



# Cayman Monetary Regulatory Authority International

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

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

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

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

1 22 April 1998 His Excellency The Governor Mr. John Owen, MBE Office of the Governor Government Administration Building George Town, Grand Cayman Your Excellency, In accordance with Subsection (1) of Section 36 of the Monetary Authority Law 1996, as amended, I have the honour on behalf of the Board of Directors of the Cayman Islands Monetary Authority to submit herewith the Annual Report and Accounts of the Authority for the year ended 31 December 1997. Respectfully yours, George A. McCarthy, C.P.A., O.B.E., J.P. Chairman

**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 maintain a first class financial system, and to safeguard the interests of depositors, trust beneficiaries, policyholders and mutual fund investors from undue loss. The Authority contributes to public confidence in our financial system by promoting sound corporate governance, prudent business practices and compliance with laws and regulations. The Authority is also responsible for promoting and maintaining monetary stability, for preserving the value and integrity of the Cayman Islands currency, and for advising the government on banking and monetary matters. The Authority endeavours to fulfil its regulatory and supervisory mandate having due regard to international standards and the need for operational 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 skills in our staff that responds expeditiously and effectively to the challenges posed by an ever-changing financial environment.

**2 Introduction** The Cayman Monetary Regulatory Authority International was established as a body corporate under The Monetary Authority Law, 1996, and commenced operations on 1 January 1997. The former responsibilities, duties and activities of the Financial Services Supervision Department and the Cayman Islands Currency Board now fall to the Monetary Authority which was created from the merger of these two bodies. Within the Authority there are six divisions, namely: Administration Banking and Trust Supervision Currency Operations Insurance Supervision Investment Services Policy and Research Over the first year, the number of personnel employed by the Authority increased from 24 to 43. This increase in staff is to ensure continued efficiency in the services provided by the Authority.

**Appointments** During 1997 there were several key appointments: Mr. Neville Grant, Managing Director Ms. Cindy Bush, General Manager Mr. Mitchell Scott, Head of Policy & Research Sir Vassel Johnson, Director New Premises The Authority has been in operation since January 1997. The move into their present offices in Elizabethan Square was completed by February 28; and His Excellency the Governor, Mr. John Owen officially opened the Authority, on July 3, 1997.

**Acknowledgements** The Authority would like to thank all those who contributed to the success of our first year of operations. Special mention should be made of the Public Works Department, the Cayman Islands Government Computer Services Department, Lands and Survey, and the Royal Cayman Islands Police Service. Thanks to all of the financial institutions for their continued assistance and co-operation. To the many committees, both private and public, a very special thanks for your contribution. The Authority thanks the staff for their continued dedication and service.

**3 Monetary Authority Board of Directors** Managing Director Neville Grant General Manager Cindy Bush Chairman George McCarthy Board of Directors From left to right Hon. George McCarthy, C.P.A., O.B.E., J.P. Financial Secretary; Head of the Portfolio of Finance and Economic Development; Third Official Member of the Legislative Assembly Ex-Officio Chairman of the Authority and the main force behind the formation of the Monetary Authority. Mr. McCarthy served as Chairman

of the Currency Board for the period 1992 – 1996. He has been a Civil Servant for the past 22 years, and was awarded the OBE by Her Majesty Queen Elizabeth II in 1994. Sir Vassel Johnson Founding Father of the Cayman Islands Financial Industry, former Financial Secretary (1965 – 1982), former Chairman of the Currency Board (1972 -1982 ). Now retired and serving as consultant to many local Companies. Her Majesty Queen Elizabeth II knighted Sir Vassel in 1994. Mr. Richard Chalmers, M.A. Formerly a member of the Currency Board and also a Cayman Islands Inspector of Banks (1983-1986). Mr. Chalmers is currently employed by the U.K. Financial Services Authority and was one of the key persons in the formation and establishment of the Monetary Authority. Mrs. Julene Banks, LLB A Caymanian, who has been with the Civil Service for 11 years, the past six years have been served with the Legal Department in the capacity of Crown Counsel. Mr. Neville Grant, M.A., MBA Managing Director, Cayman Monetary Regulatory Authority International. A Canadian bank supervisor of wide and varied experience. As a consultant with the International Monetary Fund (IMF) for the past six years, he served as a banking-supervision advisor to the governments of Jamaica, Vanuatu and Zambia. Mr. Michael Austin, M.B.E., F.C.A. Retired senior partner of KPMG Peat Marwick, Cayman, now a Consultant, currently serving as a non- executive director on several Company Boards. 4 5 Senior Management of the Authority Managing Director Mr. Neville Grant Mr. Grant is a Canadian regulator of wide and varied experience. For many years he was employed by the Office of the Superintendent of Financial Institutions (Canada) as Director, Bank Supervision. As a consultant with the International Monetary Fund (IMF), he served as a banking supervision advisor to the governments of Jamaica, Vanuatu and Zambia. As Man- aging Director he acts with the powers vested in him by the Board to run the affairs of the Authority. General Manager Ms. Cindy Bush Ms. Bush joined the Currency Board in 1991 after completing her Bachelor of Arts degree in Economics at Macalester College, Minnesota, USA. She served as Currency Board Manager from 1993-1996. Prior to her appointment as General Manager, Ms. Bush was Head of Currency Operations. As General Manager, she retains responsibility for Currency Operations and is also responsible to the Managing Director for the day to day administration of the Authority. Head of Insurance Mr. William McCullough Mr. McCullough is responsible for regulation and supervision of the domestic insurance market, captive insurance companies and for insurance managers and all other issues. Mr. McCullough, who is an associate of the Chartered Insurance Institute (London) and a Fellow of the Corporation of Insurance Brokers, has also served as Managing Director of International Insurance Brokers in Nigeria, Malaysia and New Zealand. Head of Policy and Research Mr. Mitchell Scott A graduate of Furman University, South Carolina, Mr. Scott holds a Bachelor of Art Degree with a Major in Accounting. He has been in government service for twelve years including a one-year secondment to the Bank of England. Mr. Scott has spent his twelve years in the areas of banking and mutual fund regulation. Deputy Head of Banking and Trust (Off-Site) Mrs. Anna McLean A graduate of Florida State University, Mrs. McLean holds a Bachelors of Science Degree in Business Management. She joined the Banking Supervision Department in 1990 and has received extensive training in banking supervision and regulation, including one year secondment to the Bank of England, course at the Bank for International Settlements, Board of Governors of the Federal Reserve System, and various other regional Central Banks. 6 Deputy Head of Banking and Trust (On-Site) Mr. Karl Adamsons Mr. Adamsons, held various positions with the Of fice of the Superintendent of Financial Institutions (OSFI), Canada in policy and research and bank examinations. He has served as consultant in bank supervision to the International Monetary Fund in Eastern

Europe. Before joining OSFI, he worked for a major bank in Canada. He holds an MBA from the University of British Columbia.

**Deputy Head of Currency Operations Mrs. Dena Thompson** Mrs. Thompson joined the Currency Board in 1996 as Assistant Manager, having accumulated 15 years experience in the private sector. Mrs. Thompson's main responsibility is to provide the Head of Currency Operations with accounting, administrative and supervisory assistance and support in the performance of her duties as they affect the day to day operations of Currency Operations, and to act in her absence.

**Deputy Head of Insurance Mr. Chris Collins** Mr. Collins joined the former Financial Services Supervision Department in 1996 after being employed in the U.K., in the insurance industry for a number of years. Mr. Collins' main responsibility is to assist with the administration of the Insurance Law, 1995, and the regulation of the insurance industry as a whole.

**Deputy Head of Investment Services Mr. Dwight Carter** Mr. Carter served in the Banking and Mutual Fund Regulation for the past nine years, the first seven of which was spent in Banking Supervision including a one year secondment to the Bank of England. Before joining the Government service he was employed in the private sector for some thirteen years with a major international Bank/Trust Company in a number of senior positions. He has over the years completed various management courses sponsored by his former employer as well as several supervisory courses sponsored by the Federal Reserve Board and CEMLA.

**Financial Controller Mr. Don Seymour** Mr. Seymour joined the Authority as Financial Controller in September 1997. Mr. Seymour was previously employed with Price Waterhouse in Grand Cayman as Manager, Audit and Business Advisory Services. He holds a Bachelor of Business Administration degree in Accounting from the University of Texas at Austin and a Certified Public Accountant certificate from the State of Illinois.

**Information Technology Manager Mr. Neil Glasson** Mr. Glasson joined the Authority in September 1997. For two years prior to this he was employed by the Cayman Islands Government in their Computer Services Department. Before coming to Cayman, Neil was employed by British Telecommunications Plc. for fourteen years during which time he gained an ONC in Telecommunications and a HNC in Electronics in addition to extensive Information Technology skills.

7 MESSAGE BY HIS EXCELLENCY THE GOVERNOR JOHN OWEN, MBE

The Cayman Islands has grown into one of the world's largest financial centres by providing the key services and infrastructure clients need, within the framework of clear carefully enforced legal and ethical guidelines. The Islands' policy of remaining responsive and flexible while maintaining the highest regulatory standards has been integral to its success. Combating commercial crime and ensuring our financial institutions remain sound present the same challenges for us in the Cayman Islands as it does for every other major financial centre be it London, Tokyo, Hong Kong or New York. However, we remain vigilant to the constantly changing methods by which criminals attempt to abuse the system and we are committed to the effective regulation of the industry. It is against this background that the Cayman Islands Monetary Authority (the Authority) was created one year ago. Its aim: to further strengthen the regulation of the financial services sector, while acting as a catalyst for its continued success. The consolidation of the resources and responsibilities of the former Financial Services Supervision Department and the Cayman Islands Currency Board into the Authority has enabled more efficient oversight of the sector. At the same time, the broadening of the Authority's scope to include research and policy formulation has placed it in a position to be much more proactive in the planning of the industry's development. The Authority's initial year has been one of building on foundations. While maintaining its day-to-day supervisory functions it has focused on expanding dialogue with the private sector and on enhancing co-operation and co-ordination with overseas regulators, in the area of

cross-border supervision, for example. These initiatives have been crucial in our efforts to protect both the Cayman Islands and the international financial system. The value of the Authority to the Cayman Islands continued development cannot be overstated. I commend the management and staff for their dedication and professionalism in discharging the Authority's responsibilities.

