by investing activities (5,970,248) (543,285) FF  
 FF F inancin inancin inancin inancin inancin g Actig Acti g Actig Acti g Acti vities vities  
 vities vities vities Interest paid (19,398) (30,339) Net cash used in financing  
 activities (19,398) (30,339) Increase/(decrease) in cash and cash  
 equivalents (3,640,595) 2,388,891 Mo Mo Mo Mo Mo vv vv v ement in cash and cash  
 equi ement in cash and cash equi ement in cash and cash equi ement in cash and cash equi  
 ement in cash and cash equi vv vv v alents alents alents alents alents Balance at 1 January  
 1998 6,788,507 4,399,616 Increase/ (decrease) (3,640,595) 2,388,891 Balance at 31  
 December 1998 Balance at 31 December 1998 Balance at 31 December 1998 Balance at 31  
 December 1998 Balance at 31 December 1998 \$3,147,912 \$3,147,912  
 \$3,147,912 \$3,147,912 \$3,147,912 \$6,788,507 \$6,788,507 \$6,788,507 \$6,788,507 \$6,788,507

26 CACA CACA CA YMAN ISLYMAN ISL YMAN ISLYMAN ISL YMAN ISL ANDS MOANDS MO ANDS MOANDS MO ANDS MO NETNET NETNET NET ARAR ARAR AR Y AY A Y AY A Y A UTHORITYUTHORITY UTHORITYUTHORITY UTHORITY NOTES TO THE FINNOTES TO THE FIN NOTES TO THE FINNOTES TO THE FIN NOTES TO THE FIN ANCIAL STANCIAL ST ANCIAL STANCIAL ST ANCIAL ST AA AA A TEMENTSTEMENTS TEMENTSTEMENTS TEMENTS 31 December 199831 December 1998 31 December 199831 December 1998 31 December 1998 In CaIn Ca In CaIn Ca In Ca yman Islands Dollaryman Islands Dollar yman Islands Dollaryman Islands Dollar yman Islands Dollar ss ss s 1.1. 1.1. 1. OrgOrg OrgOrg Org anizationanization anizationanization anization The Cayman Monetary Regulatory Authority International (the Authority ) was established under The Monetary Author- ity Law, 1996 (the Law ) on 1 January 1997. Under the Law, the primary objectives of the Authority are (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; and (d) to advise the Cayman Islands Government on banking and monetary matters. 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. 2.2. 2.2. 2. SiSi SiSi Si gnificant Accountingnificant Accountin gnificant Accountin gnificant Accountin g Policiesg Policies g Policiesg Policies g Policies a)Basis of preparation. The financial statements of the Authority are prepared in accordance with International Accounting Standards and under the historical cost convention. The reporting cur- rency 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. d)Government Grants. Income grants are deferred and recognized in the income statement over the grant period. e)Fixed Assets. Fixed Assets are stated at historical cost less accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Rental payments under operating leases are charged to the income statement in equal installments over the period of the lease. Interest costs on borrowings to finance leasehold improvements are expensed. Leases where the Authority assumes substantially all the economic benefits and risks of ownership are clas- sified as finance leases . . . . Finance leases are recognized as an asset and liability in the balance sheet at amounts equal to the fair value at the inception of the lease of the leased property or, if lower, the present value of the minimum lease payments. Repairs and maintenance expenses are charged to the income statement when the expenditure occurs. 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. 27 g) Numismatic Coins. The total nominal value of numismatic coins outstanding at 31 December 1998 is \$15,025,063 (1997: \$15,071,504). 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 30 days from the date of acquisition.

3.3.3.3. 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. 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.

