

Annual Report



for the years ended
June 30th, 2013 and 2012

THE CAYMAN ISLANDS STOCK EXCHANGE LTD.

Objectives

- to operate the Exchange for the trading of securities, including the operation of an electronic trading platform and related trading and clearance tracking processes and the operation of a crossing market.
- to admit persons (brokers) as Exchange members.
- to list securities on the Exchange and to appoint Listing Agents.
- to regulate listed issuers and broker members through the establishment and monitoring of Listing Rules and Membership Rules.
- to promote listing, membership and use of the Exchange.

THE CAYMAN ISLANDS STOCK EXCHANGE LTD.

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THE CAYMAN ISLANDS STOCK EXCHANGE LTD.

Chairman's message

Ladies and gentlemen,

I present you with the report on the activities of the Exchange in the year ended 30th June 2013. The report underlines our strategy of diversifying our sources of revenue.

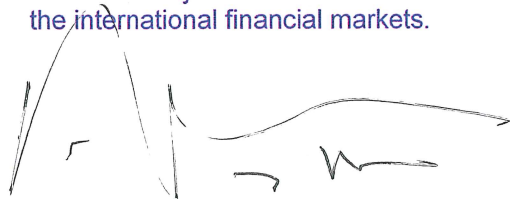
The CSX is a part of and subject to the uncertainties that have affected the global financial system post the financial crisis in 2008. In consequence throughout the past financial year we have seen a decrease in turnover and suffered the impact of reduced transactional flows internationally. Despite this unfavourable environment however, the CSX is striving to build its position, already a regional leader, into a regional hub of financial investment trading.

The position of the CSX versus other exchanges is determined, amongst other factors, by the quality of its IT systems and the credibility and quality of its regulation. With this in the forefront of our thinking, in July 2012 the Exchange signed an agreement with Deutsche Börse to use its Xetra trading platform with the migration completed early this year. XCAY launched on 25th March 2013 providing us with the state of the art infrastructure necessary to enhance trading of securities listed on the Exchange, generate more demand for existing and new products and attract new investor and broker groups to the CSX. At the same time, to ensure we remain competitive whilst retaining the appropriate level of regulation, and in readiness for the introduction of the new trading platform, we revised our listing rules for equities and introduced listing rules for new lines of listings, such as the listing of exchange-traded funds and shipping companies.

The implementation of the new Xetra technology is now our key tool in developing new business lines. In December 2012, aiming to be a pioneer in improving liquidity and transparency for the catastrophe bond market, we announced our intention to provide trading facilities for catastrophe bonds and insurance linked securities.

Following that development thanks to its experience in the implementation of innovative solutions, the Exchange was recently invited to work with Property Claim Services (PCS), as the venue for the listing and trading of catastrophe risk related contracts based on catastrophe loss estimate data calculated by PCS for any particular event. PCS provides insurance loss data with their reports frequently used as triggers for catastrophe bonds payments. This is a pioneering project both for PCS and the CSX which we hope will solidify the Exchange's position as a leading exchange in listing and trading of insurance linked securities.

Going forward it is the CSX's priority to continue strengthening its services by broadening its customer base of market users, aiming to attract new broker members and international issuers, and by raising the competitiveness of its products. We anticipate that these new initiatives and new business lines will allow us to diversify our sources of revenue and make us resilient to any continued downtrend that may affect the international financial markets.



Anthony B. Travers, OBE
Chairman

27 September 2013

THE CAYMAN ISLANDS STOCK EXCHANGE LTD.

CSX Council Members

Anthony B. Travers, OBE
Chairman

Dax Basdeo
Vice-Chairman

Roisin Cater
Council Member

Sophia Dilbert
Council Member

Mark Lewis
Council Member

Johann Moxam
Council Member

Barry Smith
Council Member

Canover Watson
Council Member

Valia Theodoraki
Chief Executive Officer

THE CAYMAN ISLANDS STOCK EXCHANGE LTD.

Broker Members

Butterfield Bank (Cayman) Ltd.

Cayman National Securities Ltd.

CIBC Bank and Trust Company (Cayman) Ltd.

RBC Capital Markets LLC

TD Securities (USA) LLC.

VBK Bank & Trust, Ltd.

