CAYMAN ISLANDS MONETARY AUTHORITY

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THE CAYMAN ISLANDS MONETARY AUTHORITY
MISSION STATEMENT

The Cayman Islands Monetary Authority (the Authority) is a statutory agency created by the Cayman Islands Government to:

- *Regulate and supervise the financial services industry in order to maintain a first class financial system,*
- *Safeguard the interests of depositors, trust beneficiaries, policyholders and mutual fund investors from undue loss.*
- *Contribute to public confidence in our financial system by promoting sound corporate governance, prudent business practices and compliance with laws and regulations.*
- *Promote and maintain monetary stability and preserve the value and integrity of the Cayman Islands currency and advise the government on banking and monetary matters.*

The Authority endeavours to fulfil its regulatory and supervisory mandate having due regard to international standards and the need for operational freedom by financial services providers and for the maintenance of a dynamic and competitive industry. The Authority values a close and harmonious working relationship with all segments of the industry and is committed to maintaining the highest standards and skill in our staff that responds expeditiously and effectively to the challenges posed by an ever-changing financial environment.

DIRECTORS AND SENIOR OFFICIALS AS AT DECEMBER 31 1998

Board of Directors

Hon. George McCarthy	Chairman
Sir Vassel Johnson	
Richard Chalmers	
Julene Banks	
Neville Grant	Managing Director
Michael Austin	

Senior Officials

Neville Grant	Managing Director
Cindy Scotland	General Manager
Anna McLean	Deputy Head of Banking and Trust (Off-Site)
Karl Adamsons	Deputy Head of Banking and Trust (On-Site)
William McCullough	Head of Insurance
Gordon Rowell	Deputy Head of Insurance
Chris Collins	Superintendent, Health Insurance
Don Seymour	Head of Investments
Dwight Carter	Deputy Head of Investments
Mitchell Scott	Head of Policy and Research
Neil Glasson	Manager, Information Technology

CHAIRMAN'S STATEMENT

During 1998, the Cayman Islands' financial services industry posted healthy growth, despite the turmoil created by the Asian crisis. That event highlighted the degree of global integration of financial markets, and thus the concern of multilateral agencies such as the IMF on financial stability issues – in particular as affected by the standard of supervision and regulation of the financial sector on a country-by-country basis. It is therefore appropriate for the Cayman Islands Monetary Authority to continue to ensure that its regulatory regime abides by international standards such as the Basle Guidelines, the IOSCO principles and the IAIS guidelines. The increased focus on regulation and transparency is common to a wide range of "offshore" initiatives in the international arena, and the Cayman Islands (and by association the CIMA itself) is positioned to participate effectively in the discussion of appropriate standards and solutions.

In specific terms, the Authority has integrated an expanded programme of on-site examinations with its other supervisory processes and placed increased emphasis on cross-border cooperation. The Authority's status and legislative framework is also under analysis, with the objective of progressing it to a fully autonomous body in accordance with the government's stated commitment.

The Authority during 1998 has been involved as well in advising on various legislative initiatives and regulatory matters, including:

- Development of a code of practice under the Proceeds of Criminal Conduct Law
- Amendments to the Insurance Law to protect local policyholders
- Amendments to the Companies Law to permit segregated portfolio companies

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

George A McCarthy, OBE, JP

Chairman

MANAGING DIRECTOR'S STATEMENT

As the central regulatory and supervisory body overseeing financial institutions, the Cayman Islands Monetary Authority (CIMA) made significant strides during 1998.

Such strides were made during a year which saw the occurrence of a financial crisis in the Far East and the increased global awareness of the need to strengthen international financial stability.

Working in conjunction with the Private Sector Anti-Money Laundering Guidelines Committee, intensive efforts were made to develop and put in place an industry Code of Practice. The code builds on Cayman's reputation as a well-regulated and responsible jurisdiction, committed to the fight against international crime.

In keeping with Basle Committee principles governing cross-border and other international supervisory standards for banks and other financial institutions, CIMA also worked in 1998 to enhance its supervisory framework. On-site reviews of banks, trust and insurance companies, and mutual fund administrators all commenced. In conducting supervisory risk assessment of financial institutions, it is now standard for the Monetary Authority to use a mix of both off-site surveillance and on-site examination.

Cayman's commitment to cross-border co-operation is demonstrated by our signing of one Memorandum of Understanding (MOU) this year and our continued discussions with a number of countries aimed at establishing several others.

Finally in 1998, the Monetary Authority continued to build on our recruitment and training of personnel, which we recognise as an important ingredient of a first class regulatory regime.

At the conclusion of its second year and in spite of global financial crises, the Cayman Islands Monetary Authority continues its central role in promoting financial accountability and implementing improved standards and practices.

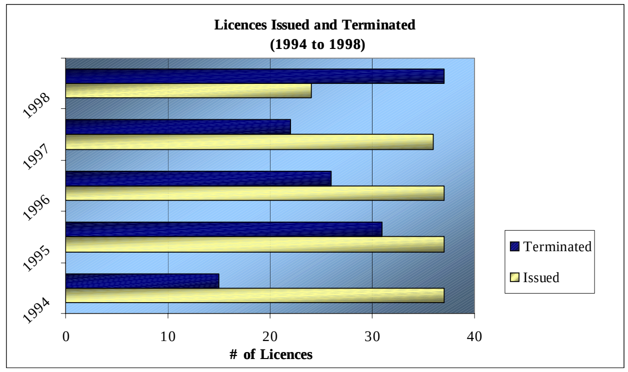
I would like to extend my thanks to all the staff for their dedication and hard work towards maintaining a vital sector of our economy and for upholding the international financial standing of the Cayman Islands.

Neville Grant
Managing Director,
Cayman Islands Monetary Authority

FINANCIAL SECTOR PERFORMANCE

Banks and Trust Companies

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

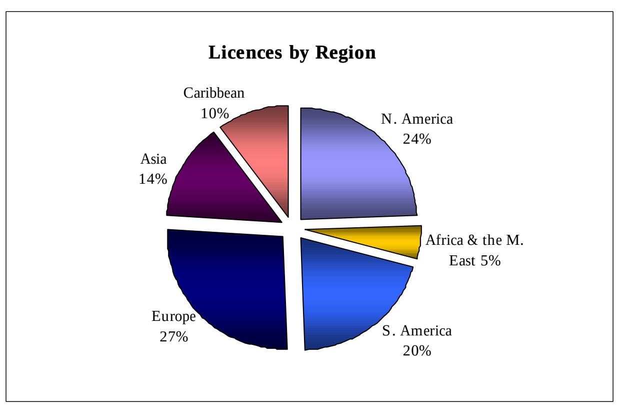


The banking sector experienced a growth rate of 9% in external assets and 5.5% in liabilities over the previous year. The growth in external assets and liabilities indicated the level of confidence investors have in the Cayman Islands' financial system as they shifted their investments from jurisdictions affected by the emerging market crisis.