Summary of short-term investments

31 December 1998	31 December 1997
Certificates of Deposits and Bankers Acceptances	Interest rates range from 5.19% to 5.74% Maturing from 7/1/99 to 19/8/99
\$22,474,962	\$29,865,439
Repurchase Agreement Federal Reserve	4.90% maturing 4/1/99
\$21,666,666	\$17,083,333
Total short-term investments, at amortized cost	\$44,141,628
Market value of short-term investments	\$44,142,332
Long-term investments	U.S. Treasury Notes and Mortgage-backed Securities, Interest rates range from 5.375% to 8.5% Effective maturity date ranging from 31/8/99 to 15/8/2007, at market value
\$11,929,002	
Bank Deposits	The Authority maintains current, call and fixed deposits with domestic and foreign banks. Under the Law, domestic deposits cannot exceed 10% of demand liabilities. At 31 December 1998, domestic deposits represent 4.6% (1997: 7.0%) of demand liabilities.
1998	1998
1998	1997
1997	1997
Domestic deposits	Currency Call deposits
KYD \$464,876	203,194
Call deposits	USD 504,387
GBP 4,257	43,477
Current deposits	KYD (5,267)
(16,153)	Fixed deposits
KYD 1,090,912	12,017,333
Cash on hand	KYD 205,205
\$2,059,369	\$2,852,327
Interest is paid on local call and fixed deposits at rates ranging from 2.5% to 5.25% (1997: 2.5% to 5.75%) per annum. Foreign Deposits	Currency Investment portfolio, call account
USD \$949,354	\$3,851,837
Federal Reserve	USD 139,189
84,343	\$1,088,543
\$3,936,180	Interest of 4.563% (1997: 5%) 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.
5.5.5. Stocks	Bullion from the melt-down of coins
1998	1998
1998	1997
1997	1997
1997	1997
21,139	11,959
Coins awaiting melt-down	21,660
19,535	Museum items
17,625	21,274
Total stocks	\$210,673
\$233,341	
29	
6.6.6. Liabilities	Assets
7.7.7.7. Demand Liabilities. Represents the value of circulating currency notes and coins. These liabilities are fully funded by the Currency Reserve assets. Under the Law, the Currency Reserve assets represent external and local assets that: shall only be used to satisfy demand liabilities; shall be segregated from all other assets of the Authority; and shall not be chargeable with any liability arising from any other business of the Authority. At 31 December 1998, total demand liabilities comprise:	
1998	1998
1998	1997
1997	1997
1997	i) Currency notes in circulation
\$39,918,293	\$36,065,017
ii) Currency coins in circulation	4,836,228
4,423,501	



Demand liabilities, Currency in circulation \$44,754,521 \$40,488,518 At 31 December 1998, the value of Currency Reserve assets was \$59,218,542 (1997: \$53,737,279) representing 132% (1997: 133%) of total demand liabilities. After all demand liabilities are extinguished, any surplus Currency Reserve assets would form, in part, the assets of the General Reserve see Note 9. b) b) b) b) b) Other liabilities. At 31 December 1998,

other liabilities include unsettled currency redemption payments of \$1,222,388 (1997: \$556,250) due to two local banks. Unsettled redemption payments are normal, temporary liabilities arising from currency operations due to mismatched trade instructions. Both liabilities liquidated on 4 January 1999. Furniture & Fixtures Leasehold Improv Office

Equipment	Motor Vehicle	Total Original Cost Balance at 1 January 1998: 183,364\$			
422,915\$	400,599\$	24,600\$	1,031,478\$	Additions: 38,767	
43,346	82,113	Disposals: -			
-		Balance at 31 December 1998: 222,131		422,915	
443,945	24,600	1,113,591	Depreciation Balance at 1 January 1998:		
30,256	49,421	146,123	2,871	228,671	Depreciation
expense: 41,874		84,583	116,535	4,920	247,912
Balance at 31 December 1998: 72,130		134,004	262,658	7,791	
476,583	Net Book Value Cost at 31 December 1998: 222,131				422,915
443,945	24,600	1,113,591	Accumulated depreciation: (72,130)		
(134,004)	(262,658)	(7,791)	(476,583)	Net Book Value at 31	
December 1998: 150,001\$	288,911\$	181,287\$	16,809\$	637,008\$	
Net Book Value at 31 December 1997: 153,108\$		373,494\$	254,476\$		

21,729\$ 802,807\$ 30 8.8. 8.8. 8. Lease Obli Lease Obli Lease Obli Lease Obli

8.8. 8.8. 8. Lease Obligation The Cayman Islands Government leases the premises used by the Authority under a lease agreement dated 15 December 1996. The lease is for an initial period of three years at \$25 per sq. foot, 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 will be renewing the lease agreement when it expires on December 14, 1999. The Authority reimburses all costs under this agreement, including the modification costs incurred by the lessor to design the building to the Authority's specifications. These modification costs are being repaid over three years at an interest rate of 11.25% per annum.