**8 CHAIRMAN'S STATEMENT**

The financial services industry is never static; international standards constantly evolve, in keeping with emerging demands from legitimate international clientele. The Cayman Islands continues to be a prime choice for discriminating investors seeking an overseas operational base. As such, it was imperative for our financial jurisdiction to create a single regulatory and supervisory body to oversee financial issues. Having the Cayman Monetary Regulatory Authority International in place as regulator, therefore endorses our commitment to remaining in the forefront of the leading-edge supervisory structures so essential to the needs of an integrated global market. The Authority holds particular supervisory responsibility over banking, trust, insurance and mutual funds, also serving as advisor to government on banking and monetary issues. The Authority, of course, also has the overall task of further augmenting Cayman's position of prominence in the ranks of major offshore financial centres. Accordingly, as the first operative period for the Cayman Monetary Regulatory Authority International, 1997 was indeed a landmark year. The Authority is cognisant of the importance of international co-operation to today's financial services industry. CMRAI accordingly placed special emphasis on the development of pertinent supervisory and regulatory provisions during its first year, recruiting the necessary expertise and implementing appropriate training programmes to do so. Concerted effort was made to fully implement and build on proposals detailed in the Basle Committee and Offshore Group of Banking Supervisors joint accord, agreed the previous year. As a leading and founding member of the Offshore Group, Cayman, through the Monetary Authority, continued to formulate a clear response to procedural concerns. Another of the priorities for the Authority during 1997 was the initiation of intensive discussions with Cayman's private sector. In order to remain conversant with their issues and concerns, the Authority maintains an open door policy to all institutions operating within our financial industry to enable dialogue and monitoring of financial issues as they arise. As it observes its first anniversary, the Cayman Monetary Regulatory Authority International is poised to build on its initial efforts to ensure that the Cayman Islands maintains its world status as a firm yet flexible and innovative leader of the financial industry. As Chairman, I applaud and congratulate the efforts of the dedicated management and staff. They have united to maintain their central focus: to further strengthen Cayman's regulatory and supervisory regime and to retain its prominence in the ranks of leading international financial jurisdictions.

**The Hon. George McCarthy 9 MANAGING DIRECTOR'S STATEMENT**

The year 1997 was an important milestone in the history of the Cayman Islands as it celebrated the **FIRST ANNIVERSARY** of the Cayman Monetary Regulatory Authority International (the Authority). Its establishment occurred at a time of rapid expansion in the financial services sector, with the concurrent need for enhanced supervision of a broad cross-section of financial intermediaries in line with international standards and expectations. The Authority brought together the functions of the former Financial Services Supervision Department and the Currency Board. It also created a new department for Policy and Research that will serve as a catalyst for new and improved systems of supervision and regulation of the financial sector. Among its various functions the Authority acts as adviser to the Government on banking and monetary policy issues and is a strong defender of Cayman's position as a first class international financial centre. During the year a number of

initiatives were developed, including the strengthening of supervisory structures and the building of institutional capacity. The Authority recognises that the expansion of the financial services sector is very much mirrored by the global expansion of cross-border financial activities. Consequently, it has undertaken projects designed to enhance international co-operation and co-ordination to facilitate the supervision of cross-border banking operations. This includes procedures for facilitating on-site examinations of Cayman banks by overseas supervisors by way of Memoranda of Understanding. Cayman's systems of supervision are being adapted to meet the challenges presented by the changing international financial environment. To this end, an on-site bank inspection programme was developed and is now being implemented. Onsite review programmes for the insurance and investment services sectors are expected to be implemented in 1998. The Authority is also enhancing its off-site surveillance capabilities in line with its on-site programme and has recruited a number of experienced expatriate supervisors to assist in this process. In keeping with its objectives, the Authority has developed a training programme focused on providing its supervisory staff with hands-on experience through attachments with regulatory bodies such as the Bank of England, and with the private sector. This is consistent with its policy of maintaining an effective supervisory regime that is in touch with leading edge developments in the private sector and the international supervisory community. On its agenda for 1998, the Authority plans to recommend appropriate legislative reform to enable it to exercise a judicious degree of regulatory oversight over money exchange houses (bureau de change), money transfer entities, building societies and credit unions. Besides the supervision of the financial services sector, the Authority has undertaken other projects including the production of new currency notes for 1998. Efforts to recruit additional staff for its Policy and Research Unit are also underway. This is all in keeping with the Authority's legal mandate as it evolves into a full-fledged autonomous regulatory body. As it celebrates its FIRST ANNIVERSARY, the Authority compliments its management and staff for the hard work and dedication exhibited during the year. The Authority stands proudly as a key element in the country's financial sector accountability. As Managing Director, I would like to record my sincere appreciation to the staff for a job well done.

Mr. Neville Grant 10 Administration Division

The Administration Division is very much a key component in facilitating the efficient operations of the Authority. There are a number of functions within the division, including responsibility for Budget and Financial Management, Information Technology Management, and Human Resource Management. Staff Training During 1997 the Authority hosted a two-week banking supervision course conducted by the Bank of England and sponsored by Cable & Wireless. The course covered the techniques of banking supervision together with financial analysis for banking supervision. The programme proved to be invaluable to our financial analysts. During the course of the year, staff members attended various conferences and seminars, both locally and overseas.

Information Technology With the formation of the Authority came the need to create information technology systems independent of government to support all accounting, word-processing and information management systems. The computer infrastructure of the Authority consists of one server running MS Exchange messaging system, MS SQL Server data base, Platinum accounting system and forty five Personal Computers. This provides us with a very modern platform on which to build. One of the first tasks was to train all staff to effectively use this equipment. This was achieved through a combination of in-house cross-training and by sending staff to one of the local training facilities. One major impact of the new hardware and software was to implement an electronic diary system for use by the entire Authority to manage the six departments

appointments and booking of the two conference rooms. This was achieved using Microsoft Outlook Personal Information Management software. As a result of the now fully-incorporated functions of the Authority, it was decided by the Board that the existing five separate, rather dated, on-line databases should be re-written to create a fully incorporated information system for the Authority. In September Neil Glasson was employed as Information Technology Manager with the task to design, develop and implement new information systems, in addition to providing support to all staff. The first challenge was to reduce the amount of data entry being undertaken by the financial analysts, to enable more extensive analysis of the information to be carried out. It was decided that distributing the annual surveys using electronic forms would help both the Monetary Authority and the institutions report more effectively and efficiently. To determine the best mechanism with which to achieve this goal, an information technology survey was distributed, in the first instance, to all banks registered with the Authority. Following this, it is our intention to either post computer disks, or all those institutions that have compatible computer systems. To establish the current state of readiness that the financial institutions registered in Cayman had achieved with the now internationally recognised Year 2000 problem, a questionnaire was distributed to all registered banks, insurance companies, company managers and mutual fund administrators. The results from this survey will help us determine any financial risks associated with this problem.

Financial Report The first annual financial statements of the Authority as at 31 December 1997, are shown on pages 38 to 46 of this annual report. Total assets of \$54.9 million include \$53.7 million of Currency Reserve assets representing investments and current, call and fixed deposits. The investments are characterised by short-term, high credit quality and liquidity features comprised of certificates of deposit and bankers acceptances of U.S. and European issuers maturing within one year. Investment decisions were made in accordance with our principal investment objectives of security, liquidity and income. Total return earned of 5.7% exceeded our estimate and we believe that yields beyond this level are difficult to achieve in the current investment climate, without undue risks, because the yield curve remains fairly flat. Total liabilities of \$43.8 million include \$40.5 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, 1996, as amended. Total reserves and capital is \$11.0 million and the General Reserve is maintained at 15% of demand liabilities as required by Section 6(2) of the Law. Net income of \$3.5 million for the fiscal year was largely achieved by sound investment decision-making and enhancing cost controls. The Board continued the policy established by the predecessor organisation and transferred \$0.48 million to the Currency Issue Reserve to provide for the costs of future currency reprints. Additionally, \$1.5 million was transferred to the Paid-Up capital account. After these transfers, the Authority was still able to exceed its budgetary target by allocating \$2.5 million for transfer to the General Revenue of the Cayman Islands Government. During the next fiscal year, the Board and management will continually focus on maintaining sound investment management policies and implementing effective cost reduction techniques, while remaining committed to the progressive strengthening of reserves and capital by the continued capitalisation of profits.

12 Banking and Trust During 1997, the number of banks and trust companies licensed to operate in the Cayman Islands increased by 17 - from 577 at the end of December 1996 to 594 at the end of December 1997. In effect, 36 licences were issued and 19 were terminated constituting a net increase of 17 licences for the year. Terminated licences were primarily due to mergers and acquisitions in

the banking industry as well as the cancellation of inactive licensees. In addition, on 13 October 1997, First Cayman Bank and Gulf Union Bank were closed to permit further investigation into apparent irregularities at First Cayman Bank which came to light during the due diligence of a prospective purchaser. As a result of further investigations, irregularities were confirmed and on 17 October 1997, Executive Council revoked the licences of First Cayman Bank and Gulf Union Bank and applied to the Grand Court to wind up the affairs of both banks. The firm of Deloitte and Touche has been appointed as liquidators. Of the 36 licences issued during the year, 20 licences were issued to international banks for the establishment of branches or subsidiaries while 13 Trust and 3 Restricted Banking Licences were issued. The Restricted Banking Licences were granted to large international corporations to facilitate financing to affiliated companies. Of the 36 licences issued during 1997, one third were issued to banks from the United States, the remainder were from other jurisdictions. As of 31st December 1997, there were 30 Category A Banks, 475 Category B Banks and 89 Trust Companies licenced to operate in the Cayman Islands. In addition, 98 Nominee (Trust) Licences have been issued. The number of banks and trust companies licenced to operate in the Cayman Islands has almost doubled from 324 at the end of December 1980 to 594 at the end of December 1997. Due to various mergers, acquisitions, and a shift in the ranking of the world's top 50 banks, the Cayman Islands now has 45 of the top 50 banks represented on the Islands. In addition, four of the top 50 banks obtained additional Banking Licences during 1997. Banks and trust companies represent 65 different countries, in the world including the United States, the United Kingdom, Switzerland, Hong Kong, Japan, Germany, France, Brazil, Mexico and Portugal. Banking and Trust staff 13

