



# 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.

APPENDIX TO THE ANNUAL REPORT 2004-2005 AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005 Cayman Monetary Regulatory Authority International INCOME STATEMENT For the year ended 30 June 2005. (Expressed in Cayman Islands Dollars) Note 2005 2004

									\$	
										INCOME
										Government Grants 2d, 11
8,451,844										9,272,062
	Investment Income 2b	2,555,311	1,875,075							Commission Income 610,993
543,718	Numismatic Income	74,927	103,935							1,632 3,968 Total Income
										12,514,925
		10,978,540								EXPENSES
										Salaries and Other Benefits 5,898,036
										5,084,265 General and Administrative
1,212,127	890,726 Pension Contributions	9 606,027	625,849							Depreciation
	2e,		4							153,045
		154,779								Lease Rental 7
										312,113
309,425	Staff Training and Recruitment	200,285	210,702							Official Travel 332,226
	Management and Custody Fees 3a	110,772	109,275							258,380
	Directors Fees	275,297	281,219							Professional Fees 347,633
	Unrealised Loss on Investments	123,643	158,306							153,606
										512,019 816,836
										Total Expenses
										10,083,223
										9,053,368
										Net Income
		2,431,702								1,925,172

The notes on pages 7 to 14 are an integral part of these financial statements 4 CAYMAN ISLANDS MONETARY AUTHORITY STATEMENT OF CHANGES IN RESERVES AND CAPITAL For the year ended 30 June 2005. (Expressed in Cayman Islands Dollars) General Reserve Currency Issue Reserve Paid-Up Capital General Reserve Currency Issue Reserve Paid-Up Capital Balance at 1 July : \$ 8,213,057 \$ 615,038 \$ 8,125,000 \$ 7,432,766 \$ 650,382 \$ 7,600,000 Transfers in: From Government 131,650 From Net Income 2,431,702 1,925,172 From General Reserve 525,000 From Paid-up Capital 278,630 Transfers out: To General Reserve (278,630) To Paid-up Capital (525,000) Contribution Payable to C I Govt (619,881) To adjust the Inventory of Unissued Notes on hand as at 30 June (95,308) (35,344) Balance at 30 June: \$ 10,923,390 \$ 519,730 \$ 7,978,020 \$ 8,213,057 \$ 615,038 \$ 8,125,000 2005 2004 The notes on pages 7 to 14 are an integral part of these financial statements 5 Cayman Monetary Regulatory Authority International STATEMENT OF CASH FLOWS For the year ended 30 June 2005. (Expressed in Cayman Islands Dollars) 2005 2004

										\$
										Cash flows from
										operating activities
	Net Income	2,431,702	1,925,172							Adjustments for items not involving
	Add: Depreciation	153,045	154,779							cash:
0 (750)	Operating profit before working capital changes	2,584,747	2,079,201							Less: Gain on fixed assets disposal
	Purchase of Investments		(7,557,265)							0 (750) Net
										2,584,747 2,079,201
										(6,495,343)
										Interest Receivable
										40,748 35,413
	Accounts Receivable	119,067	(123,333)							Other Receivables and Prepayments

(29,401)	20,761	Other Liabilities and Payables	322,138	62,973	Stocks	21,969
39,629		Cash generated from operations			(4,497,997)	
	(4,380,699)		Increase in Demand Liabilities	18,068,888	5,201,943	
		(Decrease) in Currency Issue Reserve	(95,308)	(35,344)	Net cash from operating activities	13,475,583
		Investing Activities	Acquisition of fixed assets	(42,122)		
		Proceeds from fixed assets disposal	0	750	Net cash used by investing activities	(256,476)
		Financing Activities	Contribution received from CI Government	131,650	0	Contribution Paid to CI Government
			(619,881)	(811,802)	Net cash used in financing activities	(488,231)
			(811,802)			
		Increase/(Decrease) in cash and cash equivalents	12,945,230	(282,378)	Movement in cash and cash equivalents	Balance at 1 July
			4,522,967	4,805,345	Increase/(Decrease)	12,945,230
						(282,378)
						Balance at 30 June (Note 3b)
						17,468,197
						4,522,967

The notes on pages 7 to 14 are an integral part of these financial statements

6 Cayman Monetary Regulatory Authority International NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2005. (Expressed in Cayman Islands Dollars)