At 31 December 1998, the unpaid principal balance of modification costs is \$115,500 (1997: \$218,797) which is payable within a year. 9.9. 9.9. 9. Reser Reser Reser Reser Reser vv vv v es and Capitales and Capital es and Capitales and Capital es and Capital a) General Reserve. The Authority maintains a General Reserve in accordance with Section 6(1) of the Law. Under 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. On 16 March 1998, the Legislative Assembly passed the Monetary Authority (Amendment) (Reserves) Law, 1998 to reduce total reserve requirements from 130% to 115% of demand liabilities. b) Reserve Allocation. Under the Law, the net income of the Authority, after provision for all expenditure and reserves, must be allocated such that the Currency Reserve represents 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 24 May, 1999 the Board of Directors resolved to transfer \$1,785,966 (1997: \$2,500,000) to the General Revenue of the Cayman Islands Government. 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. c) Currency Issue Reserve. A three-year supply of bank notes will be reprinted in 1999 at an approximate cost of \$500,000. The total cost of the reprint will be charged to the Currency Issue Reserve. During the year, a total of \$359,548 was transferred from the Currency Issue Reserve to fund the 1998 currency reprint. d) Capital. The authorised share capital of the Authority is \$100,000,000. The Cayman Islands Government is the sole shareholder and has contributed Paid-Up capital of \$5,000,000 as at 31 December 1998.

Issue	Paid-Up	Reserves and Capital
Capital	Capital	Capital
Balance at 1 January 1998:	\$ 6,073,278	\$ 697,036
Transfers in:	93,488,378	312,512
Transfers out:	92,848,478	(359,548)
Balance at 31 December 1998:	\$ 6,713,178	\$ 650,000

10. Pensions. The Authority participates in the Public Service Pensions Fund, a defined benefit pension scheme administered by the Cayman Islands Government. Under this scheme the employee and employer each contributes 6% (1997: employee = 4%) of the employee's salary on a monthly basis. On January 1, 1998 the Authority also commenced contribution of an additional 5% of employee's monthly salary to assist with the funding of Past Service Liability. All employees, except expatriates employed on overseas or local contracts, are eligible for this scheme. Ineligible employees receive cash supplements of 10% of salary in lieu of pension contributions. The Authority paid \$76,801 (1997: \$52,009) in cash supplements during the year.

11. Financial Instruments. Credit risk. Financial assets that potentially subject the Authority to credit risk consist principally of current, call and fixed deposits, 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 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, lease obligation, 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.

Section 12. Year 2000 Compliance. The Authority has carried out the required investigation into the Year 2000 problem for the computers that are considered to be mission-critical in the various divisions and has the ability to commit the necessary resources to complete its Year 2000 remediation plan in a timely manner. Mission-critical systems are those systems which in the absence of an effective remediation programme, any systems failure or processing error will cause, health and safety risks, significant revenue

losses, increased operating cost, financial penalties for failure to comply with terms of contract, or other financial difficulties. Divisions that are equipped with recently manufactured (1996-99) personal computers and software that are year 2000 compliant are: Accounting:Fully compliant hardware and software; Banking Supervision:Fully compliant hardware and software; Insurance Supervision:Fully compliant hardware, software replaced by November1999; Investments:Fully compliant hardware, software replaced by October 1999; Administration:Fully compliant hardware, and software; Currency operations:Fully compliant hardware, and software 32 The Authority has no information to indicate that a significant vendor may be unable to sell to the Authority, or a significant customer may be unable to transact with the Authority, or a significant service provider may be unable to provide services to the Authority, in such case because of the year 2000 compliance problems.