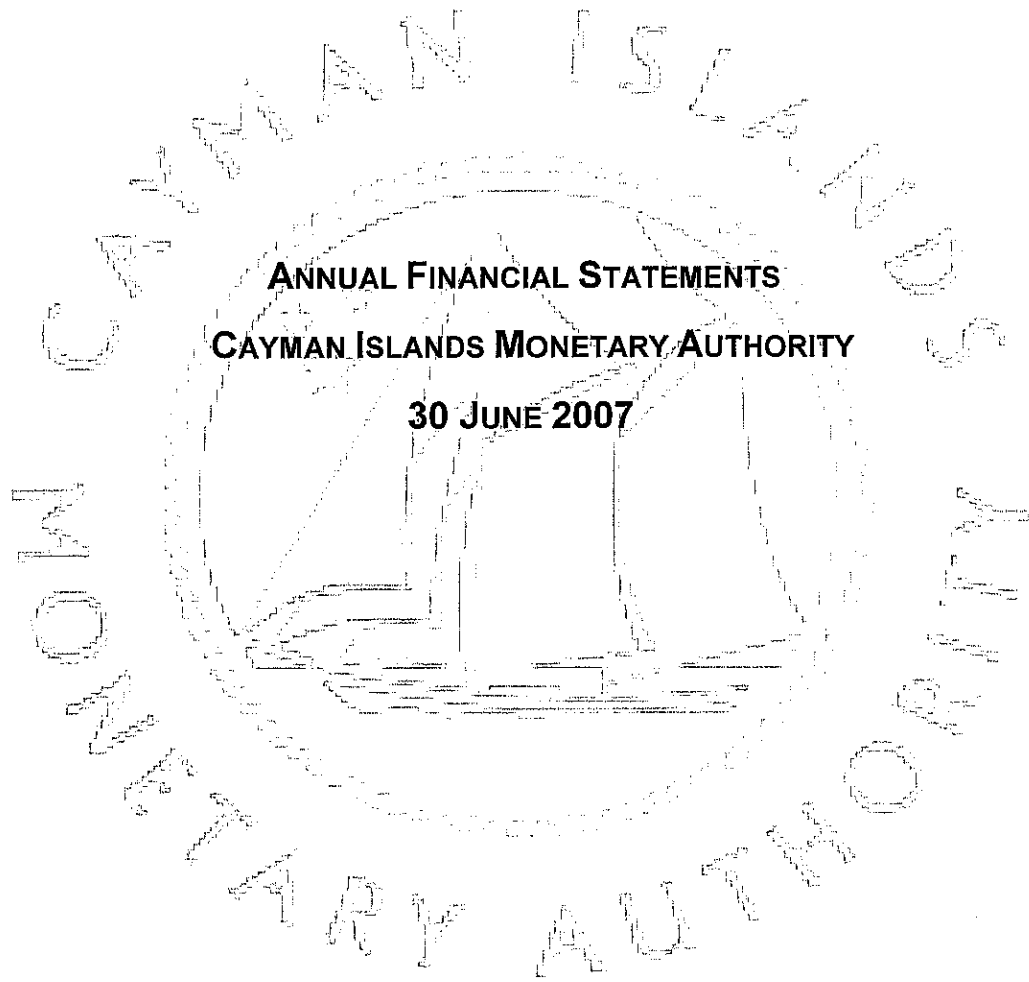


Cayman Islands Monetary Authority

Financial Statements

For the year ended 30 June 2007





ANNUAL FINANCIAL STATEMENTS
CAYMAN ISLANDS MONETARY AUTHORITY
30 JUNE 2007

CAYMAN ISLANDS MONETARY AUTHORITY

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Cayman Islands

The Cayman Islands Monetary Authority

CERTIFICATE OF THE AUDITOR GENERAL

To the Shareholder and Board of Directors of the Cayman Islands Monetary Authority

I have audited the accompanying financial statements of the Cayman Islands Monetary Authority (“the Authority”) which comprise the balance sheet as of 30 June 2007 and the related statements of income, changes in reserves and capital and cash flows for the year then ended as set out on pages 3 to 18 and in accordance with the Section 52 (3) of the Public Management and Finance Law (2005 Revision).

Management’s Responsibilities for the Financial Statements

Management is responsible for the preparation and fair representation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriated accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor General’s Responsibility and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for my audit 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 30 June 2007 and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Monetary Authority Law (2004 Revision).