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Listing Agents

Appleby Trust (Cayman) Ltd

Campbells

Charles Adams, Ritchie & Duckworth

Carey Olsen

Harneys

Higgs & Johnson

Maples and Calder

Mourant Ozannes Corporate Services (Cayman) Limited

Ogier

Solomon Harris

Stuarts

Travers Thorp Alberga

Walkers

CSX Milestones

1997 - CSX officially opens

2001 – ISG membership

2002 - 5th anniversary - 700 listings

2003 - Affiliate member of IOSCO

2004 - UK HMRC recognition

2006 - CSX joins AIMA

2008 – first shariah compliant listing

2009 - 3,000 + listings

2011 – first LatAm eurobond and mineral company equity listings

2012 – US\$10 billion 'cat bond' listings

2012 – CSX announces ability to trade catastrophe bonds

2013 – CSX progresses to affiliate membership of WFE (World Federation of Exchanges)

2013 – CSX launches XETRA trading platform

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Exchange Operations

The Cayman Islands Stock Exchange is a specialist exchange ("CSX" or the "Exchange") whose activities include operating a securities market for the listing and trading of equity and debt securities and investment funds in the Cayman Islands. Our users have been sophisticated clients from around the world, with focus to now in the UK, European and North American markets.

Key events

The following key events relevant to the growth of the CSX took place in 2012/13:

CSX offers trading of catastrophe bonds

The CSX over the last few years became the leading centre for listing insurance linked securities. The market capitalisation of such listed instruments was approximately US\$10 billion as at June 30, 2013.

In December 2012, we announced a new offering of trading services to investors of catastrophe bonds promoting the world's first active on-exchange catastrophe bond trading on the new Xetra trading platform in an effort to increase liquidity and pricing transparency in the catastrophe bond market.

Launch of XCAY

The upgrading of the trading platform and the establishment of trading on an internationally recognized platform, both of domestic as well as international equities, has been the objective of the Exchange since its inception. In order to achieve this objective the Exchange last year identified the trading platform that suited its needs. In July 2012, Deutsche Börse and the CSX signed an agreement to use Deutsche Börse's XETRA trading platform setting a March 2013 launch date.

XETRA® is Deutsche Börse's international cash market platform for trading equities, bonds, warrants, exchange traded funds and other instruments, operated by Deutsche Börse. The XETRA trading platform is already in use at a few exchanges around the world and provides listing, trading and clearing services for issuers, intermediaries and investors worldwide. Xetra provides efficient access to the capital markets, supports the latest trading techniques and provides an ever-growing range of tradable securities. The trading system of the same name sets the highest standards in terms of reliability, security, speed and innovation. 200 Participants from partner exchanges and 230 European banks and brokerage firms admitted to the Frankfurt Stock Exchange from a total of 20 countries are connected to Xetra. The Xetra network offers the highest levels of liquidity, transparency and cost efficiency. Approximately 900,000 securities are currently traded using Xetra technology – more than on any other trading platform.

On 25th March 2013 the CSX went live on the XETRA trading platform with the market identification code XCAY. The launch of this new trading platform was an important step in the growth of the Exchange enabling it to develop trading market for equities, debt and other securities, including insurance linked securities listed on the CSX.

The new trading platform is complimentary to and enhances our current range of services and connects us to a well-established global network.