Congruent with the increase in the number of banking and trust licences, total assets in the banking sector rose to \$503 billion at the end of December 1996. The Monetary Authority is in the early stage of preparing On-Site Inspections for the first half of 1998 in accordance with the Core Principles for Effective Banking Supervision set out by the Basle Committee. Its purpose is to ensure the safety and soundness of a bank by evaluating areas such as risk management, operational controls and compliance, and asset quality. The examinations have started with the inspection of retail banks operating within the Cayman Islands and those institutions for which we are the primary home supervisor. On the international front, The Basle Committee issued The Core Principles for Effective Banking Supervision in 1997. The Division reviewed these principles to determine how effectively the Cayman Monetary Regulatory Authority International adhered to the principles. As a result of this review, the Authority will be making recommendations for revisions to existing policies and procedures and amendments to the Banks and Trusts Companies Law (1995 Revision) to ensure that the Cayman Islands moves towards compliance with the 25 Core Principles for Effective Banking Supervision. The Core Principles for Effective Banking Supervision also reinforce the obligation of Banking Supervisors to practice global consolidated supervision. As part of the Cayman Islands commitment to meeting its international obligations, the Authority has been negotiating a Memorandum of Understanding with Brazil. Discussions are currently underway with a view of developing Memoranda of Understanding with other regulatory supervisors. The Division has also been involved in a number of international conferences with other regulators including the Caribbean Group of Banking Supervisors and the Basle Group of Offshore Banking Supervisors. On-Site Inspections Staff 14

Currency Operations The Cayman Monetary Regulatory Authority International, Currency Operations continues to be 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 seven local retail banks. These banks



are British American Bank, Barclays Bank PLC., Bank of Butterfield International (Cayman) Ltd., Cayman National Bank, Bank of Nova Scotia, CIBC Bank & Trust Company (Cayman) Ltd., and Royal Bank of Canada. Currency Operations continue with the sale and redemption of numismatic coins and banknotes to/from local and overseas collectors. At 31 December, 1997, currency in circulation (excluding numismatic issues) stood at CI\$40.4 million (\$36mn in notes and \$4.4mn in circulating coins). This represented a 7.7% increase over that of \$37.5 million in 1996. In 1997 mutilated notes totaling \$9.4 million were withdrawn from circulation for destruction. This represented a 2.2% increase over the 1996 figure of \$9.2 million. The Authority has commissioned De La Rue Security Print and Paper to manufacture a new family of banknotes, the C series which will be circulated in 1998. In 1997 the Authority authorised the British Royal Mint to issue one commemorative coin programme. The \$2 silver coin, commemorated Her Majesty The Queen and Prince Philip's Golden Wedding Anniversary. The design by John Savage, depicts the Queen and the Duke of Edinburgh, with their two children, being driven up Whitehall in an open State Landau, escorted by a Sovereign's Escort of the Household Cavalry, on their return from the Commonwealth Tour in 1954. The obverse features Raphael Maklouf's unoccupied regal portrait of Her Majesty the Queen. A distinctive feature of this coin is a golden cameo inset displaying the year of their tour. The Authority has also commissioned the British Royal Mint to issue another coin programme for 1997, to commemorate the establishment of the Monetary Authority. This will be available in 1998. Currency Operations would like to extend a special thanks to the Public Works Department of the Cayman Islands Government and to the Royal Cayman Islands Police Service for their invaluable assistance during the year. Currency Operations staff

15 Insurance Division Important new legislation in the latter part of the year was introduced to ensure prudential supervision of the domestic insurance market. The Insurance Law (Liabilities Support) Bill requires all licensed insurance companies operating in the Cayman domestic market to maintain sufficient funds to the order of the Authority, to match liabilities incurred. In addition, specific on-site inspection programmes have been put in place to assist the effective supervision of Class A companies operating in the domestic market. These will be effected in 1998. Continued growth in the captive insurance area over the last two years has been maintained as illustrated in the overleaf statistical summary detailing the licensing activity demonstrates. The year 1995, with 49 licences issued, was a particularly successful one and 1997 with 50 licences issued at 31st December and a further 21 approved, has surpassed expectations. The total number of licensed captives is, therefore, in excess of 450 which continues to place Cayman as the second largest captive insurance centre in the world. Whilst the major interest in captive insurance companies is from organisations located in the U.S., the general relaxation of regulations in certain South American insurance markets was seen as providing an opportunity for companies in those countries to form captives in the offshore centres, and we believe Cayman is ideally placed to take advantage of these changes. Little change has been seen in the origin or composition of the newcomers when compared to previous years; 85% of them have U.S.-based risks or owners and 35% write liability risks in the health care area. Despite the attention given to this particular sector of the market by other offshore centres, Cayman continues to be the domicile of preference for medical malpractice and health care captives, due to the significant level of expertise built up in the 21 years since the first health care captive was established on the island. Cayman is preparing legislation to provide for legal segregation between the individual participant cells of rent-a-captive insurance companies. Draft legislation has been considered and it is hoped that Segregated

Portfolio Company legislation will be approved by the Legislative Assembly early in 1998 and come into effect soon afterwards. The Cayman Islands has always supported new and innovative financial products. With a very significant and buoyant capital market it is perhaps not surprising that several catastrophe bond programmes should have originated from its insurance area. Considerable interest from the capital markets was generated by all of these programmes Insurance Division staff 16 which are seen as providing an alternative, both in cost and participants, to the traditional catastrophe reinsurance market. The flexibility of the insurance law combined with the expertise and understanding of alternative financing vehicles makes the Cayman Islands an attractive location for these facilities. With similar structures in the pipeline this is seen as a significant growth area. In summary, the last year has been an active one with continued expansion and the development of new insurance structures. The joint approach of Government, the Authority and the private sector will continue to maintain the Islands as a premier location for captive insurance companies for the future growth of the economy.

LICENSING ACTIVITY 1994 - 97

Year	No. of Licences at 1 st January	Licences Issued During Year	Licences Surrendered	No. of Licences at 31 st December
1994	35236	13904	18	45494
1995	4150	3620	1318	36139
1996	4184	50	450	36139
1997	450	150	36	13904

Investment Services The year 1997 saw continued strong growth in the number of regulated Mutual Funds. The number grew by 350 from 1335 a year earlier to 1685 at the end 1997. Of the various types of funds, the strongest growth was in registered funds that have a minimum subscription of at least US\$50,000 or are listed on a recognised stock exchange. These funds rose to 1037 at the end of 1997 from 724 at the end of 1996. The total number of Mutual Fund Administrators also showed a healthy increase from 124 to 139. What is particularly noteworthy is the global nature of the growth, once again demonstrating that Cayman is a major international Off-shore Financial Centre. The Cayman Islands Fund Administrators Association has estimated that at the end of 1997, assets held in mutual funds domiciled in Cayman had reached US\$ 200 billion. On-island provision of services has also shown a healthy growth. In 1995, there were 195 mutual funds that were fully serviced by Cayman Licensed Mutual Fund Administrators; in 1997 that figure almost doubled to 357. Investment Services staff 17 In 1997, the Investment Services Division of the Monetary Authority continued to keep pace with the growth of the mutual funds industry. Greater emphasis was placed on the regulation of mutual funds registered under Section 3 (3) of the Mutual Funds Law (1996 Revision). These funds, which comprise sixty percent of the total mutual funds registered with the Authority, will, together with the other fund categories, now have to submit an expanded annual return. This return captures information such as total net asset value, location of main investors, main geographical sector of investment and total return of fund over the previous twelve months. This information will enhance the Authority's ability to effectively supervise these funds. Licensed Cayman Mutual Fund Administrators compliance with Section 15 of the Mutual Funds Law (1996 Revision) has also been under review. In the last quarter of 1997, steps were taken to develop an on-site inspection programmes for fully licensed Cayman Mutual Fund Administrators. On-site inspection of local administrators is planned for 1998 and will greatly increase the effectiveness of the Authority's regulation of these companies and help ensure the continued quality of business practice in a jurisdiction that is already renowned for modern financial sector legislation and supervision. Company Managers The Company Management sector continues to experience steady growth. There are now 38 fully licensed Company Managers, up from 32 at the end of 1996. Only one licence has been surrendered since 1996. There are presently 63 exempted company managers, up from 57 at the end of 1996. Two licenses for exempted company managers

have been surrendered since 1996. With the continued growth of Cayman's finance and fund industry, the importance of these managerial service providers will continue to increase proportionally. 1998 will also see the introduction of plans for on-site inspection of company managers. The on-site inspections are designed to test a company manager's compliance with the legislative requirements. The Cayman Islands Government continues to enhance its legal framework to develop the financial industry. In November 1997, the government enacted the Special Trust (Alternative Regime) Law, 1997 (STAR) and in line with this an amendment was made to the Perpetuities Law. The STAR provides for the establishment of a non-charitable purpose trust. A new Companies Management Bill has been drafted in an effort to bring the standard of Company Management regulation more on par with the regulation of Mutual Funds, Banks and Trust Companies. The bill is to be presented at a sitting of the Legislative Assembly in 1998.

18 Policy and Research In July 1997, the Board of the Monetary Authority approved the creation of a Policy and Research Division. The division is responsible for researching topics relating to the financial industry and its regulation, drafting policy documents and compiling statistics on Cayman's financial industry. Research projects undertaken in 1997 included deposit protection, regulation of credit unions and building societies and other non-bank money service businesses. The division was also very active in providing input for Government on the Companies Management Bill scheduled to go before the Legislative Assembly in 1998 as well as the Companies (Amendment) (Protection of Depositors) Law, 1997 passed by the Legislature in December, 1997. The division also completed the redesign of the annual banking survey form, with major assistance from the Information Technology Manager. There were no significant changes in policy during the year nor were any definitive policy statements issued. The section, however, was active in providing assistance to other divisions in clarifying a number of policy issues which arose from individual institutions or events. Research leading to the issue of a paper or a policy statement is also underway in a number of areas. It is expected that a significant portion of work in 1998 will be related to formalising and further defining existing informal policy which has been loosely communicated to existing institutions. Newly issued formal policy statements will be included or referenced in future Annual Reports or in the planned Authority Bulletin publications. One area of policy that requires clarification is the licensing of banks. At present, applications for licences are granted to branches of international banks or subsidiaries of good banks, as well as affiliates that will be subject to consolidated supervision and, in special circumstances, companies owned by well-established corporate groups. The division has produced a Licensing of Banks (Eligible Shareholders) Policy Statement (reproduced in Appendix I) that provides additional details and clarification on eligible structures or shareholders. It is also intended that a Licensing of Banks (Applications) Policy Statement will shortly be produced.

