Public Service Pensions Board

Annual Report for the Year Ended 30 June, 2010

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BOARD OF DIRECTORS
AS AT 30 JUNE 2010

BOARD OF DIRECTORS

Hon. Kenneth Jefferson JP
Financial Secretary
Chairman

Mrs. Sonia McLaughlin JP
Deputy Financial Secretary
Deputy Chairman

Mrs. Jewel Evans Lindsey
Managing Director

Mr. Franz Manderson
Chief Officer, Portfolio of Internal & External Affairs

Mr. James Watler
President, Civil Service Association

Mr. Wayde Bardswell
Crown Counsel, Legal Department

Mr. Leonard N. Ebanks JP
Private Sector Representative

Mr. Eric Crutchley MBE
Private Sector Representative

Mr. Kirkland Nixon MBE, QFSM, JP
Pensioner's Representative

Ms. Bethany Powery
Executive Secretary to the Board

SENIOR MANAGEMENT TEAM AS AT 30 JUNE 2010

Mrs. Jewel Evans Lindsey
Managing Director

Ms. Kimberley Davis, CPA
Deputy Managing Director (Designate)

Mr. Richard Moody, A.P.M.I.
Director, Plan Administration Department

Ms. Faith Ebanks, CPA
Director, Financial Reporting

Mrs. D. Melanie Ebanks-Jackson, MBA
Technical Director, Plan Administration Department

Mrs. Joanna Virtue-Markman, MBA
Senior Manager, Human Resources & Operations

Mr. Barton Solomon
Senior Manager, Financial Reporting

Mrs. Jewel Bodden
Senior Manager, Plan Administration Department

EXTERNAL ADVISORS AS AT 30 JUNE 2010

Professional Services

Actuary

Subramanian Sundaresan
In-house Actuary

Auditor

Cayman Islands Audit Office
Grand Cayman
Cayman Islands

Investment Managers

Morgan Stanley Investment Management
London, England
U.K.

Western Asset Management
Pasadena, California
U.S.A.

ING Clarion Real Estate Securities
London, England
U.K.

GMO
Boston, Massachusetts
U.S.A

PIMCO
Newport Beach, California
U.S.A

Attorneys

Pillsbury Winthrop Shaw Pittman, LLP
New York, NY
U.S.A.

Legal Department
C I Government
Grand Cayman
Cayman Islands

Custodian

RBC Dexia
Toronto, Ontario
Canada

Investment Advisors

Advisory Capital Group
Toronto, Ontario
Canada

Managing Director & Chairman of the Board's Message

The fiscal year ended 30 June, 2010 was one of the most trying periods for the Government of the Cayman Islands in recent memory. As the impact of the global recession began to take a serious toll on the Cayman Islands economy, budget cuts and salary reductions were experienced by all. The PSPB was no exception to this rule and all staff endured a 3.2% salary cut which will officially come into effect during the first month of the fiscal year ending 30 June, 2011. Despite salary cuts and other budgetary reductions the PSPB continued to work as hard as ever to ensure that the Fund performed to its potential.

The most significant move that the PSPB made this fiscal year in its efforts to bolster the Fund's performance was to hire PIMCO in January, 2010 and GMO in April, 2010 to manage our Fixed income holdings and global equities respectively. Both managers are well accomplished and highly respected amongst their peers, and the PSPB is confident that overall returns will be positively affected by the influence of these two managers on our portfolio.

The Fund experienced mostly positive overall returns, particularly during the 2nd quarter of 2010 when the Fund's value added was a positive 1.6% and the 1-year value added was substantially positive at 5.2%. On a relative basis, the Fund's performance ranked at the 40th percentile rank for the quarter and at the 12th percentile rank for the 1-year period.

Longer term, being the 4-year period, the Fund's relative ranking was at the 5th percentile rank while the Fund's long term risk return trade-off was moderate and well above the norm when measured against a peer universe sample of about 97 pension funds.

While the present position of the Fund is quite positive the longer term outlook appears to be even brighter and the PSPB is quite optimistic about where the Fund is situated considering that the global recession has still not been overcome.

Managing Director | **Chairman**

OVERVIEW OF THE PUBLIC SERVICE PENSIONS BOARD

Background Information

The Public Service Pensions Board (the Board) was re-established as a Statutory Authority on 14 April 1999, by virtue of the Public Service Pensions Law, 1999, which was revised in 2004. The Public Service Pensions Law (2004 Revision) (the Law) repealed the Pensions Law (1999 Revision) and with its amendments governs the Public Service Pensions Plan (the Plan). The head office of the Board is located at Cricket Square, Century Yard Phase 3, on Elgin Avenue in George Town. Responsibilities of the Board include but are not limited to, administering the Plans, investing the Public Service Pensions Fund (the Fund), communicating with the Plan employers and participants, recommending contribution rates in accordance with the latest actuarial valuation, and recommending amendments to the Plans and quantifying their financial impact as needed. The main functions of the Fund are to receive prescribed contributions, invest and pay out pension benefits as they become due under the Law. The Fund is vested in the Board.

The Fund has a defined benefit and a defined contribution component. All employees who joined the Plan prior to 14 April 1999 were enrolled in the Defined Benefit Part of the Plan. Those employees joining after 14 April 1999 were enrolled in either one of the two components depending on their circumstances. The Public Service Pensions (Amendment and Validation) Law, 2000 which was passed on 20 June 2000 amended the date after which all new employees were to be enrolled in the Defined Contribution Part of the Plan to 1 January 2000.

Contribution Rates

Employees who participate in the Plan contribute at the rate of 6% of pensionable earnings and employers contribute a matching 6%. Contribution rates to cover additional defined benefit costs are recommended by the Board based on the latest Actuarial Valuation. This additional defined benefit cost largely reflects the eventual liability of benefits related to the past service at the valuation date. The full liability for additional defined benefit costs is borne by each respective employer

Payment of Benefits

The Law provides for payment of retirement benefits to eligible participants. The normal retirement age is 60. However, participants with more than 10 years of qualifying service may retire at age 55 with unreduced benefits. The maximum amount of pension payable shall not exceed two-thirds of highest pensionable earnings drawn by a participant at any time during the course of his/her service. The formula used to calculate retirement benefits varies depending on whether the participant joined the service before or after 10 July 1980, with a higher rate of benefit accrual to those who commenced service before that date.

OTHER PLANS UNDER ADMINISTRATION

Ex-Gratia Pensions

The Board administers the payment of *Ex-Gratia* Pensions on behalf of the Cayman Islands Government under Section 6(1)(i) of the Public Service Pensions Law (2004 Revision), the Public Service Pensions (*Ex-Gratia* Pensions*)* Regulations 2004 and the Public Service Pensions (*Ex-Gratia* Pensions) *(*Amendment*)* Regulations 2009, which cover these transitional provisions. The *ex-gratia* recipients are former Caymanian civil servants over the age of 60, who were not in receipt of any pension, allowance, gratuity or other retirement or termination benefit. Those with an aggregate of four or more years but less than 10 years of service receive an *ex-gratia* pension of $200 per month. Those with 10 or more years of service received an *ex-gratia* pension of $300 per month. It should be noted that these payments have been changed to $300 and a minimum of $450 respectively for *ex-gratia* pensioners approved after the change in legislation in May 2009, however *ex-gratia* payments are not subject to increase for cost of living nor augmented annually across the board.
The Government makes a quarterly pre-payment into the Fund to cover the expected payments for *Ex-Gratia* Pensions for each quarter.

The Board does not charge a fee for the administration of the *Ex-Gratia* Pensions.

Parliamentary Pension Plan

The Elected Members of the Legislative Assembly participate in the Parliamentary Pensions Plan (the PPP) as governed by the Parliamentary Pensions Law, 2004 (the PPL). These members contribute at a rate of 6% of pensionable earnings and the Government contributes 95% as prescribed by the 1 January 2005 actuarial results. These contributions have been pooled for investment purposes with those of the Fund.

The Board began to administer the PPP with effect from 1 September 1999.

