

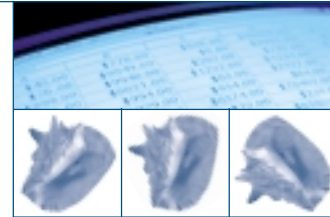
CAYMAN ISLANDS
Monetary Authority

Annual Report 2000



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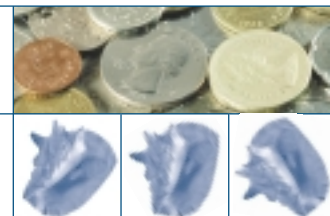




MISSION STATEMENT THE CAYMAN ISLANDS MONETARY AUTHORITY

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

DIRECTORS AND SENIOR OFFICIALS AS AT DECEMBER 31 2000



Board of Directors

| | |
|----------------------|--|
| Hon. George McCarthy | C.P.A., O.B.E., J.P. (Chairman) |
| Sir Vassel Johnson | O.B.E., C.B.E. |
| Richard Chalmers | M.A. |
| Peter Tomkins | M.B.E. |
| Jennifer Dilbert | |
| John Bourbon | MSc., F.C.I.B., F.Col. (Managing Director) |
| Michael Austin | M.B.E., F.C.A. |

Senior Officials

| | |
|-------------------|---|
| John Bourbon | Managing Director |
| Cindy Scotland | General Manager; Head Currency Operations |
| Shan Whittaker | Acting Deputy Head Currency Operations |
| Anna McLean | Head of Banking and Trust |
| Karl Adamsons | Deputy Head of Banking and Trust |
| Reina Ramos | Deputy Head of Banking and Trust |
| Clive Thursby | Head of Insurance |
| Gordon Rowell | Head Designate |
| Mary Lou Gallegos | Deputy Head of Insurance |
| Chris Collins | Superintendent, Health Insurance |
| Dwight Carter | Head of Investments |
| Paul Byles | Head of Policy and Research |
| Neil Glasson | Information Technology Manager |
| Langston Sibblies | Legal Adviser |
| Don Ebanks | Head of Compliance |



CHAIRMAN'S STATEMENT

The new legislation also includes provisions to prevent 'fishing expeditions' and to safeguard the legitimate interests of the Cayman Islands.

The Cayman Islands financial sector was unaffected by the much talked about Y2K Millennium Bug at the start of the year and the economy continued to expand at an estimated growth rate of 3 – 4%. The year 2000 was a challenging one for the financial services industry. During the year, various international initiatives, such as the Financial Action Task Force Report on Non-Cooperative Jurisdictions and the KPMG Review of Caribbean Overseas Territories were the focus for all participants in the Cayman Islands financial sector.

In response to these initiatives the Cayman Islands amended various pieces of financial legislation and enacted the Proceeds of Criminal Conduct Law, (Money Laundering Regulations, 2000). The legislative changes made in 2000 made significant improvement to Cayman's existing anti-money laundering legislation. In addition, legislative changes providing for access to client information for regulatory purposes and international regulatory cooperation were made. The new legislation also includes provisions to prevent 'fishing expeditions' and to safeguard the legitimate interests of the Cayman Islands.

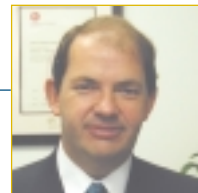
The Cayman Islands received a favourable review in the KPMG Report published in 2000. The Report noted that Cayman's recent financial legislative changes relating to international cooperation and anti-money laundering taken as a whole are extensive, and are largely consistent with international best practice standards.

Along with the production of the Money Laundering Guidance Notes to accompany the Money Laundering Regulations, 2000, the main focus for the Monetary Authority in 2001 will be the legislation to effect its independence along with manpower planning to ensure the Monetary Authority possesses the required staffing complement.

As Chairman of the Board of Directors of the Monetary Authority, I would like to express the Board's sincere appreciation to Mrs. Julene Ebanks who resigned during the year from the Board, to Sir Vassel Johnson who resigned at the end of the year, and to Mr. Neville Grant, the former Managing Director. I would like to extend a warm welcome to our new board members, Mr. Peter Tomkins and Mrs. Jennifer Dilbert, and our new Managing Director Mr. John Bourbon, and thank all the staff for their commitment and hard work throughout the year.

Hon. George McCarthy
Chairman
Cayman Islands Monetary Authority

MANAGING DIRECTOR'S STATEMENT



In response to the challenges that faced the Cayman Islands in 2000 a number of legislative amendments and enactments were introduced to improve the effectiveness and efficiency of the Monetary Authority's oversight of the growing financial sector. Trusts, mutual funds and captive insurance continued to be buoyant whilst the banking sector experienced some consolidation.

Legislative amendments included the enhancement of anti-money laundering legislation through the introduction of the Proceeds of Criminal Conduct Law, (Money Laundering Regulations), 2000. Amendments made to the Monetary Authority Law, the Banks and Trust Companies Law and to the Company Management Law empowered the Monetary Authority to verify that regulated institutions possessed adequate policies, practices and procedures that promote high ethical and professional standards in the financial sector.

The regulatory framework was expanded to capture three additional financial related sectors. The supervisory responsibilities for building societies and credit unions were transferred from the Registrar of Companies to the Monetary Authority, and the enactment of the Money Services Law, 2000 provided the framework for the regulation of money services businesses by the Monetary Authority.

As expected the increased regulatory responsibilities impacted the cost of operations of the Monetary Authority. A large part is attributed to the additional staff that the Monetary Authority requires to effectively execute its additional statutory supervisory responsibilities. In 2000, the organisation's staff compliment increased from 48 to 67, and is expected to increase to 129 over the next three years. In response to the increased responsibilities of the Monetary Authority three new divisions were created, namely the Legal Division, the Compliance Division, and the Fiduciary Services Division. Thirteen internal promotions were made during the year demonstrating the Monetary Authority's commitment to provide career advancement to members of staff.

In anticipation of the move to independence the Managing Director's Committee (MDC) was established to strengthen the organisation's internal systems and procedures. The MDC is made up of all the heads of division of the Authority who meet on a weekly basis to review licensing applications and other matters and advise the Managing Director who makes appropriate recommendations to the Board and/or Executive Council. The Monetary Authority looks forward to the challenges of 2001 and the removal of the Cayman Islands from the FATF blacklist.

A handwritten signature in black ink, which appears to read "John Bourbon". The signature is stylized and cursive.

John Bourbon
Managing Director

SECTORAL OVERVIEW



Banking Supervision

Banking

In the Cayman Islands, the role of banking supervision is to preserve the safety and soundness of depositors' funds and the integrity of the Cayman Islands as a well-regulated jurisdiction. Internationally, this aim has been expressed in the Basle 'Core Principles', which states that its key objective is to maintain stability and confidence in the banking system whilst also encouraging market discipline and competitiveness, and promoting good corporate governance.

The significance of banking supervision in the Cayman Islands has been closely connected to the rapid expansion of the banking sector and modern financial services. This process has increased the exceptionally demanding nature and complexity of conducting banking supervision. In response, various legislative changes aimed at strengthening Cayman's regulatory and supervisory structure took place during the year. The Monetary Authority Law (MAL) was amended which empowered the Monetary Authority to have access to financial institutions' client information for its own regulatory purposes and to co-operate with overseas regulators. As a result of this amendment a consequential amendment was made to the Banks and Trust Companies Law to permit access to customers' information. The information, as with other information related to the affairs of the Authority or a licensee, is restricted by the law from any onward disclosure except in clearly defined circumstances contained in the MAL.

The Cayman Islands is home to 47 of the world's top 50 banks and major international banks from 65 different countries around the world. This geographical distribution indicates the importance of the jurisdiction as the 5th major international financial centre.

The number of banks licensed in the Cayman Islands at the end of 2000 was 464 compared to 461 in 1999. Under the Banks and Trust Companies Law, 2000, banking licences are issued in two categories: Class 'A' and 'B'. Class 'A' licensees can conduct both domestic and non-resident (primarily offshore) banking business. Class 'B' banks are only permitted to conduct business with non-resident entities and other Cayman Islands banks. At the end of 2000, there were 31 Class 'A' banks and 433 Class 'B' licence holders; 117 of all licence-holders had a physical presence on the Islands. Table A provides a breakdown of all Banking and Trust licensees.

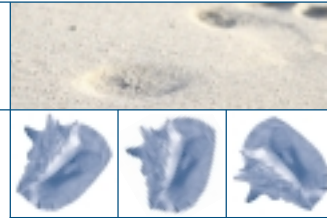


Table A: Banking and Trust Licence by Type

| Licence by type | Number | |
|---|----------|----------|
| | Dec 1999 | Dec 2000 |
| Banking and Trust Category A | 31 | 31 |
| Banking and Trust Category B | 413 | 416 |
| Banking & Trust Category B (restricted) | 17 | 17 |
| Total Banking & Trust Companies | 461 | 464 |
| Banks with a physical presence | 112 | 117 |

Total international claims and liabilities booked through banks in the Cayman Islands at the end of December 2000 were reported as US\$804.5 billion (1999: US\$671.7 billion) and US\$786.1 billion (1999: US\$668.9 billion), respectively. The 19.8% and 17.5% increase in international assets and liabilities respectively was attributed to the continued confidence placed in the Cayman Islands by international institutional investors.

Graph A: Total International Claims and Liabilities (1990 – 2000)



The number of compliance officers in the banking sector increased significantly during 2000 to over 70 from an estimate of less than 30 in 1999. This is viewed as a positive development by the Monetary Authority in the fight against financial crime.

As from October 1st the on-site and off-site operations of the Banking Division (formerly known as the Banking and Trust Division) was merged into one and led by the Head of Banking.

Insurance

Since the introduction of the on-site inspection programme the Insurance Supervision Division witnessed tighter controls being implemented by licensees. By the end of 2000, a total of seven companies had received a full inspection, and a further ten had received focused inspections in the Life, Health and General Insurance areas. During the last quarter of 2000 the on-site inspection programme was broadened to include the international market (captives and insurance managers). A tailor-made programme of inspection procedures was devised for this particular market and visits are scheduled to commence by mid 2001.

The number of insurance companies licensed at the end of 2000 was 665, comprised of 29 Class 'A' (Domestic) Insurance Companies, 517 Class 'B' (Captive) Insurance Companies, 26 Insurance Managers, 22 Insurance Brokers and 71 Insurance Agents. It should be noted that the total of 517 Class 'B' Insurance Companies included Segregated Portfolio Companies licensed but did not include the number of segregated portfolios contained within them.