Dan Duguay MBA, FCGA
Auditor General

26 August 2008
Cayman Islands

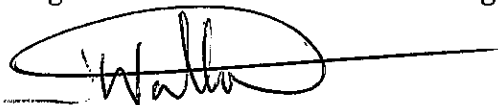
**CAYMAN ISLANDS MONETARY AUTHORITY
BALANCE SHEET**

As at June 30 2007

(Expressed in Cayman Islands Dollars)

	Note	30 June 2007 \$	30 June 2006 \$
ASSETS			
<i>Currency Reserve Assets</i>			
Call Deposits	3b	2,262,278	2,252,660
Fixed Deposits	3b	1,444,095	1,374,107
Interest Receivable, Deposits		289,146	264,197
Short-Term Investments	2b, 3a	54,863,072	44,932,936
Long-Term Investments	2b, 3a	43,089,402	41,607,278
Stocks	2f, 6	1,763,694	1,782,394
Total Currency Reserve Assets		103,711,687	92,213,572
<i>Operating Assets</i>			
Current and Call Deposits	3b	536,932	1,500,573
Accounts Receivable	2j, 4	3,962,132	3,728,419
Other Receivables and Prepayments	2j	82,021	90,148
Fixed Assets	2e, 5	1,255,918	961,874
Retirement Benefit Assets	10	386,000	322,000
Total Operating Assets		6,223,003	6,603,014
TOTAL ASSETS		109,934,690	98,816,586
LIABILITIES			
Demand Liabilities, Currency in Circulation	7a	76,205,264	70,558,404
Due to the CI Government	9b	6,782,067	3,004,121
Other Liabilities and Payables	2k, 7b	1,302,842	1,882,788
Total Liabilities		84,290,173	75,445,313
RESERVES and CAPITAL			
General Reserve	9a	11,430,790	10,583,760
Currency Issue Reserve	9c	435,107	446,593
Capital Expenditures Reserve	9e	2,833,718	2,615,900
Total Reserves		14,699,615	13,646,253
Paid Up Capital	9d	10,944,902	9,725,020
Total Reserves and Capital		25,644,517	23,371,273
TOTAL LIABILITIES, RESERVES and CAPITAL		109,934,690	98,816,586

Signed on behalf of the Board on August 26, 2008



Joel Walton
Deputy Chairman
Cayman Islands Monetary Authority



Cindy Scotland
Managing Director
Cayman Islands Monetary Authority

CAYMAN ISLANDS MONETARY AUTHORITY

INCOME STATEMENT

For the year ended 30 June 2007

(Expressed in Cayman Islands Dollars)

	Note	2007 \$	2006 \$
INCOME			
Outputs to Cabinet	2d,12	12,451,342	12,495,240
Investment Income	2b	5,555,153	3,945,641
Commission Income	2d	731,505	812,504
Numismatic Income	2d	94,765	258,809
Other Income		1,442	4,089
Asset Disposal Gain		0	400
Total Income		<u>18,834,207</u>	<u>17,516,683</u>
OPERATING EXPENSES			
Salaries and Other Benefits		7,281,038	6,896,792
General and Administrative		1,872,831	1,416,583
Pension Contributions	2i, 10	671,245	588,420
Depreciation	2e, 5	335,945	208,680
Lease Rental	8	530,235	438,908
Staff Training and Recruitment		269,331	233,377
Official Travel		516,348	409,818
Management and Custody Fees	3a	142,372	135,829
Professional Fees		615,429	789,307
Directors Fees		225,000	254,299
Realised Loss on Investments		375,757	339,279
Total Expenses		<u>12,835,531</u>	<u>11,711,292</u>
NET INCOME		<u>5,998,676</u>	<u>5,805,391</u>

The notes on pages 7 to 18 are an integral part of these financial statements

CAYMAN ISLANDS MONETARY AUTHORITY
STATEMENT OF CHANGES IN RESERVES AND CAPITAL

For the year ended 30 June 2007

(Expressed in Cayman Islands Dollars)