Benefits under the PPP were paid directly from the Government's General Revenue for the first eight months of 1999. For the remainder of 1999, the Government made quarterly pre-payments to the Fund to cover the payment of PPP pensions. This "pay as you go" arrangement continued until the passage of the amendment to the PPL in August 2004, which mandated that the payment of parliamentary pensions be made from the Fund. Under this new arrangement monthly pension contributions are made to the Fund in accordance with the latest Actuarial Valuation.

Judicial Pension Plan

Judges of the Grand Court of the Cayman Islands participate in the Judicial Pensions Plan (JPP). Judges' pensions fall under the remit of His Excellency the Governor as set out in The Judges' Emoluments and Allowances Law (2006 Revision). Members of the JPP contribute at a rate of 10% of pensionable earnings; the Government contributes a matching 10% and an additional 31% of pensionable earnings in accordance with the 1 January 2005 actuarial valuation. The assets duly belonging to the Judges of the Grand Court are under the administration of the Board and pooled with the assets of the other Plans for investment purposes.

The JPP started in 1997, notwithstanding the absence of the requisite order setting out Plan details and specifics relating to administration of the Plan. The Judges Emoluments and Allowances Order was effected by His Excellency the Governor in 2005.

FINANCIAL OVERVIEW

Growth of the Fund

The Public Service Pensions Fund (the "Fund") continues to be in relatively good financial health. The Fund holds a diversified portfolio of bonds and equity securities that, over the long term, provides above average returns with minimized variability.

The Fund is subject to an actuarial valuation every three years which assesses the financial viability of the Fund, and the adequacy of the contribution rates for funding of the Plan. The Board also uses the results of funding valuations as the basis for recommendations regarding contribution rates. An actuarial valuation was carried out 2008 based on assets and liabilities as at 1 January 2008.

The results of the actuarial valuation as at 1 January 2008 determined the past service liability to be $456 million. The calculation is made based on pensionable earnings as of the valuation date and reflect the liability in respect of benefits actually earned up to 31 December 2004. Although the Fund remains underfunded, the actuaries determined that the liability for inactive members (existing pensioners and beneficiaries, and those with deferred pensions) is sufficiently covered by available assets. It should be noted that the full liability for additional defined benefit costs is borne by each respective employer.

As at 30 June 2010, the Fund (inclusive of foreign and local investments) stood at just over $264.6 million, which represents a $26.9 million or 11.3% increase from 30 June 2009.

Investment Policy

The stated investment objective of the Board is "To preserve capital while adding value above its policy benchmark." The Board is committed to the investment objective, and has actively managed investment portfolios which are diversified, within the constraints of the Law as well as the Board's investment policy, to ensure that risk is not unduly concentrated in any one type of investment or area of currency. The Board adheres to internationally recognized benchmarks, and has established an asset mix policy, in collaboration with its investment advisors, for the purpose of achieving long-term returns of 3–4% above inflation. The asset mix policy establishes the percentage holdings by asset class and permissible ranges within the broad classes of investments. Within this framework, each investment manager is not limited by sector or country restrictions and is able to make discretionary decisions to capitalize on market opportunities. The Fund is biased to equities over the long term in order to achieve optimum returns. Equities, when compared to other classes of investments over the long term, have historically proven to generally outperform other forms of investments.

Market Summary

Global Equities

Over the 2nd quarter, global equity markets retraced the positive returns achieved over the first quarter and ended the period under review in negative territory. Returns from both global equity managers were sizably negative with IFP generating a negative 10.6% return and GMO recording a larger negative at 12.3%. Notwithstanding the negative returns, strong value added was generated by IFP as the manager's return was ahead of its benchmark return by 2.1% (GMO's value added over the quarter was marginally negative). Over the 1-year period, IFP global equities earned a return of 18.7% and generated a value added ahead of its benchmark of 8.5%. Longer term, being the 4-year period, value added is approaching 7.0% for the global equity segment.

The slowdown in global growth represented a headwind for equities over the 2nd quarter. However, a sharp and sustained slowing is not expected as corporate earnings growth should remain firm (analyst consensus estimates point to a 30% year-over year for 2010 earnings). Therefore, global equities continue to offer attractive investment opportunities, particularly as reasonably attractive valuations continue to exist across many equity markets and sectors.

Fixed Income

For the period ending June 30, 2010, investors became more defensive on the view that growth would decelerate causing the broader bond market to rally by 3.5%. The bond manager's performance lagged the benchmark index by 1.1% for the quarter, recording a return of 2.4%. Longer term, however, returns for the year-over-year performance were strongly positive at 11.8% with value added at a positive 2.3%.

Bonds rallied further on a more subdued outlook for higher interest rates from central banks, the European sovereign debt crisis, fears of an economic double dip in the United States and global equity market volatility which culminated in investors fleeing to the safety of bonds. In the United States, economic data was mixed. On the positive side, industrial production jumped 1.2% in the month of June, contributing to a sharp 1.6% rise in the rate of capacity utilization. In addition, consumer confidence was at or near 2-year highs. On the weaker side, new home sales plummeted 33% following the end of the tax credit for first time buyers, and starts of new homes fell 10% from already depressed levels.

Real Estate Equities

After a year of solid gains, real estate equity prices stalled mid second quarter 2010, as global financial markets responded to the sovereign debt issues in Europe and concerns over the state of economic recovery in both the US and foreign markets. The broad real estate market index fell 7.7% over the 2nd quarter, erasing the year-to-date gains but still leaving the performance over the year strongly positive at 25.2%. However, ING Clarion's performance fell short of the index by 1.6% over the 2nd quarter ending June 30, 2010. Similarly, over the 1-year period, the manager's return is lagged the broader index by 5.9% although absolute performance was strongly positive at an impressive 19.3%.

There are, however, some macro risks. Wide speculation exists that the large global real estate debt market, which approximates $6.4 trillion, will experience massive write downs. The issue is that, over the period of 2010 to 2012, approximately $2.7 trillion of debt is expected to mature (there is about $350 billion of existing distressed debt globally). If a lack of new debt financing were to force real estate of this magnitude onto the market, it could cause a new round of real estate value declines. However, a crisis is unlikely as there is sufficient information to confirm that expiring debt loans are performing and well collateralized, and therefore likely to be refinanced, with very little new equity being required.

Fund Performance

Generally, pension plans ended their run of positive quarters with a negative return of 6.5% for the 2nd quarter. This is the first negative quarter recorded since the first quarter of 2009. However, the 12-month median return still remains positive at 12.9%. During the second quarter, 2010 negative returns also experienced across all the major equity sectors, however, despite the 1,000 points drop in the global equity indices between the beginning of May and the end of June, 2010, along with fiscal developments in Europe including the slowing of the U.S. economy (especially now that the home buyer's tax credit in the US has expired), a double dip appears unlikely.

Faltering global equity markets during the second quarter, 2010 also contributed to a decline in the PSPB Fund returns. The PSPB Fund generated a negative return of 6.1% over the quarter however, positive returns for the previous 3-quarters resulted in the Fund producing a positive return of 15.9% over the 1-year period ending June 30, 2010.

Credited Rate of Return

The Credited Rate of Return (CRR) on contributions, calculated annually, is based on a three-year geometric average of actual returns, net of expenses, which amounted to a negative -0.49% for calendar 2009. As a result all participant contribution accounts would have been credited at calendar year end with an interest base of -0.49%. Table 1 indicates the CRR earned for the period 2003 to 2009 expressed in percentages.

Table 1

Year	2003	2004	2005	2006	2007	2008	2009
Return	8.10	4.40	7.85	12.78	4.40	-15.56	11.77
CRR	-1.20	2.32	6.77	8.29	8.29	-0.41	-0.49

APPENDIX 1

Copy of Public Service Pensions Board Certified Financial Statements and Notes for the year ended 30 June 2010

Public Service Pensions Board

Financial Statements

June 30, 2010

PUBLIC SERVICE PENSIONS BOARD

FINANCIAL STATEMENTS

JUNE 30, 2010

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Public Service Pensions Board
Financial Statements
30 June 2010

STATEMENT OF RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

These financial statements have been prepared by the Public Service Pensions Board in accordance with the provisions of the *Public Management and Finance Law (2005 Revision)*.