The Cayman Islands continued to maintain its position as the second largest captive centre in the world. Growth of Class 'B' licensees continued, with 46 new licences being issued during the year, representing a growth of 24% on the previous year. The number of Class 'B' licences cancelled during 2000 was 26, which was in line with that of the previous year. The key reasons for cancellation activity were the ongoing trend of mergers and acquisitions by larger organizations and the expiry of the life or purpose of the captive. The increasing trend of mergers and acquisitions is a product of the problems the U.S. health system experienced over the last five years. In 1997, the U.S. government implemented a Medicaid Rollback programme that reduced Medicaid subsidies to hospitals. This drew US\$80 billion out of the health system and caused some significant losses. Additionally, hospitals were faced with nursing shortages causing a reduction in patients, HMO failures to pay claims, and increasing claim costs. All of this led to thin profit margins in the late 1990's and as a consequence, smaller hospitals were absorbed into larger systems.



Insurance Supervision Division



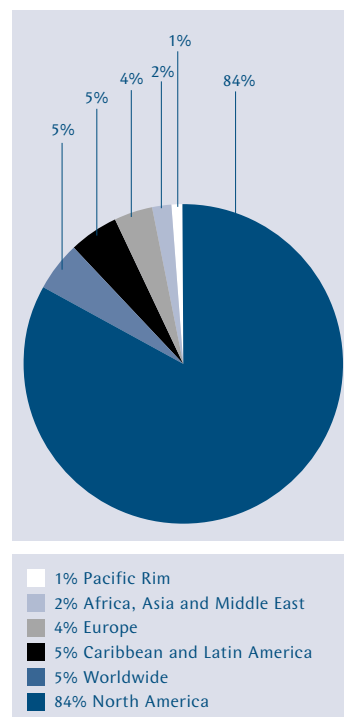
The main category of captives are Pure Captives that account for approximately 60% of all captive insurance licences. Cayman's Captive Insurance Companies reported year-end premium writings in excess of US\$3.2 billion (1999: US\$3.0 billion) and total assets in excess of US\$14.8 billion (1999: US\$12.0 billion).

The geographical spread of companies with a Class 'B' licence leaned heavily towards North America which accounted for 84% of the total, followed by the Caribbean and Latin America with 5% of the total. The reason for the high level of North American business is based on the close proximity and ease of transportation and the gearing of the infrastructure of the Cayman Islands towards the United States. Local accounting firms have a good grasp of US GAAP; the attorneys understand the fundamentals of the United States legal and tax system, and the insurance community understand the liability insurance market which is fairly unique to the understanding of the issues critical to United States companies.

The domestic market experienced only minor changes in the number of participants during 2000 with one new Class 'A' Licence issued and two Class 'A' Licences cancelled. In a significant move, Lloyd's withdrew the 'Anchor Plan' health insurance programme following extensive losses, continuing only to offer the Standard Plan. Property and health insurance continued to be the two main lines of business as measured by premium income. The total gross premium in the Domestic General Insurance market as at December 31, 2000 was US\$72.79 million. Some 28,000 private sector employees in the Cayman Islands were reported as having private health insurance.

Two reports were prepared during the year on health insurance for the Ministry of Health. The first report covered the practices and usage of health insurance identity cards which are not seen by medical practitioners and the insurance industry as being anything more than carrying individuals' coverage details. The industry does not accept them as any form of credit card. The second report covered health insurance companies' acceptance practices, use of exclusions of pre-existing medical conditions and non-acceptance of applicants suffering from such pre-existing conditions. The Superintendent of Health Insurance addressed issues of general practice in health insurance and market practice in the Cayman Islands at a Chamber of Commerce meeting.

Graph B: Insurance Companies by Risk Location





Investment Services

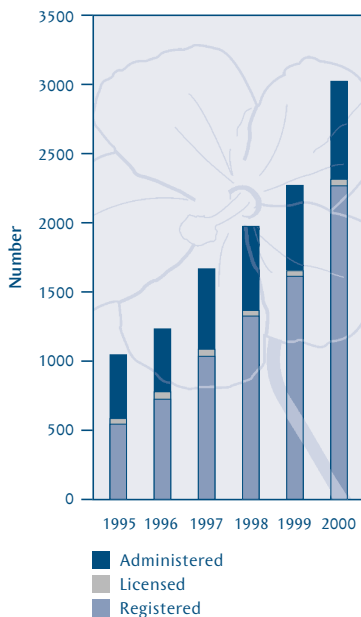
Investment Services

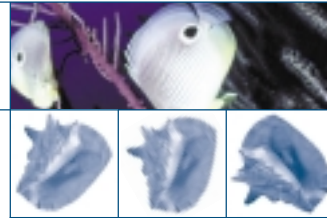
The mutual funds industry in Cayman continued to grow in 2000. Industry participants estimated the net mutual funds assets as US\$250 billion. The total number of mutual funds was 3014 at the end of 2000 compared to 2271 at the end of 1999, representing a growth of nearly 33%.

This phenomenal growth can be attributed to the growth of the hedge funds industry as a result of large global financial services providers increasing their portfolio of alternative investment products.

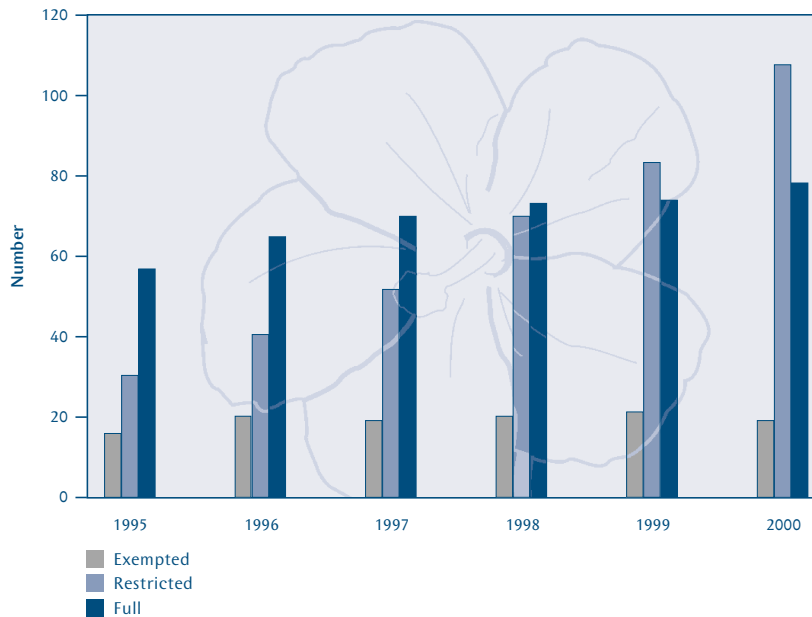
The increase in mutual fund administration and the increase of hedge funds are a direct reflection of the sophisticated infrastructure, advanced technology, and ease of access to highly skilled investment expertise and experience in the management, administration and promotion of funds. In addition the speed and comparatively low cost of fund establishment has been a contributory factor to the growth. All multi-domicile service providers have an office in Cayman and a number of them conduct fund administration from Cayman. With regard to the funds assets under control, the Cayman Islands ranked as number two in the world.

Graph C: Active Mutual Funds by Type





Graph D: Active Administrators by Type



During 2000 the Investment Division commenced the drafting of two documents for use within the industry; namely the Mutual Funds Practitioners Guidelines and the Mutual Funds Administrators Licence Applications Guidelines.

The Mutual Funds Administrators Licence Applications Guidelines are in their developmental stage and are aimed at providing clarification, to all potential applicants, on the application procedures and fees for a Mutual Funds Administrators Licence.

The Mutual Funds Practitioners Guidelines were issued to assist practitioners in complying with the requirements of the Mutual Funds Law (1999 Revision) as administered by the Monetary Authority. They are intended to provide a quick reference to some frequently asked questions (FAQs), and provide clarification on the interpretation and application of the Mutual Funds Law. The guidelines were produced in consultation with industry representatives and in response to industry comments; they are intended to be a working document subject to up-date and amendment when required. The scheduled date for release is March 2001. The division has also been working on the production of an on-site inspections manual with an intended launch date of August 2001.

The division intends to conduct a continuous on-site inspection programme in 2001. Prior to this there will be an assessment of the regulatory standards within the Mutual Funds Administrator's Industry. This will be conducted through a series of focussed visits. During these visits the division will review the licensee to ensure compliance with the applicable laws, regulations and standards of fiduciary conduct established for the protection of the institution's customers; that the institution's operations are being conducted in a prudential manner; that the institution's policies and procedures are adequate, and if 'Know Your Customer' requirements are being observed.

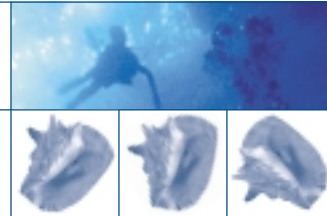
Fiduciary Services Supervision Division

Reorganisation of the Monetary Authority structure has resulted in the transfer of the supervision and regulation of Company Management entities from the Investment Services Division, and Trust Companies that do not have a banking licence or banking affiliation from the Banking Division, to a newly created Fiduciary Services Supervision Division (FSSD).

In August 2000, the Monetary Authority commissioned a consultant to assist in the creation of the Fiduciary Services Supervision Division. As part of the groundwork in establishing the new division, six (6) focus visits and one (1) full on-site inspection were carried out on a variety of Company Managers during the last quarter of 2000 with the objective of establishing a benchmark by which company management supervisory risks should be assessed. Reporting schedules will be introduced during the first quarter of 2001 for both Trust Services Providers and Company Managers to facilitate the off-site supervisory risk assessment process.



Fiduciary Services



During the year the Monetary Authority elected to standardise its policy regarding all companies engaged in the business of providing any form of Company Management Service. Consequently, all existing exempted company managers currently registered in accordance with the Companies Management (Exemption) Regulations (1998 Revision) will be required to be licensed as a Corporate Services Provider or a Company Manager. Legislation will be introduced to this effect in 2001 and a transition period of three months will be granted to enable full compliance.

Under these revisions the licensee will be subject to the Company Management Law (2000 Revision) with the exception of capital and insurance requirements. There will be no capital requirements for restricted company managers and insurance will be waived where services are provided solely to related companies.

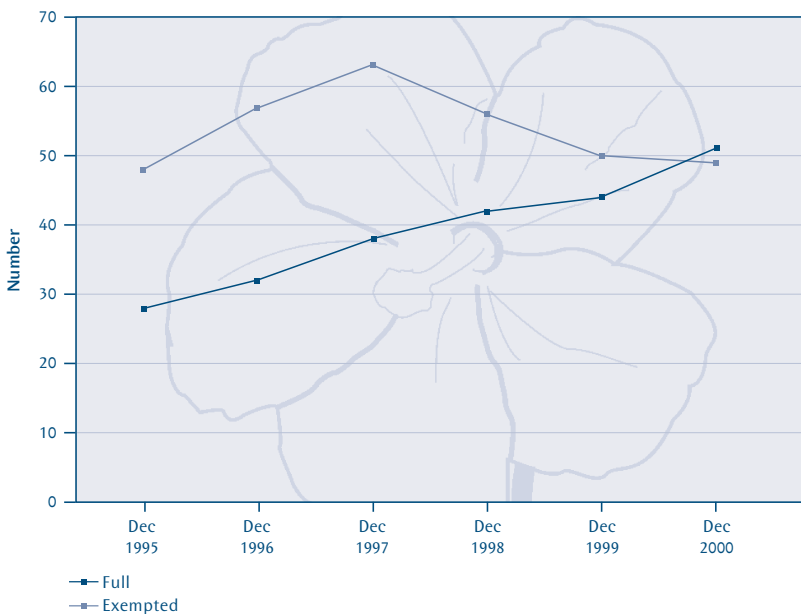
The number of company managers at the end of 2000 was 97, consisting of 50 full company management entities and 47 exempt. Five new company management licences were issued during 2000.