In the domestic banking sector, Loan and advances to residents increased by 6.8% in 1998 to CI$1.2 billion, reflecting the level of buoyancy in the local economy which grew by approximately 5.5 % in 1998. This level of growth in loans and advances to residents was attributed primarily to a 72% increase to CI$43.1 million in loans and advances to the construction industry, and is an indication of the high level of demand for residential and commercial properties. The rise in tourism activities in 1998 contributed to increases of 43.4% and 47.5% in credit to the retail and wholesale sectors, respectively.

Total External Assets and Liabilities					
	1994	1995	1996	1997	1998
Assets (US$ Billions)	460	499	497	642	700
Liabilities (US$ Billions)	455	495	492	635	670

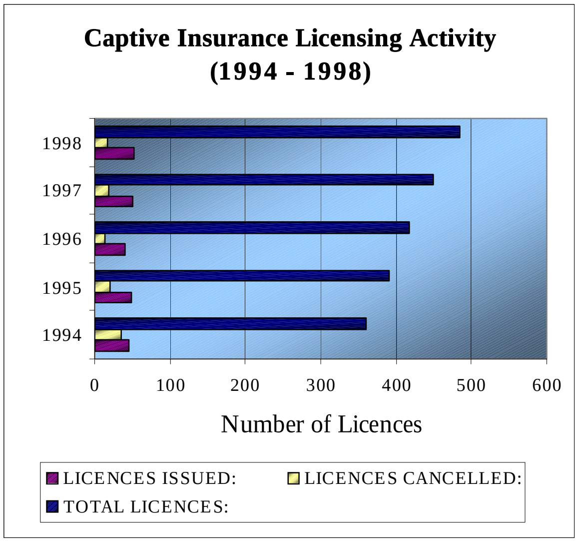
Liquidation proceedings of First Cayman Bank, which was closed in 1997 and had its licence revoked due to irregularities, continued throughout 1998. The Liquidators, Deliotte and Touche, are currently at different stages of settlement negotiation or legal action with various third parties with the intention of maximising the return to creditors of the Bank.



The Cayman Islands remains among the top international financial centres, with forty-four of the top fifty banks holding licences here. Licensees represent sixty-two countries, with 27% from European countries, 24% from North America and 20% from South America.

Insurance

During 1998, 62 insurance licenses were issued bringing the total number of insurance licences to 652. For captive insurance licenses, 1998 was a record year for licenses issued, with 52 new captives formed. The offshore or captive companies grew from 449 licences at the end of 1997, to 485 licences at the end of 1998. These 52 new licences demonstrate that Cayman continues to be the leading offshore domicile for organisations wishing to establish their own captive insurance company. Regulatory response and market changes together with the practical and professional experience of the financial sector providers have contributed considerably to this extraordinary growth.



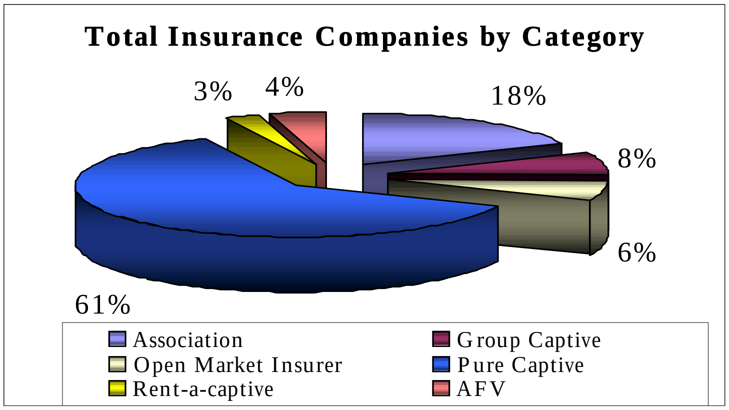
Traditionally, the Cayman Islands have been known as the world's premier centre for healthcare captives as 35% of captives are healthcare related. This is the same proportion as in 1997 and demonstrates the continuing professional relationship with organisations engaged in all aspects of health service provision including managed care.

The islands have made significant progress in the innovative area of risk securitization and the convergence of the traditional insurance and the capital markets. A total of 18 Catastrophe Bonds have been placed worldwide since their inception and 13 of these issues have been placed through Cayman Islands' captives. The purpose of these vehicles is to seek additional capacity from the capital markets as opposed to the traditional reinsurance markets.

The third area of increasing interest is workers' compensation and employee benefits. Historically, losses from these lines have been volatile and the captive concept can provide a risk management discipline that can promote stability.

The offshore insurance industry is mainly composed of companies emanating from the USA, which represent 81% of all captives. The next most important geographical source is the Caribbean and Latin America with 10% and Europe with 6%.

Insurance managers operating in the islands manage the offshore captives. There were no changes to the total number of licences in this category at the end of 1998 with 26 managers. Two new managers' licences were issued in 1998 and two licences were cancelled as consolidation in the world insurance-broking scene continued to facilitate mergers.



Health Insurance

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

Investment Services

Despite the global economic crisis, the growth in registration of mutual funds continued steadily throughout the year as new fund promoters adjusted and aligned their investment strategies to suit the current market conditions, or timed their market entry to coincide with periods of stabilisation. During 1998, a total of 570 regulated mutual funds were authorised to conduct business under the Mutual Funds Law (1996 Revision), outpacing the previous record of 491. In addition, 3 'full' mutual fund administrators and 18 restricted mutual fund administrators were authorised. The total number of regulated mutual funds increased by 17.4% to 1,979 at the end of 1998. The number of administered funds and registered mutual funds increased by 2.5% to 607 and 28.1% to 1,328 respectively. It is expected that the strong growth in regulated mutual funds will continue through 1999, especially among 'recovery funds' that seek to capitalise on depressed financial conditions worldwide. In 1999, the number of regulated mutual funds domiciled in the Cayman Islands should surpass 2,000 and assets under management should exceed $200 billion.