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the *Public Management and Finance Law (2005 Revision)*.

As Chairman and Managing Director, we are responsible for establishing; and have established and maintain a system of internal controls designed to provide reasonable assurance that the transactions recorded in the financial statements are authorised by law, and properly record the financial transactions of the Public Service Pensions Board.

As Chairman and Managing Director we are responsible for the preparation of the Public Service Pensions Board financial statements and for the judgements made in them.

The financial statements fairly present the statement of net assets available for benefits, statement of changes in net assets available for benefits and statement of cash flows for the financial year ended 30 June 2010.

To the best of our knowledge, we represent that these financial statements:

(a) are completely and reliably reflect the financial transactions of Public Service Pensions Board for the year ended 30 June 2010;

(b) fairly reflect the financial position as at 30th June 2010 and performance for the year ended 30th June 2010;

(c) comply with International Financial Reporting Standards under the responsibility of the International Accounting Standards Board.

The Office of the Auditor General conducts an independent audit and expresses an opinion on the accompanying financial statements. The Office of the Auditor General has been provided access to all the information necessary to conduct an audit in accordance with International Standards of Auditing.

Kenneth Jefferson, JP
Chairman
Public Service Pensions Board

Date: Nov 2/11

Jewel Evans Lindsey
Managing Director
Public Service Pensions Board

Date: Nov 2/11

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CAYMAN ISLANDS

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Grand Cayman, Cayman Islands

Auditor General's Report

To the Board of Directors of the Public Service Pensions Board

I have audited the accompanying financial statements of the Public Service Pensions Board (the "Board") which comprise the Statement of Net Assets Available for Benefits as at 30 June 2010, Statement of Changes in Net Assets Available for Benefits and the Statement of Cash Flows for the year then ended, a Statement of Accumulated Plan Benefits as at 30 June 2010 and a summary of significant accounting policies and other explanatory notes as set out on pages 5 to 30 in accordance with the provisions of Section 11(3) of the *Public Service Pensions Law (2004 Revision)* and Section 52 (3) of the *Public Management and Finance Law (2010 Revision)*.

Management's Responsibilities for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control 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 appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
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 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 and 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 Public Service Pensions Board as at 30 June 2010 and the results of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matters

Without qualifying my opinion, I draw attention your attention to the following:

1. The *Public Service Pensions Law (2004 Revision), Parliamentary Pensions Law, 2004* and *The Judges' Emoluments and Allowances Order, 2005* separately state that

   > *"...the Board shall prepare and submit to the Auditor General in respect of that year a balance sheet and a statement of revenue and expenditure by the Board during the year; and such other financial statements as may be required..."*

   The Public Service Pensions Board pooled the Funds of each of the Plans into one set of financial statements, and did not identify or disclose the investments and administrative expenses for each Fund.

   The management of the Public Service Pensions Board stated: *"the Passage of the Parliamentary Pensions Law in 2004 created the unintended effect of requiring the Board to prepare and maintain a distinct and separate set of financials for the Parliamentary Pensions Fund."*

   I believe that the intent of these laws was to have separate reporting of financial information for each Fund. Section 9 (3) of the *Parliamentary Pensions Law, 2004* and *The Judges' Emoluments and Allowances Order, 2005* and Section 11(3) of the *Public Service Pensions Law (2004 Revision)*, clearly details the Auditor General's requirements in relation to each Fund specifically. These responsibilities imply that my Office is required to give an opinion on separate sets of financial statements that disclose separately the assets, liabilities and operations of each fund.

2. The preparation of these financial statements did not comply with the requirements of the *Public Management and Finance Law (2010 Revision)* under the following sections:

   Section 4: the financial statements are to be prepared in accordance with International Public Sector Accounting Standards. The Public Service Pensions Board presented the financial statements in accordance with International Financial Reporting Standards and were audited to those Standards. In my opinion, I do not believe there would be a material difference in the presentation and accounting of the financial transactions of the Public Service Pensions Board.

Section 52: annual financial statements are to be prepared, submitted to the Auditor General for auditing, and included in an annual report that is required to be presented to the Legislative Assembly four months and two weeks after the end of the financial year. In this case, the Public Service Pensions Board did not submit its information in the timeframe required, to be in compliance with the Law.

3. The 2008 Actuarial Valuation Report which was completed on March 2009 and submitted to the Financial Secretary on April 2009 has not been accepted and approved as at the date of this report. This contravenes *Section 3 of Public Service Pensions (Amendment) Law, 2004* which states that:

> "After receiving a report under subsection (3) the Financial Secretary shall submit the report to the Governor and the Governor, shall either accept the report and approve, by regulations, the changes to the contribution rates recommended by the Board; or within 90 days of receiving the report, cause its own actuarial valuation to be carried out if it determines that there is good reason to do so."

Alastair J. Swarbrick, MA (Hons), CPFA
Auditor General

Cayman Islands
02 November 2011

Public Service Pensions Board
Statement of Net Assets Available for Benefits
As at 30 June 2010
(Expressed in Cayman Islands Dollars)

	2010 $ 000	2010 $ 000	2009 $ 000	2009 $ 000
ASSETS				
Current Assets				
Cash and Cash Equivalents (Note 3)				
Cash	6,317		1,388	
Term Deposits	8,429	14,746	5,888	7,276
Investments, at Fair Market Value (Note 4)		264,564		237,691
Receivables				
Contributions Receivable				
Employer's contributions	925		2,202	
Employer's - Additional Defined Benefit Costs	4,109		3,786	
Employee's contributions	925		451	
Pension Grants receivable				
Parliamentarian Grants Receivable (Note 8)	(131)		(131)	
Judiciary Grant Receivable (Note 10)	62		62	
Ex-gratia Grants Receivable (Note 8)	(186)		(272)	
Operating Grant Receivable	750		300	
Other Receivables	763	7,217	598	6,996
Prepayments				
PSP Fund Surplus	81		81	
Prepaid Expenses	-	81	-	81
Non-Current Assets				
Fixed Assets, Net (Note 5)		188		315
Total Assets		286,796		252,359
LIABILITIES				
Current Liabilities				
Investment Management Fees	278		15	
Accounts Payable	530		514	
Overpaid Contributions (Note 6)	1,745		1,745	
Benefits Due (Note 14)	438	2,991	438	2,712
Non-Current Liabilities				
Due in Respect of Judiciary Contributions (Note 10)	2,408		1,689	
Capitalized Government Grant (Note 12)	-	2,408	-	1,689
Total Liabilities		5,399		4,401
Net Assets		281,397		247,958
Represented by				
Net Assets Available for Benefits				
Accumulated Fund		281,397		247,958

Signed on behalf of the Public Service Pensions Board on Nov 2 2011.