At the end of 2000, there were 116 trust services providers licensed in the Cayman Islands and 109 nominee trusts. A total of 9 trust services providers licences were issued. One licence was cancelled due to voluntary liquidation.

Table B: Type of Trust Service Providers Licence

| Licence type | Number | |
|--------------------|------------|------------|
| | 1999 | 2000 |
| Trust (full) | 50 | 54 |
| Trust (restricted) | 59 | 62 |
| Nominee Trust | 98 | 109 |
| Total | 207 | 225 |

Graph E: Active Company Managers by Type



NON-SUPERVISORY DIVISIONS



Compliance Division

Compliance Division

In November the Authority established a dedicated Compliance Division responsible for the centralisation of the enforcement efforts and corporate governance (due diligence) of all its divisions. This will improve and facilitate the maintenance of a central registry of persons known to the Authority.

The work of the division is primarily in the areas of investigation and analysis. One of the key aims of the division is to expand the intelligence-gathering capability and improve the general supervisory capabilities of the Authority.

The Head of Compliance acts as the Money Laundering Reporting Officer for the Authority and works closely with the Financial Reporting Unit regarding any suspicion of money laundering identified in the course of the Authority's supervisory activities. In addition the division is responsible for the dissemination of documents and information in response to certain overseas requests where enforcement action is involved.

The Head of Compliance was appointed in 2000; there are plans to recruit an Administrative Assistant, an Analyst, a Senior Analyst and a Chief Analyst in 2001 to ensure the division is fully staffed to carry out its mandate.

Legal Division

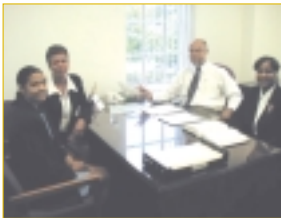
The establishment of a Legal Division in 2000 provided in-house legal advice to the Board and the Managing Director. This reduces the reliance of the Authority on the Attorney General's Office and provides for immediate legal assistance Authority-wide.

The division has a central role in all cases involving the provision of formal assistance to overseas regulatory authorities, and provides support on all aspects of the Authority's responsibilities to combat money laundering. The division aims to ensure that the Authority's procedures permit it, at all times, to act within the spirit and to the letter of the regulatory laws, and that all laws are kept under review to ensure that they remain effective.

The division also assists with civil litigation and the drafting of legal documents such as directives, memoranda of understanding; and instructions for amendments to existing legislation, as well as assisting in the review of applications for licensing from financial institutions.

A Legal Advisor was appointed in September to head up the division. Recruitment of a Legal Assistant, Para Legal and Legal Counsel are planned for 2001.

The Compliance and Legal Division will be working closely with each other to ensure that financial legislation is adhered to and that investigations are conducted in accordance with the appropriate legislation.



Legal Division

Policy & Research Division

The Policy & Research Division operates in a cross-functional capacity in the development of policies for all of the supervisory divisions, the research and distribution of information, the delivery of all in-house training and the production of regular publications such as the quarterly newsletter, *The Schooner* and the Annual Report.

During the year the division provided the necessary background research information for the development of legislation for the regulation of non-bank financial institutions, the Monetary Authority's response to the KPMG response questionnaire on the regulatory authority, and guidance to the Financial Secretary in the drafting of the response to the IMF Consultative Paper on the role of Offshore Financial Centres.

In order to meet the growing demands placed on the division. An additional Senior Analyst was recruited to the division bringing the staff complement to five.

Managing Director's Office

During the year the MD's Office continued to provide assistance to the supervisory divisions and the Managing Director in respect of technical advice and policy developments in conjunction with the Policy & Research Division. The main focus of the division was the production of the Manpower Plan, the FATF Review and the co-ordination of the Monetary Authority's response to the KPMG Report.

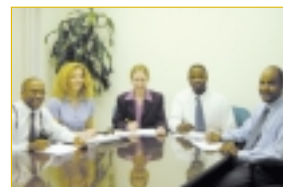
Operations Division

The Operations Division is responsible for human resources, information systems, procedures, internal policies and the financial operations of the Authority. The year 2000 was an eventful year for the division in terms of the production of an orientation package; the revision of the Staff Handbook, and the establishment of the post and recruitment of a Human Resource Manager.

Staff Recruitment, Promotions And Other Developments

During the year the Monetary Authority recruited twenty-three new employees, including a new Managing Director and a Legal Advisor, and accepted three resignations including that of the former Managing Director.

The newly appointed Managing Director, Mr. John Bourbon, joined the Authority in June 2000. Prior to his move to Grand Cayman Mr. Bourbon was Head of Supervision at the Isle of Man Financial Supervision Commission, a role that carried responsibility for the regulation of the Islands' entire regulated banking activities, collective investment schemes and investment business.



Policy & Research Division



Managing Director's Office



Operations Division



Mr. Langston Sibblies was appointed as Legal Adviser in September. Mr. Sibblies comes to the Authority from The Secretariat of the Portfolio of Finance and Development, where he held the position of Executive Director.

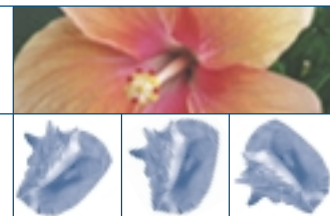
Mr. Paul Byles was confirmed as Head of the Policy and Research Division; Mr. Dwight Carter was promoted from Deputy Head of Investments to Head of Investments, and Mr. Don Ebanks, was transferred from the Investments Division, where he held the position of Deputy Head, to head the newly formed Compliance Division.

The significant growth in human resources is part of the Monetary Authority's effort to continuously improve its effectiveness and efficiency in the supervision and regulation of Cayman's financial industry. The increase in the number of staff of the Monetary Authority will assist in fostering a closer relationship between the Monetary Authority and the regulated institutions as more on-site inspections are instigated across the full range of our supervisory activities and as staff are able to dedicate more time to the development of direct relationships with licensees and registrants.

In addition to the recruitment of new members of staff, there were thirteen promotions from within the ranks of the Monetary Authority. These included promotions that ranged from junior analyst positions to senior analysts, from senior analyst to deputy head, and from deputy head to head of division (designate). These internal promotions attest to the Monetary Authority's commitment to career advancement and the training and development of staff.

Conferences, Meetings And Seminars

During the year a number of CIMA staff attended local and overseas conferences, meetings and seminars. In addition, the Monetary Authority held various training sessions including in March Economic & Operative Aspects of Central Banking, with instructors from Centro de Estudios Monetarios Latino Americanos (CEMLA), and a counter money-laundering training seminar with experts from Ernst & Young and Hunter & Hunter, in October.

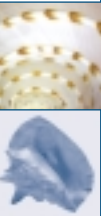


The Insurance Supervision Department continued to maintain its international profile by attending and contributing to key conferences and organizations. Principal among these were the Risk Insurance Management Society (RIMS), the Captive Insurance Company Association (CICA), the American Society of Healthcare Risk Managers (ASHRM), the International Association of Insurance Supervisors (IAIS) and the Offshore Group of Insurance Supervisors (OGIS).

The Banking Supervision Division attended several conferences during the year including, the 18th Annual Conference of the Caribbean Banking Supervisors Group, held in Curacao in May, and the International Conference of Banking Supervisor held in September 2000 at the BIS in Switzerland. Mr. Owen Henry, Senior Banking Analyst, presented a paper entitled 'Internet Banking, E-commerce and the Related Supervisory Challenges' at the Caribbean Banking Supervisors Conference.

Investment Services Supervision Division analysts attended various conferences and training sessions including Fund Management Overview delivered by Investment Education Plc, in April in Miami; Investment Management Examination, organised by the Stock Exchange Commission in Washington in August, and Securities Enforcement and Market Oversight jointly hosted by the Stock Exchange Commission and the International Training Institute in November. In addition, the head of the division attended several conferences and meetings, including the Mar Hedge Fund Conference in Bermuda, IBC E-commerce in New York and Phoenix, and the Annual General Meeting of the Offshore Group of Collective Investment Scheme Supervisors in BVI.

The Head of Policy and Research attended various conferences and meetings during the year including Caribbean Financial Action Task Force (CFATF) meetings in Trinidad and Tobago, and Aruba; a Conference on Central Bank Information Centre and Library in Cambridge, UK; the Basle Core Principles Seminar in Jamaica, and an E-commerce Conference in London, UK. In addition, Mark-Anthony McKenzie, Senior Policy & Research Officer, attended the 32nd Annual Monetary Studies Conference of the Caribbean Centre for Monetary Studies, in Jamaica and presented a paper entitled 'Institutional Developments and Prospects for the 21st Century'.



Training And Development

The CIMA continued to provide its employees with the opportunity to advance their career and progress within the workplace through the provision of local and overseas training as well as the provision of study leave and financial assistance for professional development. Local training courses attended included IBC's 6th Annual Executive Forum on Captives (October 2000), and the Monetary Authority Training Conference on Trust Litigation (December 2000). Overseas courses attended included the Training Seminar of the Offshore Group of Insurance Supervisors, in Belize in July; the International Regulators Seminar at the Financial Services Authority, London in December, and Insurance Supervision for Emerging Countries held in Toronto in June. Mrs. Marylou Gallegos, Deputy Head of Insurance held the position of Secretary of the Offshore Group Insurance Supervisors and was instrumental in organising the training seminar in Belize and also acted as Moderator.

Several employees commenced educational programmes during the year including two who have embarked on MBA programmes; three of whom have enrolled on the Society of Trust and Estate Planners (STEP) programme; three commenced the Chartered Financial Analyst (CFA) programme and seven others commenced the Offshore Certificate certified by the Institute of Chartered Secretaries. The latter is a progressive programme aimed towards attaining the Chartered Secretary professional designation.

In addition, during the year four employees successfully completed MBA programmes and the Authority would like to formally congratulate Mr. Stephen Ebanks, Mr. Mark McKenzie, Ms. Reina Ramos and Mrs. Anna McLean for their hard work and effort.