Number of Mutual Funds					
	1994	1995	1996	1997	1998
Administered	411	469	557	592	607
Licensed	37	39	54	56	44
Registered	438	551	724	1037	1328
Total	886	1059	1335	1685	1979

The total number of company managers increased by 4 to 42 at the end of 1998 when compared to 1997. It is expected that the proposed new Company Managers Law would be passed in 1999.

Mutual Funds Administrators					
	1994	1995	1996	1997	1998
Exempted	7	16	20	19	20
Full	46	56	64	69	72
Restricted	15	30	40	51	69
Total	68	102	124	139	161

During 1998, inquiries and investigations were carried out into the business conduct of several regulated mutual funds and company managers, including large hedge funds. One case remains under investigation and all other cases were successfully closed during the year. The Monetary Authority expects that enforcement cases will continue at a modest pace due to its increasing vigilance and resolute commitment to maintaining a first-class regulatory regime.

Currency Operations Activities

Under The Monetary Authority Law, 1996, the Monetary Authority has the sole right of issuing the Cayman Islands currency. The Monetary Authority through its Currency Operations unit is responsible for the issuing and redemption of the Cayman Islands' currency notes and coins. The Cayman Islands Dollar is fully backed by the United States Dollar. This takes the form of local and overseas US dollar investments such as Treasury Notes and Bills, Certificates of Deposits, etc. The Currency Operations unit is also responsible for the issue and redemption of numismatic coins. The Monetary Authority participates in numismatic coin programmes, which commemorate significant events locally as well as internationally.

Currency In Circulation (Millions)				
	1995	1996	1997	1998
$100	10.85	13.56	15.23	18.42
$50	6.25	6.14	5.95	5.83
$40	0.04	0.05	0.05	0.05
$25	5.46	6.41	6.84	7.19
$10	2.51	2.77	2.92	3.03
$5	1.54	1.66	1.87	1.95
$1	2.63	2.9	3.2	3.44
Total Notes	29.28	33.49	36.06	39.91
Coins	3.73	4.05	4.42	4.84
Total	33.01	37.54	40.48	44.75

At 31 December 1998, currency in circulation (excluding numismatic issues) stood at CI$44.8 million with $40 million in notes and $4.8 million in coins. This represented a 10.9% increase over that of $40.4 million in 1997. In 1998 mutilated notes totalling $20.6 million were withdrawn from circulation for destruction, an increase of 119.2% over 1997.

The Authority commissioned De La Rue Security Print and Paper to manufacture a new family of banknotes, the 'C/1' series. The first to be introduced were the $10, $5, and $1 banknotes, which went into circulation in August 1998. The new series maintains the design of the circulating 1996 'B' series with several added features. The notes reflect the change in the issuing Authority, The Cayman Islands Monetary Authority, and the change in the law under which the notes are issued, Monetary Authority Law, 1996. Other features include a woven silver metallic thread, and a turtle watermark highlight that reads CIMA. Currency issued of the new 'C/1 series to end of 1998 amounted to $10 - $727,370, $5 - $114,580 and $1 - $177,317. All indications are that the notes are being widely accepted by the public. The Authority plans to issue the remainder of the series, the $100 and $25 denominations during 1999.

With the release of the new notes, the Authority embarked on a public awareness campaign and issued leaflets detailing the main features of the new notes. The Monetary Authority in conjunction with De La Rue Cash and Security Print also hosted a workshop to introduce these notes to representatives from the retail banking sector and the Royal Cayman Islands Police Service (RCIP).

During 1998, the Monetary Authority issued a 1997 commemorative numismatic coin marking the establishment of the Cayman Islands Monetary Authority. To commemorate this occasion the design chosen was the logo of the Monetary Authority, which reflects the seafaring history of the Islands. This $2 silver-proof coin bears a beautiful illustration of a Cayman Schooner modelled by Royal Mint engraver Robert Elderton. The obverse features an elegant portrait of Her Majesty the Queen by Raphael Maklouf.

Policy and Research

The primary responsibility of the Policy and Research Division is to assist the Authority in the formulation of appropriate policies for the regulation of the financial industry. This is achieved by monitoring developments in the industry both domestically as well as internationally. During 1998, the division commenced projects relating to the supervision of non-bank financial institutions such as credit unions, building societies and other non-bank money services businesses. The division also co-ordinated the in-house training programme for interest rate risk management.

Some of the main projects for 1999 include an updated internal review of the Authority's policies to ensure alignment with the Basle Core Principles as well as the production of a compendium of policies, which comprises all of the various Divisions within the Authority.

The Division is also in the process of producing the first edition of the *Monetary Authority's Statistical Digest,* which is to be published bi-annually at the end of June and December. The publication will combine selected statistical data obtained from the *BS Form* and financial sector data, which is currently collected by the Government's Economic and Statistics Office (ESO). Data collection and processing has increased in efficiency with the use of *CIISMA*, the new database system developed by the Authority's Information Technology Division.

Regulatory Developments and Supervisory Issues

Establishment of On-Site Supervision

The Monetary Authority commenced the on-site inspection of banks, mutual fund administrators and insurance companies in 1998. On-site examinations provide the Monetary Authority with a means of verifying or assessing a range of matters including:

- The accuracy of reports received from banks, trust companies, insurance companies and mutual fund administrators
- The adequacy of risk management systems and internal control procedures
- The overall operations and conditions
- The competence of management

A key objective of the supervisory programme is to gain a thorough understanding of financial institutions' operations, risks and how these risks are managed and controlled. The Monetary Authority's on-site inspection process involves a review of the corporate governance practices of financial institutions including the roles of the board of directors and senior management in establishing risk levels, and the control mechanisms employed by financial institutions to monitor these risks. On-site examinations also include an assessment of the bank's compliance with laws, regulations and supervisory directions.

Cross Border Supervision

The Cayman Islands subscribes to the Basle Committee's Minimum Standards for the Supervision of International Banking Groups and their Cross-border Establishments and to the Core Principles for Effective Banking Supervision. Consequently, in 1998, the Cayman Islands and Brazil commenced negotiation to enter into a Memorandum of Understanding (MOU) for the sharing of supervisory information. The authority to share information with other banking regulators for consolidated supervision is granted under the Banks and Trust Companies Law (1995 Revision). The MOU with Brazil should be signed in February 1999. The MOU allows the Brazilian authorities to conduct on-site inspections of Brazilian banks in the Cayman Islands, subject to the appropriate statutory confidentiality restrictions. The Cayman Islands has initiated dialogue with a number of other jurisdictions with a view of entering into similar supervisory arrangements.