1. Organization and Objectives The Cayman Islands Monetary Authority (the Authority) was established under The Monetary Authority Law, 1996 (the Law) on 1 January 1997. Prior to 1 January 1997, The Cayman Islands Currency Board (the Board) was responsible for currency management and the Financial Services Supervision Department (FSSD) was responsible for financial services regulation in the Cayman Islands. Under the Law, the Board and FSSD were terminated and their assets, liabilities, reserves and responsibilities transferred and vested in the Authority on 1 January 1997. Under the Monetary Authority Law (2004 Revision) (the Law (2004 revision)), the primary objectives of the Authority were (a) to issue and redeem currency notes and coins and to manage the Currency Reserve, (b) to regulate and supervise the financial services business (c) to provide assistance to overseas regulatory authorities and (d) to advise the Cayman Islands Government on regulatory matters. As at 30 June 2005, the Authority has 95 employees (30 June 2004: 92). The Authority is located in George Town, Grand Cayman, Cayman Islands.

2. Significant Accounting Policies

a) Basis of preparation. The financial statements of the Authority are prepared on the accrual basis under historical cost convention and are in accordance with International Financial Reporting Standards. The reporting currency is Cayman Islands Dollars.

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

c) Foreign Currency. Foreign currency transactions are recorded at the exchange rates prevailing on the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Assets and liabilities are translated at the exchange rate in effect at the Balance Sheet date.

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

e) Fixed Assets. Fixed Assets are stated at historical cost less accumulated depreciation. Depreciation is calculated on the straight-line method of 20% per annum for Furniture & Fixtures, Leasehold Improvements, Office Equipment (with the exception of Bank Note

Sorting machine calculated at 15%) and Motor Vehicle; and 25% to 33 1/3% for Computer Hardware and Software, which is sufficient to write-off the cost of the assets over their estimated useful lives. f) Stocks. Stocks consist of silver bullion arising from the melt-down of numismatic coins, the gold and silver bullion content of the following categories of numismatic coins: coins for resale, museum items and coins awaiting melt-down and unissued currency notes. Bullion stocks are stated at year-end market values for gold and silver bullion and unrealised gain/loss are recorded in the Income Statement.

7 Cayman Monetary Regulatory Authority International NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2005. (Expressed in Cayman Islands Dollars) Significant Accounting Policies (continued) The stock of unissued currency notes is stated at cost. Only the cost of notes issued into circulation is expensed on a first in first out basis. (See also Note 5). g) Numismatic Coins. The total nominal value of numismatic coins outstanding at 30 June 2005 is \$14,704,652 (30 June 2004: \$14,731,414). No liability for redeeming numismatic coins is recognized in the financial statements, since the amount of redemption cannot be reasonably estimated and the probability of material redemption is remote. Redemption costs and sales proceeds are recorded in the income statement as incurred. e) Cash and cash equivalents. For the purposes of the cash flow statement, cash and cash equivalents consist of current and call deposits and fixed deposits maturing within 90 days from the date of acquisition. (See also Note 3). i) Employee benefits. Obligations for contributions to defined contribution and defined benefits pension plans are recognized as an expense in the income statement as incurred. (See also Note 9).

3. Currency Reserve Assets Sections 32(8) of the Law (2004 revision) mandates the preservation of Currency Reserve Assets, separately from all other assets of the Authority. These assets are to be used to fund the Authority's currency redemption obligations. (See also Note 6.) They shall not be chargeable with any liability arising from any other business. After all demand liabilities are extinguished, any surplus Currency Reserve Assets would form, in part, the assets of the General Reserve. (See also Note 8a.) Under the Law (2004 revision), sections 32(2) and 32(6) respectively, the Currency Reserve Assets are to consist of external assets (not less in value than an amount equivalent to ninety percent of demand liabilities) and local assets (not to exceed ten percent of demand liabilities.). At 30 June 2005, the value of Currency Reserve Assets was \$90,155,131 (30 June 2004: \$69,922,205) representing 123.80% (30 June 2004: 127.7%) of total demand liabilities. The value of external assets equated to 120.68% (30 June 2004: 123.7%) while the value of local assets equated to 3.12% (30 June 2004: 4%) of demand liabilities. Currency Reserve Assets comprise the following: a) Investments The principal investment objectives of the Authority are security, liquidity and income. The investment portfolio is managed by independent fund managers in accordance with investment guidelines established by the Board of Directors, in accordance with the Law (2004 Revision). Management fees are calculated based on the market value of the portfolio and are payable quarterly in arrears. Either party may terminate the agreement with thirty days notice.