	2007				2006			
	General Reserve	Currency Issue Reserve	Paid-up Capital	Capital Expenditure Reserve	General Reserve	Currency Issue Reserve	Paid-up Capital	Capital Expenditure Reserve
Balance at 1 July	\$10,583,760	\$446,593	\$9,725,020	\$2,615,900	\$10,923,390	\$519,730	\$7,978,020	\$0
Transfers in:								
From Government							900,000	
From Net Income	5,998,676				5,805,391			
From General Reserve			525,000	848,700			525,000	2,615,900
From Paid-up Capital								
Retirement Benefit Assets			64,000				322,000	
Transfers out:								
To General Reserve								
To Paid-up Capital	(525,000)				(525,000)			
To Capital Expenditure Reserve	(848,700)				(2,615,900)			
Contribution Payable to CI GOVT	(3,777,946)				(3,004,121)			
Cost of currency inventory issued during the year		(11,486)				(73,137)		
Cost of Fixed Assets Purchased			630,882	(630,882)				
Balance at 30 June	\$11,430,790	\$435,107	\$10,944,902	\$2,833,718	\$10,583,760	\$446,593	\$9,725,020	\$2,615,900

The notes on pages 7 to 18 are an integral part of these financial statements

CAYMAN ISLANDS MONETARY AUTHORITY
STATEMENT OF CASH FLOWS
For the year ended June 30 2007
(Expressed in Cayman Islands Dollars)

	2007	2006
	\$	\$
Cash flows from operating activities		
Net Income	5,998,676	5,805,391
Adjustments for items not involving cash:		
Add: Depreciation	<u>335,945</u>	<u>208,680</u>
Operating profit before working capital changes	6,334,621	6,014,071
Net change of investments	(11,412,259)	(12,316,365)
Interest Receivable	(24,949)	(170,550)
Accounts Receivable	(233,713)	(3,698,750)
Other Receivables and Prepayments	8,126	(32,964)
Other Liabilities and Payables	(579,946)	1,146,440
Stocks	<u>18,700</u>	<u>(975,660)</u>
Cash used by operations	(5,889,420)	(10,033,778)
Increase/(Decrease) in Demand Liabilities	5,646,860	(2,264,200)
(Decrease) in Currency Issue Reserve Cost of Currency Notes Reprint	<u>(11,486)</u>	<u>(73,137)</u>
<i>Net cash used by operating activities</i>	<u>(254,046)</u>	<u>(12,371,115)</u>
Investing Activities		
Acquisition of fixed assets	(630,882)	(872,754)
Proceeds from fixed assets disposal	<u>893</u>	<u>3,012</u>
<i>Net cash used by investing activities</i>	<u>(629,989)</u>	<u>(869,742)</u>
Financing Activities		
Contribution received from CI Government	<u>0</u>	<u>900,000</u>
<i>Net cash provided by financing activities</i>	<u>0</u>	<u>900,000</u>
(Decrease) in cash and cash equivalents	<u>(884,035)</u>	<u>(12,340,857)</u>
Movement in cash and cash equivalents		
Balance at July 1	5,127,340	17,468,197
(Decrease)	<u>(884,035)</u>	<u>(12,340,857)</u>
Balance at 30 June (Note 3b)	<u>4,243,305</u>	<u>5,127,340</u>

The notes on pages 7 to 18 are an integral part of these financial statements

CAYMAN ISLANDS MONETARY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2007
(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 Monetary Authority Law (2004 Revision) (the "Law (2004 revision)"), the primary objectives of the Authority are (a) to issue and redeem currency notes and coins and to manage the Currency Reserve, (b) to regulate and supervise the financial services business (c) to provide assistance to overseas regulatory authorities, and (d) to advise the Cayman Islands Government on regulatory matters.

As at 30 June 2007 the Authority has 116 employees (30 June 2006: 104). The Authority is located in Elizabethan Square, George Town, Grand Cayman, Cayman Islands.

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

- a) Basis of preparation. The financial statements of the Authority are prepared on the accrual basis under historical cost convention and are in accordance with International Financial Reporting Standards. The reporting currency is Cayman Islands Dollars.
- b) Investments. Short-term investments are valued, on a monthly basis at amortized cost and long term investments are valued at quoted market value. Unrealized gains or losses are recorded in the income statement.
- c) Foreign Currency. Foreign currency transactions are recorded at the exchange rates prevailing on the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Assets and liabilities are translated at the exchange rate in effect at the Balance Sheet date.
- d) Revenue recognition. The Authority depends on the sale of its Outputs to the Cabinet of the Government of the Cayman Islands, as its main source of income to meet its obligations. The Authority's other sources of income are generated from its investments, bank balances, and other currency transactions. The Authority recognizes revenue as it is earned.
- e) Fixed Assets. Fixed Assets are stated at historical cost less accumulated depreciation. Depreciation is calculated on the straight-line method of 20% per annum for Furniture & Fixtures, Leasehold Improvements, Office Equipment (with the exception of Bank Note Sorting machine calculated at 15% and DRC Equipment calculated at 33.33%) and Motor Vehicle; and 25% to 33.33% for Computer Hardware and Software, which is sufficient to write-off the cost of the assets over their estimated useful lives.
- f) Stocks. Stocks consist of silver bullion arising from the melt-down of numismatic coins, the gold and silver bullion content of the following categories of numismatic coins: coins for resale, museum items and coins awaiting melt-down and unissued currency notes. Bullion stocks are stated at year-end market values for gold and silver bullion and unrealised gain/loss are recorded in the Income Statement.