Emerging Markets Crises

The financial problems that began in Asia in mid-1997, exposed weaknesses in emerging market countries and in the international financial system. As host to a large number of foreign financial institutions, the Cayman Islands continues to monitor international developments in these markets. Of particular concern to the Monetary Authority has been the financial crises affecting countries in Asia and Latin America and the possible contagion effect on the Cayman Islands. A number of institutions from these regions have either failed or merged as a result of this crisis.

Against this background, the Monetary Authority has taken a number of measures to enhance surveillance of licensed financial institutions operating from the affected regions. These include a more rigorous programme of prudential meetings with bank representatives, enhanced disclosure requirements of financial data, and an increased emphasis on maintaining minimum capital ratios for banks which vary from 12% to 15%.

The lessons from the Asian Crisis relevant to the Cayman Islands includes, inter alia:

- The need for accurate and timely information on financial institutions, especially those operating in volatile regions. The speed of contagion across financial markets requires constant and close regulatory vigilance of these markets and their institutions operating from within Cayman.

- Weak financial systems increase vulnerability to economic crises and deepen such crises when they occur. Consequently, the Monetary Authority will continue to rigorously set standards that are consistent with the Basle Committee's Core Principles for Effective Banking Supervision.

Year 2000 Issue

Throughout 1998, the Monetary Authority actively promoted the need for financial institutions to address the 'Year 2000' (Y2K) issue. The issue confronts every organisation around the world as the problem affects the majority of computer systems and embedded chip mechanisms in place today.

Communication was established with financial institutions to alert them to the risk posed to the financial system, and the need to prepare for Y2K challenges at an early date so that time could be devoted to testing and contingency planning.

From meetings with financial institutions and the surveys conducted by the Monetary Authority, most financial institutions were well advanced with Y2K preparations. Nevertheless, contingency planning is always good business practice. In our recent letter to financial institutions, we have stressed the importance of testing to achieve broad business goals.

- **Public confidence** – If Y2K issues are not addressed properly, public confidence in financial institutions could be undermined, particularly if the media sensationalises the potential problems that could develop. Successful testing can offset or even pre-empt adverse media attention by indicating that dire predictions may be overstated.

- **Legal risk mitigation** – The failure to deal properly with Y2K issues introduces the possibility that financial institutions may face legal liability to customers and counterparties who demonstrate damage from the failure to complete transactions normally. Testing strategies appropriate to the perceived business risk may be a way both to avoid problems and to mitigate claims of not taking prudent business precautions. From this perspective, testing should be both comprehensive and transparent.

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

Prudential Returns

During 1998, the Monetary Authority commenced a review of the existing reporting arrangements for banks and trust companies licensed under the Banks and Trust Companies Law. This review was aimed at identifying areas for improving the efficiency in data collection, enhancing the analytical capability of banking analysts and maximising the use of human resources.

Concurrent with the need for operational efficiency, the review also provided the opportunity for designing a more comprehensive early warning system and for achieving greater convergence with international supervisory practices, particularly those recommended by the Basle Committee. The revised reporting arrangements are also expected to assist in planning on-site examinations. The new reporting system is expected to be implemented in March 1999.

Electronic Reporting

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

Communication & Relationships with Other Regulators

It is imperative that the Monetary Authority keeps abreast of current issues and world trends with regard to supervision in order to ensure that its supervisory capabilities continue to evolve and meet the requirements of today's diverse financial market. The Monetary Authority continues to be an active member of various financial supervisory groups including the International Group of Bank supervisors, The Offshore Group of Bank Supervisors, The Caribbean Group of Bank Supervisors, The Offshore Group of Insurance Supervisors, International Association of Insurance Supervisors (IAIS), Offshore Group Investment Scheme Supervisors, Caribbean Financial Action Task Force (CFATF) and several other regional groups.

Anti-money Laundering Initiatives

Code of Practice & Anti-money Laundering Guidelines

The Cayman Islands has developed an integrated approach to the introduction of rules against money laundering applicable to licensed institutions and individuals. During 1998, a project was undertaken by the ***Private Sector Anti-Money Laundering Guidelines Committee*** to develop a Code of Practice (the "Head Code") to be issued by the Governor pursuant to Section 20 (1) of The Proceeds of Criminal Conduct Law, 1996. The Head Code will serve as the umbrella instrument under which industry sectors covered by the Code will issue their own detailed guidelines for the prevention of money laundering. To date, only the Mutual Funds Administrators Association and the Bankers Association have submitted their anti-money laundering guidelines to the CIMA for review. Other industry sectors are in process of drafting their own guidelines to give effect to the Head Code.

The Head Code is intended to give practical guidance to financial service providers doing business in or from within the Cayman Islands in the prevention of money laundering. It forms part of a wider effort in Cayman, and internationally, to mitigate abuse of our financial system by criminals. It will also serve to enhance the reputation of Cayman as a well-regulated and responsible jurisdiction in the fight against international crime. The Head Code includes the following:

- An outline of money laundering offences in Cayman legislation.
- Guidance on policies, internal controls and procedures for the identification of customers.
- Training programmes for financial institution staff
- Policies and procedures for record keeping.
- Procedures to be adopted for recognising and reporting suspicious transactions.

Although the Code is being issued under the Proceeds of Criminal Conduct Law, it was developed as a private sector self-regulatory mechanism to foster good industry practice relating to financial transactions. However, the Monetary Authority has indicated that it will expect licensed financial institutions to observe the Code and related guidelines as a matter of prudent industry practice to ensure that Cayman conforms with the highest international standards.

Legislative Changes

Segregated Portfolio Companies

The Cayman Islands introduced legislation in 1998 allowing the formation of Segregated Portfolio Companies. A segregated portfolio company is a single legal entity divided into an unlimited number of cells whose assets and liabilities are legally separated from each other. The potential uses include rent-a-captives, life insurance, reinsurance, composites and conglomerates.

Liabilities Support Law

In 1998, the Liabilities Support Law, 1997 was introduced to ensure that all domestic insurance companies maintain sufficient assets in the Cayman Islands to match their technical liabilities. This provides an additional safeguard in the protection of policyholder obligations. The insurance division of the Monetary Authority provides a quality regulatory service tailored to the needs of both the domestic insurance industry and the offshore captive insurance industry, as well as fully satisfying the responsibilities delegated to it by government.