8 Cayman Monetary Regulatory Authority International NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2005. (Expressed in Cayman Islands Dollars) Long-term investments Long-term investments are made up of Mortgage-backed Securities stated at market value, with interest rates ranging from 3.6% to 8.0%. Maturity dates range from 01/12/2005 to 25/07/2028. Although the stated maturity date on one security is over 10 years the expected duration is

less than 10 years.	2005	2004	Range of maturities:		
\$					\$
	1	5 Years	16,836,075	21,208,487	6 10 Years 1,145,640
7,234,155	Over	10	Years	4,008,694	315,478
\$21,990,409	\$28,758,120	Short-term investments		Discount notes /	
Treasury Bills	Maturing from 12/07/05 to 04/08/05		22,400,106	14,658,462	
Repurchase Agreement	Federal Reserve at 1.1% maturing 01/07/05		29,833,333		
23,250,000	Total short-term investments, at amortized cost		\$52,233,439	\$37,908,462	
9	Market value of short-term investments		\$52,232,776		
\$38,059,684			b) Bank Deposits The		
Authority maintains current, call and fixed deposits with domestic and foreign banks. Under the Law (2004 revision), domestic deposits (as part of the Currency Reserve Assets) cannot exceed 10% of demand liabilities. At 30 June 2005, domestic deposits represent 3.12% (30 June 2004: 4%) of demand liabilities.					
2004	i) Current and Call Deposits		Currency	\$ \$	Current account KYD
(83,452)	(108,780)	Call deposits	KYD	2,520,449	2,338,924
300	300	Current and Call Deposits		\$2,437,297	\$2,230,444
Currency Reserve Assets	Domestic Deposits		Call deposits	USD	943,287
878,815	Call deposits	GBP	6,741	6,733	Foreign Deposits
Reserve call account USD	161,072	99,167	Investment portfolio,	call account USD	
12,596,306	5,911	Total Call Deposits	\$13,707,406	\$990,626	Domestic Fixed
deposits	USD	\$1,323,494	\$1,301,897	Total	
Operating Cash and Currency Reserve Assets	\$17,468,197	\$4,522,967	Cayman Monetary		
Regulatory Authority International	NOTES TO THE FINANCIAL STATEMENTS				
For the year ended 30 June 2005. (Expressed in Cayman Islands Dollars)					
Currency Reserve Assets (continued) Interest is paid on domestic call and fixed deposits at rates ranging from 0.35% to 1.1% (30 June 2004: 0.25% to 0.91%) per annum. Interest of 1.2% (30 June 2004: 1.1%) 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.					
4. Fixed Assets					
Improvement	Computer	E quipment	Office Equipment	Motor Vehicle	Total
Original Cost	Balance at 01/07/04:	428,790\$	422,915\$	761,639\$	410,345\$
24,600\$	2,048,289\$	Additions:	16,035	-	24,587
-	42,122	pp Balance at 30/06/05:	444,825	422,915	1,500
786,226	411,845	24,600	2,090,411	Accumulated Depreciation	
Balance at 01/07/04:	371,161	422,915	624,784	193,094	24,600
1,636,554	Depreciation expense:	33,443	-	80,051	39,551
-	153,045	pp Balance at 30/06/05:	404,604	422,915	
704,835	232,645	24,600	1,789,599	Net Book Value at 30/06/05:	
-\$	81,391\$	179,200\$	-\$	300,812\$	Net Book
Value at 30/06/04:	57,629\$	-\$	136,855\$	217,251\$	-\$
411,735\$	5. Stocks		2005	2004	Bullion from the
melt-down of coins	\$202,142	\$169,491	Coins awaiting melt-down	134,503	100,668
for resale	78,903	73,398	Museum items	24,585	22,131
notes and coins	366,601	463,015	Total	stocks	\$806,734
					\$828,703
10 Cayman Monetary Regulatory Authority International NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2005 (Expressed in Cayman Islands Dollars)					

6. Liabilities

a) Demand Liabilities. Demand Liabilities represents the value of notes and coins in circulation. These liabilities are fully funded by the Currency Reserve Assets

Total demand liabilities comprise:	2005	2004	i)
Currency notes in circulation	\$65,396,325	\$47,943,797	ii) Currency coins in circulation
7,426,279	6,809,919	Total	\$72,822,604
			\$54,753,716

b) Other liabilities. At 30 June 2005, other liabilities included unsettled investment management and custody fees of \$51,527 (30 June 2004: \$27,237).