Board Of Directors

During the year six Board meetings were held. Two board members resigned, namely Mrs. Julene Banks and Sir Vassel Johnson. The Board would like to extend their sincere thanks for all the assistance and support both members provided throughout their service. In addition, two new board members were appointed during the year, namely Mr. Peter Tomkins and Mrs. Jennifer Dilbert, both are highly regarded locally and internationally and the Authority extends a warm welcome to them both.

Developments In Information Technology And Computer Systems

January 1st 2000 saw the culmination of three years work in retrofitting the Monetary Authority's systems in preparation for the Year 2000 changeover. All areas of each system were checked and re-checked, and no problems were detected in any systems.

In a bid to keep the Authority's Information Systems in tune with the performance levels needed in today's business world, 35 workstations that were more than three years old were replaced with the latest legacy-free models. Connectivity to the Internet was improved with an upgrade of our direct connection from 64K to a 128K line. This allowed the increased reliance placed on Internet-based transactions to be accommodated and gave visitors to our web site a far greater level of performance than previously experienced.

The in-house development of the main database systems named 'CIISMA' was enhanced to fully integrate the centralised directors' database with a new module to allow entities to be blacklisted once the reputable sources have been validated. This is an extension to the blacklist previously maintained by the Insurance division, which was subsequently adopted by OGIS.

A new project to upgrade the core network operating system to Windows 2000 was commenced beginning with the desktop machines. This project will ensure that the core operating environment is aligned with the latest advances in security and manageability available. Other major software utilities installed were ScanMail and MIME Sweeper. These two packages give the IT support staff a greater range of flexibility with monitoring and policing the email system.

The I.T. Division also increased the size of its staff by two. A System Operations Assistant and a Systems Operations Manager were appointed. The addition of these two staff members has meant that CIMA can continue to benefit from first class support for technology.

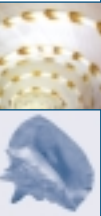
Manpower Plan Review

In response to the recommendations of the Manpower Plan review three new divisions were created during the latter part of 2000 in order to complement the existing structure. Two functional divisions were created with responsibility for compliance and legal advice and an additional sectoral division covering the supervision of fiduciary services providers.

While the existing divisional structure is considered to be basically sound, all but one of the individual divisions will require the addition of a significant number of staff in order to implement and sustain the relevant changes to the Authority's procedures and to meet the deficiencies identified in the KPMG Report. The need of each division is based on an analysis of the risk profile of current licensees and the projected growth of each sector.



Information Technology
and Computer Systems



Banking Division

The Banking Division will require 29 analysts (combination of senior analysts and analysts) to carry out its duties effectively and comply with Basle standards. This represents an increase of 14 total staff over October 2000 levels. The assessment also takes account of the increasing complexity of the operations of licensees and the added responsibilities under recent legislation, particularly with respect to money laundering, assisting foreign regulators, and the ongoing supervision of non-bank financial institutions.

Insurance Division

The Insurance Division requires 13 staff members to fulfil its current duties to international standards, compared with the 10 staff as at October 2000. This growth factor is based on three assumptions. First, the current 10% annual increase in new applications will continue; secondly, the net expansion will be slower, but the regulatory workload associated with new operations will not be fully offset by the saving from the licence surrenders and cancellations; and thirdly, the additional enforcement powers will be exercised by the Compliance Division (but with a significant amount of specialist insurance involvement).

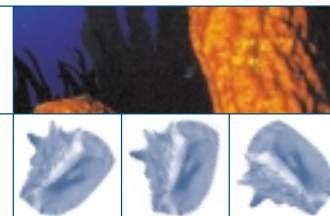
Investments Division

The analysis undertaken by the Investments Division proposes an increase in staffing from 11 to 21. The analysis assumes a visit cycle of 1 year and 18 months for high and medium risk fund administrators respectively but does not cover the on-site inspection of the 121 fund administrators that are perceived to be of low risk.

The structure for the Investment Services Division takes into account the establishment of an on-site section to undertake the inspection of the mutual fund administrators and the underlying mutual funds. The aim of the division is to enable the division to follow the standard model of on-site/off-site supervision being undertaken by the other divisions within the Authority.

Currency Division

The Currency Division currently has a staff complement of five, comprising the Head (responsibilities of which currently fall to the General Manager), Deputy Head, a Senior Currency Officer, two Currency Officers and an Administrative Assistant. The operations of this division are largely 'mechanistic', involving the precise implementation of set procedures to ensure accuracy and security. Although the procedures are regularly reviewed, there are currently no proposals to make any revisions affecting staff numbers.



Policy & Research Division

The Policy & Research Division will continue to focus on the development of policies and guidance notes, publications, statistics and internal training seminars. The additional responsibilities in the areas of statistics and training means that the division will need a further two posts within the next three years.

Managing Director's Office

An increase in staffing is proposed for the Managing Director's office to allow for the recruitment of an Internal Auditor and an Administrative Assistant. The internal audit function will be necessary because of the increased accountability that will come with independence, combined with the greater complexities of a larger organisation. The Internal Auditor will report directly to the Board.

Operations Division

It is considered that this division will need nine additional staff to the 14 in place as of October 2000 (bringing it to a total of 23) to ensure that it can continue to provide proper support to the other divisions. This division has three components namely General Administration, Finance and Accounting and Information Systems.

The move to operational and financial independence will result in an increasingly complex financial accounting system, with more emphasis on analysis, projections and control. It is intended, therefore, to re-establish the post of Financial Controller.

Current enhancements to the systems to meet requests from the regulatory divisions are projected to take at least eight months to complete. As the sophistication of the user environment grows, so will the expectations for the IS unit to meet those demands. The Authority's new staffing levels will place a greater burden on the IS team, and there are a significant number of development projects required to support the increase of the regulatory and operational activities of the Authority. To relieve the pressure caused by increased staff numbers in the Authority a dedicated support person will be appointed.

CURRENCY ACTIVITIES



Currency Department

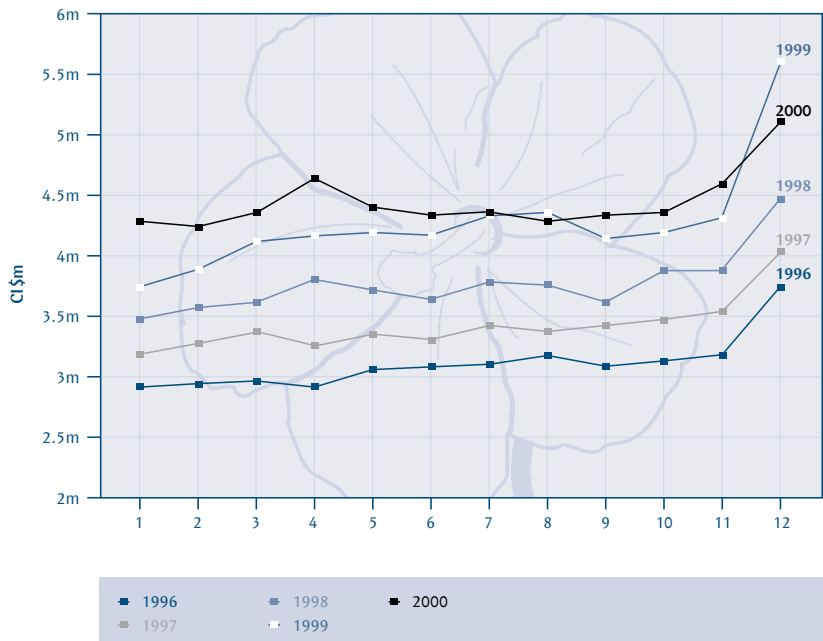
The Authority, through its Currency department, is responsible for the issue, re-issue, and withdrawal of the Cayman Islands currency notes and coins against the US dollar in its dealings with the seven local retail banks, and is the sole issuing Authority of Cayman Islands currency. These retail banks are British American Bank, Barclays Bank PLC, Bank of Butterfield International (Cayman) Ltd., Cayman National Bank, Scotiabank, CIBC Bank & Trust Company (Cayman) Ltd., and the Royal Bank of Canada. The department is also responsible for administering the sale and redemption of numismatic coins to and from local and overseas collectors.

In spite of the worldwide trend of increased demand for cash substitutes (i.e. debit cards, direct debit, etc.), the demand for local currency remained relatively stable as the economy continued to flourish. The Cayman Dollar continued to be the preferred currency of choice (the Cayman Dollar and US Dollar circulate together freely).

At December 31st 2000 currency in circulation (excluding numismatic coins) stood at \$51.1 million (\$45.5 million in notes and \$5.6 million in coins). This represented a 9% decrease from \$56.3 million the year before. This atypical decrease can be attributed to the Year 2000 preparedness programs. During the latter part of 1999 currency in circulation was increased by 26%. The excess currency issued as a contingency in December, was subsequently redeemed in January, which had record redemptions of \$13.5 million.

Total notes withdrawn from circulation and destroyed in 2000 were \$9,891,097.

Graph F: Currency in Circulation by Month (1996 - 2000)





Millennium Coin

The Authority issued only the Millennium coin in 2000 and continued its moratorium of other numismatic coins in an effort not to saturate the market.

This beautiful silver coin depicted an ornate clock face with its hands set at midnight surrounded by six orchids. The clock symbolised the beginning of the new millennium while the orchids indicated the Caymanians' determination to protect the Islands' unique flora and fauna for future generations. Interest in the Authority's numismatic coins continued to increase partly due to the launching of the website in 1999.

The Authority's Fund Managers continued to operate using the investment guidelines of security, liquidity and income. As at 31 December 2000, the Total Currency Reserve Assets stood at \$68.8 million representing 134% of demand liabilities. This was comprised primarily of US government agency-issued discount notes and mortgage-backed securities.



RECENT LEGISLATIVE CHANGES

Legislative Changes To Combat Money Laundering And Other Financial Crimes

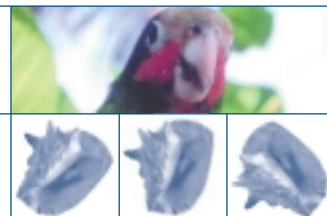
During the year, Cayman's legislation to prohibit money laundering and other financial crimes were strengthened through amendments to existing legislation and the enactment of the Proceeds of Criminal Conduct (Amendment) (Money Laundering Regulations) Law. The PCCL Money Laundering Regulations placed significant responsibilities on financial services providers to ensure that their staff are well trained in 'Know Your Customer' (KYC) and anti-money laundering procedures and record keeping. Prior to this amendment, Cayman's anti-money laundering procedures were largely contained in the Code of Practice issued under the PCCL, which provided best industry practice standards but was not mandatory.