Kenneth Jefferson, JP
Chairman

Jewel Evans Lindsey
Managing Director

The Notes to the Financial Statements on pages 9 to 30 form an integral part of these financial statements

Public Service Pensions Board
Statement of Changes in Net Assets Available for Benefits
For the Year Ended 30 June 2010
(Expressed in Cayman Islands Dollars)

	2010 $ 000	2009 $ 000
Pensions		
Contributions		
Employers	13,109	13,509
Employers' - Additional Defined Benefit Cost (Note 7)	2,619	14,643
Employees	13,330	13,655
Total	29,058	43,256
Late payment penalty income	61	145
Pre-Funded Pensions in Payment (Note 8)		
Parliamentarian Pensions	-	-
Judicial	-	35
Ex-Gratia Pensions	378	447
Total Contributions	**29,497**	**43,883**
Benefits paid to participants (Note 11)		
Public Service Pensions	(24,582)	(20,234)
Parliamentarian Pensions	(1,689)	(1,076)
Ex-Gratia Pensions	(307)	(283)
Judicial	43	(43)
Total Benefits paid to participants	**(26,535)**	**(21,636)**
Net Pensions	**2,962**	**22,247**
Investing		
Investment Income		
Gain (Loss) on Sale of Investments (Note 4d)	38,398	390
Dividends Earned on Investments	3,389	2,251
Realized Gain (Loss) on Foreign Exchange	1,385	-
Unrealized (Loss) on Foreign Exchange	193	110
Interest Earned on Term Deposits and Call Accounts	48	115
Interest Earned on Investments	(3)	(2)
Unrealized (Loss) on Investments	(7,661)	(14,170)
Total Investment Income (Loss)	**35,749**	**(11,306)**
Investment Expenses		
Investment Management and Custodial Fees (Note 17)	(1,986)	(1,433)
Interest Attributable to Judiciary Contributions (Note 10)	(233)	-
Other Investment Expenses	(5)	(107)
Total Investment Expenses	**(2,224)**	**(1,539)**
Net Investment Income (Loss)	**33,525**	**(12,846)**
Operating		
Operating Income		
Government Grant (Note 12)	600	661
Gain (Loss) on Sale of Fixed Assets	-	(108)
Other Income	219	433
Total Operating Income	**819**	**986**
Operating Expenses		
Administrative Expenses (Note 13)	(3,462)	(3,125)
Write back of accounts receivable	(205)	-
Depreciation - Fixed Assets (Note 2, 5)	(200)	(299)
Total Operating Expense	**(3,867)**	**(3,424)**
Net Operating Loss	**(3,048)**	**(2,438)**
Net increase in assets	**33,439**	**6,963**
Net Assets Available for benefits at start of year	**247,958**	**240,995**
Net Assets Available for benefits at end of year	**281,397**	**247,958**

The Notes to the Financial Statements on pages 9 to 30 form an integral part of these financial statements.

Public Service Pensions Board
Statement of Cash Flows
For the Year Ended 30 June 2010
(Expressed in Cayman Islands Dollars)

	2010 $ 000	2009 $ 000
Cash flows from operating activities		
Contributions received from employees	13,570	14,413
Contributions received from employers	13,587	14,293
Benefits Paid to Participants - Public Service	(24,581)	(20,234)
Benefits Paid to Participants - Parliamentarian	(1,689)	(1,076)
Benefits Paid to Participants – ExGratia	(307)	(284)
Net Investment Income Received	57	147
Other Income Received	287	553
Administrative Expenses Paid	(3,450)	(2,942)
Investment Management Fees and Other Expenses Paid	(1,316)	(1,736)
Net cash provided by operating activities	**(3,842)**	**3,709**
Cash flows from investing activities		
Purchase of investments	(258,391)	(21,109)
Proceeds from sale and maturity of investments	266,724	-
Purchase of Fixed Assets	(73)	(423)
Net cash applied to investing activities	**8,260**	**(21,532)**
Cash flows from financing activities		
Contributions received from employers - Additional Defined Benefit	2,428	14,176
Pensions in Payment Grant - Parliamentarian	-	2,981
Ex-gratia Grant and Prepaid Ex-gratia Grant	291	491
Net cash received from financing activities	**2,719**	**17,648**
Cash flows from judiciary contributions		
Contributions received from employees	78	-
Contributions received from employer	209	38
Benefits Paid to Participants	46	(42)
Interest Attributable to Judiciary Contributions	-	-
Net cash received from judiciary contributions	**333**	**(4)**
Net increase / (decrease) in cash and cash equivalents	7,470	(179)
Cash and cash equivalents at beginning of year (Note 3)	7,276	7,455
Cash and cash equivalents at end of year (Note 3)	**14,746**	**7,276**

The Notes to the Financial Statements on pages 9 to 30 form an integral part of these financial statements.

Public Service Pensions Board
Statement of Accumulated Plan Benefits
As at 30 June 2010
(Expressed in Cayman Islands Dollars)

	2009 $ 000	2009 $ 000
Actuarial present value of accumulated plan benefits		
Inactive and Active Participants	(456,329)	(456,329)
Total Actuarial present value of accumulated plan benefits	(456,329)	(456,329)
Fund's Net Assets Available for Benefits at the Valuation Date	281,602	247,958
Fund Deficit	(174,727)	(208,371)

Public Service Pensions Board
Notes to the Financial Statements
For the year ended 30 June 2010

1. Introduction and Background Information

a. Introduction

The Public Service Pensions Board (the "Board") was re-established as a Statutory Authority on 14 April 1999. Principal place of business is Smith Road Centre, 154 Smith Road, Grand Cayman, Cayman Islands. The Board's responsibilities include, but are not limited to, administering the Public Service Pensions Plan (the "Plan"), investing all contributions received from public sector employers and employees into the Fund, making pension benefits as required under the Law, communicating with the plan employers and participants, recommending contribution rates to the Government in accordance with the latest actuarial valuation and determining the financial implications of any amendments to the Plan. The Public Service Pensions Law (2004 Revision) (the "Law") is the law governing the Fund. The Board is responsible for, amongst other things, administering the Public Service Pensions, Parliamentary Pensions, Judicial Pensions and Ex-Gratia Pension Plans and investing all contributions received into the Fund.

b. General Background Information

The Public Service Pensions, the Parliamentary Pensions and the Judicial Pensions Plans consist of two parts: a defined benefit part and a defined contribution part. All employees who joined the Plan prior to 14 April 1999 were enrolled in the Defined Benefit Part of the Plan. Those employees joining after 14 April 1999 were enrolled in either one of the two parts depending on their circumstances. The Public Service Pensions (Amendment and Validation) Law, 2000 which was passed on 20 June 2000 amended the date after which all new employees were to be enrolled in the Defined Contribution Part of the Plan to 1 January 2000. Those employees receiving Contracted Officers Supplement (COS) are exempted from participation in the Plan through the Public Service Pensions (Amendment and Validation) Law, 2000. However, when existing contracts are renewed, employees will no longer be in receipt of COS and will be eligible join the defined contribution part of the Plan.

1. Introduction and Background Information (continued)

c. Contributions

Employees who participate in the Plan contribute at the rate of 6% of pensionable earnings and employers contribute a matching 6%. Contribution rates to cover additional defined benefit costs were prescribed by the Board based on the 1 January 2005 and 1 January 2002 actuarial results and were as follows:

	2005		2002	
	Defined Benefit*	Defined Contribution	Defined Benefit*	Defined Contribution
Cayman Islands Government (See note 21)	28.53%	1.00%	10.00%	1.00%
Cayman Islands Monetary Authority	1.00%	1.00%	1.00%	1.00%
Cayman Turtle Farm (1983) Ltd.	9.44%	1.00%	10.00%	1.00%
Civil Aviation Authority	26.10%	1.00%	10.00%	1.00%
University College of the Cayman Islands	3.99%	1.00%	3.99%	1.00%
Public Service Pensions Board	1.00%	1.00%	10.00%	1.00%
Water Authority	9.57%	1.00%	0.26%	1.00%
Cayman Islands Airport Authority	13.14%	1.00%	N/A	1.00%
Health Services Authority	1.00%	1.00%	N/A	1.00%
National Roads Authority	2.24%	1.00%	N/A	1.00%
Cayman Islands Development Bank	17.11%	1.00%	N/A	1.00%
Cays Foundation	12.31%	1.00%	N/A	1.00%
National Housing Development Trust	N/A	1.00%	N/A	1.00%
Information & Communication Technology Authority	N/A	1.00%	N/A	N/A

* The full liability for additional defined benefit costs will be borne by each respective employer.

Contribution rates for the additional defined benefit costs are based on pensionable earnings as of the valuation date and reflect the following:

i. with respect to the defined contribution participants, the cost of certain benefits provided that are of a defined benefit nature;

ii. with respect to the defined benefit participants, the excess over 12% of pensionable earnings, of the normal benefit accrual cost plus the annual cost of meeting the unfunded past service liabilities.