7. Lease Obligation The Authority leases the premises used under a lease agreement dated 1 January 2004 for the total office space of 11,229 sq. ft at \$26 per sq. ft. The lease is for 2-year period expiring 1 January 2006. Effective 1 June 2005 the Authority leased an additional 1,857 sq. ft. at \$30 per sq. ft. for the period of one year to be renewed annually. The Authority also leased 800 sq. ft. at \$20 per sq. ft. effective 1 April 2005 for one year. Rental payments under operating leases are charged to the income statement in equal installments over the period of the lease.

8. Reserves and Capital

a) General Reserve. The Authority maintains a General Reserve in accordance with Section 8 of the Law (2004 revision). The Authority may maintain the General Reserve at 15% of demand liabilities to provide additional funding, if necessary, for demand liabilities and obligations arising from other business of the Authority. Reserve assets are held predominantly in United States dollars, with minimal holdings in Cayman Islands dollars and British Pound Sterling.

b) Reserve Allocation. Under Section 10 of the Law (2004 revision), the net profits of the Authority, after provision for all expenditure and reserves, shall be allocated such that the Currency Reserve Assets represent at least 100% of demand liabilities and the General Reserve does not exceed 15% of demand liabilities. Any surplus, after complying with these requirements, must be transferred to the General Revenue of the Cayman Islands Government.

c) Currency Issue Reserve. Prior to 1 January 2003 the cost of printing of notes or minting of coins (unissued and issued) was recorded against the Currency Issue Reserve (\$250,501 in 2002). The Currency Issue Reserve was set at a level deemed necessary to meet an estimated future printing or minting cost. This effectively expensed the cost of printing or minting in that period. After 1 January 2003 the cost of printing and minting is set up as a Stock of unissued currency and only the cost of currency issued into a circulation is expensed. As a result of this change the Currency Issue Reserve had to be adjusted as of 1 January 2003 by \$314,959 (the cost of currency notes printed prior to 1 January 2003 but on hand as of 1 January 2003). The Currency Issue Reserve will be adjusted as these notes are issued until the stock is exhausted. The Currency Issue Reserve will then remain at \$375,000.

Cayman Monetary Regulatory Authority International NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2005. (Expressed in Cayman Islands Dollars)

d) Capital. The authorised capital of the Authority is \$100,000,000. The Cayman Islands Government is the sole subscriber and has contributed Paid-Up Capital of \$7,978,020 as at 30 June 2005 (30 June 2004: \$8,125,000). The Executive Council of the Cayman Islands Government has committed to increasing the Paid-Up capital of the Authority to a minimum of \$10 million by the year 2008, by yearly transfers from surplus, after complying with reserve requirements. However, as at 30 June 2005 the General Reserve (after applying all of Net Surplus) does not meet the statutory level of 15% of Demand Liabilities and has a shortfall of \$278,630. The Cabinet has agreed to and subsequently approved a transfer from Paid-Up Capital to meet the shortfall.

9. Pensions

12 a) Public Service Pensions Plan Pension contributions for eligible employees of the Authority are paid to the Public Service

Pensions Fund (the Fund). The Fund is administered by the Public Service Pensions Board (the Pensions Board) and is operated as a multi-employer non-contributory Fund, whereby the employer pays both employer and employee contributions. Prior to 1 January 2000 the scheme underlying the Fund was a defined benefit scheme. With effect from 1 January 2000 the Fund had both a defined benefit and a defined contribution element. Participants joining after that date became members of the defined contribution element. Using the projected unit credit method of measuring costs and obligations, the amended actuarial assessment for the Authority, effective 1 January 1999, assessed the normal annual contribution to be 10.15% of pensionable emoluments, plus an additional 6.44% in respect of the Authority's unfunded past service liability (PSL), which was estimated at \$479,114. In July 2001, the minimum normal contribution requirement for Statutory Authorities was revised to 13% effective 1 January 1999. This rate includes a 1% non-retirement benefit contribution. The Authority did not accept the rate of 13% and the Pensions Board PSL calculation because the calculation included accrual for participants' pensionable service prior to 1997 when the Authority was created, for service in departments and agencies other than the Cayman Islands Monetary Authority. The Authority therefore continued to fund 6% employee and 6% employer contributions during 1999 to 2002. In April 2003, the Pensions Fund management advised that it was agreed that the unfunded PSL would remain a central liability of the entire public sector. Pensions management also confirmed that the contribution rate would be 13% effective 1 January 1999. The Authority began recognizing the revised contribution rate of 13% from 1 January 2003. In March 2005, the Financial Secretary informed the Authority that the decision to keep unfunded PSL a central liability of the entire public sector was reversed and the Authority is expected to recognize the unfunded PSL as a liability on its financial statements once the actuarial valuation is completed and the actual liability since 1997 is determined. The total amount recognised as a pension expense during 2004-5 was \$606,027 (2003-4: \$625,849). The pension plan has been accounted for under paragraphs 44-46 of International Accounting Standard 19 as if it were a defined contribution plan.