In addition, provisions were made to make failure to report a suspicious transaction a criminal offence under the Proceeds of Criminal Conduct Law. Prior to this, the law encouraged the reporting of suspicious transactions by providing a safe harbour from criminal liability for persons who did report, but non-reporting did not constitute a crime. Hence, this new regulation served to strengthen the Cayman's anti-money laundering legislation. Protection is provided for legal privilege, and for any person who reports such a suspicion from liability for breach of any other law arising directly from the disclosure. If an employee reports a suspicion to his employer in accordance with any internal reporting procedures laid down by the employer for reporting such suspicions the employee is protected from prosecution under the law.

Amendments to empower the Monetary Authority to access third party clients' information were made to the Monetary Authority Law, the Banks and Trust Companies Law and the Companies Management Law. In addition, the amendment to the Monetary Authority Law made provisions for the Monetary Authority to strengthen its cross border supervision responsibilities by sharing information with overseas regulatory authorities. The ability of the Monetary Authority to have access to a financial institution's client information is standard among financial regulators worldwide. It is also essential to enable the Monetary Authority to carry out its functions effectively. For example, the Authority's ability to inspect a financial institution's KYC procedures will be significantly enhanced by this change.

Money Laundering Guidance Notes

The Monetary Authority will be publishing a set of Guidance Notes to be used in conjunction with the relevant financial services industry bodies in the compilation of the Guidance Notes with initial consultation tabled to commence in Mid-February 2001.



The Guidance Notes aim to provide transparency and consistency in the interpretation and implementation of the Regulations in relation to the key areas of client identification and verification; record keeping procedures; internal reporting procedures; reporting suspicious transactions; staff training and awareness of money laundering issues, and the on-going monitoring of business relationships. They will include industry specific guidance on certain specialist topic areas.

The Guidance Notes will be issued to the public in May 2001 and will be available on the authority's website: www.cimoney.com.ky

Legislation For The Regulation Of Non-Bank Financial Institutions

In 2000, one new law was enacted and three amendments made to existing laws that empowered the Monetary Authority to supervise and regulate entities operating in the Non-Bank Financial Services sector of the Cayman Islands, namely building societies, credit unions and institutions providing money transfer services. The relevant laws are:

1. The Building Societies (Amendment)(Regulation by Monetary Authority) Law, 2000;
2. The Cooperative Societies (Amendment), Law 2000;
3. The Money Services Law, 2000; and
4. The Monetary Authority (Amendment) (Regulation of Non-Bank Financial Institution) Law, 2000.

The first two amendments transferred the responsibility for regulatory oversight of building societies and credit unions from the Registrar of Companies to the Monetary Authority. The Money Services Law 2000 provided the legislative framework for introducing the regulation of money services businesses in Cayman. In addition, these laws also introduced several provisions aimed at enhancing the regulatory oversight of NBFIs relating to:

1. Licensing;
2. Fit and proper person;
3. Capital requirements;
4. Internal control procedures;
5. Know Your Customer and anti-money laundering procedures; and
6. Enforcement and sanctions.

Although the actual number of NBFIs was relatively small in 2000 the amendment to the Monetary Authority Law allowed the Monetary Authority to provide the necessary supervisory oversight in order to minimize risks and better safeguard consumers.



FINANCIAL REPORTING AND DATA COLLECTION

Electronic-filing

In 2000, the Monetary Authority embarked on a programme to improve the quality and quantity of financial reporting by institutions. A key feature of the attempt to improve data quality was the expansion of electronic-filing. The Insurance Supervision Division and the Information Technology Department undertook a joint project and developed an electronic-filing system to facilitate the electronic transfer of Class 'B' financial statements.

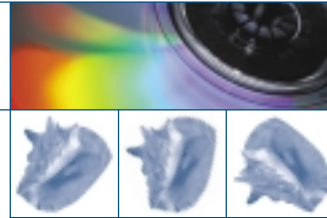
The Monetary Authority first introduced electronic-filing in March 1998 when banks started submitting the Locational Banking Statistics via diskette. The electronic-filing system was expanded in 1999 when the revised BS Form was introduced, allowing banks to also make returns via email. Since the introduction of electronic-filing the Monetary Authority has seen an improvement in the quality and timeliness of the data. It also resulted in significant cost-savings in the Monetary Authority's use of resources in processing the data and reduced the probability of error at the data entry stage.

Locational Banking Statistics

During the year banks were required to complete the Locational Banking Statistics for the first time on a semi-annual basis, in June and December. The Locational Banking Statistics collected information on international claims and liabilities by currency and by residency. The aggregate information will be submitted to the Bank for International Settlements (BIS). Commencing March 2001, banks will be required to file this return on a quarterly basis.

Bank Supervisory Reporting Form

Commencing March 2001 all banks and branches will be required to file the BS Forms on a quarterly basis. Quarterly reporting by all institutions will ensure that the Monetary Authority has regular up-to-date information necessary for the effective supervision of all banks operating from within the Cayman Islands. It will also improve the Monetary Authority's ability to assist in the effective consolidated supervision of branches of international banks.



Domestic Banking Survey

The Monetary Authority will be taking over the collection of Class 'A' domestic banking data previously collected by the Economics, Research and Development Office through the Statement of Assets and Liabilities. The Statement of Assets and Liabilities will be discontinued and replaced by a revised version of the survey to be known as the Domestic Banking Survey. The survey will focus on the activities of domestic banks in respect of loans made, deposits received, interest rates and cheque clearing. The purpose of the survey will be to provide an invaluable overview of the industry and the trends therein.

Other Statistical Surveys

In addition to regular prudential reports, efforts commenced to improve the Monetary Authority's statistical database on the industry through the production of industry-based reporting schedules. In 2001, financial institutions will be required to complete various statistical survey forms. The data will be included in the Cayman Islands Monetary Authority Statistical Digest due to be published in 2001.



REGULATORY DEVELOPMENTS AND INTERNATIONAL ISSUES

Financial Action Task Force Report On Non-Cooperative Jurisdictions

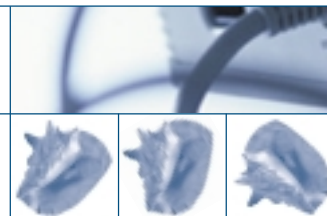
In February 2000, the Financial Action Task Force issued criteria for identifying Non-Cooperative Countries and Territories. This was followed by a Report on Non-Cooperative Countries and Territories in June 2000. The FATF listed the Cayman Islands amongst a group of countries/ territories it considered to have serious systemic problems in relation to money laundering. The FATF noted in its report,

“The Cayman Islands does not have any legal requirements for customer identification and record keeping. Even if in the absence of a mandatory requirement, financial institutions were to identify their customers, supervisory authorities cannot, as a matter of law, readily access information regarding the identity of customers. Moreover, the supervisory authority places too much reliance on home country supervisors’ assessment of management of bank branches”.

The FATF commented that Cayman lacks a mandatory regime for the reporting of suspicious transactions. This is despite the fact that the Cayman Islands has criminalised the laundering of the proceeds of all serious crimes and its system encourages the reporting of suspicious transactions by providing a safe harbour from criminal liability for those who report.

It is noteworthy that the FATF, while blacklisting the Cayman Islands as non-cooperative, also noted *“The Cayman Islands has been a leader in developing anti-money laundering programmes throughout the Caribbean region. It has served as President of the CFATF, and it has provided substantial assistance to neighbouring states in the region. It has demonstrated co-operation on criminal law enforcement matters, and uncovered several serious cases of fraud and money laundering otherwise unknown to authorities in FATF member states. In addition, it has closed several financial institutions on the basis of concerns about money laundering”.*

Cayman responded to the criticisms by the FATF with the enactment of a number of amendments to existing legislation and introduction of new regulations including the Proceeds of Criminal Conduct (Amendment) (Money Laundering Regulations) 2000. Further legislative measures were scheduled for early 2001.



KPMG Report

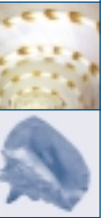
The Cayman Islands received a favourable review on its financial regulatory system in *The Review of Financial Regulation in the Caribbean Overseas Territories and Bermuda*, published October 2000, and conducted by KPMG. The report, arising from the UK White Paper, 'Partnership for Progress and Prosperity' analysed the position of the Cayman Islands in terms of the extent and range of financial services and the strength and effectiveness of the regulatory regime. The report is exception based and therefore focuses on areas of deficiency where action is considered necessary for compliance with international standards and good practice.

The Report noted that Cayman's legislation taken as a whole is extensive and covers most of the issues that would be expected in a jurisdiction that is fully compliant with international standards in the area of anti-money laundering.

The three priority areas identified by the UK government - legislation for the enactment of an independent regulatory authority; enhancement to laws and systems to combat money laundering, and the introduction of legal powers to allow regulators to obtain key information, and share relevant information with overseas regulators in order to assist their investigations - have been or are in the process of being addressed by the Cayman Islands.

The Report recognised the significant improvements legislative changes had made to the access by CIMA to information for regulatory purposes and international regulatory cooperation. The areas identified for focused attention were the operational independence of the Monetary Authority and the resulting manpower requirements.

In respect of the supervisory divisions the Report recognised that the Banking Division "demonstrated a proactive approach to bank supervision ... and over recent years have significantly increased the quality of banking supervision". Areas for attention included the regulation of category 'B' banks and the need to increase the number of on-site visits. The regulation of the Insurance sector was regarded as "generally in line with international standards". In relation to the mutual funds industry a number of matters were identified as requiring attention. The main areas include the lack of regulation relating to the operation of public funds, including the regulation of client monies, the lack of a current on-site inspection programme and the limited off-site inspection. The Report noted that the regulation of securities and investments were in need of improvement. This was given high priority by the Monetary Authority.



The Cayman Islands was seen as having a reasonable regulatory structure in place for the regulation of company management and administration. However the Report noted a need to enhance the supervision of company service providers who provide fiduciary services. The Cayman Islands, unlike other jurisdictions, does regulate the provision of trust services and is largely in conformance with best practice. The principal areas for improvement include the termination of the exclusion from regulation of those who undertake trust service provision as an individual or partnership; improvement to the on and off-site inspection process; and the enactment of an enforceable supervisory code of practice for licence holders.

In all of the supervisory areas there was recognition of the need to enhance the Monetary Authority's enforcement powers.

The Cayman Islands is seen to have strong international co-operation arrangements and demonstrated its commitment to developing its level of international co-operation through the changes to the Monetary Authority Law. The anti-money laundering legislation was seen as extensive and consistent with compliance with international standards. In conclusion the Report commented that the CIMA *"has made a significant contribution to the improvement of the regulatory regime in the Cayman Islands and demonstrates their seriousness in developing compliance with international standards"*.

The Authority is working with the government and the private sector to address the areas of deficiency and the government will be submitting an implementation plan in January 2001.

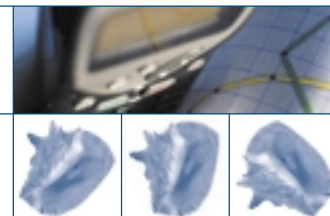
Financial Report

The annual financial statements of the Authority as at December 31, 2000 are shown on pages 34 to 48.