1. Introduction and Background Information (continued)

Additional employers have joined the Public Service Pensions Plan as a result of the increasing number of Statutory Authorities being established by the Government. It was not possible to determine an appropriate additional defined benefit rate for the newer authorities as they have not been subject to an actuarial valuation.

An interim rate of 1% was applied to all authorities during 2004 and 2005. New rates will be prescribed based on the 2008 actuarial valuation.

d. Investment Policy

The investment objective of the Board is for the Fund to earn returns that will, in conjunction with the financing plan, result in it becoming fully funded or self-sustaining. The investments are diversified within the constraints of the Law to ensure that risk is not unduly concentrated in any one type of investment or area of currency. The Board has established an Asset Mix Policy in collaboration with its investment managers with a goal to achieve long-term returns 3-4% above inflation. The Asset Mix Policy indicates the policy and permissible ranges for broad classes of investments. In the longer term the investment portfolio will have a bias to equities because these have been shown to provide a greater return when compared to other classes of investments.

2. Significant Accounting Policies

These financial statements are prepared on a going concern basis under the historical cost convention and in accordance with International Financial Reporting Standards and present the aggregate financial position of the Fund as a separate financial reporting entity independent of the plan sponsors and plan participants. They are prepared to assist participants and others in reviewing the activities of the Fund for the fiscal period, but they do not portray the funding requirements of the Plan or the benefits security of individual plan participants.

2. Significant Accounting Policies (continued)

The significant policies adopted by the Board are as follows:

Contributions: Contributions are accounted for on the accrual basis. Actuarial Valuations with an effective date of 1 January 2008 were conducted for three separate Plans; the Public Service Pensions Plan, the Parliamentary Pensions Plan and the Judiciary Pensions Plan. These Actuarial Valuation Reports were completed on 17 March, 2009 and submitted to the Financial Secretary on 28 April 2009. As the Cabinet has not yet accepted and approved the 2008 report and the recommended rate of contributions contained therein, Contributions Received and Contributions Receivable are based on the 2005 Actuarial Valuation which was accepted by the Board, approved by Cabinet, and tabled in the Legislative Assembly on 9 November 2006.

Investments: Investments are stated at their fair market value at the date of the Statements of Net Assets Available for Benefits. Realised and unrealised gains and losses are recognised in the Statements of Changes in Net Assets Available for Benefits.

Investment Income: Investment income is accounted for on the accrual basis.

Fixed Assets: Fixed assets are initially recorded at cost. Subsequently amortization is computed per annum on a straight line basis as follows:

Furniture and Fixtures	10%
Computer Equipment and Software	20%
Office Equipment	20%
Vehicle	25%
Leasehold Improvements	16.67 – 33%

Foreign Currency Transactions: Transactions in foreign currencies, other than US Dollars, are translated at the rate of exchange prevailing at the date of the transaction. Transactions in US Dollars are translated at the rate of US$1.20 = CI$1.00. Assets and liabilities denominated in foreign currencies are translated at the rate prevailing at the date of the Statement of Net Assets Available for Benefits. Exchange gains and losses are recognised in the Statement of Changes in Net Assets Available for Benefits.

3. Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of bank balances and term deposits maturing within one year from the financial statement date.

	30 June 2009	30 June 2009
Cash:	$ 6,316,687	$ 1,388,119
Term Deposits:	8,428,801	5,888,333
Total	$14,745,888	$ 7,276,452

The detail of the term deposits at Cayman National Bank is shown below:

Account Number	Principal	Value Date	Maturity Date	Interest Rate
TD-023-07804	$ 8,373,729	May 19/10	July 19/10	0.5000%
TD-013-06149	55,072	June 7/10	Dec 7/10	0.1250%
Total	$ 8,428,801			

4. Investments

The appointed Investment Managers manage the Fund's investments under discretionary investment agreements which conform to the list of Approved Investments detailed in the Second Schedule of the Public Service Pensions Law (2004 Revision).

Investment and Market Conditions, per Advisory Capital

a) Investment and Market Conditions[1]

The Plan (In General):

Over the 2nd quarter 2010, faltering global equity markets contributed to a decline in the PSPB Fund returns. The PSPB Fund generated a negative return of 6.1% over the quarter ending June 30, 2010. However, positive returns for the previous 3-quarters resulted in the Fund producing a positive return of 15.9% over the 1-year period ending June 30, 2010. Returns were also positive over both 3 and 5-year periods, being 1.1% and 5.7% per annum, respectively. During the 2nd quarter of 2010, returns for various equity segments were all negative and sizable.

[1] Mary Linton, CFA, "Cayman Islands Public Service Pensions Board, 'Performance Review for Periods Ending June 30, 2010'," Advisory Capital Group Canada Inc., July 30, 2010.

4. Investments (continued)

Global equities and real estate delivered negative returns within the range of 9.3% to 12.3% for the 2nd quarter, 2010. Core bonds generated a strongly positive performance of 2.4% for the quarter ending and an attractive return of 5.3% for the year-to-year period. Pension plans and institutional investors are expecting resolution of the European bank credit/liquidity issues and confirmation that the U.S. economy is growing even after manufacturers have replenished their inventories (so that it is not just an inventory-led recovery). Over the 2nd quarter, it became apparent that pension funds and institutional investors are investing more in equities than at any time since the start of the bull market.

Global Equities:

Over the 2nd quarter, global equity markets retraced the positive returns achieved over the first quarter and ended the period under review in negative territory. Returns from both global equity managers were sizably negative with IFP generating a negative 10.6% return and GMO recording a larger negative at 12.3%. Notwithstanding the negative returns, strong value-added was generated by IFP as the manager's return was ahead of its benchmark by 2.1% (GMO's value-added over the quarter was marginally negative). The slowdown in global growth represented a headwind for equities over the 2nd quarter. However, a sharp and sustained slowing is not expected as corporate earnings growth should remain firm (analyst consensus estimates point to a 30% year-over-year for 2010 earnings).

Real Estate Equities:

After a year of solid gains, real estate equity prices stalled mid-second quarter 2010, as global financial markets responded to the sovereign debt issues in Europe and concerns over the state of economic recovery in both the U.S. and foreign markets. The broad real estate market index fell 7.7% over the 2nd quarter, erasing the year-to-date gains but still leaving the performance over the year strongly positive at 25.2%. However, ING Clarion's performance fell short of the index by 1.6% over the 2nd quarter ending June 30, 2010. Similarly, over the 1-year period, the manager's return lagged the broader index by 5.9% although absolute performance was strongly positive at an impressive 19.3%.

4. Investments (continued)

The ongoing credit crisis and the ensuing market volatility served to emphasize the benefits real estate securities offer to pension plans. The case for real estate securities in terms of portfolio benefits include high liquidity, diversification potential and inflation hedging characteristics, including low transactions costs. Looking ahead, listed real estate companies look reasonably valued, profitable with portfolio write-downs having taken place.

Fixed Income:

For the periods ending June 30, 2010, investors became more defensive on the view that growth would decelerate causing the broader bond market to rally by 3.5%. The bond manager's performance lagged the benchmark index by 1.1% for the quarter, recording a return of 2.4%. Longer term, however, returns for the year-over-year performance were strongly positive at 11.8% with value-added at a positive 2.3%. Bonds rallied further on a more subdued outlook for higher interest rates from central banks, the European sovereign debt crisis, fear of an economic double dip in the U.S. and global equity market volatility which culminated in investors fleeing to the safety of bonds... In short, there was no conclusive evidence pointing to the U.S. economy falling back into recession. Instead, the double dip fears appear to be based on the future pace of growth slowing as government stimulus programs wound down (fears misplaced as there is considerable stimulus to come in the form of infrastructure spending, particularly in the U.S.).

b) Investment Returns

Total Returns to June 30, 2010
Annualized for periods exceeding 1 year

1 Month	Last 3 Months	Year-to-Date	1 Year	2 Years	3 Years	4 Years	5 years	From Inception
0.2%	-6.1%	-1.5%	15.9%	4.5%	1.1%	4.8%	5.7%	3.3%

4. Investments (continued)

c) Investment Portfolios

The investment portfolios are detailed below:

	30 June 2010		30 June 2009	
Equities	$ 151,914,062	57%	$ 109,805,008	46%
Fixed Income	104,081,708	40%	120,605,384	51%
Real Estate	8,568,678	3%	7,280,275	3%
Total	**$ 264,564,448**	**100%**	**$ 237,690,667**	**100%**

d) Realized Gains on Sale of Investments

During the year, the Board made the decision to discontinue the services of the Western Asset Management as Investment Manager and the portfolio assets were transitioned to the newly hired managers: PIMCO and GMO. Sales from the transitioning of portfolio assets resulted in realised gains of $26,019,943 or approximately 68% of the total realised gains for the year of $38,397,862. The remaining 32% of realised gains was the result of normal investment trading activities.