CAYMAN ISLANDS MONETARY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2007

(Expressed in Cayman Islands Dollars)

Significant Accounting Policies (continued)

Stocks (continued)

The stock of unissued currency notes is stated at cost. Only the cost of notes issued into circulation is expensed on a "first in first out" basis. (See also Note 6).

g) Numismatic Coins. The total nominal value of numismatic coins outstanding at 30 June 2007 is \$14,614,456 (30 June 2006: \$14,659,056). 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 3).

i) Employee Benefits

Pension Plans. The Authority makes pension contributions for its eligible employees to the Public Service Pensions Fund, which is administered by the Public Service Pensions Board. The Fund has both a defined benefit and a defined contribution element. There are a small number of employees who participate in other private plans, which are all defined contribution schemes.

Under defined contribution plans, the Authority pays fixed contributions and has no obligation to pay further contributions if the fund does not have sufficient assets to pay employee benefits relating to employee service in the current and prior periods. The Authority recognises contributions to a defined contribution plan when an employee has rendered services in exchange for those contributions.

A defined benefit plan is one that defines an amount of benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation. The asset or liability in respect of defined benefit plans is the difference between the present value of the defined benefit obligation at the balance sheet date and the fair value of plan assets, adjusted for unrecognised actuarial gains/losses and past service cost. Where a pension asset arises, the amount recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in future contributions to the plan. The pension costs are assessed using the Projected Unit Credit Method. Under this method the cost of providing pensions is charged in the Income Statement so as to spread the regular cost over the service lives of employees in accordance with advice of the actuary, (who is due to carry out a full valuation of the plans every year). The pension obligation is measured at the present value of the estimated future cash outflows using discount estimated rates based on market yields on high quality corporate bonds at the time of the accounting date which have terms to maturity approximating the terms of the related liability.

Obligations for contributions to defined contribution and defined benefits pension plans are recognized as an expense in the income statement as incurred. (See also Note 10).

Other Benefits. Other employee benefits include maternity leave, sick leave, vacation days and performance awards. Vacation days accumulate and vest and therefore a liability is accrued each year. The accrued vacation liability as of 30 June 2007 is \$218,697 (2006 - \$206,184) and is included in the other liabilities and payables.

CAYMAN ISLANDS MONETARY AUTHORITY NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2007

(Expressed in Cayman Islands Dollars)

Significant Accounting Policies (continued)

j) Accounts Receivable. The receivables are stated at original invoice amount less provision for doubtful debts. (See also note 4).

k) Accounts Payable. The payables are stated at historical cost.

3. Currency Reserve Assets

Sections 32(8) of the Law (2004 revision) mandates the preservation of Currency Reserve Assets, separately from all other assets of the Authority. These assets are to be used to fund the Authority's currency redemption obligations. (See also Note 6.) They shall not be chargeable with any liability arising from any other business. After all demand liabilities are extinguished, any surplus Currency Reserve Assets would form, in part, the assets of the General Reserve. (See also Note 9a.)

Under the Law (2004 revision), sections 32(2) and 32(6) respectively, the Currency Reserve Assets are to consist of external assets (not less in value than an amount equivalent to ninety percent of demand liabilities) and local assets (not to exceed ten percent of demand liabilities).

At 30 June 2007, the value of Currency Reserve Assets was \$103,711,687 (30 June 2006: \$92,213,572) representing 136.10% (30 June 2006: 130.69%) of total demand liabilities. The value of external assets equated to 132.70% (30 June 2006: 127.30%) while the value of local assets equated to 3.40% (30 June 2006: 3.39%) of demand liabilities.