Total Assets of \$69.8 million (1999: \$71.3 million) included \$68.8 million (1999: \$69.9 million) of Currency Reserve assets representing investments and current, call and fixed deposits. Short-term investments are comprised of US issued discount notes. Long-term investments are comprised of US government agency-issued mortgage-backed securities. Investment decisions were made in accordance with the Authority's principal investment objectives of security, liquidity and income. A total return of 7.4% (1999: 4.7%) was earned in 2000 on the investment portfolio.

Total liabilities of \$55.7 million (1999: \$57.6 million) included \$51.1 million (1999: \$56.3 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, (2000 Revision).

Total reserves and capital were \$14.1 million (1999: \$13.9 million) and the General Reserve was maintained at 15% of demand liabilities as required by Section 6 (2) of the Law. The General Reserve requirement decreased by \$0.8 million (1999 - increased by \$1.73 million). This was due to the corresponding decrease in demand liabilities.



Net income of \$4.6 million (1999: \$3.3 million) for the fiscal year was mainly due to sound investment decision-making and the implementation of effective cost reduction techniques. The decrease in the General Reserve requirement resulted in an additional \$0.8 million being available for transfer to the Currency Issue Reserve, Paid Up Capital Account and the Government's General Revenue.

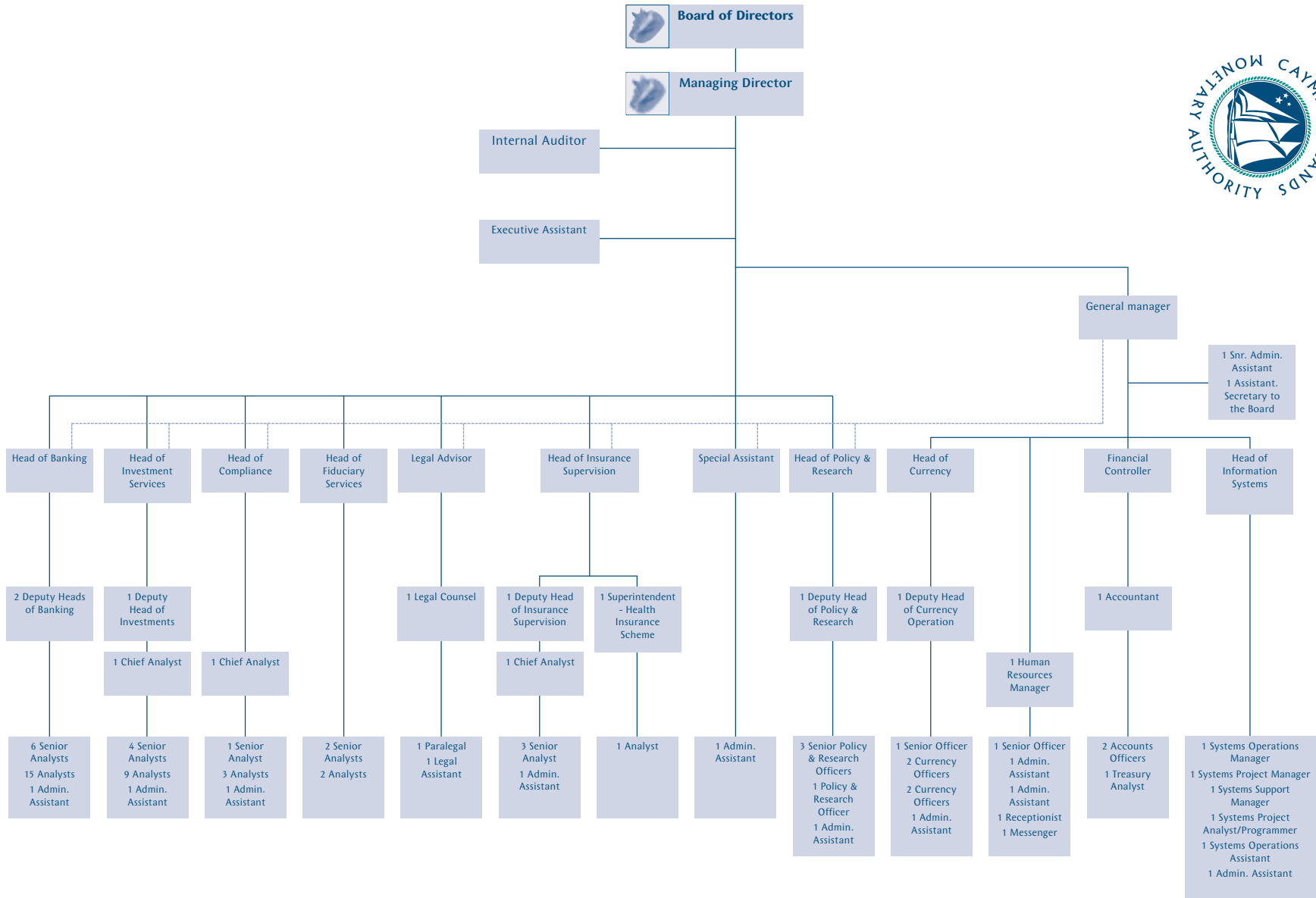
The Board approved the transfer of \$0.1 million (1999: \$0.05 million) to the Currency Issue Reserve to provide for future currency reprints. Approval was also given for the transfer of \$0.8 million (1999: \$0.25 million) to the Paid Up Capital Account. After these transfers, the Authority was still able to exceed its budgetary target by transferring \$4.5 million (1999: \$1.2 million) to the General Revenue of the Cayman Islands Government.

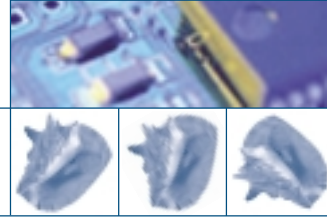
Pensions

An accrual assessment, completed in September 2000, determined that the Authority's unfunded past service liability as at 1 January 1999 was \$339,114. Based on the advice of the Auditor General the Authority does not accept the calculation of past service liability determined by the actuary because it includes accrual for participants' pensionable service prior to 1997 when the Authority was created and for service in departments and agencies other than the Cayman Islands Monetary Authority. The liability is currently being reassessed.

Currency Reserve

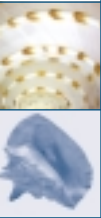
In 1999 the Board gave approval to the Authority's Fund Managers to invest in mortgage-backed and agency securities. At the time the Board was of the view that these securities fell within the confines of the Monetary Authority Law Section 28 (2) (b) (v). The Auditor General has now expressed the view that investing in these securities is not in compliance with the Monetary Authority Law as these securities, while guaranteed as to timely payment of principal and interest by their issuers, are not backed by the full faith and credit of the U.S. Government. These securities are issued by U.S. Government agencies that have a line of credit at the U.S. Treasury. Because of their ability to draw credit from the U.S. Treasury, participants in financial markets have treated their obligations as being second in safety only to full faith and credit obligations of the U.S. Government. The Authority has therefore implemented the necessary changes under the Monetary Authority Law to allow continued investment in these securities, as they are believed to be consistent with the Authority's objectives of security, liquidity and income.





APPENDIX B – RELEVANT LEGISLATION

The Monetary Authority Law (2000 Revision)
The Banks and Trust Companies Law (2000 Second Revision)
The Companies Management Law, (2000 Revision)
The Proceeds of Criminal Conduct (1999 Revision) The Money Laundering Regulations, 2000
The Proceeds of Criminal Conduct (2000 Revision)
Misuse of Drugs Law (2000 Revision)
Confidential Relationships (Preservation) Law (1995 Revision)
Insurance Law (1999 Revision)
The Mutual Funds Law (1999 Revision)
The Health Insurance Law (2000 Revision)
The Building Societies (Amendment) (Regulation by Monetary Authority) Law, 2000
The Cooperative Societies (Amendment) (Credit Unions) Law, 2000
The Money Services Law, 2000
The Monetary Authority (Amendment) (Regulation of Non-bank Financial Institutions) Law, 2000



The Cayman Islands Monetary Authority CERTIFICATE OF THE AUDITOR GENERAL

To the Shareholder and Directors of the Cayman Islands Monetary Authority

In accordance with the provisions of Section 36(2) of the Monetary Authority Law (2000 Revision) and Section 45(1) of the Public Finance and Audit Law (1997 Revision), I have audited the financial statements of the Cayman Islands Monetary Authority for the year ended 31 December 2000 as set out on pages 36 to 48.

Respective Responsibilities Of Management And The Auditor General

These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

Basis Of Opinion

My examination was made in accordance with International Standards on Auditing. Those Standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

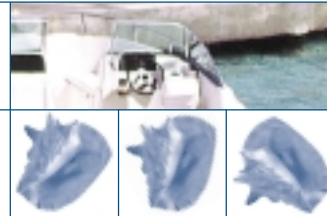
Opinion

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Cayman Islands Monetary Authority as at 31 December 2000 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 (2000 Revision).

Matters Of Emphasis

Without qualifying my opinion I draw attention to two items requiring emphasis.

(i) Pensions. As disclosed in Note 10 of the financial statements, pension contributions for eligible Caymanian employees of the Authority are paid to the Public Service Pensions Fund (the 'Fund') which is administered by the Public Service Pensions Board (the 'Board'). Prior to 14 April 1999, the scheme underlying the Fund was a defined benefit scheme. With effect from 14 April 1999 the Fund has both a defined benefit and a defined contribution element. As a result of insufficient relevant and reliable funding valuation information acceptable to, and agreed by the Authority, the defined benefit pension plan has been accounted for as if it were a defined contribution plan. Therefore, no past service liability or unpaid current service contributions have been recognised in these financial statements. In the event that sufficient relevant and reliable funding valuation information becomes available to, and is agreed by, the Authority, it may be necessary to (a) recognise in future financial statements any past service liability or unpaid current service contributions and (b) increase annual pension contributions to extinguish the liability so recognised. These amounts may be significant.



(ii) **Currency Reserve.** The Authority is permitted to hold investments as specified in section 28 of the Monetary Authority Law (2000 Revision). The Authority is required, at all times, to maintain a Currency Reserve, which shall consist of external assets and local assets. The external assets shall be in value not less than 90% of the Demand Liabilities of the Authority and shall consist, inter alia, of marketable securities issued or guaranteed by such foreign governments or international financial institutions as may be approved by the board and maturing within ten years. As at 31 December 2000, an amount of \$23,695,311, being 36.1% of external assets, was invested in mortgage backed and agency securities. These investments consist of securities issued by the Federal Home Loans Mortgage Corporation ('FHLMC'), the Federal National Mortgage Association ('FNMA') and the Government National Mortgage Association ('GNMA'). While all these securities are guaranteed as to timely payment of principal and interest by their issuers, only \$928,536 (4%) of GNMA mortgage backed securities are backed by the full faith and credit of the United States Government. The remaining securities amounting to \$22,766,775 (96%) are issued by FHLMC, FNMA or are mixed with GNMA. In my opinion, these securities do not comply with the Monetary Authority Law (2000 Revision).