Administration

Seminars, Meetings and Training Programs

During 1998, the Managing Director represented the Monetary Authority at several meetings and seminars overseas. These included the World Bank Symposium of Regulation in Miami in April, the Annual International Conference of Banking Supervisors in Australia in October, the Year 2000 Council Hemispheric meeting in Miami in November and a series of promotional trips to South America.

Various members of the Authority's senior management team attended several conferences throughout the year. These included the Caribbean Financial Action Task Force Plenary 5 in Trinidad, the World Council of Credit Unions in Washington, the Globalisation of Mutual Funds Seminar in Bermuda, the CEMLA conference on the Year 2000 Issue in Mexico and the 8th World Captive & Alternative Risk Financing Forum.

The training of the Authority's analysts continued with the attendance of seminars covering a wide range of topics. Seminars included the Bank and Credit Risk Analysis in Jamaica, the Principles of Insurance Regulation Seminar in New York, the Mutual Funds and Investment Management Conference in Orlando, the Annual Conference of Caribbean Bank Supervisors in Barbados and the Risk Management and Internal Controls seminar in Trinidad.

The Authority hosted the Financial Innovations and Risk Management Seminar at the end of March. Speakers at the seminar included members from the Caribbean Centre of Monetary Studies, the Bank of Mexico and the Monetary Authority. Topics included: the impact of financial innovations on risk management approaches, and the taxonomy of financial innovations in the Caribbean Region and the regulatory implications of innovations.

Staff Recruitment, Promotions and other Developments

During the year, Mr. Christopher Collins was appointed as Superintendent of the Health Insurance Scheme, Mrs Shan Whittaker as Accountant and Mrs Mary-Lou Gallegos as Chief Analyst-Insurance. A number of acting appointments were also made including Mr Don Seymour as Acting Head of Investments services and Mr Gordon Rowell as Acting Deputy Head of Insurance. As at December 31 1998 the total staff complement was 48. There were eleven new recruitments and six persons resigned, during 1998.

Developments in information technology and computer systems

Whilst assessing the readiness of CIMA for processing of transactions after the year 2000 it was decided to take a systemic approach to retrofitting potential problems. The internal database systems of CIMA were fragmented due to the manner in which the organisation was formed from several quite separate governmental departments.

The first internal system to be replaced was the support database for the banking statistics gathering exercise; this being carried out each year to obtain a breakdown of claims and liabilities for all bank and trust companies registered here. The new system allows for institutions to submit their data to CIMA in the form of a spreadsheet via diskette or e-mail. These mechanisms are helping to increase the timeliness and accuracy of the information supplied to us.

Connectivity with the Internet is seen as extremely important because of the global nature of the institutions CIMA regulates. The Internet allows fast and efficient two-way communications without the barrier of time zones. The island's communication company Cable and Wireless provided CIMA with a permanent link to the internet in February of 1998, which was only the second of its kind in Cayman. Utilising e-mail communications in the first instance CIMA is now relying far more on this fast and efficient means of dealing with many international institutions.

Due to the volume of institutions sending annual registration fees, the next most important module to be written with Year 2000 compatible software was the fee receipting and logging system. This module went live in November of 1998 allowing for a year-end to be carried out with the compliant software.

CIMA now uses a secure telex communication for daily updates from the Federal Bank of New York. This uses an improved telex modem product that does not rely on mechanical movements to operate and has proved to be very reliable.

Year 2000 activities carried out in-house

The first exercise undertaken in preparing for any Year 2000 renovations was to undertake a full inventory of all hardware and software used by CIMA. This included vaults, fire alarms, security systems, air-conditioning system, fax machines as well as the computer systems in use. Due to the relatively recent acquisition of this equipment it was found that CIMA had very few potential points of failure.

Despite this, each manufacturer and supplier was contacted to determine what level of compliance they foresaw for the various products. In the first instance, any recommendations made by the respective manufacturers were implemented. This ranged from complete replacement of software to just upgrading to the latest versions. Very little hardware was found to need replacement, and those needed were carried out before the end of June 1998.

The next phase for CIMA's Year2000 project was the testing of all systems for the century rollover as well as several key dates that might be affected. This testing has been completed for all equipment and software that can be considered as "mission critical". The testing of the remaining items is due to be completed by the end of July 1999.

Finally it is important that contingency plans exist to cover any eventualities not already covered by the validation and testing exercises. These contingency plans will be based on the hurricane preparedness plans already in existence and are due for completion by August 1999.

Financial Statements

The annual financial statements of the Authority as at December 31, 1998 are shown on pages 20 to 28 of this annual report.

Total Assets of $60.3 million (1997: $54.9 million) include $59.2 million (1997: $53.7 million) of Currency Reserve assets representing investments and current, call and fixed deposits. Short-term investments are comprised of certificates of deposit, bankers acceptances of US and European issuers, and US and Canadian treasury bills maturing within one year. Long-term investments are comprised of US treasury notes and mortgage-backed securities. Investment decisions were made in accordance with our principal investment objectives of security, liquidity and income. Total return of 5.7% (1997: 5.7%) was earned in 1998.

Total liabilities of $47.9 million (1997: $43.8 million) include $44.8 million (1997: $40.5 million) of demand liabilities for currency in circulation which are fully secured by the Currency Reserve assets as required by Section 28 (7) of the Monetary Authority Law, 1996, as amended.

Total reserves and capital is $12.4 million (1997: $11.0 million) and the General Reserve is maintained at 15% of demand liabilities as required by Section 6 (2) of the Law.

Net income of $3.5 million (1997: $3.5 million) for the fiscal year was mainly due to sound investment decision-making and implementing effective cost reduction techniques.

The Board approved the transfer of $0.31 million (1997: $0.48 million) to the Currency Issue Reserve to provide for future currency reprints and $0.64 million (1997: ($0.89 million) was transferred to the General Reserve in accordance with Section 6(1) of the Monetary Authority Law. Approval was also given for the transfer of $0.75 million (1997: $1.5 million) to the paid up capital account. After these transfers, the Authority was still able to exceed its budgetary target by allocating $1.8 million (1997: $2.5 million) to the General Revenue of the Cayman Islands Government.