19 Other Activities Community Service The staff of the Authority is encouraged to become involved in community services and in 1997 participation in the Breast Cancer Awareness Month was significant. October marked the beginning of an international campaign to promote importance of early detection as the best protection in the fight against breast cancer. To show its support, the Authority made a donation to the Lions Club of Tropical Gardens to assist in the cost of mammograms for 200 women. The Authority also participated in Lions Breast Cancer Awareness Dress Down Day, and wore Breast Cancer lapel pins so that they could be recognised with the rest of the world in the fight against this disease. One of our analysts, Mr. Shedley Branche, has volunteered his time to assist in coaching the CAF Track Club. This club is for young track and field athletes between the ages of 8 and 14

years. Social Activities Family Fun Day and Barbecue In September 1997, the Authority held a Family Fun Day and Barbeque to bring staff together in a more relaxed atmosphere. The event proved to be very successful, especially since the amalgamation of the Currency Board and Financial Services was still relatively new. It gave staff the opportunity to get to know each other better, while having an enjoyable day with their families. Christmas Party Our first Christmas party as the Monetary Au- thority, was held in December at the Lighthouse Restaurant. The party was a success, enjoyed by the staff and other invited guests.

Government Football League There was great team effort from the staff who took part in this event, although the final re- sults for the Authority was a tie for third place, everyone definitely enjoyed themselves. Each person received a certificate of appreciation and Miss Denise Tibbetts received the trophy for Sportsmanship. Staff enjoy Christmas festivities CMRAI footballers made a good team effort

20 Appendix I Licensing of Banks (Eligible Shareholders) Policy 1. Direct branches of well-regulated established international banks continue to be encouraged. International banks are considered to be banks with existing operations outside of their countries of origin. 2. Applications for wholly owned or controlled subsidiaries from well-regulated, established reputable banks continue to be considered. 3. Affiliates of well-regulated established reputable banks that are effectively supervised in their parent country continue to be licensed provided the parent country supervisory authorities have no objection to the establishment of a Cayman affiliate of the bank and confirm consolidated supervision. 4. Except in very special circumstances, for example in the case of a well-established international finan- cial or corporate group, a banking licence is not granted unless the applicant has a supervised banking entity in another country. In such cases conditions or restrictions will most likely be attached to the licence prohibiting dealings with the public or all third parties i.e. all activity must be related. 5. Banking licences, included restricted licences, will not be issued to locally incorporated companies owned by individuals or by private holding companies. 6. Proposed transfers of shares to new controlling shareholders of all banks presently licensed in Cay- man must fit one of the shareholder structures set out in the first four points above. 21 Aall Trust & Banking Corporation Ltd. ABC Trust Company Ltd ABN Amro Bank N.V. ABN AMRO Trust Company (Cayman) Limited Abu Dhabi Commercial Bank Active Bank International Ltd. Aegis Trust Limited Alexandria Bancorp Limited Allied Irish Banks, Public Limited Company Altajir Bank Amadeus Trust Company Ltd. Ambroveneto International Bank Ltd American Express Bank Ltd American Express Centurion Bank American National Bank and Trust Company of Chicago Amex International Trust (Cayman) Limited AmSouth Bank of Alabama Anchor Trust Co. Ltd. Ansbacher (Cayman) Limited Arab American Bank Arab Bank PLC Arab Banking Corporation (B.S.C) Arab Commerce Bank Limited Arabian Express Bank Limited Arctic Trustee Ltd Asahi Bank, (The) Asia Commercial Bank Limited ATC Trustees (Cayman) Limited Atlantic Bank of New York Atlantic European Banking Corporation Atlantic Security Bank Atlantico Bank & Trust Australia and New Zealand Banking Group Limited B.I. Bank & Trust, Ltd. BAC International Bank Bahrain Middle East Bank (E.C.) Banc Internacional of Andorra (Cayman) Ltd. Banca Commerciale Italiana Banca Cremi Sociedad Anonima Banca CRT S.p.A. Banca Di Roma Banca Monte dei Paschi di Siena S.p.A. Banca Promex Sociedad Anonima Banca Unione Di Credito (Cayman) Ltd. Banco America do Sul S.A. Banco Atlantico S.A. Banco B.I. Creditanstalt S.A. Banco Bandeirantes Grand Cayman Inc. Banco Bandeirantes S.A. Banco Bilbao Vizcaya S.A. Banco Bilbao Vizcaya-Mexico S.A. Banco BMC S.A. Banco BMG S.A. Banco Borges & Irmao, S.A. Banco Bozano, Simonsen S.A. Banco BPI, S.A. Banco Bradesco S.A. Banco Central Hispanoamericano, S.A. Banco Colpatria Cayman Inc. Banco Comafi

(Cayman) Limited Banco Comercial dos Acores Banco Credibanco S.A. Banco de Credito Argentino S.A. Banco de Credito Nacional S.A. Banco de Galicia (Cayman) Limited Banco de Galicia y Buenos Aires S.A. Banco de la Nacion Argentina Banco de la Provincia de Buenos Aires Banco De Prestamos (Cayman) Ltd. Banco del Atlantico Sociedad Anonima Banco del Centro Sociedad Anonima Banco del Progreso Ltd. Banco di Napoli S.p.A. Banco Dibens S.A. Banco do Brasil S.A. Banco do Estado de Sao Paulo S.A. Banco do Estado do Parana S.A. Banco do Estado do Rio de Janeiro S.A. Banco do Estado do Rio Grande do Sul S.A. Banco Economico S.A. Banco Espanol de Credito, S.A. Banco Exterior de Espana Banco Exterior de los Andes y de Espana S.A. Banco Finantia International Limited Banco Fonseca & Burnay Banco Frances (Cayman) Limited Banco General (Overseas), Inc. Banco Inbursa S.A. Banco Industrial Colombiano de Cayman Banco Inter-Atlantico S.A. Banco Interfinanzas International, Ltd Banco Internacional de Credito, S.A. Banco Internacional, S.A. Banco Inverlat, S.A. Banco Itau S.A. Banco Latinoamericano de Exportaciones, Limited (BLADDEX) Banco Laylor Cayman Ltd Banco Mello (Cayman) Ltd Banco Mercantil de Sao Paulo S.A. Finasa Banco Mercantil Del Norte S.A. Banco Nacional de Comercio Exterior, SNC Banco Noroeste S.A. Banco Pinto & Sotto Mayor Banco Pontual S.A. Banco Portuges de Investimento, S.A. Banco Portuges do Atlantico Banco Privado Portuges (Cayman) Ltd Banco Real S.A. Banco Rio de la Plata S.A. Banco Safra S.A. Banco Safra (Cayman Islands) Limited Banco Santander Mexicano, S.A. Banco Totta & Acores Banco Union Sociedad Anonima Banco Urquijo Limited Bancomer, Sociedad Anonima Bancrecer S.A. Bancredit Cayman Limited Bangkok Metropolitan Bank Public Company Limited BANIF-Banco Internacional do Funchal (Cayman) Ltd. Baninter and Trust Company Bank Austria Aktiengesellschaft Bank Austria Cayman Islands Ltd. Bank Danamon Bank Espirito Santo (International) Limited Bank Hapoalim (Cayman) Limited Bank Hapoalim B.M. Bank Leumi Le Israel B.M. Bank Leumi Trust Company of New York Bank of America National Trust and Savings Association Bank of Asia Public Company, Limited (The) Bank of Ayudhya Public Company Limited Bank of Bermuda (Cayman) Limited Bank of Bermuda (New York) Limited Bank of Butterfield International (Cayman) Ltd. Bank of China Bank of India Bank of Ireland Bank of New York (Delaware) (The) Bank of New York (The) Bank of New York Trust Company (Cayman) Limited (The) Bank of Nova Scotia (The) Bank of Nova Scotia Trust Company (Cayman) Limited (The) Bank of Scotland Bank One Dayton, N.A. Bank One, Arizona, National Association Bank One, Colorado, National Association Bank One, Columbus, National Association Bank One, Indiana, National Association Bank One, Kentucky, N.A. Bank One, Louisiana, National Association Bank One, Texas National Association Bank One, Utah, National Association Bank One, Wisconsin BankAmerica Trust and Banking Corporation (Cayman) Limited BankBoston International Appendix II List of Active Insurance Companies, Banks and Trust Companies as of 31st December 1997 List of active banks and trust companies as of 31st December 1997 22 BankBoston Trust Company (Cayman Islands) Limited Bankers Trust (Cayman) International Ltd Bankers Trust (Delaware) Banoro, S.A. Banpais, Sociedad Anonima Banque Bruxelles Lambert Banque Nationale de Paris Banque Paribas S.A. Banque Sudameris Barclays Bank PLC Barclays Finance Corporation of the Cayman Islands Limited Barclays Private Bank & Trust (Cayman) Limited Baybank, National Association Bayerische Hypotheken-und Wechsel-Bank Bayerische Landesbank Girozentrale Bayerische Vereinsbank A.G. BCP Bank & Trust Company (Cayman) Limited BCP International Bank Limited BCT Bank International BEAL Cayman Limited Bermuda International Finance Limited Bermuda Trust (Cayman) Limited Bessemer Trust Company (Cayman) Limited BFC Bank (Cayman) Ltd BHD Cayman International Bank BHF-BANK