Currency Reserve Assets comprise the following:

a) Investments

The principal investment objectives of the Authority are security, liquidity and income. The investment portfolio is managed by independent fund managers in accordance with investment guidelines established by the Board of Directors, in accordance with the Law (2004 Revision). Management fees are calculated based on the market value of the portfolio and are payable quarterly in arrears. Either party may terminate the agreement with thirty days notice.

CAYMAN ISLANDS MONETARY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2007

(Expressed in Cayman Islands Dollars)

Currency Reserve Assets (continued)

Long-term investments

Long-term investments are made up of Mortgage-backed Securities stated at market value, with interest rates ranging from 4.0% to 8.0%. Maturity dates range from 01/10/2007 to 25/11/2036. Although the stated maturity date on 16 of the securities is over 10 years the expected duration is less than 10 years.

	2007	2006
<i>Range of maturities:</i>	\$	\$
1 – 5 Years	5,852,539	11,937,402
6 – 10 Years	301,543	379,745
Over 10 Years	36,935,320	29,290,131
	\$43,089,402	\$41,607,278

Short-term investments

Discount notes / Treasury Bills		
Maturing from 12/07/07 to 10/08/07	17,919,022	15,802,310
Mortgage Backed Securities		
Maturing 01/10/07 to 15/05/08	444,050	547,293
Repurchase Agreement		
Federal Reserve at 4.33% maturing 02/07/07	36,500,000	28,583,333
Total short-term investments, at amortized cost	\$54,863,072	\$44,932,936
Market value of short-term investments	\$54,861,416	\$44,935,838

b) Bank Deposits

The Authority maintains current, call and fixed deposits with domestic and foreign banks. Under the Law (2004 revision), domestic deposits (as part of the Currency Reserve Assets) cannot exceed 10% of demand liabilities. At 30 June 2007, domestic deposits represent 3.40% (30 June 2006: 3.39%) of demand liabilities.

	Holding Currency	2007 \$	2006 \$
<i>i) Current and Call Accounts</i>			
Current	KYD	(35,515)	(105,548)
Savings	KYD	544,690	0
Call	USD	27,057	1,605,721
CI Cash on Hand	KYD	700	400
Current and Call Deposits		536,932	1,500,573
<i>ii) Currency Reserve Assets</i>			
<i>Domestic Deposits</i>			
Call	GBP	6,514	6,514
Savings	KYD	43,476	4,152
Call	USD	1,097,529	1,010,107
<i>Foreign Deposits-</i>			
Federal Reserve Bank	USD	145,445	98,028
Investment portfolio	USD	969,314	1,133,859
Total Call Deposits - Currency Reserve		2,262,278	2,252,660
Domestic - Fixed Deposits	USD	1,444,095	1,374,107
Total Operating Cash and Currency Reserve Assets		4,243,305	5,127,340

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2007

(Expressed in Cayman Islands Dollars)

Currency Reserve Assets (continued)

Interest is paid on domestic call and fixed deposits at rates ranging from 1.75% to 4.825% (30 June 2006: 1.75% to 4.99%) per annum.

Interest of 3% (30 June 2006: 3%) p.a. is paid on foreign call deposits. Deposits with the Federal Reserve are non-interest bearing; however, excess deposit balances are invested daily in repurchase agreements.

4. Accounts Receivable

	2007	2006
	\$	\$
Outputs & Capital Grants	3,929,722	3,704,821
Other receivables	84,734	23,598
Provision for Doubtful Debt	(52,324)	0
Total Accounts Receivable	\$3,962,132	\$3,728,419

5. Fixed Assets

	Furniture & Fixtures	Leasehold Improvement	Computer Equipment	Office Equipment	Motor Vehicle	Total
Original Cost	\$	\$	\$	\$	\$	\$
Balance at 01/07/06	652,466	639,178	1,144,323	475,428	24,600	2,935,995
Additions	10,217	55,163	513,365	52,137	0	630,882
Disposals	(1,783)	0	(4,113)	(12,357)	0	(18,253)
Balance at 30/06/07	660,900	694,341	1,653,575	515,208	24,600	3,548,624
Accumulated Depreciation						
Balance at 01/07/06	441,572	437,309	794,268	276,372	24,600	1,974,121
Charge for the year	43,020	44,500	193,910	54,515	0	335,945
Relieved on disposals	(1,253)	0	(4,112)	(11,995)	0	(17,360)
Balance at 30/06/07	483,339	481,809	984,066	318,892	24,600	2,292,706
Net Book Value at 30/06/07	\$177,561	\$212,532	\$669,509	\$196,316	\$0	\$1,255,918
Net Book Value at 30/06/06	\$210,894	\$201,869	\$350,055	\$199,056	\$0	\$961,874