Development of products and services

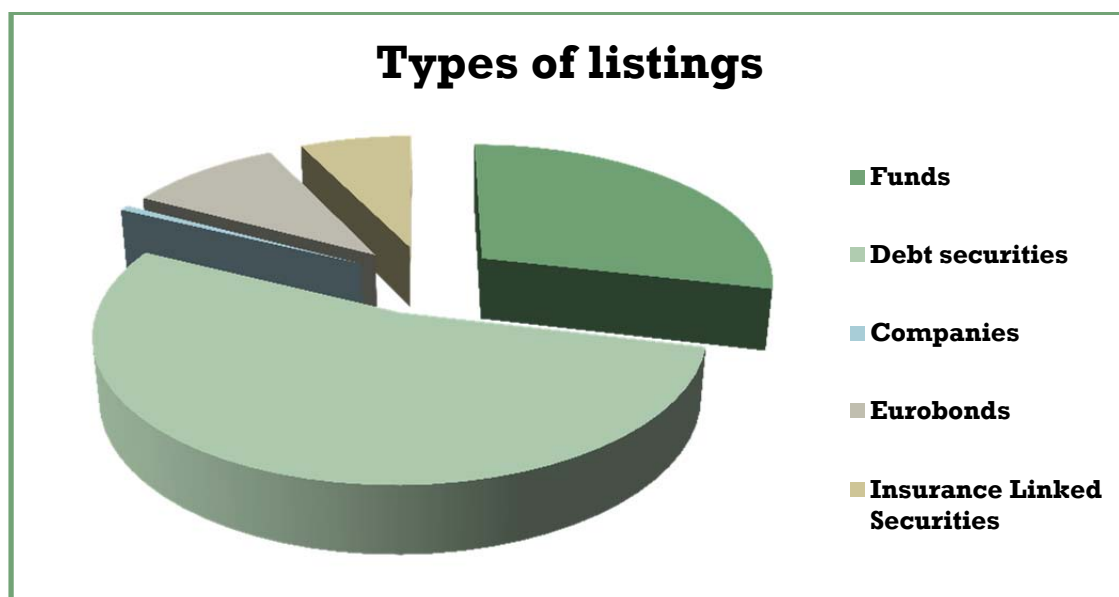
Following the launch of the new trading platform the CSX expanded its product offering by introducing new regulations targeting early stage growth equity companies (start-ups) and mining companies as well as specialist companies for sophisticated investors, exchange-traded funds, forestry funds and shipping companies.

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Listing activities

A number of new financial instruments were admitted to the Daily Official List of the Exchange during the year, including a new local equity and several new catastrophe bonds whilst a wave of early redemptions of debt securities led to further cancellations.

The following shows the breakdown of listings by product as of June 30, 2013:



Listing Agents and Broker Members

At the end of June 2013, there were thirteen listing agents and six broker members authorised.

International relations

The Exchange maintains a level of membership with several standard setting organisations including the International Organisation of Securities Commissions (IOSCO), the Quoted Companies Alliance, The Alternative Investment Management Association (AIMA), the Intermarket Surveillance Group (ISG) and the World Federation of Exchanges.

Trading

Trades in all financial instruments previously supported by the Exchange's old trading platform were transferred to Xetra as of 25th March 2013. The new IT architecture offers superior efficiency, speed and functionality.

Early in 2013 the Exchange organised training sessions for CSX broker members and their registered persons to prepare them for the launch of the Xetra trading platform.

Access to CSX Xetra is either through the XETRA® J-Trader platform, which is a standard web browser, or through FIX protocol (Financial Information eXchange protocol), which is an industry-driven and international messaging standard. The XETRA® FIX Gateway offers simple and flexible access to all

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XETRA® markets based around the world. The CSX will be accessible through the FIX Gateway under the market information code 'XCAY'.

XCAY, the CSX Xetra trading platform, is a separate back-end platform, for equities as well as other investment instruments such as bonds and derivative warrants, that operates within the overall XETRA® trading platform, allowing the Exchange to introduce any changes necessary to adapt the platform to its market needs and to have its own trading calendar. XCAY also offers the possibility of trading of specialist securities offered only to qualified investors.

Xetra offers trading at very high speeds with an order driven trading system. The trading is continuous from 7am to 12.30pm Monday to Friday. The currency of each listed security is designated as the trading currency of such security.

For the time being the Exchange is not charging any trading fees for executed trades.

Broker members and their registered representatives duly admitted to the Exchange are able to use the trading facilities and access the Xetra trading platform. International Xetra participants can also be passported through a simple process as CSX broker members and will be able to reuse their existing Xetra connection to enter trades into XCAY.

Settlement

To be admitted to listing and trading on the Exchange, securities must have an International Identification Number (ISIN). Listed securities (other than those of open-ended investment funds) must be eligible for deposit in an acceptable electronic settlement system including Clearstream Banking Luxembourg, Euroclear, The Depository Trust Company, TMX CDS or any acceptable alternative system agreed in advance with the Exchange.

There is a pathway for all securities listed on the CSX to be settled through Clearstream. All equity applicants will be encouraged to take this route. Where Clearstream is chosen as the settlement solution, broker members, either directly or through another Clearstream participant, will be required to report trades in eligible securities directly to Clearstream for bilateral settlement.

Settlement takes place on the third business day (T+3) after the date the transaction was executed.