Aktiengesellschaft Biape International Bank Ltd BIE - Bank & Trust Ltd. BII International Bank (Cayman) Ltd. Blue Seas Trust Company Ltd. BMC Bank and Trust Limited BN Bank BNC - International (Cayman) Ltd. BNP Private Bank & Trust Cayman Limited BNY Fund Management (Cayman) Limited Boston Safe Deposit and Trust Company Bozano, Simonsen Banking Limited BPA-Overseas Bank Ltd. Branch Banking and Trust Company Braseg Overseas Bank Ltd. Brazilian American Merchant Bank Bridge Trust Co. Ltd. British American Bank Ltd. Brown Brothers Harriman & Co. Brown Brothers Harriman Trust Company (Cayman) Limited BTM Finance (Cayman) Ltd. Caisse Nationale de Credit Agricole Caixa Economica Montepio Geral Caledonian Bank & Trust Limited Camatruco Ltd Cambridge Bank & Trust Company Limited Canadian Imperial Bank of Commerce Cantrade Trust Company (Cayman) Limited Caribbean Bank of Exports CARIPLO - Cassa Di Risparmio Delle Provincie Lombarde S.p.A. Cayman Corporate Services (1995) Limited Cayman International Trust Company Limited Cayman National Bank Ltd. Cayman National Trust Co. Ltd. Centura Bank Chase Manhattan Bank Delaware Chase Manhattan Bank USA, National Association Chase Manhattan Trust Cayman Ltd Chemical International Trust Company Limited Christiania Bank OG Kreditkasse CI Investments Ltd. CIBC Bank and Trust Company (Cayman) Limited CITCO Bank and Trust Company Limited Citco Trust Company (Cayman Islands) Limited Citibank N.A. Citicorp Banking Corporation Cititrust (Cayman) Limited Clariden Bank and Trust (Cayman) Limited Coastal Cayman Finance Ltd. Codan Trust Company (Cayman) Limited Colville Holdings Limited Comerica Bank - Detroit Commercial Bank (Grand Cayman) Ltd Commercial Bank of Dubai P.S.C. Commercial Bank of New York Commercial Banking Corporation Commerzbank Aktiengesellschaft Commonwealth Bank of Australia Compagnie Financiere De CIC Et De L Union Europeenne Compass Trust Co. Ltd. Confia S.A. Continental International Securities Limited Continental Investment Bank Coral Trust Co., Ltd. Counsel Trust (Cayman) Limited Coutts (Cayman) Limited Crediop Overseas Bank Limited Credit Agricole Indosuez Credit Bank and Trust Company Credit Commercial de France Credit Lyonnais Credit Suisse First Boston Creditanstalt AG Credito Italiano Crestar Bank Dai-ichi Kangyo Bank, Limited (The) Dao Heng Bank Limited Darier, Hentsch Bank & Trust Cayman Ltd. Dart Capital Limited December Trust Company Limited (The) Delta Bank and Trust Company, Grand Cayman Den Danske Bank Aktieselskab Den norske Bank AS Deutsche Bank Aktiengesellschaft Deutsche Genossenschaftsbank Deutsche Girozentrale Overseas Limited Deutsche Morgan Grenfell (C.I.) Limited Deutsche Morgan Grenfell (Cayman) Limited Dextra Bank & Trust Co. Ltd Discount Bank (North America) Limited Discount Bank and Trust Company Dresdner Bank Aktiengesellschaft Dresdner Bank Lateinamerika Aktiengesellschaft E.C.B. International Bank Eagle Merchant Bank of Jamaica Limited EastWest Trust Company Ltd. Energy Bank (Americas), Ltd. Erste Bank Der Oesterreichischen Sparkassen AG Euro Bank Corporation Euro Canadian Bank & Trust Company Limited Euro-American Capital Corporation Limited Eurocredit Bank (Cayman) Fairheads International Trust Company (C.I.) Limited Federal Bank of the Middle East Limited Federated International Bank Limited (FEDEBANK) Ferrier Lullin Cayman Bank & Trust Fiduciary Trust (Cayman) Limited Fifth Third Bank (The) FIL Bank and Trust Company Limited Finacorp Bank (The) Finansud International Bank & Trust Corporation Limited Finasa Bank Limited Finibanco, S.A. First American National Bank First Bangkok City Bank Public Company Limited First Bank of the Americas First Chicago Trust Company (Cayman) Ltd (The) First Hawaiian Bank First International Bank of Israel Limited (The) First National Bank of Chicago (The) First National Bank of Commerce First National Bank of Maryland (The) First Overseas Trading Bank First Pinebank Company (The) First Security Bank of Utah,

National Association First Union Bank and Trust Company (Cayman) Limited Firstar Bank Milwaukee, National Association Fleet Bank of New York Fleet National Bank Fordsar (Cayman) Limited Foreningssparbanken AB (Publ). (Swedbank) FTCI (Cayman) Ltd Fuji Bank and Trust Company (The) Fuji Bank, Limited (The) Gefinor Bank Limited Generale Bank Genesis Trust Company Ltd. Givens Hall Bank & Trust Ltd GNB Bank Limited Goldman Sachs (Cayman) Trust, Limited Greenland Trust Co. Ltd. Gulf International Bank B.S.C. Guyerzeller Trust Company Habib Bank Zurich (International) Ltd Harbour Trust Co. Ltd. (The) Heritage Trust Company, Ltd. Hexagon Trust Company (CI) Limited Hibernia National Bank in New Orleans (The) Hongkong and Shanghai Banking Corporation (The) 23 HongKong Chinese Bank Ltd. (The) Hopkins (Cayman) Limited HSBC International Trustee Limited HSBC Trustee (Cayman) Limited Huntington National Bank (The) IBJ Schroder Bank & Trust Company IBT Trust Company (Cayman) Ltd Icatu Bank (Cayman), Co. Inchauspe Bank Corporation Indosuez Trust Company (Cayman) Ltd. Industrial Bank of Japan, Limited (The) ING Bank N.V. International Bank for Commerce International Bank of Finance International Discount Trust Limited International Mercantile Bank Limited International Trade and Credit Bank Limited Inverworld Bank Ltd. Israel Discount Bank Limited Israel Discount Bank of New York Itau Bank, Ltd ITOCHU Trust (Cayman) Limited Julius Baer Bank and Trust Company Ltd Julius Baer Trust Company (Cayman) Ltd K-Bank Corporation, Inc. KBC Bank N.V. Key Bank of New York KeyBank National Association Keystone Trust Company (The) Korea Long Term Credit Bank Krung Thai Bank Public Company Limited Landesbank Hessen-Thuringen Girozentrale LaSalle National Bank Law Debenture Trust Corporation (Cayman) Limited (The) Leumi Cayman Finance and Trust Corporation LGT Bank in Liechtenstein (Cayman) Limited Li Ka-Shing Castle Trustco Limited Li Ka-Shing Castle Trustcorp Limited Li Ka-Shing Castle Trustee Company Limited Li Ka-Shing Castle Trustee Corporation Limited Li Ka-Shing Unity Trustco Limited Li Ka-Shing Unity Trustcorp Limited Li Ka-Shing Unity Trustee Company Limited Li Ka-Shing Unity Trustee Corporation Limited Liu Chong Hing Banking Corporation, Cayman Lloyds Bank International (Cayman) Limited Long-Term Credit Bank of Japan, Limited (The) M & I Bank Fox Valley M & I Marshall & Ilsley Bank M&I Bank of Southern Wisconsin M.A. Bank Limited Marcep Overseas Trust Limited Mariza Investment Marmanco Trust Company Limited Mathilde Trust Company Limited (The) MBNA America Bank, National Association Mediobanca International Limited MeesPierson (Cayman) Limited Mellon Bank N.A. Mercantile Bank of St. Louis National Association Mercury Bank & Trust Limited Merita Pankki OYJ Merrill Lynch Bank and Trust Company (Cayman) Limited Michigan National Bank of Detroit Middenbank (Cayman Islands) Ltd. Middlefield Trust Company Ltd. Midland Bank plc Midland Bank PLC George Town Branch Midland Bank Trust Corporation (Cayman) Limited Minden Trust (Cayman) Limited Mitsubishi Trust and Banking Corporation (The) Mitsui Trust & Banking Company, Limited (The) MONY Bank & Trust Company of the Americas, Ltd. Morgan Trust Company of the Cayman Islands Ltd Morval Bank & Trust Cayman Limited MTB Bank MTC Company Limited Multi Banking Corporation (Overseas) Limited Multiplic Bank International Nacional Financiera S.N.C. Nakornthon Bank Public Company Limited Natexis Banque National Australia Bank Limited National Bank of Kuwait S.A.K.(The) National City Bank of Columbus National City Bank of Indiana National City Bank of Kentucky National City Bank, Cleveland National Trust and Banking Corporation (Caribbean) Limited National Westminster Bank PLC NationsBank, N.A. Nazeer International Trust Company Limited NCB (Cayman) Limited Nippon Credit Bank, Ltd (The) Nomura Trust (Cayman) Limited Norbank International Norddeutsche Landesbank Girozentrale Norfolk and Hampton Bank Norinvest Bank Northern Star Trustcompany Limited Northern Trust Cayman International, Ltd. Northern