Statistics

Economic Indicators	1990	1995	1996	1997	1998
GDP at current prices (CI$ Millions)	590	822.5	892.4	971.9	
GDP at constant prices (CI$ Millions)	446	538.8	565.7	596.8	
GDP Growth (%)	13.2	4.8	5.0	5.5	
Per capita income (CI$ Thousands)	21.9	24.4	25.4	28.9	
Consumer Price Index (Sept 1984=100)	131.9	158.5	161.9	166.3	171.2
Annual percentage change (%)	7.7	2.3	2.1	2.7	2.9
Total Bank assets (US$ Billions)	432	499	497	642	n/a
Total Bank Liabilities (US$ Billions)	430	495	492	635	n/a
Stop-over arrivals (Thousands)	253	361	373	381	404
Cruise Ship arrivals (Thousands)	362	682.8	771.1	866.6	852.5
Unemployment rate-Oct. (%)	...	4.9	5.1	4.1	n/a

Loans and Advances to Cayman Islands Residents by All Banks

CI$ Thousands

Industry	1992	1993	1994	1995	1996	1997	1998
Agriculture & fishing	709	646	416	512	573	285	405
Hotels & restaurants	73,870	79,164	79,192	74,040	74,057	49,575	53,778
Retail	47,067	34,426	31,449	36,122	35,702	41,033	58,834
Wholesale	1,469	8,971	8,726	15,857	15,361	15,812	23,322
Utilities	15,356	20,379	14,400	19,973	25,792	72,657	52,543
Construction	20,411	26,329	22,956	21,382	31,952	25,142	43,176
Real estate	105,446	130,482	135,207	130,672	141,059	162,446	180,683
Personal	269,486	326,59	361,545	377,809	421,933	472,101	433,181
Other	124,662	140,277	130,951	133,610	163,918	243,395	310,648
Total	**658,476**	**767,264**	**784,842**	**809,977**	**910,347**	**1,082,446**	**1,156,570**

SOURCE :Economics & Statistics Office, Cayman Islands Government

Currency in Circulation[1] and Money Supply

CI$ Thousands

	1992	1993	1994	1995	1996	1997	1998
$100	10,884	7,987	12,150	10,848	13,564	15,228	18,423
$40/$50	1,303	5,056	3,085	6,290	6,186	6,001	5,877
$25	4,359	5,386	5,290	5,457	6,414	6,843	7,194
$10	1,818	1,960	2,291	2,512	2,770	2,920	3,028
$5	1,147	1,309	1,380	1,540	1,656	1,875	1,954
$1	1,946	2,193	2,432	2,632	2,900	3,198	3,441
25 cents	1,487	1,646	1,845	2,040	2,222	2,433	2,676
10 cents	791	856	946	1,025	1,109	1,203	1,307
5 cents	289	316	349	384	419	458	496
1 cents	207	233	257	278	303	329	358
Total	**24,231**	**26,942**	**30,025**	**33,005**	**37,543**	**40,488**	**44,754**
+ Demand Deposits[2]	41,637	47,053	54,163	58,321	76,004	75,716	102,129
Money Supply (M_1)[3]	65,868	73,995	84,188	91,326	113,547	116,204	146,883
Percent Change	7.8	12.3	13.8	8.5	24.3	2.3	26.4

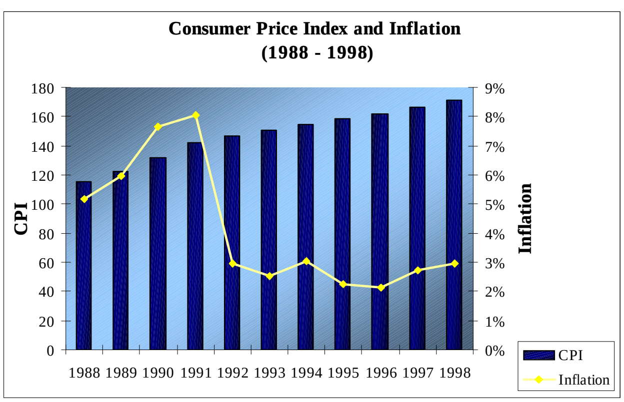
Notes

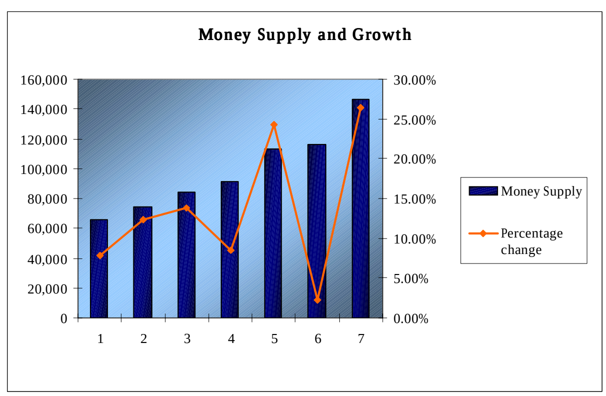
1 $100 and $40 notes were introduced in 1981, $50 notes in 1987.

2 Demand deposits held in Category "A" Banks & Trust Companies

3 Currency in circulation plus demand deposits with commercial banks.

SOURCE : Currency Board and Economics & Statistics Office, Cayman Islands Government





CERTIFICATE OF THE AUDITOR GENERAL

To the Shareholder and Directors of the Cayman Islands Monetary Authority

In accordance with the provisions of Section 35(2) of the Monetary Authority Law (1998 Revision) and Section 45(1) of the Public Finance and Audit Law (1997 Revision), I have audited the financial statements of the Cayman Islands Monetary Authority for the year ended 31 December 1998 as set out on pages 23 to 32. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

Opinion

In my opinion the financial statements present fairly, in all material respects, the financial position of the Cayman Islands Monetary Authority as at 31 December 1998 and the results of its operations and its cash flows for the year then ended, in accordance with International Accounting Standards and comply with the Monetary Authority Law (1998 Revision).