In view of FHLMC and FNMA's ability to draw credit from the United States Treasury, participants in financial markets have treated these obligations as being second in safety only to full faith and credit obligations of the United States Government.

N K Esdaile
Auditor General

27 March 2001



BALANCE SHEET

For the year ended 31 December 2000
(Expressed in Cayman Islands Dollars)

| ASSETS | Note | 2000 | 1999 |
|--|-------------|-------------------|-------------------|
| | | \$ | \$ |
| Currency Reserve Assets | | | |
| Short-Term Investments | 2b,3 | 41,562,412 | 45,511,332 |
| Long-Term Investments | 2b,3 | 23,695,311 | 21,116,509 |
| Current and Call Deposits | 4a | 2,359,206 | 2,123,991 |
| Fixed Deposits | 4b | 1,215,773 | 1,145,296 |
| Total Currency Reserve Assets | | 68,832,702 | 69,897,128 |
| Other Assets | | | |
| Accounts Receivable | | 12,617 | 715,859 |
| Other Receivables and Prepayments | | 22,812 | 24,659 |
| Interest Receivable, Local Deposits | | 5,025 | 4,576 |
| Interest Receivable, Foreign Deposits | | 231,134 | 147,987 |
| Stocks | 2f,5 | 227,749 | 238,726 |
| Fixed Assets | 2e,6 | 435,566 | 491,078 |
| Total Other Assets | | 934,903 | 1,622,885 |
| TOTAL ASSETS | | 69,767,605 | 71,520,013 |
| LIABILITIES | | | |
| Demand Liabilities, Currency in Circulation | 7a | 51,149,854 | 56,256,944 |
| Payable to the CI Government | 9b | 4,473,305 | 1,226,656 |
| Other Liabilities and Payables | 7b | 71,968 | 97,871 |
| Total Liabilities | | 55,695,127 | 57,581,471 |
| RESERVES and CAPITAL | | | |
| General Reserve | 9a | 7,672,478 | 8,438,542 |
| Currency Issue Reserve | 9c | 350,000 | 250,000 |
| Total Reserves | | 8,022,478 | 8,688,542 |
| Paid Up Capital | 9d | 6,050,000 | 5,250,000 |
| Total Reserves and Capital | | 14,072,478 | 13,938,542 |
| TOTAL LIABILITIES, RESERVES and CAPITAL | | 69,767,605 | 71,520,013 |

Signed on behalf of the Board,
27 March 2000

George McCarthy, OBE, JP
Chairman
Cayman Islands Monetary Authority

John Bourbon
Managing Director
Cayman Islands Monetary Authority

INCOME STATEMENT



For the year ended 31 December 2000
(Expressed in Cayman Islands Dollars)

| INCOME | Note | 2000 \$ | 1999 \$ |
|---------------------------------|------|------------------|------------------|
| Government Grants | 2d | 5,266,609 | 4,530,307 |
| Investment Income | 2b | 4,056,855 | 2,595,103 |
| Commission Income | | 421,790 | 291,326 |
| Numismatic Income | | (14,541) | 21,032 |
| Asset Disposal Gain | | 3,280 | - |
| Other Income | | 5,135 | 6,473 |
| Foreign Currency Loss | 2c | (363) | (752) |
| Total Income | | 9,738,765 | 7,443,489 |
| | | | |
| EXPENSES | | | |
| Salaries and Other Benefits | | 3,199,450 | 2,499,848 |
| General and Administrative | | 683,218 | 546,523 |
| Lease rental | 8 | 232,700 | 224,183 |
| Depreciation | 6 | 231,491 | 269,299 |
| Official travel | | 217,420 | 206,887 |
| Pension contributions | 10 | 236,552 | 232,474 |
| Management and Custody fees | 3 | 111,214 | 96,999 |
| Audit and Professional fees | | 43,459 | 17,399 |
| Staff training and Recruitment | | 154,520 | 74,442 |
| Interest expense | 2e,8 | - | 7,195 |
| Directors fees | | 21,500 | 18,000 |
| Total Operating Expenses | | 5,131,524 | 4,193,249 |
| Net Income | | 4,607,241 | 3,250,240 |



STATEMENT OF CHANGES IN RESERVES AND CAPITAL

For the year ended 31 December 2000
(Expressed in Cayman Islands Dollars)

| | 2000 | | | 1999 | | |
|---|--------------------|------------------------|--------------------|--------------------|------------------------|--------------------|
| | General Reserve | Currency Issue Reserve | Paid-Up Capital | General Reserve | Currency Issue Reserve | Paid-Up Capital |
| Balance at 1 January: | \$8,438,542 | \$250,000 | \$5,250,000 | \$6,713,178 | \$650,000 | \$5,000,000 |
| Transfers in: | | | | | | |
| From Net Income | 4,607,241 | | | 3,250,240 | | |
| From General Reserve | | 100,000 | 800,000 | | 48,220 | 250,000 |
| Transfers out: | | | | | | |
| To Currency Issue Reserve | (100,000) | | | (48,220) | | |
| To Paid-up Capital | (800,000) | | | (250,000) | | |
| Contribution Payable to C I Govt | (4,473,305) | | | (1,226,656) | | |
| To fund cost of Currency Reprint | | | | | (448,220) | |
| Balance at 31 December: | \$7,672,478 | \$350,000 | \$6,050,000 | \$8,438,542 | \$250,000 | \$5,250,000 |

STATEMENT OF CASH FLOWS



For the year ended 31 December 2000
(Expressed in Cayman Islands Dollars)

| | 2000 \$ | 1999 \$ |
|--|------------------|---------------------|
| Cash flows from operating activities | | |
| Net Income | 4,607,241 | 3,250,240 |
| Adjustments for items not involving cash: | | |
| Add: Depreciation | 231,491 | 269,299 |
| Less: Gain on fixed assets disposal | (3,280) | - |
| Operating profit before working capital changes | 4,835,452 | 3,519,539 |
| Interest Receivable | (83,596) | 11,049 |
| Accounts Receivable | 703,242 | (693,314) |
| Other Receivables and Prepayments | 1,847 | 15,457 |
| Other Liabilities and Payables | (25,903) | (1,175,460) |
| Stocks | 10,977 | (28,053) |
| Cash generated from operations | 5,442,019 | 1,649,218 |
| Cash (used in)/generated from (decrease)/increase | | |
| in Demand Liabilities | (5,107,090) | 11,502,423 |
| Cost of Currency Notes Reprint | - | (448,220) |
| Net cash from operating activities | 334,929 | 12,703,421 |
| Investing Activities | | |
| Net purchase of investments | 1,370,118 | (10,557,211) |
| Acquisition of fixed assets | (175,979) | (123,369) |
| Proceeds from fixed assets disposal | 3,280 | - |
| Net cash provided by/(used in) investing activities | 1,197,419 | (10,680,580) |



STATEMENT OF CASH FLOWS (continued)

For the year ended 31 December 2000
(Expressed in Cayman Islands Dollars)

Financing activities

| | | |
|--|--------------------|--------------------|
| Payment of finance lease obligations | | (115,500) |
| Contribution paid to CI Government | (1,226,656) | (1,785,966) |
| Net cash used in financing activities | (1,226,656) | (1,901,466) |

| | | |
|--|----------------|----------------|
| Increase in cash and cash equivalents | 305,692 | 121,375 |
|--|----------------|----------------|

Movement in cash and cash equivalents

| | | |
|--|------------------|------------------|
| Balance at 1 January | 3,269,287 | 3,147,912 |
| Increase | 305,692 | 121,375 |
| Balance at 31 December (Note 4) | 3,574,979 | 3,269,287 |

NOTES TO THE FINANCIAL STATEMENTS



For the year ended 31 December 2000
(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. 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 on the accrual basis under historical cost convention and are in accordance with International Accounting Standards. The reporting currency is Cayman Islands Dollars.
- b) *Investments.* Short-term investments are valued, on a monthly basis at amortized cost and long term investments are valued at quoted market value. Unrealized gains or losses are recorded in the income statement.
- c) *Foreign Currency.* Foreign currency transactions are recorded at the exchange rates prevailing on the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Assets and liabilities are translated at the exchange rate in effect at the Balance Sheet date.
- d) *Government Grants.* The Authority is dependent upon annual grants from the Cayman Islands Government to meet its obligations. Income grants are deferred and recognized in the income statement over the grant period.
- e) *Fixed Assets.* Fixed Assets are stated at historical cost less accumulated depreciation. Depreciation is calculated on the straight-line method at an average of 20% per annum, 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 and the gold and silver bullion content of the following categories of numismatic coins: coins for resale, museum items and coins awaiting melt-down. Stocks are stated at year-end market values for gold and silver bullion and unrealised gain/loss are recorded in the Income Statement.



- g) *Numismatic Coins.* The total nominal value of numismatic coins outstanding at 31 December 2000 is \$14,912,817 (1999: \$14,976,371). No liability for redeeming numismatic coins is recognized in the financial statements, since the amount of redemption cannot be reasonably estimated and the probability of material redemption is remote. Redemption costs and sales proceeds are recorded in the income statement as incurred.
- h) *Cash and cash equivalents.* For the purposes of the cash flow statement, cash and cash equivalents consist of current and call deposits and fixed deposits maturing within 90 days from the date of acquisition. (See also Note 4.)

3. Investments

The principal investment objectives of the Authority are security, liquidity and income. The investment portfolio is managed by independent fund managers in accordance with investment guidelines established by the Board of Directors, in accordance with the Monetary Authority Law (2000 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.

| Short-term investments | 2000 | 1999 |
|--|---------------------|---------------------|
| Discount notes | | |
| Maturing from 3/1 to 22/3/2001 | \$15,479,079 | \$15,344,666 |
| Repurchase Agreement | | |
| Federal Reserve at 6.04% maturing 2/1/2001 | \$26,083,333 | \$30,166,666 |
| Total short-term investments, at amortized cost | \$41,562,412 | \$45,511,332 |
| Market value of short-term investments | \$41,557,724 | \$45,516,086 |

Long-term investments

Mortgage-backed Securities,
Interest rates range from 5.0% to 8.5%
Maturity date ranging from 1/12/2001
to 20/4/2025, at market value

Range of maturities:

| | | |
|---------------|---------------------|---------------------|
| 0 – 1 Year | 4,138,080 | 2,499,142 |
| 2 – 5 Years | 3,441,133 | - |
| 6 – 10 Years | 15,187,562 | 17,404,950 |
| Over 10 Years | 928,536 | 1,212,417 |
| | \$23,695,311 | \$21,116,509 |



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 2000, domestic deposits represent 6.1% (1999: 4.8%) of demand liabilities.

a) Current and Call Deposits

| | | 2000 | 1999 |
|------------------------------------|-----------------|-------------|-------------|
| <i>Domestic Deposits</i> | <i>Currency</i> | <i>CI\$</i> | <i>CI\$</i> |
| Call deposits | KYD | 1,362,329 | 1,031,286 |
| Call deposits | USD | 618,350 | 566,761 |
| Call deposits | GBP | 4,950 | 5,177 |
| Current account | KYD | (62,823) | (66,067) |
| Cash on hand | KYD | 175 | 188 |
| <i>Foreign Deposits</i> | | | |
| Investment portfolio, call account | USD | 327,206 | 455,756 |
| U.S. Federal Reserve call account | USD | 109,019 | 130,890 |
| | | 2,359,206 | 2,123,991 |
| b) Domestic Fixed Deposits | | | |
| Fixed deposits | USD | 1,215,773 | 1,145,296 |
| Cash and Cash Equivalents | | 3,574,979 | 3,269,287 |

Interest is paid on domestic call and fixed deposits at rates ranging from 1.75% to 6.125% (1999: 1.75% to 5.6875%) per annum.