Trust Company (The) Norwest Bank Colorado, National Association Norwest Bank Minnesota, N.A. Norwest Trust Company, Cayman Islands Okobank (Cayman Islands) Limited Old Kent Bank and Trust Company Oryx Merchant Bank Limited P.T. Bank Bali P.T. Bank Dagang Nasional Indonesia P.T. Bank Internasional Indonesia TBK P.T. Bank Negara Indonesia (Persero) TBK P.T. Bank Niaga P.T. Bank Pan Indonesia TBK Pacific Bank N.A. (The) Pacific Industrial Bank Painewebber Trust Company (Cayman) Ltd. Pargesa Bank Corp. PDG Bank (Cayman) Limited Pictet Bank and Trust (Cayman) Ltd PNC Bank, Kentucky, Inc. PNC Bank, Ohio, National Association Popular Bank & Trust, Ltd Portuguese World Bank Postipankki Ltd Produbank Provident Bank (The) PRS International (Cayman) Limited Prudential-Bache International Trust Company (Cayman) PT. Bank Bumi Daya (Persero) PT. Bank Dagang Negara (Persero) PT. Bank Ekspor Impor Indonesia PT. Bank Rakyat Indonesia (Persero) Qatar National Bank S.A.Q. Queensgate Bank & Trust Company Ltd. Queensgate SPV Services Limited Quilmes Bank and Trust (Cayman) Ltd. R & H Trust Co. Ltd (The) Rabobank Nederland Regions Bank Rena Trust Company Limited Republic Bank Trinidad and Tobago (Cayman) Limited Republic International Bank of New York Republic National Bank of New York Republic National Bank of New York (Cayman) Limited Riddick (Cayman) Limited Rimmer (Cayman) Limited ROFIN International Bank and Trust Company Rothschild Trust Cayman Limited Royal Bank of Canada Royal Bank of Canada Trust Company (Cayman) Limited Royal Bank of Scotland plc (The) Rurik Trust Company (International) Limited Sakura Bank, Limited (The) Sakura Finance Asia Limited Santander Riobank (Grand Cayman) Sanwa Bank Limited (The) Sanwa International Trust Company (Cayman) Limited Saudi African Bank SBC Special Transactions Trust Company Limited Schroder Cayman Bank and Trust Company Limited Schrodgers Asia (Cayman) Limited Scotia Mercantile Bank Scudder Trust (Cayman) Ltd. Serfin International Bank & Trust Shorman (Cayman) Limited Sistema Banking Corp. Ltd. Skandinaviska Enskilda Banken Skandinaviska Enskilda Banken Corporation Smith Barney Private Trust Company (Cayman) Limited Societe Bancaire (Overseas) Ltd Societe Generale Societe Generale Bank and Trust (Cayman) Limited Southern Star Bank 24 SouthTrust Bank of Alabama National Association St. George s Trust Company Limited Star Bank, National Association State Bank of India State Street Bank and Trust Company State Street Cayman Trust Company, Ltd. Strategic Trust Company Sudamero Trust Company (Cayman) Ltd. Sul America International Bank (Cayman) Ltd Sumitomo Bank, Limited (The) Sumitomo Finance (Asia) Limited Sumitomo Trust & Banking Co. (U.S.A.) Sumitomo Trust & Banking Company Limited Summit Bank Sun Trust Bank, Nashville, National Association SunTrust Bank, Atlanta SunTrust Banks Trust Company (Cayman) Ltd. Surfton (Cayman) Limited Svenska Handelsbanken Swiss Bank Corporation Sydbank A/S Taclaim Trust Company Thai Danu Bank Public Company Limited, The Thai Farmers Bank Public Company Limited Thai Military Bank Public Company Limited The Bank of Tokyo-Mitsubishi, Ltd. The Dundee Bank The Irish Trust Company (Cayman) Ltd. The Siam City Bank Public Company Limited TIFD VIII Cayman Inc. Tokai Asia Limited Tokai Bank, Limited (The) Toronto - Dominion Bank (The) Towerbank, Ltd Toyo Trust and Banking Company, Limited (The) Trade and Commerce Bank Trade Link Bank Transatlantic Trust Corporation Transcorp Bank TransOcean Bank & Trust, Ltd Transworld Bank and Trust Limited Tribank International (Cayman) Limited Trident Trust Company (Cayman) Limited Triton (Cayman) Limited Twenty-First Century Trust Company U.S. Bank National Association UBS (Cayman Islands) Ltd. UBS Trustees (Cayman) Ltd. UMB Bank and Trust Company Unibanco - Uniao de Bancos Brasileiros S.A. Unibank A/S Unicity Bank Limited Unicorp Bank & Trust Ltd. Union Bank of California, National Association Union Bank of Hong Kong Limited Union



Bank of Switzerland Union Bank of Switzerland (Cayman) Ltd Union Trade Bank Co. Ltd  
United Bank for Africa Limited United Bank of Kuwait PLC (The) United Mizrahi Bank Ltd  
United States Trust Company of New York United States Trust Company of New York (Grand  
Cayman) Ltd. Universal Trust Company Ltd. Venecredit Bank & Trust, Ltd. Venecredit  
International Banking Ltd Von Ernst Trust Company Limited Vontobel Bank & Trust Company  
Ltd. Wachovia Bank of Georgia, National Association Wachovia Bank of South Carolina, N.A.  
Wachovia Bank, National Association Walbrook International Trust Company Limited Wells  
Fargo International Limited West Caribbean Bank Westdeutsche Landesbank Girozentrale  
Western International Trust Company Limited Western Oceanic Bank Westpac Banking  
Corporation Whitney National Bank Wiese Bank International Wing Hang Bank (Cayman) Ltd  
Wing Hang Bank Trustee Company (Cayman) Limited Wing Lung Bank Ltd. Worldwide  
Commercial Bank Ltd Yasuda Trust and Banking Company, Limited (The) Zions First National  
Bank Aetna Life And Casualty (Bermuda) Ltd. American Home Assurance Company  
American Life Insurance Company Bankers Life Insurance Company Blue Cross And Blue  
Shield Of Delaware, Inc. British Caribbean Insurance Company Limited British Caymanian  
Insurance Company Limited British-American Insurance Company Ltd. Capital Life Insurance  
Company Limited Caribbean Home Insurance Company Limited Cayman General Insurance  
Company Limited List of active Class A Insurance companies as of 31st December 1997  
Cigna International Reinsurance Company Ltd. Clico (Cayman) Ltd. Colonial Life Assurance  
Company Limited Crown Life Insurance Company Dyoll Insurance Company Limited Global  
Life Assurance Company Ltd. Great Southern Life Insurance Company Hartford Life  
Insurance Company Insurance Company Of The West Indies Limited (The) Island Heritage  
Insurance Company, Ltd. Jackson National Life Insurance Company Jamaica Mutual Life  
Assurance Society Life Of Barbados Lloyds Of London Mony Life Insurance Company Of The  
Americas, Ltd Motor And General Insurance Company Limited N.E.M. (West Indies)  
Insurance Limited National Life Assurance Company Of Canada (The) Occidental Life  
Insurance Company Of North Carolina Reliastar Bankers Security Life Sun Alliance  
Insurance (Bahamas) Limited List of active Class B Insurance companies as of 31st  
December 1997 A.M. Skier Reinsurance Company Abacus Insurance Limited Abs Insurance  
Limited Accident & General Insurance Company Ltd. Adamas Limited Affinity 500 Insurance  
Ltd. Agricultural Risk Insurance Company Ltd. Agrinational Ltd. Agta Insurance Ltd. Alembic,  
Inc. Allegheny Health Services Providers Insurance Company Allegro Life And Annuity  
Company Allied Meat Insurance Company Ltd. Alpine Indemnity Limited Alternative Risk  
Reinsurance Company Limited Amcon Reinsurance, Inc. American Businessowners  
Assurance Ltd. American Contractors Reinsurance Company, Ltd. American Eagle Insurance  
Co. Ltd. American Guaranty And Health Care Insurance Company American Industries  
Assurance, Cayman Ltd. American Professional Assurance Ltd American Surgeons  
Insurance Company American Vehicle Insurance Services Americana Excess & Reinsurance  
Corporation Amfo Members Insurance Company Ltd. Anchor Insurance Company (Cayman)  
Andelssikring Insurance Company Limited Anglo-Dutch Insurance Company Limited (The)  
Anlic Insurance Company (Cayman) Apic Insurance Corporation Aquitaine Insurance  
Company Arbil International Insurance Limited Arcadian Cayman Limited Arch Reinsurance  
Company, Ltd. Archway Insurance, Ltd. Arrowhead Insurance Company Ltd. Assistance-Re  
Astra Insurance Company 25 Atg Assurance Company Limited Atlantic And Caribbean Re  
Atlantic General Insurance Company Atlantic Gulf Insurance Company Atlantic Northern  
Insurance Company Avon Insurance Company, Ltd. Awa Insurance Company B.A. Insurance  
(Cayman) Ltd. Bay Primex Insurance Company, Ltd. Benchmark Insurance Company