N. K. Esdaile
Auditor General

11 October 1999

CAYMAN ISLANDS MONETARY AUTHORITY

BALANCE SHEET

31 December 1998

In Cayman Islands Dollars

ASSETS	Note	1998	1997
Currency Reserve Assets			
Short-Term Investments	2b,3	$44,141,628	$46,948,772
Long-Term Investments	2b,3	11,929,002	-
Current and Call deposits	4	2,057,001	4,771,174
Fixed Deposits	4	1,090,911	2,017,333
Total currency reserve assets		59,218,542	53,737,279
Other Assets			
Accounts Receivable		22,545	9,734
Other Receivables and Prepayments		40,116	73,871
Interest Receivable, local deposits		4,184	7,376
Interest Receivable, foreign deposits		159,428	-
Stocks	2f,5	210,673	233,341
Fixed Assets	6	637,008	802,807
Total other assets		1,073,954	1,127,129
TOTAL ASSETS		**$60,292,496**	**$54,864,408**
LIABILITIES			
Demand Liabilities, Currency in Circulation	7a	$44,754,521	$40,488,518
Payable to the CI Government	9b	1,785,966	2,500,000
Other Liabilities and Payables	7b	1,273,331	636,779
Lease obligation	8	115,500	218,797
Total liabilities		47,929,318	43,844,094
RESERVES and CAPITAL			
General Reserve	9a	6,713,178	6,073,278
Currency Issue Reserve	9c	650,000	697,036
Total reserves		7,363,178	6,770,314
Paid Up Capital	9d	5,000,000	4,250,000
Total reserves and capital		12,363,178	11,020,314
TOTAL LIABILITIES, RESERVES and CAPITAL		**$60,292,496**	**54,864,408**

Signed on behalf of the Board, 11 October, 1999

George McCarthy, OBE, JP
Chairman
Cayman Islands Monetary Authority

Neville Grant
Managing Director
Cayman Islands Monetary Authority

CAYMAN ISLANDS MONETARY AUTHORITY

INCOME STATEMENT

For the year ended 31 December 1998

In Cayman Islands Dollars

INCOME	Note	1998	1997
Government Grants	2	$4,000,000	$3,482,124
Investment Income	2	2,802,421	2,554,966
Commission Income		270,437	238,928
Numismatic Income		6,366	54,950
Other income		4,785	12,376
Foreign Currency Loss	2	(178)	(478)
Total income		7,083,831	6,342,866
EXPENSES			
Salaries and Other Benefits		2,097,589	1,640,459
General and Administrative		453,606	294,280
Lease rental	8	223,750	233,975
Depreciation	6	247,912	172,563
Official travel		125,760	113,624
Pension contributions	10	201,895	99,364
Management and Custody fees	3	88,546	85,270
Audit and Professional fees		22,955	62,680
Staff training and Recruitment		101,042	54,800
Interest expense	2e,8	19,398	30,339
Directors fees		13,000	8,000
Total operating expenses		3,595,453	2,795,354
Net income		**$3,488,378**	**3,547,512**

CAYMAN ISLANDS MONETARY AUTHORITY

STATEMENT OF CASH FLOWS

For the year ended 31 December 1998

In Cayman Islands Dollars

	1998	1997
Cash flows from operating activities		
CI Government grant received	$4,000,000	$3,482,124
Net proceeds from currency operations	4,564,163	3,721,333
Payments to CI Government	(2,500,000)	(1,527,269)
Payments to employees	(2,297,931)	(1,781,795)
Payments to suppliers	(1,417,181)	(931,878)
Net cash used by operating activities	2,349,051	2,962,515
Investing Activities		
Investment income received	2,762,305	2,460,441
Net purchases of investments	(8,559,578)	(2,294,155)
Acquisition of fixed assets	(172,975)	(709,571)
Net cash provided by investing activities	(5,970,248)	(543,285)
Financing Activities		
Interest paid	(19,398)	(30,339)
Net cash used in financing activities	(19,398)	(30,339)
Increase/(decrease) in cash and cash equivalents	(3,640,595)	2,388,891
Movement in cash and cash equivalents		
Balance at 1 January 1998	6,788,507	4,399,616
Increase/ (decrease)	(3,640,595)	2,388,891
Balance at 31 December 1998	**$3,147,912**	**$6,788,507**

CAYMAN ISLANDS MONETARY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

31 December 1998

In Cayman Islands Dollars

1. Organization

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 in accordance with International Accounting Standards and under the historical cost convention. The reporting currency is Cayman Islands Dollars.

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

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

d) *Government Grants.* Income grants are deferred and recognized in the income statement over the grant period.

e) *Fixed Assets.* Fixed Assets are stated at historical cost less accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Rental payments under operating leases are charged to the income statement in equal installments over the period of the lease. Interest costs on borrowings to finance leasehold improvements are expensed. Leases where the Authority assumes substantially all the economic benefits and risks of ownership are 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.

f) *Stocks.* Stocks consist of silver bullion arising from the melt-down of numismatic coins and, the gold and silver bullion content of the following categories of numismatic coins: coins for resale, museum items and coins awaiting melt-down. Stocks are stated at year-end market values for gold and silver bullion.

g) *Numismatic Coins.* The total nominal value of numismatic coins outstanding at 31 December 1998 is $15,025,063 (1997: $15,071,504). No liability for redeeming numismatic coins is recognized in the financial statements, since the amount of redemption cannot be reasonably estimated and the probability of material redemption is remote. Redemption costs and sales proceeds are recorded in the income statement as incurred.

h) *Cash and cash equivalents.* For the purposes of the cash flow statement, cash and cash equivalents consist of current and call deposits and fixed deposits maturing within 30 days from the date of acquisition.

3. Investments

The principal investment objectives of the Authority are security, liquidity and income. The investment portfolio is managed by independent fund managers in accordance with investment guidelines established by the Board of Directors. Management fees are calculated based on the market value of the portfolio and are payable quarterly in arrears. Either party may terminate the agreement with thirty days notice.

Summary of short-term investments	31 December 1998	31 December 1997
Certificates of Deposits and Bankers Acceptances		
Interest rates range from 5.19% to 5.74%		
Maturing from 7/1/99 to 19/8/99	$22,474,962	$29,865,439
Repurchase Agreement		
Federal Reserve 4.90% maturing 4/1/99	21,666,666	17,083,333
Total short-term investments, at amortized cost	$44,141,628	$46,948,772
Market value of short-term investments	$44,142,332	$46,946,342

Long-term investments		
U.S. Treasury Notes and Mortgage-backed Securities, Interest rates range from 5.375% to 8.5% Effective maturity date ranging from 31/8/99 to 15/8/2007, at market value	$11,929,002	–

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 1998, domestic deposits represent 4.6% (1997: 7.0%) of demand liabilities.

		1998	**1997**
Domestic deposits	*Currency*	*CI$*	*CI$*
Call deposits	KYD	$464,876	203,194
Call deposits	USD	504,387	643,477
Call deposits	GBP	4,257	4,271
Current deposits	KYD	(5,267)	(16,153)
Fixed deposits	KYD	1,090,911	2,017,333
Cash on hand	KYD	205	205
		$2,059,369	$2,852,327

Interest is paid on local call and fixed deposits at rates ranging from 2.5% to 5.25% (1997: 2.5% to 5.75%) per annum.