NAVs

The Exchange is using Information Technology actively to the benefit of our customers and the Exchange itself. The website facility allows the public access to the listings and broker member rules. The Exchange has enhanced the web site facility, in which Net Asset Valuations ("NAV's") are received and validated prior to publication and enabling the capture of historic prices.

The service allows administrators to post NAVs onto the CSX via a secure internet page. Once the information is input by a fund administrator, the prices are immediately published on the mutual fund listings page on the Exchange's internet web site and are sent to Bloomberg for posting to the CSX <GO> trading and information pages on Bloomberg.

CUSIP Numbering Agency

The Exchange is acting as Standard & Poors' sole agent for CUSIP, a company that issues International Securities Identification Numbers ("ISIN's") for Cayman Islands and British Virgin Islands incorporated entities.

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Financial report

Financial highlights

The year's operations resulted in a net income of CI\$105,271 which represents a decrease of more than half of the previous year's figure of CI\$405,925 achieved despite the significant reduction in the operating income. The decrease is attributable to reduced operating revenues due to closures of funds, redemptions of debt securities and reduced volume of new listings as well as a noticeable reduction of requests for CUSIPs and ISINs but also to increased expenses resulting from the introduction of the new trading platform and the consequential marketing efforts.

The revenues for the year under review reached CI\$1,446,553, a decrease of approximately 14% from the CI\$1,675,228 registered during 2011/12. On the other hand, total expenses for the year amounted to CI\$1,341,282 in the year ended June 30, 2013 representing an increase of 4% compared to the previous year.

The Exchange declared dividend of CI\$78,950 payable to The Cayman Islands Government, its sole shareholder, for the year ended June 30, 2013.

The majority of the Exchange's revenue was generated from listing fees, CI\$857,488 (2011/12: CI\$1,022,037) and issuance of CUSIP numbers, CI\$317,258 (2011/12: CI\$402,702). The reduction of operating revenues was due to decreased income from listing activities and issuance of CUSIP numbers.

For the period under review, the CSX employed six employees, and the related staff cost amounted to CI\$732,753 (2011/12: CI\$761,568).

Bank balances as at June 30, 2013 were CI\$1,272,106 (June 30, 2012: CI\$1,488,860). The Exchange has total assets of CI\$2,047,372 (2011/12: CI\$1,939,305) and total liabilities of CI\$195,522 (2011/12: CI\$192,726) at June 30, 2013.

THE CAYMAN ISLANDS STOCK EXCHANGE LTD.

Statement of responsibility for financial statements

These financial statements have been prepared by The Cayman Islands Stock Exchange Ltd. (the "Company") in accordance with the provisions of the *Public Management and Finance Law (2012 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 (2012 Revision)*.

As Vice-Chairman and Chief Executive Officer, 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 Company.

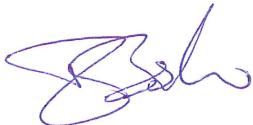
As Vice-Chairman and Chief Executive Officer we are responsible for the preparation of the Stock Exchange financial statements and for the judgements made in them.

The financial statements fairly present the statements of financial position, comprehensive income, changes in shareholders' equity and cash flows, as well as the explanatory information, for the financial year ended June 30, 2013.

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

- (a) are complete and reliably reflect the financial transactions of the Company for the year ended June 30, 2013;
- (b) fairly reflect the financial position as at June 30, 2013 and performance for the year ended June 30, 2013;
- (c) comply with International Financial Reporting Standards under the responsibility of the International Accounting Standards Board.

The Office of the Auditor General and Deloitte & Touche jointly conducted an independent audit and expressed an opinion on the accompanying financial statements. The Office of the Auditor General and Deloitte & Touche have been provided access to all the information necessary to conduct an audit in accordance with International Standards on Auditing.



Dr Dax Basdeo
Vice-Chairman
The Cayman Islands Stock Exchange Ltd



Valia Theodoraki
CEO
The Cayman Islands Stock Exchange Ltd

25 October, 2013

AUDITOR GENERAL'S REPORT

To the Board of Directors and Shareholder of the Cayman Islands Stock Exchange,

In accordance with section 60(1)(a)(ii) of the *Public Management and Finance Law (2012 Revision)* I have audited the accompanying financial statements of Cayman Islands Stock Exchange Ltd., which comprise the statement of financial position as at June 30, 2013 and the related statements of comprehensive income and retained earnings, and cash flows for the years then ended, and the notes to financial statements as set out on pages 15 – 28.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 about 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 on 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 our qualified audit opinion. In conducting my audit I have relied on the work carried out on my behalf by a public accounting firm who performed their work in accordance with International Standards on Auditing.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Cayman Islands Stock Exchange Ltd. as at June 30, 2013, the results of its comprehensive income and retained earnings and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Alastair Swarbrick, MA (Hons), CPFA
Auditor General

October 25, 2013
Cayman Islands

THE CAYMAN ISLANDS STOCK EXCHANGE LTD.