Benodet Insurance Ltd Best Meridian International Insurance Company Bhs Insurance Company, Ltd Biscayne Insurance Company Ltd Blair International Insurance (Cayman) Ltd Blodgett Assurance Company Ltd Blue Eagle Re Blue Horse Limited Bon Secours Assurance Company, Ltd Briarwoods Insurance Company Ltd. Britannia Guarantee National Insurance Company British Insurance Company Of Cayman Bucap Limited Builders Insurance Company, Ltd. C.M.M.C. Insurance Co. Ltd. Caduceus Indemnity Corporation Ltd. California Livery Insurance Company, Ltd. California Reinsurance Corporation Capitol Insurance Company Ltd. Cardinal Insurance Company (Cayman) Ltd. Care Insurance Ltd. Caribbean Catastrophe Insurance Ltd. Caribbean Equity Reinsurance Ltd. Carondelet Insurance Ltd. Cascades Insurance Company, Ltd. Castle Insurance Company Ltd. Catalina Assurance Ltd. Caterpillar Assurance Co. Ltd. Cathedral Insurance Company Limited Catmontu Insurance Company Ltd. Caydeaux Insurance Company Ltd Caydeaux Life Assurance Company Ltd Cayman Overseas Reinsurance Association Caymich Insurance Company, Ltd Caypac Insurance Limited Ccsf Reinsurance Ltd. Centra Indemnity, Ltd Centra Professional Indemnity, Ltd Centrum Insurance Company Ltd Centurian Re Chandler Insurance Company, Ltd. Chaparral Underwriters Ltd. Charabanc & General Insurance Company Ltd. Charger Insurance Group (The) Chariots Of Hire Insurance Company (Cayman) Chc Insurance Company, Ltd. Chic Re Limited Churchill Casualty Ltd. Chw (Bermuda) Ltd. Clarion Indemnity Limited Cmh Insurance Company, Ltd. Cnmc Reinsurance Company, Ltd Coala Insurance Company Limited Colliers Professional Liability Insurance Company Columbia Reinsurance Company, Ltd. Columbus Insurance Ltd Commonwealth (Cayman) Insurance Company Limited Community Assurance Company, Ltd. Compass Life Assurance (Cayman) Ltd. Comprehensive Allied Reinsurance Services, Ltd Construction Insurance Company Ltd Consumer Insurance Company (Cayman) Continuous Quality Insurance Company, Ltd Contractors Reinsurance Corporation Controlled Risk Insurance Company, Ltd Cornerstone Insurance Company Corrugated Insurers Association Crescent Casualty Insurance Company Crestwood Assurance Company, Ltd. Crusader Casualty Company, Ltd Crusader International Insurance Company Ltd Cygnet Reinsurance Company Dakotacare Insurance, Ltd. Dallas Reinsurance Company, Ltd Dchs Insurance, Ltd Dennison Health Providers Assurance Company, Ltd. Dfg Insurance Company Ltd Diamond Insurance Company Dimensions Assurance, Ltd. Dnh Reinsurance Company Limited Durlacher Assurance Co. Ltd. Eagle Insurance Company (Cayman) Limited Eastbourne Insurance Company Limited Eastern Alliance Insurance Company Edinburgh Insurance Company Electrical Distributors Insurance Company (The) Electronic Insurers Limited Elgin Professional Indemnity Insurance Inc. Enviro-Sure Insurance Company Epsilon Insurance Company Ltd. Equipment Assurance Limited Equity International Insurance Company Everest Property Insurance Company F & G Overseas Limited Fapa Insurance Company (The) Fec Insurance Company Ltd Fh Assurance Company Fhs Insurance Ltd Financial Assurance Company, Ltd. Fire Arms Insurance Registry Ltd. First American Reinsurance Company (Cayman) First Atlantic Reinsurance Ltd. First Employers Insurance Company First Hospital Insurance Company, Ltd (The) First Initiatives Insurance, Ltd. First International Insurance Company Ltd First Southern Insurance Company Forbes Re-Insurance Company Limited Foundation Insurance Co., Ltd. (Cayman) Franciscan Health System Insurance Company Ltd Franklin International Reinsurance Company Galena Insurance Corporation Geisinger Assurance Company, Ltd. Gencay Property Insurance Company Limited Gentle Winds Reinsurance Ltd George Town Re. Ltd. Georgia Health Care Insurance Company Ghs Insurance Company, Ltd Ginco Assurance Company Limited Global Contractors Indemnity Ltd. Global Union Casualty Insurance Co.

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Ocean State Insurance Co., Ltd. Old South Security Life Insurance Company Onika Insurance Company Ltd. Onlop Insurance Company Ontario Reinsurance Company Limited Operators Reinsurance Company Oral Surgeons Reimbursement Fund Ltd Ormaryd Insurance Company, Ltd. Overseas Indemnity Company Ltd. Pacific Coast Reinsurance Ltd. Pacific Northwest Insurance Company (Cayman) Ltd. Palms Insurance Company Limited Pan-American Benefits Insurance Company Pan-American International Insurance Corporation Panther Reinsurance Company, Ltd. Parametric Re, Ltd. Peer Insurance Corporation Pegasus Insurance Penn Reinsurance Ltd. Philan Insurance Ltd. Physicians & Surgeons Liability Insurance Company Physicians Assurance Medical Company Physicians Mutual Indemnity Corporation Physicians Reimbursement Fund Ltd. Pma Insurance, Cayman Ltd. Pmca Liability Insurance Ltd. Podia Insurance Limited Podiatry Assurance Company Ltd. Potomac Indemnity Company Premier Insurance Ltd. (Cayman) Princeton Cayman Liability, Ltd. Professional Protective Insurance Ltd. Professional Underwriters Corporation Progress Reinsurance Company Ltd. Providers Re Pruden Reinsurance Company, Ltd. Qhs Insurance Company (The) Quality Alliance Assurance Company (Cayman) Ltd. Queensbrook Insurance Limited Quest Insurance Co. Ltd. R.C.I. Ltd. R.P.S.L.M.C. Insurance Company Ltd. Raffles Insurance Limited Ravenswood Health Care Insurance Corporation Rdm Insurance Group Ltd. Real (International) Insurance Company Republic Insurance Company (Cayman) Limited Residential Reinsurance Limited Rigel Limited Risk Management Reengineering Assurance Group Riverview Indemnity Company Royal Bank Of Canada Reinsurance (Cayman) Limited Rt Insurance Company, Ltd. S.A. Insurance Ltd. S.O.P. Insurance Ltd. Safety National Re. Safewrite (Cayman Islands) Limited Samaritan Insurance Funding Ltd. Sascap Insurance Company Ltd. Saxon Insurance Company Limited Scott & White Assurance Ltd. Scottish Annuity Company (Cayman) Ltd. (The) Selandia Insurance Company Ltd. Selectcare Reinsurance Ltd. Sequoia Insurance Corporation Servanda Insurance Company Signature Insurance Company Smacal Reinsurance Company (Cayman) Ltd. Solemar Insurance Ltd. Southwest Professional Indemnity Corporation Southwest Transportation Underwriters, Inc Southwest Underwriters Inc. Southwestern Dealers Insurance Company Spectrum Insurance Company, Ltd. Springland International Assurance Company Sr Earthquake Fund, Ltd. St. Elizabeth Medical Insurance Company St. Francis Ltd. St. George Reinsurance Ltd. St. Ives Insurance Company Ltd. Stafford Insurance Company Stamford Insurance Company Ltd. Standard Fidelity Assurance Co. Ltd. Star Insurance Company (Cayman) Ltd. Starboard Indemnity, Ltd. (Cayman) State Reinsurance Co. Ltd. Stein Insurance Company Ltd. Stella Maris Insurance Company, Limited Stockton Reinsurance (Cayman) Ltd. Summit Insurance, Ltd. 27 Sunamerica (Cayman) Insurance Company Ltd. Sunflower Assurance, Ltd. Surgical Facilities Insurance, Ltd. Swisspartners Insurance Company Ltd. T.A.C. Insurance Company Limited Tailored Risk Assurance Company Ltd. Tch Insurance Company, Ltd. Tcr Insurance Company, Ltd. Temporary Services Insurance Ltd. Terramar Insurance Company, Ltd. Terrapin Insurance Company Testudo Re Cayman, Ltd. Texas Health Facility Insurance Corporation Ltd. Three Lakes Insurance Company Ltd. Tiger International Insurance Limited Tortuga Casualty Company Traffic Insurance Ltd. Travel Safe International Insurance Company (Cayman) Trax Insurance Ltd. Tremont International Insurance Ltd. Twickenham Insurance Company U.I.B. International Insurance Co., Ltd. Umcc Insurance Funding Limited Uneon Re Ltd Unified Reinsurance Co. Ltd. Union Fidelity Insurance Company United Care Insurance Company United Continental Corporation Ltd. United Insurance Company United Physicians Insurance Company Ltd. United Security Associates Insurance Company United States Global Reinsurance Ltd. United Trades Insurance Company University Of Florida Healthcare

Education Insurance Company Ursa Company Ltd. Us Employers Insurance Inc. Valence Insurance Co. Ltd. Venzke Insurance Company Ltd. Vista General Reinsurance Limited Viznar Reinsurance Company Limited W & I Indemnity Ltd. Walnut Assurance Company Ltd. Warrander Insurance Company Limited Water Street Insurance Company Ltd. Waterford Insurance Ltd. Wellington Security International Insurance Company West Coast Reinsurance Ltd. Western International Insurance Company Western Liability Insurance Company Western Pacific Mutual Insurance Co. Ltd. Western Technical Insurance Inc. Westin International Insurance Company Ltd. Westside Insurance Company Whatatu Insurance Company Whitehall Station Insurance Company Ltd. William Penn Insurance Co. Ltd. Wisconsin Health Care Assurance Limited Woodbridge Insurance Company Ltd. Wsh Insurance Company Ltd. Yhs Insurance Company, Ltd. Zeneca Reinsurance Company Limited Zenith Casualty 28 &D\PDQ ,VO DQGV \*HQHUD O 6W D W L VW L F V &D\ PD Q ,VODQGV\*UDQG&D\ PDQ/LWVOH 6XUI D F H \$UHD 7RWDO&D\ PDQ%UDF&D\ PDQ /DQG VT PLOHV ,QODQG :DWHU V T PLOHV , V OD QGV 7 RW D O V T P LOHV ( F RQRP L F ,QG L F D W RUV & RQV X PHU 3ULFH ,QGH[ 6 HSW \$QQXDO SHUFHQWDJH FKDQJH ,PSRUWV PQ ([SRUWV PQ &XUUHQW 6 X US OX V 'HILFLW DV RI \*3 7 RW D O %D QN D V V HWV 86 PQ 1HW )RUHLJQ \$V V HWV RI ORFD O ED QNV PQ 6 WD \ RYHU D UULYDOV V 6 WD \ RYHU ([ SHQGLWX UH PQ & UX LV H 6 KLS DUULYD OV V &UXLV H 6KLS ([SHQGLWXUH PQ 5 HJ LV WHUHG YHKLFOHV V 8QHPSOR\PHQW UDWH 2FW 6RFLDO ,QGLFDWRUV (QG \HDU SRS X OD WLRQ V 3HUFHQWDJHV &D\ PD QLD Q \*URZWK UD W H 7 HD FKHU 3X SLO UD WLR 'RFWRUV SHU \HDU HQ G SRS &ULPHV SHU \HDU HQ G SRS \$ FFLGHQW UD WH SHU YHK LFOHV /LIH ([SHFWDQF\ D W %LUWK \HDUV 1RWHV & X U U HQ W 6 X U S O X V 5 HFX U U HQ W 5 HYHQ X H O HV V 5 HFX U U HQ W 6 W D WX WRU \ ( [ S H Q G L W X U H 7K H SRSX OD W L RQ ILJ X UHV VLQF H K DY H EHHQ UHY L VHG GX H W R F K DQJ HV LQ W K H ,P P L JU DW LRQ IL JX U HV 628 5& ( (FRQRPLFV 6W D W L V W L F V 2IIL F H &D\PDQ ,V O D Q G V \*RY HUQPHQW Selected Financial Statistics 29 (PSOR\PHQW %\6HFWRU %\$1.,1\* , 16 8 5\$1& ( /6 & 21'26 \* 2 9(5 10 (1 7 2 7 , 1'8 6 7 5, (6 7 27\$/ (03/2<0(17 3HUFHQWD J H FK D QJ H 1RWHV 'DWD IURP DQQXDO EDQNLQJ VXUY HV 'D WD IRU IU RP DQQX DO L QV X UD QFH VX U Y HV IURP / D ERX U )RU F H 6X UYH\ \$ QQX DO D Y HUD JH RI GD W D IURP W K H 'HSW RI 7RX UL VP ZK LFK H[FOX GHV V P DO O F RW WDJ H RSHUD W L RQV (V W L P D W HG LQFOX GL QJ W K H VHOI HPSO R\ HG 7RWDO HP SO R\ P HQW ED VHG RQ 2FWREHU / D ERX U )RU F H 6D P SO H 6XU Y H\ V (PSOR\PHQW DQG (DUQLQJV E\ 2FFXSDWLRQ 2& &83\$7,21 /) 6 2 FW /) 6 2 FW /)6 2FW /)6 2FW /)6 2FW 2 FW 2 FW REH U /) 6 \$YHUDJH 0RQWKO\ 6 DODULH V L Q & , \$OO 2FFXSDW LRQV 6 HQLRU RIILFLD OV PD