Foreign Deposits	*Currency*	*CI$*	*CI$*
Investment portfolio, call account	USD	$949,354	$3,851,837
Federal Reserve	USD	139,189	84,343
		$1,088,543	$3,936,180

Interest of 4.563% (1997: 5%) p.a. is paid on foreign call deposits. Deposits with the Federal Reserve are non-interest bearing; however, excess deposit balances are invested daily in repurchase agreements.

5. Stocks

	1998	**1997**
Bullion from the melt-down of coins	$150,249	$180,573
Coins awaiting melt-down	21,139	11,959
Coins for resale	21,660	19,535
Museum items	17,625	21,274
Total stocks	$210,673	$233,341

6. Fixed Assets

	Furniture & Fixtures	Leasehold Improv	Office Equipment	Motor Vehicle	Total
Original Cost					
Balance at 1 January 1998:	$ 183,364	$ 422,915	$ 400,599	$ 24,600	$ 1,031,478
Additions:	38,767		43,346		82,113
Disposals:	-	-	-	-	-
Balance at 31 December 1998:	222,131	422,915	443,945	24,600	1,113,591
Depreciation					
Balance at 1 January 1998:	30,256	49,421	146,123	2,871	228,671
Depreciation expense:	41,874	84,583	116,535	4,920	247,912
Balance at 31 December 1998:	72,130	134,004	262,658	7,791	476,583
Net Book Value					
Cost at 31 December 1998:	222,131	422,915	443,945	24,600	1,113,591
Accumulated depreciation:	(72,130)	(134,004)	(262,658)	(7,791)	(476,583)
Net Book Value at 31 December 1998:	$ 150,001	$ 288,911	$ 181,287	$ 16,809	$ 637,008
Net Book Value at 31 December 1997:	$ 153,108	$ 373,494	$ 254,476	$ 21,729	$ 802,807

7. Liabilities

a) *Demand Liabilities*. Represents the value of circulating currency notes and coins. These liabilities are fully funded by the Currency Reserve assets. Under the Law, the Currency Reserve assets represent external and local assets that: shall only be used to satisfy demand liabilities; shall be segregated from all other assets of the Authority; and shall not be chargeable with any liability arising from any other business of the Authority.

At 31 December 1998, total demand liabilities comprise:

	1998	1997
i) Currency notes in circulation	$39,918,293	$36,065,017
ii) Currency coins in circulation	4,836,228	4,423,501
Demand liabilities, Currency in circulation	$44,754,521	$40,488,518

At 31 December 1998, the value of Currency Reserve assets was $59,218,542 (1997: $53,737,279) representing 132% (1997: 133%) of total demand liabilities. After all demand liabilities are extinguished, any surplus Currency Reserve assets would form, in part, the assets of the General Reserve – see Note 9.

b) *Other liabilities.* At 31 December 1998, other liabilities include unsettled currency redemption payments of $1,222,388 (1997: $556,250) due to two local banks. Unsettled redemption payments are normal, temporary liabilities arising from currency operations due to mismatched trade instructions. Both liabilities liquidated on 4 January 1999.

8. Lease Obligation

The Cayman Islands Government leases the premises used by the Authority under a lease agreement dated 15 December 1996. The lease is for an initial period of three years at $25 per sq. foot, with an option for an additional two years at $26 per sq. ft. payable monthly in advance. The Authority has taken advantage of this option and will be renewing the lease agreement when it expires on December 14, 1999.

The Authority reimburses all costs under this agreement, including the modification costs incurred by the lessor to design the building to the Authority's specifications. These modification costs are being repaid over three years at an interest rate of 11.25% per annum. At 31 December 1998, the unpaid principal balance of modification costs is $115,500 (1997: $218,797) which is payable within a year.

9. 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 24 May, 1999 the Board of Directors resolved to transfer $1,785,966 (1997: $2,500,000) to the General Revenue of the Cayman Islands Government. The Executive Council of the Cayman Islands Government has committed to increasing the Paid-Up capital of the Authority to a minimum of $10 million by the year 2008, by yearly transfers from surplus, after complying with reserve requirements.

c) *Currency Issue Reserve*. A three-year supply of bank notes will be reprinted in 1999 at an approximate cost of $500,000. The total cost of the reprint will be charged to the Currency Issue Reserve. During the year, a total of $359,548 was transferred from the Currency Issue Reserve to fund the 1998 currency reprint.

d) *Capital.* The authorised share capital of the Authority is $100,000,000. The Cayman Islands Government is the sole shareholder and has contributed Paid-Up capital of $5.000,000 as at 31 December 1998.

Reserves and Capital:	*Note*	General Reserve	Currency Issue Reserve	Paid-Up Capital
Balance at 1 January 1998:		$ 6,073,278	$ 697,036	$ 4,250,000
Transfers in:	9	3,488,378	312,512	750,000
Transfers out:	9	2,848,478	(359,548)	–
Balance at 31 December 1998:		$ 6,713,178	$ 650,000	$ 5,000,000

10. Pensions

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

11. Financial Instruments

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

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

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

Section 12. Year 2000 Compliance

The Authority has carried out the required investigation into the Year 2000 problem for the computers that are considered to be mission-critical in the various divisions and has the ability to commit the necessary resources to complete its Year 2000 remediation plan in a timely manner. Mission-critical systems *"are those systems which in the absence of an effective remediation programme, any systems failure or processing error will cause, health and safety risks, significant revenue losses, increased operating cost, financial penalties for failure to comply with terms of contract, or other financial difficulties. "*

Divisions that are equipped with recently manufactured (1996-99) personal computers and software that are year 2000 compliant are:

Accounting:	Fully compliant hardware and software;
Banking Supervision:	Fully compliant hardware and software;
Insurance Supervision:	Fully compliant hardware, software replaced by November1999;
Investments:	Fully compliant hardware, software replaced by October 1999;
Administration:	Fully compliant hardware, and software;
Currency operations:	Fully compliant hardware, and software

The Authority has no information to indicate that a significant vendor may be unable to sell to the Authority, or a significant customer may be unable to transact with the Authority, or a significant service provider may be unable to provide services to the Authority, in such case because of the year 2000 compliance problems.