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2007

(Expressed in Cayman Islands Dollars)

6. Stocks

	2007	2006
	\$	\$
Bullion from the melt-down of coins	355,173	318,071
Coins awaiting melt-down	285,923	234,711
Coins for resale	117,012	110,543
Museum items	37,317	34,959
Inventory of unissued currency notes and coins	968,269	1,084,110
	<hr/>	<hr/>
Total stocks	<u>\$1,763,694</u>	<u>\$1,782,394</u>

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.

Total demand liabilities comprise:

	2007	2006
	\$	\$
i) Currency notes in circulation	67,899,365	62,721,911
ii) Currency coins in circulation	8,305,899	7,836,493
	<hr/>	<hr/>
Total	<u>\$76,205,264</u>	<u>\$70,558,404</u>

b) *Other liabilities.* At 30 June 2007, other liabilities included unsettled investment management and custody fees of \$155,259 (30 June 2006: \$42,357).

8. Lease Obligation

The Authority leases the premises used under various lease agreements. Rental payments under operating leases are charged to the income statement in equal installments over the period of the lease.

Parcel	Location	Floor Space	Cost in 2006-07	Current Lease Agreement	Future Lease Arrangements
159/160	Phase IV - ground fl+2nd Fl+ 1/2 of 3rd Fl	11229 sq.ft	\$28-\$29 per sq.ft	January 1, 2007 to June 30, 2008	Renewal Option - 1 year to June 2009
159/157	Block B 2nd Fl - Unit 209	800 sq.ft	\$28 per sq.ft	January 1, 2007 to June 30, 2008	Renewal Option - 1 year to June 2009
159/158	Block C 2nd Fl - Unit 202	800sq.ft	\$30 per sq.ft	January 1, 2007 to June 30, 2008	Renewal Option - 1 year to June 2009
159/155	Phase III - 2nd Fl	1294 sq.ft	\$30 per sq.ft	January 1, 2007 to June 30, 2008	Renewal Option - 1 year to June 2009
159/159	Phase III - 2nd Fl	563 sq.ft	\$30 per sq.ft	January 1, 2007 to June 30, 2008	Renewal Option - 1 year to June 2009
159/156	Phase III - 4th Fl	2857 sq.ft	\$31 per sq.ft	January 1, 2007 to June 30, 2008	Renewal Option - 1 year to June 2009

CAYMAN ISLANDS MONETARY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2007
(Expressed in Cayman Islands Dollars)

9. Reserves and Capital

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

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

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

d) Capital. The authorised capital of the Authority is \$100,000,000. The Cayman Islands Government is the sole subscriber and has contributed Paid-Up Capital of \$10,994,902 as at 30 June 2007 (30 June 2006: \$9,725,020). The Cabinet 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.

e) Capital Expenditure Reserve. Under Section 9 of the Law (2004 revision), the net profits of the Authority for any financial year shall include, but shall not be limited to, the income from the investments of the Authority, and the profit from the sales of investments belonging to the Authority, and shall be determined by the Authority after meeting or providing for all expenditure for that year and making such provisions for contingencies and the establishment of such additional reserves as it may consider desirable. This Reserve has been created to provide for key new capital projects, in particular the E-Reporting and the Currency Vault at the new Government Administration Building.

CAYMAN ISLANDS MONETARY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2007
(Expressed in Cayman Islands Dollars)

10. Pensions

Pension contributions are paid for all eligible employees on their pensionable emoluments. The majority of the employees are participants in the Public Service Pensions Plan, with a small number participating in other private plans, which are all defined contribution schemes.

Public Service Pensions Plan

Pension contributions for eligible employees of the Authority are paid to the Public Service Pensions Fund (the "Fund"). The Fund is administered by the Public Service Pensions Board ("the Pensions Board") and is operated as a multi-employer. Prior to 1 January 2000 the scheme underlying the Fund was a defined benefit scheme. With effect from 1 January 2000 the Fund had both a defined benefit and a defined contribution element, with participants joining after 1 January 2000 becoming members of the defined contribution element only.