Interest of 6.15% (1999: 4.8%) 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

| | 2000 | 1999 |
|-------------------------------------|------------------|------------------|
| Bullion from the melt-down of coins | 136,255 | 160,159 |
| Coins awaiting melt-down | 39,001 | 31,825 |
| Coins for resale | 37,122 | 29,031 |
| Museum items | 15,371 | 17,711 |
| Total stocks | \$227,749 | \$238,726 |

6. Fixed Assets

| | Furniture & Fixtures | Leasehold Improvement | Office Equipment | Motor Vehicle | Total | |
|--|-------------------------|--------------------------|---------------------|------------------|------------------|--|
| Balance at 1 January 2000: | \$288,793 | \$422,915 | \$500,652 | \$24,600 | \$1,236,960 | |
| Additions: | 17,741 | - | 158,238 | - | 175,979 | |
| Disposals: | - | - | (33,100) | - | (33,100) | |
| Balance at 31 December 2000: | 306,534 | 422,915 | 625,790 | 24,600 | 1,379,839 | |
| Depreciation | | | | | | |
| Balance at 1 January 2000: | 118,604 | 218,587 | 395,980 | 12,711 | 745,882 | |
| Depreciation expense: | 59,636 | 84,815 | 82,107 | 4,933 | 231,491 | |
| Balance at 31 December 2000: | 178,240 | 303,402 | 478,087 | 17,644 | 977,373 | |
| Net Book Value | | | | | | |
| Cost at 31 December 2000: | 306,534 | 422,915 | 625,790 | 24,600 | 1,379,839 | |
| Accumulated depreciation: | (178,240) | (303,402) | (478,087) | (17,644) | (977,373) | |
| Accumulated depreciation of disposals: | - | - | 33,100 | - | 33,100 | |
| Net Book Value at 31 December 2000: | \$128,294 | \$119,513 | \$180,803 | \$6,956 | \$435,566 | |
| Net Book Value at 31 December 1999: | \$170,189 | \$204,328 | \$104,672 | \$11,889 | \$491,078 | |



7. Liabilities

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

Total demand liabilities comprise:

| | 2000 | 1999 |
|-----------------------------------|--------------|--------------|
| i) Currency notes in circulation | \$45,560,870 | \$50,987,055 |
| ii) Currency coins in circulation | 5,588,984 | 5,269,889 |
| Total | \$51,149,854 | \$56,256,944 |

At 31 December 2000, the value of Currency Reserve Assets was \$68,832,702 (1999: \$69,897,128) representing 134% (1999: 124%) of total demand liabilities. After all demand liabilities are extinguished, any surplus Currency Reserve Assets would form, in part, the assets of the General Reserve – see Note 9.

b) *Other liabilities.* At 31 December 2000, other liabilities included unsettled investment management and custody fees of \$26,907.

8. Lease Obligation

The Cayman Islands Government leases the premises used by the Authority under a lease agreement dated 15 December 1996. The lease for 8,950 sq. ft. was for an initial period of three years at \$25 per sq. ft., with an option for an additional two years at \$26 per sq. ft, payable monthly in advance. The Authority has taken advantage of this option and has renewed the lease agreement at \$26 per sq. ft. effective December 14, 1999. 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 recognized as an asset and liability in the balance sheet at amounts equal to the fair value at the inception of the lease of the leased property or, if lower, the present value of the minimum lease payments. Repairs and maintenance expenses are charged to the income statement when the expenditure occurs.



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 6 March 2001 the Board of Directors resolved to transfer \$4,473,305 (1999: \$1,226,656) to the General Revenue of the Cayman Islands Government.
- c) *Currency Issue Reserve.* The three-year supply of the revised \$50 banknote, which was due to be reprinted in 2000 will now be reprinted in 2001. To fund this reprint and to start rebuilding the reserve, an additional amount of \$100,000 (1999: \$48,220) was allocated to the Currency Issue Reserve for the year ended 31 December 2000. The total cost of the \$50 reprint will be charged to the Currency Issue Reserve. During the year, no funds (1999: \$448,220) were transferred from 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 \$6,050,000 as at 31 December 2000 (1999: \$5,250,000). 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.



10. Pensions

- a) *Public Service Pensions Plan.* Pension contributions for eligible Caymanian employees of the Authority are paid to the Public Service Pensions Fund (the 'Fund'). The Fund is administered by the Public Service Pensions Board ('the Pensions Board') and is operated as a non-contributory Fund, whereby the employer pays both employer and employee contributions. Prior to 14 April 1999 the scheme underlying the Fund was a defined benefit scheme. With effect from 14 April 1999 the Fund had both a defined benefit and a defined contribution element. Participants joining after 14 April 1999 become members of the defined contribution element. Participation in this scheme has subsequently been extended to 31 December 1999 by virtue of The Public Service Pensions (Amendment and Validation) Law 2000, which was passed by the Legislative Assembly on the 13th April 2000.

Taking into account projected new entrants into the defined contribution segment of the Fund, the actuary estimates the annual funding requirement to be around 22% of total pay of all participants, including future entrants, in order to meet projected liabilities for the next 40 years. Defined contribution participants would be credited with only a 12% contribution and the balance (10%) would be applied towards amortizing the past service liability. This actuarial valuation included employees of the Authority.

The Cayman Islands Government and other participating employers have contributed to the Fund since 1 January 1990. Effective 1 January 1998 the contribution rates set by the Pensions Board were increased to 6% employer plus 6% employee for the current contribution plus a further 5% in respect of the past service liability. The actuarial assessment for the Monetary Authority, as at 1 January 1999, referred to in the following paragraph, assessed the normal annual contribution to be 9.44% of pensionable emoluments, plus a further 4.56% of pensionable emoluments in order to amortize the past service liability over 20 years. Effective 1 March 2000, the Pensions Board directed that the past service liability contribution was to cease. The Authority continued to fund 6% employee and 6% employer for the remainder of 2000. No further liability for unpaid current service contributions has been recognised in these financial statements.

An actuarial assessment, completed in September 2000, using the projected unit credit method of measuring costs and obligations determined that the Authority's unfunded past service liability as at 1 January 1999 was \$339,114. The Authority's management does not accept the calculation of past service liability determined by the actuary because it includes accrual for participants' pensionable service prior to 1997 when the Authority was created and for service in departments and agencies other than the Cayman Islands Monetary Authority.



10. Pensions (cont'd)

The main actuarial assumptions used in the 1 January 1999 valuation were: a retirement age of 58 years and completion of 10 years service, inflation rate of 3%, expected rate of return on the Fund's assets of 8%, expected salary and pension increases of 5% and 3% respectively.

As a result of insufficient relevant and reliable information acceptable to, and agreed by, the Authority, the pension plan has been accounted for under paragraphs 44-46 of International Accounting Standard 19 as if it were a defined contribution plan. The responsibility for the payment of pensions and benefits to the Authority's eligible employees rests with the Fund and ultimately, the Cayman Islands Government.

The total amount recognised as a pension expense during 2000 was \$236,552 (1999: \$232,474). This comprises the following elements: employer normal contribution - \$112,302; employee normal contribution - \$112,302 and employer past service liability - \$11,948.

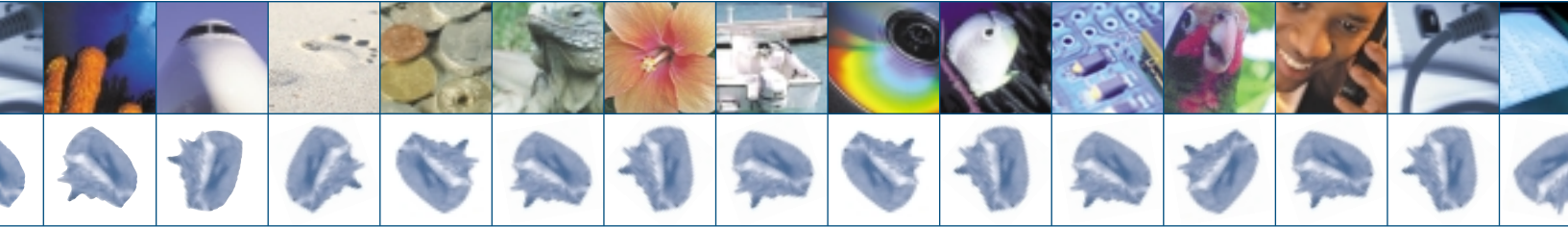
- b) *Other Pension Plans.* Employees on overseas or local contracts are not eligible to participate in the schemes underlying the Fund. Such employees receive cash supplements of 12% (1999: 12%) of salary in lieu of pension contributions. The Authority paid \$135,867 (1999: \$105,155) in cash supplements during the year.

11. Financial Instruments

Credit risk. Financial assets that potentially subject the Authority to credit risk consist principally of current, call and fixed deposits, long and short-term investments, accounts and interest receivable, and other receivables and prepayments. The Authority's current, call, and fixed deposits are placed with high credit quality institutions. Credit risk with respect to long and short-term investments, accounts and interest receivable, and other receivables and prepayments is limited because the Authority only transacts business with counterparts it believes to be reputable and capable of performing their contractual obligations. Accordingly, the Authority has no significant concentrations of credit risk.

Interest rate risk. The Authority's investments and deposits are at fixed interest rates. The ranges of interest rates and maturity dates are presented in Note 3.

Fair values. The carrying amount of current, call, and fixed deposits, accounts and interest receivable, other receivables and prepayments, demand liabilities, lease obligation, and other liabilities and payables approximated their fair value due to the short-term maturities of these assets and liabilities. The market value of investments is presented in Note 3. The fair values of other assets and liabilities are not materially different from the carrying amounts.



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