5. Fixed Assets

Fixed assets consist of the following components.

	Leasehold Improvements	Furniture & Fixtures	Office Equipment	Office Equipment Board	Computer Equipment	Computer Software	Vehicles	Total
Cost								
As at 01 July 2009	278,909	145,608	106,819	-	117,560	27,505	19,900	696,301
Purchased in the period	40,323	15,461	2,962	1,193	13,019	-	-	72,958
As at 30 June 2010	319,233	161,069	109,781	1,193	130,579	27,505	19,900	769,260
Accum Depreciation								
As at 01 July 2009	139,455	14,561	98,909	-	98,177	18,426	11,940	381,467
Provision in the period	159,616	16,107	5,315	239	10,655	3,851	3,980	199,763
As at 30 June 2010	299,071	30,668	104,224	239	108,832	22,277	15,920	581,231
Net Book Value								
As at 30 June 2010	20,162	130,402	5,558	954	21,746	5,228	3,980	188,029
As at 30 June 2009	139,454	131,047	7,910	-	19,383	9,079	7,960	314,834

6. Overpaid Contributions

Overpaid contributions are contributions, both employee and employer, which are paid over the amount of pension due or on behalf of employees not eligible to participate in the Plan. These overpayments are either netted with receivables or refunded at the request of the employer.

	30 June 2010	30 June 2009
Overpaid Contributions – Employer	$ 128,916	$ 128,916
Overpaid Contributions – Employee	157,880	157,880
Overpaid Contributions – Additional Defined Benefit Cost	1,458,346	1,458,346
Total Overpaid Contributions	**$1,745,142**	**$1,745,142**

7. Additional Defined Benefit payments

Additional defined benefit payments are made to reduce the past service liability of the Government for participants in the DB Plan. However, no provision was made in the 2009-2010 budget, and as a result, no additional benefit payments were made during the year.

8. Ex-Gratia and Parliamentarian/Payments

Ex-Gratia Pensions:

The Board administers the payment of Ex-gratia Pension Plan ("Ex-Gratia") on behalf of the Cayman Islands Government as set out in The Public Service Pensions (Ex-Gratia Pensions) Regulations, 2004.

Eligibility for Ex-Gratia Pension as set out by said law:

i. Any Caymanian (as defined in the Immigration Law, 2003) who-
ii. Is sixty years of age or older; or
iii. Is not sixty years of age but who has been certified by the Chief Medical Officer of the Government as being permanently disabled; and
iv. Held an office in the Public Service or the Other Public Service for any period of at least four or more years in the aggregate; and
v. During at least four years (in the aggregate) of his said service, was not entitled to a pension or did not receive a contracted officer's supplement or similar compensation.

8. Ex-Gratia and Parliamentarian/Payments (continued)

Ex-Gratia Pension Payment Actvitiy 2006-2010

Year	2005-6	2006-7	2007-8	2008-9	2009-10
Annual Grant	97,500	422,090	520,000	447,500	378,149
Annual Payments	(203,624)	(311,722)	(312,318)	(490,833)	(290,884)
Surplus / (Deficit)	(106,124)	110,368	207,692	(43,333)	87,265
Accumulated Surplus/(Deficit)	**(88,627)**	**21,741**	**229,433**	**272,766**	**185,501**

Parliamentary Pensions:

The Members of the Legislative Assembly participate in the Parliamentary Pensions Plan as governed by the Parliamentary Pensions Law, 1984 (1995 Revision) (the "Parliamentary Pensions Law"). Members contribute at a rate of 6% of pensionable earnings and employers contribute a matching 6%. An additional contribution as prescribed by the latest Actuarial Valuation,is made by the employer to cover the additional defined benefit cost associated with the plan. All contributions received are pooled for investment purposes with those of the Public Service Pensions Fund. The Board does not charge any fees for acting as administrators of the Parliamentary Pensions Plan. The Parliamentary Pensions Law provides for payment of retirement benefits to eligible members with 2 or more parliamentary terms or for periods equal in aggregate to not less than 6 years. Normal retirement age under the Parliamentary Pensions Law is 55. The maximum amount of pension payable to the Parliamentarians cannot exceed two-thirds of their highest salary earned whilst a member of the Legislative Assembly.

9. Assets Allocated to Parliamentary Pensions Fund

The Board administers the Government sponsored pension plans which consist of the Public Service Pensions Plan, Ex-gratia allowances, and the Parliamentary Pensions Plan. Historically, and in accordance with the establishment of the Fund under the Parliamentary Pensions Law (1995), the financial statements and records of the Fund have been prepared and maintained on a combined or consolidated basis.

9. Assets Allocated to Parliamentary Pensions Fund (continued)

Passage of the Parliamentary Pensions Law in 2004 created the unintended effect of requiring the Board to prepare and maintain a distinct and separate set of financial statements for the Parliamentary Pensions Fund. Section 9 of the Parliamentary Pensions Law, 2004 currently states that "the Board shall prepare and maintain financial statements relating to the Parliamentary Pensions Fund. These financial statements shall include a balance sheet, statement of revenue and expenditure, and any other financial statements as may be required."

The Parliamentary Pensions Fund, since inception, has been pooled for investment purposes with those of the larger Public Service Pensions Fund for greater investment return opportunities and to contain administrative costs, and given the fact that no administration fees were charged to the Parliamentary Pension Fund, it was never necessary to maintain separate financial records for each fund under management. Therefore, at this stage, to prepare and submit a balance sheet and statement of revenue and expenditure specifically for the Parliamentary Pensions Fund would require the PSPB to establish a basis for the split of financial data, and would involve significant allocation estimations for all financial transactions, other than for contributions and benefit payments for Members of the Legislative Assembly. Presentation of such information in a specific financial statement format would imply a greater accuracy that the allocation estimates warrant.

The Board acted as advisor to Government, and was closely involved in the process of drafting the Parliamentary Pensions Law, 2004. To ensure consistency, the language and provisions of the Parliamentary Pensions Law were initially extracted directly from the Public Service Pensions Law. Through an oversight exacerbated by the Board's delays in tabling financial statements, not all administrative aspects of the draft law were fully tested, and inadvertently, the provision requiring a separate set of financial statements was repeated in the Parliamentary Pensions Law. It was not the intention to create unnecessary administrative burden in the compilation of data that provides little or no meaning to the users of the financial information. Accordingly, the Board has chosen to comply with the spirit of the Parliamentary Pensions Law, 2004, and has prepared these financial statements on a combined or consolidated basis in accordance with historical practice. Note 14 to these financial statements outlines the share of assets allocated to each of the Plan Funds, including the Parliamentary Pensions Plan.

10. Judiciary Pension Contributions

The Fund receives contributions on behalf of Judges of the Grand Court. These members contribute at a rate of 10% of pensionable earnings and employers were to contribute an additional 31% effective 1 January 2000 through to 1 January 2005. An actuarial valuation as at 1 January 2008 concluded that existing contribution rates to the plan are sufficient. The assets duly belonging to the Judges of the Grand Court are under the administration of the Board. These contributions have been pooled for investment purposes with those of the Fund. The liability as shown on the Statement of Net Assets reflects contributions received to date, and an element of income allocated to those contributions based on the Fund's annual rate of return.