Using the projected Unit Credit method of measuring costs and obligations, the actuarial assessment for the Authority assessed the minimum normal annual contribution to be 13 % in 2006-7 (13% in 2005-6). This rate included a 1% for the cost of all of the benefits that are provided over and above those related to the participant's total account balance. The Authority pays this 1% for all employees. In addition, for those employees in the defined benefit plans, the Authority pays both the employer and employee contributions.

The Plans are funded at rates of: -

	2007	2006
Defined Contribution Plans - Employee	6%	6%
- Employer	7%	7%
Defined Benefit Plans - Employee	6%	6%
- Employer	7%	7%

The Actuary to the Pensions Board has valued the Fund. The defined contribution part of the Fund is not subject to the special actuarial valuations due to the nature of the benefits provided therein.

There has been no further actuarial valuation (of the defined benefit plan) received since the valuation for 30 June 2006.

The total amount recognised as a pension expense during 2006-7 was \$671,245 (2005-6: \$588,420). The actual amount of pension expense relating to the defined benefits for staff should also include the effect of the changes in the actuarial determined liability. The impact on the expense for 30 June 2006 has been reflected in the Paid-Up Capital of the Authority, as there is no Retained Earnings. Management is unable to determine the impact on the recorded expense for the year ended 30 June 2007, as the Actuary has not provided this information. Pension expense is the expense under IAS 19, inclusive of Company Service Cost, amortizations and net Interest. Company Service represents the pension cost to the Authority associated with the financial year benefit accruals and is net of participant contributions

CAYMAN ISLANDS MONETARY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2007

(Expressed in Cayman Islands Dollars)

Pensions (continued)

Independent Actuaries value the schemes. The latest actuarial valuation (of the defined benefit plan) was done as at 30 June 2006.

	30 June 2006	30 June 2005	1 July 2004
	\$	\$	\$
Net Present Value of Funded Obligation	(2,768,000)	(2,896,000)	(1,870,000)
Fair Value of Plan Assets	<u>3,224,000</u>	<u>2,624,000</u>	<u>2,192,000</u>
Unrecognised Past Service Cost	456,000	(272,000)	322,000
Unrecognised Actuarial Gains/(Losses)	<u>(70,000)</u>	<u>648,000</u>	<u>0</u>
Net Assets in Balance Sheet	<u><u>386,000</u></u>	<u><u>376,000</u></u>	<u><u>322,000</u></u>

The amount of the defined benefit asset at 30 June 2007 cannot be determined by management at this time, as there has been no update to the actuary's report since 30 June 2006.

Pension Expense for fiscal year ending	30 June 2006	30 June 2005
	\$	\$
Company Service Cost	239,000	166,000
Interest Cost	150,000	120,000
Expected Return on Assets (net)	(193,000)	(166,000)
Recognition of Net (Gain)/Loss	<u>20,000</u>	<u>0</u>
Total Pension Expense	<u><u>216,000</u></u>	<u><u>120,000</u></u>

Reconciliation of Defined Benefit Asset/(Liability)	June 30, 2006	June 30, 2005
	\$	\$
Previous Year Defined Benefit Asset/(Liability)	376,000	322,000
Net Pension (Expense)/Income for Fiscal Year	(216,000)	(120,000)
Employer Contributions	<u>226,000</u>	<u>174,000</u>
Defined Benefit Asset/(Liability)	<u><u>386,000</u></u>	<u><u>376,000</u></u>

Change in Defined Benefit Obligation over year ending:	June 30, 2006	June 30, 2005
	\$	\$
Defined Benefit Obligation at end of Prior year	2,896,000	1,870,000
Company Service Cost	239,000	166,000
Interest Cost	150,000	120,000
Plan Participant Contributions	164,000	138,000
Net Actuarial (Gain)/Loss	<u>(681,000)</u>	<u>602,000</u>
Defined Benefit Obligation at End of Year	<u><u>2,768,000</u></u>	<u><u>2,896,000</u></u>

CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2007

(Expressed in Cayman Islands Dollars)

Pensions (continued)