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O\6HSW HP EHU1RYHPEHU 37 To the Shareholders 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 Fi- nance and Audit Law (1997 Revision), I have audited the financial state-  
ments of the Cayman Monetary Regulatory Authority International for the year ended 31 December  
1997, as set out on pages 38 to 46. 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 evaluat- ing 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 Islands Monetary Authority as at 31 December 1997, 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 26 August 1998 38 Cayman Monetary Regulatory Authority International BALANCE SHEET 31 December 1997 In Cayman Islands Dollars ASSETS Note 1997 Currency Reserve Assets Short-Term Investments \$46,948,772 Current and Call deposits 44,771,174 Fixed Deposits 42,017,333 Total currency reserve assets 53,737,279 Other Assets Accounts Receivable 119,734 Other Receivables and Prepayments 1173,871 Interest Receivable, local deposits 117,376 Stocks 5233,341 Fixed Assets 6802,807 Total other assets 1,127,129 TOTAL ASSETS \$54,864,408 LIABILITIES Demand Liabilities, Currency in Circulation 7\$40,488,518 Payable to the CI Government 9b2,500,000 Other Liabilities and Payables 7636,779 Lease obligation 8218,797 TOTAL LIABILITIES \$43,844,094 RESERVES and CAPITAL General Reserve 9a6,073,278 Currency Issue Reserve 9c697,036 Total reserves 6,770,314 Paid Up Capital 9d4,250,000 Total reserves and capital 11,020,314 TOTAL LIABILITIES, RESERVES and CAPITAL \$54,864,408 Signed on behalf of the Board, 26 August 1998 George McCarthy, CPA, OBE, JPNeville Grant, M.A., MBA Chairman Managing Director Cayman Islands Monetary Authority Cayman Islands Monetary Authority The notes on pages 41 to 46 are an integral part of the financial statements. 39 Cayman Monetary Regulatory Authority International INCOME STATEMENT For the year ended 31 December 1997 In Cayman Islands Dollars INCOME Note 1997 Government Grant 2\$3,482,124 Investment Income 22,554,966 Commission Income 238,928 Numismatic Income 54,950 Other income 12,376 Foreign Currency Loss 2(478) Total income 6,342,866 EXPENSES Salaries and Bonuses 1,640,459 General and Administrative 294,280 Lease rental 8233,975 Depreciation 6172,563 Official travel 113,624 Pension contributions 1099,364 Management and Custody fees 385,270 Audit and Professional fees 62,680 Staff training and Recruitment 54,800 Interest expense 830,339 Directors fees 8,000 Total operating expenses 2,795,354 Net income \$3,547,512 The notes on pages 41 to 46 are an integral part of the financial statements 40 Cayman Monetary Regulatory Authority International STATEMENT OF CASH FLOWS For the year ended 31 December 1997 In Cayman Islands Dollars 1997 Cash flows from operating activities CI Government grant received \$3,482,124 Net proceeds from currency operations 3,721,333 Payments to CI Government (1,527,269) Payments to employees (1,781,795) Payments to suppliers (931,878) Net cash used by operating activities (2,962,515) Investing Activities Investment income received 2,460,441 Net purchases of investments (2,294,155) Acquisition of fixed assets (709,571) Net cash provided by investing activities (543,285) Financing Activities Interest paid (30,339) Net cash used in financing activities (30,339) Increase in cash and cash equivalents 2,388,891 Movement in cash and cash equivalents Balance at 1 January 1997 4,399,616 Increase 2,388,891 Balance at 31 December 1997 \$6,788,507 The notes on pages 41 to 46 are an integral part of the financial statements 41 Cayman Monetary Regulatory Authority International NOTES TO THE FINANCIAL STATEMENTS 31 December 1997 In Cayman Islands Dollars 1. Organisation The Cayman Monetary Regulatory Authority International (the Authority ) was established under The Monetary Authority 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. Significant Accounting 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 currency is Cayman Islands Dollars.

b) Investments. Short-term investments are valued at amortized cost, and long term investments are valued at quoted market value, on a monthly basis. Unrealised gains or losses are recorded in the income statement.

c) Foreign Currency. Foreign currency transactions are recorded at the exchange rates prevailing on the date of the transactions: gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

d) Government Grants. Income grants are deferred and recognised 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 classified as finance leases. Finance leases are recognised 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.

g) Numismatic Coins. The total nominal value of numismatic coins outstanding at 31 December 1997 is \$15,071,504. No liability for redeeming numismatic coins is recognised in the financial statements, since the amount of redemption cannot be reasonably estimated and the probability of material redemption is remote. Redemption costs and sales proceeds are recorded in the income statement as incurred.

h) Cash and cash equivalents. For the purposes of the cash flow statement, cash and cash equivalents consist of current and call deposits and fixed deposits maturing within 90 days from the date of acquisition.

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3. Short-Term 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 1997

Instrument	Interest Rate	Term	Amount
Certificates of Deposits and Bankers Acceptances	5.63% to 6.13%	5/1/98 to 30/6/98	\$29,865,439
Repurchase Agreement Federal Reserve	6.37%	2/1/98	17,083,333
<b>Total short-term investments, at amortized cost</b>			<b>\$46,948,772</b>
<b>Market value of short-term investments</b>			<b>\$46,946,342</b>

4. 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 1997, domestic deposits represent 7.0% of demand liabilities. Domestic

depositsCurrencyCI\$ Call depositsKYD\$203,194 Call depositsUSD643,477 Call  
 depositsGBP4,271 Current depositsKYD(16,153) Fixed depositsKYD2,017,333 Cash on  
 handKYD205 \$2,852,327 Interest is paid on local call and fixed deposits at rates ranging from  
 2.5% to 5.75% per annum. Foreign DepositsCurrencyCI\$ Investment portfolio, call  
 accountUSD\$3,851,837 Federal ReserveUSD84,343 \$3,936,180 43 Interest of 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. Stocks  
 Stocks consist of silver bullion arising from the meltdown of numismatic coins and the gold  
 and silver bullion content of numismatic coins held by the Authority. Bullion from the  
 melt-down of coins\$180,573 Coins awaiting melt-down11,959 Coins for resale19,535  
 Museum items21,274 Total stocks\$233,341 6. Fixed Assets FurnitureLeaseholdOfficeMotor  
 & FixturesImprovEquipmentVehicleTotal Original Cost Balance at 1 January 1997:\$ 2,007  
 \$ \$ 118,924\$ \$ 120,931  
 Additions:181,357422,915281,67524,600910,547 Disposals: Balance at 31 December  
 1997:183,364422,915400,59924,6001,031,478 Depreciation Balance at 1 January 1997:100  
 56,008 56,108 Depreciation expense:30,15649,42190,1152,871172,563 Balance at 31  
 December 1997:30,25649,421146,1232,871228,671 Net Book Value Cost at 31 December  
 1997:183,364422,915400,59924,6001,031,478 Accumulated  
 depreciation:(30,256)(49,421)(146,123)(2,871)(228,671) Net Book Value at 31 December  
 1997:\$ 153,108\$ 373,494\$ 254,476\$ 21,729\$ 802,807 44 Cayman Monetary Regulatory  
 Authority International Notes to the Financial Statements 31 December 1997 7. Liabilities  
 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  
 1997, total demand liabilities comprise: i) Currency notes in circulation\$36,065,017 ii)  
 Currency coins in circulation4,423,501 Demand liabilities, Currency in circulation\$40,488,518  
 At 31 December 1997, the value of Currency Reserve assets was \$53,737,279 representing  
 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.  
 Other liabilities. At 31 December 1997, other liabilities include unsettled currency redemption  
 payments of \$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 5 January 1998. 8. Lease Obligations 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 \$25.00 per sq. foot, with  
 an option for an additional two years at \$26.00 per sq. ft, payable monthly in advance. 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 1997, the unpaid principal balance of modification costs is \$218,797 of which  
 \$103,286 is payable within a year. 45 9. Reserves 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 23 July 1998, the Board of Directors resolved to transfer \$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. 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 \$4,250,000 as at 31 December 1997. Currency General Issue Paid-Up Reserves and Capital: Note Reserve Reserve Capital Balance at 1 January 1997: 1\$ 6,965,693\$ 218,838\$ 2,788,271 Transfers in: 93,547,512 478,198 1,461,729 Transfers out: 9(4,439,927) Balance at 31 December 1997: \$ 6,073,278\$ 697,036\$ 4,250,000

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 employer contributes 6%, and the employee contributes 4%, of the employee's salary on a monthly basis. All employees, except employees employed on overseas or local contracts, are eligible for this scheme. Ineligible employees receive contracted officers' cash supplements of 10% of salary in lieu of pension contributions. The Authority paid \$52,009 in contracted officers' supplements during the year.

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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 short-term investments and deposits are at fixed interest rates and mature within one year. 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 short-term investments is presented in Note 3. The fair values of other assets and liabilities are not materially different from the carrying amounts.

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