11. Benefits Paid to Participants

Beginning in April 1999, payments were paid out of the Fund for pensioners of the Public Service Pensions Plan. The Government continued to pre-fund payments made to recipients of the Ex-gratia Allowances. The Parliamentary Pension Plan were pre-funded by payments from the Government up until the passage of the Parliamentary Pensions Law (2004) on 23 August 2004 which required that benefit payments should be paid from the Parliamentarian Pensions Fund.
Benefits Due relates to participants who had attained the age of 60 prior to 30 June 2005 and whose pension payments had not commenced. Under section 23 of the Public Service Pensions Law (2004 Revision), participants of the Plan were required to initiate their pension upon attaining the age of 60 and as such were no longer eligible to accrue further benefits.

12. Capitalized and Operating Governments

Prior to 2005, the Board received an annual subsidy from the Cayman Islands Government to cover Operating, Capital and Investment Management Expenses. Under the Cayman Islands Government's Financial Management Initiative, services are now purchased from the Board and the funds treated as operating income; and as such, funds used to purchase fixed assets will no longer be capitalised.

12. Capitalized and Operating Governments (continued)

The portion of the Government Subsidy received prior to 2005 that relates to the purchase of capital assets is included in the Statement of Net Assets Available for Benefits as Capitalized Government Grant. This will be amortized to the Statement of Changes in Net Assets Available for Benefits over the useful lives of the assets purchased.

	30 June 2010	30 June 2009
CAPITALIZED GOVERNMENT GRANT		
Opening Net Capitalized Government Grant	$ -	$61,556
Amortization of Capitalized Government Grant	-	(61,556)
Closing Net Capitalized Government Grant	$ -	$ -

	30 June 2010	30 June 2009
OPERATING INCOME FROM GOVERNMENT SUBSIDY		
Income from Government (Cash Basis)	$ 600,000	$ 600,000
Plus Amortization of Capitalized Government Subsidy	-	61,556
Total for the year	$ 600,000	$ 661,556

13. Administrative Expenses

	30 June 2010	30 June 2009
Salaries and Benefits	$2,553,606	$2,216,655
Office Accommodation	118,756	173,585
General Administrative	537,608	518,909
Actuarial Fees	29,230	-
Audit Fees	61,228	117,633
Other Professional Fees	132,562	55,157
Trustee Allowances & Training	28,985	42,387
Total	**$3,461,975**	**$ 3,124,326**

14. Benefits Due

Benefits Due represents the liability to pay participants who had attained the age of 60 and whose pension payments had not commenced prior to the fiscal year ends of 30 June 2009 and 30 June 2008. Under section 23 of the Public Service Pensions Law (2004 Revision), participants of the Plan were required to initiate their pension upon attaining the age of 60 and as such were no longer eligible to accrue further pension benefits.

15. 2008 Actuarial Valuation Report

In accordance with the Public Service Pensions Law (2004 Revision), the Board fulfilled its statutory obligations by preparing the 01 January, 2008 Actuarial Valuation report which was completed on 17 March, 2009 and submitted to the Financial Secretary on 28 April 2009. As Cabinet has not yet accepted and approved the 2008 Report and the recommended rate of contributions contained therein, both Contributions Received and Contributions Receivable in these Financial Statements are reflective of the 2005 Report , which are the last approved rates. However, the 2009 statement of accumulated plan benefits is based on the 2008 actuarial valuation report.

16. Pension Contributions (Re: Actuarial Valuations – Effective 1 January 2005)

Actuarial Valuations with an effective date of 1 January 2008 were conducted for three separate Plans; the Public Service Pensions Plan, the Parliamentary Pensions Plan and the Judiciary Pensions Plan. These Actuarial Valuation Reports were completed on 17 March, 2009 and submitted to the Financial Secretary on 28 April 2009. As the Cabinet has not yet accepted and approved the 2008 report and the recommended rate of contributions contained therein, Contributions Received and Contributions Receivable are based on the 2005 Actuarial Valuation which was accepted by the Board, approved by Cabinet, and tabled in the Legislative Assembly on 9 November 2006.

16. Pension Contributions (Re: Actuarial Valuations – Effective 1 January 2005) (continued)

The principal assumptions for the 2008 Actuarial Valuations (excluding the estimated retirement age which varied with each Plan) used in the computation of the actuarial estimate of the pension liability for each of the three named Pension Plans are as follows:

i. annual salary increases of 4.0%;
ii. long term inflation rate of 2.5% per annum;
iii. valuation interest rate to discount future benefit payments of 7%;
iv. expected long-term rate of return on the Fund's invested assets of 7%;
v. anticipated future pensions payments increases of 2.5% per annum; and
vi. estimated retirement age of 55 for the Parliamentary Pensions Plan, 57 for the Public Service Pensions Plan, and 65 for the Judiciary Pensions Plan.

Where actuarial results calculate that a Plan's share of Fund assets exceed the calculated past service liability, the Plan is said to have a Fund Surplus. Conversely, should Past Service Liabilities exceed a particular Plan's share of Fund assets, the result is called a Fund Deficiency. Fund Deficiencies arise mainly as a result of participants having accrued considerable Defined Benefit entitlements prior to establishment of the Fund.Results of the Actuarial Valuations are summarized under separate caption below for each of the Plans.

a. Public Service Pensions Plan Actuarial Valuation – 1 January 2008

The Actuarial Valuation calculated a Fund Deficiency as at 1 January 2008 of $192,310,713 consisting of the following components:

Value of Pension Fund Allocated Assets	$ 242,705,674
Past Service Liability	(435,016,387)
Fund Deficiency	$ (192,310,713)

The actuarial valuation calculated a normal cost of 13.00% which is the required amount to fund the cost of Defined Contribution benefits earned during the current year, with allowance for future pay projections.

16. Pension Contributions (Re: Actuarial Valuations – Effective 1 January 2005) (continued)

The normal cost to fund the cost of Defined Benefit contributions was determined to be 16.03% during the current year. Amortization of the Fund Deficiency, attributable to the Defined Benefit component of the Plan, over a 20 year period results in an additional contribution rate of 32.90%. Therefore, the total annual cost of the Defined Benefit component of the Plan as at 1 January 2008 was calculated to be 44.90% of total pensionable emoluments. While the Plan remains under funded, the actuaries determined that the liability for inactive members (existing pensioners and beneficiaries and those with deferred pensions) is sufficiently covered by available assets. The actuary recommended that the basic 12.00% employee/employer contribution rates be increased by 32.90% for the Defined Benefit, and 1.00% for the Defined Contribution components of the Plan.

a. Parliamentarian Pensions Plan Actuarial Valuation – 1 January 2008

The Actuarial Valuation calculated a Fund Deficiency as at 1 January 2008of $14,704,350 consisting of the following components:

Value of Pension Fund Allocated Assets	$ 4,729,348
Past Service Liability	(19,433,698)
Fund Deficiency	$ (14,704,350)

The Actuarial Valuation calculated a normal cost of 27.46 % which is the required amount to fund the cost of benefits earned during the current year, with allowance for future pay projections. Amortization of the Fund Deficiency over a 20 year period results in an additional contribution rate of 76.61%. Therefore, the total annual cost of the Plan as at 1 January 2008 was calculated to be 104.07% when both active and inactive members were considered.

b. Judiciary Pensions Plan Actuarial Valuation – 1 January 2008

The Actuarial Valuation calculated a Fund Surplus as at 1 January 2008of $ 22,297 consisting of the following components:

Value of Pension Fund Allocated Assets	$ 1,901,085
Past Service Liability	(1,878,788)
Fund Surplus	$ 22,297

16. Pension Contributions (Re: Actuarial Valuations – Effective 1 January 2005) (continued)

The actuarial valuation calculated a normal cost of 40.00% which is the required amount to fund the cost of benefits earned during the current year, with allowance for future pay projections. Therefore, the actuary recommended that the current contribution rates of 10% for the Employee and 30% for the Employer continue until the date of the next actuarial valuation.