Change in Plan Assets over year ending	June 30, 2006	June 30, 2005
	\$	\$
Fair Value of Plan Assets at End of Prior Year	2,624,000	2,192,000
Employer Contributions	226,000	174,000
Plan Participant Contributions	164,000	138,000
Transfers Between Other Participating Entities	0	0
Expected Return on Assets (net)	193,000	166,000
Asset Gain/(Loss)	17,000	(46,000)
	<u>3,224,000</u>	<u>2,624,000</u>
Change in Unrecognized Net Actuarial Loss/(Gain)	June 30, 2006	June 30, 2005
	\$	\$
Unrecognized Net Actuarial Loss/(Gain)	648,000	0
Amortization Credit/(Cost) for Year	(20,000)	0
Liability Loss/(Gain)	(681,000)	602,000
Asset Loss/(Gain)	(17,000)	46,000
	<u>(70,000)</u>	<u>648,000</u>

Allocation of Assets

The Distribution of the Plan Assets, at 30 June 2005 and 2006, based on the share of the total Fund allocated to the Authority was as follows: -

	June 30, 2006	June 30, 2005
	%	%
Global Equities	58.73	47.76
US Equities	0	0
Bonds	36.97	37.86
Other	3.72	3.84
Cash	0.58	4.61
Cash - Term Deposits	0	5.93

Actuarial Assumptions

The principal Actuarial Assumptions used to Determine Benefit Obligations at June 30, 2006 and 2005 are as follows:

	June 30, 2006	June 30, 2005
	%	%
Assumptions		
1. Discount Rate	6.25	5.25
2. Rate of salary increase	4.00	4.00
3. Rate of Price Inflation	2.50	2.50
4. Rate of pension increases	2.50	2.50

**CAYMAN ISLANDS MONETARY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2007
(Expressed in Cayman Islands Dollars)

Pensions (continued)

The principal Actuarial Assumptions used to Determine Net Periodic Benefit Cost for the Year ending June 30, 2006 and 2005 are as follows:

	June 30, 2006	June 30, 2005
	%	%
Assumptions		
1. Discount Rate	5.25	6.50
2. Expected long-term Return on Plan Assets	7.00	7.00
3. Expected long-term Return on reimbursement rights	0.00	0.00
4. Rate of Salary increase	4.00	4.00
5. Rate of Price Inflation	2.50	2.50
6. Rate of Pension Increases	2.50	2.50

Other Assumptions –

1. Mortality – Standard U.S. mortality rates
2. Retirement Age – completion of age 57 and 10 years of service

Asset Valuation – Fair (Market) Value

11. Financial Instruments

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

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

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

CAYMAN ISLANDS MONETARY AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2007

(Expressed in Cayman Islands Dollars)

12. Related Party Transactions

The Board of Directors of the Authority is appointed by the Governor and consisted of the Managing Director and nine directors as of 30 June 2007.

The following Government departments/entities provided services to the Authority during 2006-7:

- i) Audit Office at a cost of \$38,000 (2005-6: \$35,000)
- ii) Internal Audit Office
- iii) Cayman Islands Investment Bureau
- iv) Computer Services Department
- v) Legal Department
- vi) Public Service Pension Board (see Note 10)
- vii) Public Works Department
- viii) Department of Environmental Health
- ix) Royal Cayman Islands Police Services

The Authority acts as the Government's custodian of the Cayman Islands currency as well as collector of the annual license fees and issuer of licenses relating to the financial industry. These services form a part of the outputs purchased by Government.

The Authority's main source of revenue is from the sale of its Outputs to the Cabinet of the Government of the Cayman Islands, which is used to cover the Authority's recurrent expenditure. In 2005-6 a grant from the Government funded the Authority's capital expenditure. In the 2006-7 the Authority's capital expenditure was funded from the Capital Expenditure Reserve, which was created from an allocation of the June 2006 surplus. At the end each financial year the Authority contributes to the Government the net operating surplus after fulfilling Reserve requirements.

13. Additional Bank Accounts

The Authority maintains an interest bearing account with another local bank established to receive a draw down on Letter of Credit as a consequence of default by an insurance company. By virtue of Section 7(1) of the Insurance Law (2004 Revision) every insurance company carrying on domestic business in the Cayman Islands must have funds set aside for liability support to their policyholders in the event the company defaults on its financial obligations in this jurisdiction. This account is also in the name of the Authority but is not included as a part of the Authority's assets.

The account balance was \$1,617,338 as at 30 June 2007 (June 30, 2006: \$1,582,576). In accordance with instructions issued by the Grand Court of the Cayman Islands on August 9, 2007, this account in the amount of \$1,621,757 was closed and the funds handed over to the Joint Official Liquidators on August 15, 2007.