Cayman Monetary Regulatory Authority

International NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2005.

(Expressed in Cayman Islands Dollars) b) Cash Supplement in Lieu of Pension Prior to 1 January 2000 employees on overseas and certain local contracts were not eligible to participate in the pensions schemes underlying the Fund. These employees received cash supplements of 12% of salary in lieu of pension contributions. With effect from 1 January 2000 all overseas and certain categories of locally employed staff became entitled to participate in the Defined Contribution plan. The Authority has elected to implement this option as of 1 July 2002 for contracts expiring after that day. Employees affected by such contracts will have the option to continue contributions to their existing pension schemes as long as those are properly approved or join the Fund. The Authority paid \$0 (30 June 2004: \$14,408) in cash supplements during the 2004-5 year in respect of these officers.

10. Financial Instruments a) Credit risk. Financial assets that potentially subject the Authority to credit risk consist principally of current, call and fixed deposits, long and short-term investments, accounts and interest receivable, and other receivables and prepayments. The Authority's current, call, and fixed deposits are placed with high credit quality institutions. Credit risk with respect to long and short-term investments, accounts and interest receivable, and other receivables and prepayments is limited because the Authority only transacts business with counterparts it

believes to be reputable and capable of performing their contractual obligations. Accordingly, the Authority has no significant concentrations of credit risk. b) Interest rate risk. The Authority's investments and deposits are at fixed interest rates. The ranges of interest rates and maturity dates are presented in Note 3. c) Fair values. The carrying amount of current, call, and fixed deposits, accounts and interest receivable, other receivables and prepayments, demand liabilities, and other liabilities and payables approximated their fair value due to the short-term maturities of these assets and liabilities. The market value of investments is presented in Note 3. The fair values of other assets and liabilities are not materially different from the carrying amounts.

11. Related Party Transactions The Board of Directors of the Authority is appointed by the Governor and consisted of the Managing Director and nine directors as of 30 June 2004. Up to 31 December 2002, the Financial Secretary by virtue of his office was one of the directors. Due to the changes in the Law (2003 Revision) and the move to make the Authority independent, the Financial Secretary will not be a member of the Board of Directors of the Authority effective January 2003. The following Government departments/entities provided services to the Authority during 2004-5:

i) Audit Office at a cost of \$30,000 (2003-4: \$25,000). ii) Public Service Pension Board (see Note 9) iii)

Legal Department.

The Authority acts as the Government's custodian of the Cayman Islands currency as well as collector of the annual license fees and issuer of licenses relating to the financial industry. These services are provided at no direct cost to the Government.

13 Cayman Monetary Regulatory Authority International NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 2005. (Expressed in Cayman Islands Dollars) Related Party Transactions (continued) The Authority operates on a grant from the Government to cover its Recurrent and Capital Expenditures (see Note 4 for fixed asset purchases). At the end of each financial year the Authority contributes to the government the net operating surplus after fulfilling reserve requirements.

12. Additional Bank Accounts The Authority maintains a segregated insurance fund account with a local bank to collect funds from health insurance providers (as specified under regulation 5 of the Health Insurance Regulation (2002 Revision)). Those receipts are then paid over to the Cayman Islands Government. The account is in the name of the Authority but is not included as a part of the Authority's assets. The account balance was \$452,603 as at 30 June 2005. This account will be transferred to the Health Insurance Commission upon completion of the audit of Segregated Insurance Fund. The Authority also maintains an interest bearing account with another local bank established to receive a draw down on Letter of Credit as a consequence of default by an insurance company. By virtue of Section 7(1) of the Insurance Law (2004 Revision) every insurance company carrying on domestic business in the Cayman Islands must have funds set aside for liability support to their policyholders in the event the company defaults on its financial obligations in this jurisdiction. The account balance was \$1,550,000 as at 30 June 2005. This balance will be disbursed according to the directions from the Grand Court of Cayman Islands. This account is also in the name of the Authority but is not included as a part of the Authority's assets.