17. Investment Consultancy Fees

The Board utilizes the services of various Investment Managers and other investment consultants in the course of its business. During the year, the Board employed the services of the following:

a. Independent Franchise Partners ("IFP", as Investment Manager)
b. PIMCO ("PIMCO", as Investment Manager)
c. GMO Global Equity Fund ("GMO", as Investment Manager)
d. ING Clarion Real Estate Securities, L.P. ("ING", as Investment Manager)
e. RBC Dexia Investment Services ("RBC Dexia" as Custodian)
f. Advisory Capital (Investment Consultants)

During the year, the Board discontinued the services of the following investment managers:

a. Western Asset Management ("WAM", as Investment Manager)
b. Morgan Stanley Investment Management Ltd ("Morgan Stanley", as Investment Manager)

The Board incurred Investment management and consultancy expenses as follows:

	30 June 2010	30 June 2009
Western Asset Management	$ 305,793	$ 333,719
Morgan Stanley	398,548	672,121
ING	166,137	139,693
Independent Franchise Partners	527,926	-
PIMCO	227,592	-
GMO Global Equity Fund	29,304	-
RBC Dexia Custodial Fees	102,444	98,171
Advisory Capital	228,340	188,076
Total	$ 1,986,085	$1,431,780

18. Financial Instruments

All investments are subject to one or more types of "inherent" risk which is expected and necessary to assume in order to achieve needed returns. From a Pension Plan perspective, inherent risk factors typically comprise of:

a. Capital risk
b. Credit risk
c. Inflation risk
d. Interest Rate risk
e. Balance Sheet/Liquidity risk
f. Market/Equity risk

The portfolio is currently comprised primarily of investments in two pooled funds in both the equities and fixed income sectors. It is a very risk-averse strategy through which inherent risks are mitigated primarily by adherence to asset allocation and diversification policies prescribed by statute. Each class of assets is managed by separate internationally recognized money managers, who are recommended by the Committee and approved by the Board of Trustees, thereby further diversifying the portfolio among unrelated managers and investments. Performance of each investment manager is monitored and measured against international benchmarks by independent investment consultants (Advisory Capital). Senior Management and the Board also perform annual due-diligence visits to each investment managers.

Some inherent risks are further mitigated by specific circumstances:

Credit Risk: Financial assets that potentially subject the Board 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 Board'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 Board only transacts business with counterparts it believes to be reputable and capable of performing their contractual obligations.

18. Financial Instruments (continued)

The greatest risk that the Board faces other than market related risks in terms of its investments, is the possibility that there could be some form of pension contribution holiday. Should this happen, it would seriously impede the Boards operations, as it would then become necessary to liquidate the investments in order to meet its statutory financial obligations.

Interest Rate Risk: The Board's interest bearing investments and deposits are at fixed interest rates.

Inflation Risk: Inflation risks are mitigated by regular review and adjustment of Plan funding, in accordance with the mandated Actuarial Valuations due every three years.

A risk factor unique to pension/annuity plans is Longevity Risk:

Longevity Risk: Longevity risk applies primarily to the Defined Benefit (DB) part of the Plans. Longevity risk is also mitigated by regular review and adjustment of the Plans funding in accordance with the mandated Actuarial Valuations due every three years.

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 4. The fair values of other assets and liabilities are not materially different from the carrying amounts.

Main Actuarial Risks to the Funding of the Plans

There are several actuarial risks that can adversely impact the funding of the plan. The key ones are as follows:

a. Contribution risks
b. Financial assumption risks
c. Demographic assumption risks
d. Plan structure risks

18. Financial Instruments (continued)

Contribution Risks: This arises when contributions are not being paid in accordance with actuarial valuation requirements. In addition, delays in tabling the actuarial valuation reports and delays in enabling regulations to prescribe the recommended rates exacerbate this.

Financial assumption risks: The most important one here is when the assumed rate of return on investments is not being met. Note 16 on Financial Instruments details some of the risks associated with this. Other financial risks include inflation, which impacts the rate at which pension payments are increases, and pay increases above those assumed in the valuation.

Demographic assumption risks: These include retirements occurring before the expected retirement ages, and longevity risks.

Plan structure risks: Currently there is considerable subsidy provided to Defined Contribution participants in the form of very generous actuarial factors being used in the conversion of account balances to pensions at retirement. This subsidy reduces the value of the assets that can be allocated to the Defined Benefit Part. In addition, there are other inherent features of the plans, such as the retirement pensions being based on final month's pay that can lead to adverse plan experiences.

19. Leases and Commitments

The Board leases premises from TPC Limited under the following terms: the Board entered into a two-year lease arrangement with TPC Limited for the use of office space of Smith Road Professional Centre located at Smiths Road, George Town. The term of the lease has contract date from April 1, 2009 to March 31, 2011. The lease is divided into 2 parts - ground and second floor agreement. The rental agreement for the ground and second floor is payment of $32 / per square foot of the gross rentable area (being usable area grossed up by a common area factor of 18%) per annum by equal monthly instalments in advance of 1 day of each month.

19. Leases and Commitments (continued)

The total main floor and second floor is approximately 1,632.58 sq ft. and 3,915.3 sq ft respectively of gross rentable area. Interest is accrued at a prescribed rate (3%) on any rent or other payment of which is more than
10 days overdue. The rent is to increase by a percentage equivalent to the year over year change in the Cayman Islands Consumer Price Index as published by the Cayman Islands Economics and Statistics Office of the Cayman Islands Government for the immediately preceding calendar year. Notwithstanding the actual CPI, the amount of increase shall not be lower than 3% and shall not exceed 6%. The tenant shall have the right to terminate the lease by giving notice of not less than six month in writing after the first year of the term of lease.

19. Subsequent Events

As noted in the disclosure notes for previous years, capital markets experienced extreme volatility and turbulence beginning in 2007, culminating in a severe downturn in the Global Economy in 2008 and ongoing in 2009. Investments of every class, genre and nationality have been affected by the ongoing financial crisis. Despite some recovery in the global markets, much uncertainty remains entering the remainder of the year.

Per Government mandate, effective July 1, 2010, all Civil Servants salaries have been reduced by a minimum of 3.2%, representing a rollback of the 2007 - 2008 cost-of-living increase. We are unable to quantify the impact on pension contributions at this time as some form of protection of employees' pensions has been proposed but as yet the outcome is still undetermined.

PSPB moved into the new Government Administration Building (GAB) on March 31, 2011. All Furniture and Office Equipment utilized by PSPB will be owned and maintained by GAB. The implications of the move will be noted in the 2010/2011 fiscal year, as existing Furniture and Office Equipment, plus Leasehold Improvements, will be written back.

20. Related Party Transactions

Key Management Personnel

There are four full-time equivalent personnel considered at the Senior Management Level. The total remuneration includes: regular salary, pension contributions, health insurance contributions, acting allowances, duty allowances, motor car upkeep/allowance, and COLA back pay. Total remuneration for Senior Management in 2009-10 was approximately $675K (2009: $353K).

Intra-Government Agencies

The Board engaged the services of the Computer Services Department and the Office of the Auditor General during the year. The transactions amounted to $103K and $61K respectively. The services are deemed to have been engaged at arms length.

21. Plan Participants

IAS 19 Accounting policy requires the Public Service Pensions Board to disclose the entities to which the assets of the fund belong and the amounts for each participant. The current pension administration system does not allow for the breakdown of this information. The ministries and portfolios in Public Service Pensions Plan are the following:

a. Audit Office
b. Cabinet Office
c. Judicial Administration Department
d. Portfolio of Legal Affairs
e. Ministry of Finance, Development and Tourism
f. Ministry of District Administration, Works, Lands and Agriculture
g. Office of the Complaints Commisioner
h. Portfolio of the Civil Service
i. Portfolio of Internal and External Affairs
j. Ministry of Community Affairs, Gender and Housing
k. Ministry of Education, Training and Employment
l. Ministry of Health, Environment, Youth, Sports and Culture

See note 1 (c) for Statutory Authorities and Government Companies that participate in the plan.