Statements of Comprehensive Income

for the years ended June 30, 2013 and 2012

(expressed in Cayman Islands dollars)

	2013	2012
REVENUES		
Operations (Note 3)	\$ 1,072,248	\$ 1,256,227
CUSIP (Note 4)	317,258	402,702
Miscellaneous	56,328	15,580
Interest	719	719
	<u>1,446,553</u>	<u>1,675,228</u>
OPERATING EXPENSES		
Personnel (Notes 11 and 14)	732,753	761,568
Marketing, travel and subsistence (Note 13)	87,629	58,774
Legal and professional fees	85,542	88,772
Lease of office (Note 7)	83,895	82,376
CUSIP	71,867	77,750
Impairment allowances (Note 9)	43,729	4,369
Utilities	43,020	45,251
Memberships, subscriptions and publications	40,511	52,456
License fee (Note 7)	40,282	-
Technology	31,923	32,529
Other office and miscellaneous	26,512	16,915
Amortisation (Note 6)	24,484	-
Disaster recovery	10,616	10,464
Depreciation (Note 5)	9,422	15,746
Printing, postage, courier and stationery	6,591	9,367
Insurance	2,181	3,295
Training	325	9,671
	<u>1,341,282</u>	<u>1,269,303</u>
NET INCOME AND COMPREHENSIVE INCOME	<u>\$ 105,271</u>	<u>\$ 405,925</u>

See notes to financial statements

THE CAYMAN ISLANDS STOCK EXCHANGE LTD.

Statements of Financial Position

June 30, 2013 and 2012

(expressed in Cayman Islands dollars)

	2013	2012
CURRENT ASSETS		
Cash and cash equivalents (Note 8)	\$ 1,272,106	\$ 1,488,860
Accounts receivable (net of impairment allowances: \$10,087 (2012: \$15,000)) (Note 9)	376,689	402,016
Prepayments and other receivables	42,150	29,883
Total current assets	1,690,945	1,920,759
NON-CURRENT ASSETS		
Property, plant and equipment (Note 5)	13,658	18,546
Intangible assets (Note 6)	342,769	-
Total non-current assets	356,427	18,546
Total assets	\$ 2,047,372	\$ 1,939,305
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 193,531	\$ 185,129
Deferred annual fees	1,991	7,597
Total current liabilities	195,522	192,726
SHAREHOLDER'S EQUITY		
Share capital (Note 10)	100,000	100,000
Additional paid-in capital	71,926	71,926
Retained earnings	1,679,924	1,574,653
Total shareholder's equity	1,851,850	1,746,579
Total liabilities and shareholder's equity	\$ 2,047,372	\$ 1,939,305

See notes to financial statements

THE CAYMAN ISLANDS STOCK EXCHANGE LTD.

Statements of Changes in Shareholder's Equity

June 30, 2013 and 2012

(expressed in Cayman Islands dollars)

	<u>Share capital</u>	<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Total shareholder's equity</u>
Balance at June 30, 2011	\$ 100,000	\$ 71,926	\$ 1,415,588	\$ 1,587,514
Net income for the year	-	-	405,925	405,925
Dividends (Note 10)	-	-	(246,860)	(246,860)
Balance at June 30, 2012	100,000	71,926	1,574,653	1,746,579
Net income for the year	-	-	105,271	105,271
Balance at June 30, 2013	<u>\$ 100,000</u>	<u>\$ 71,926</u>	<u>\$ 1,679,924</u>	<u>\$ 1,851,850</u>

See notes to financial statements

THE CAYMAN ISLANDS STOCK EXCHANGE LTD.

Statements of Cash Flows

for the years ended June 30, 2013 and 2012
(expressed in Cayman Islands dollars)

	<u>2013</u>	<u>2012</u>
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net operating income for the year	\$ 105,271	\$ 405,925
Adjustments for items not affecting cash:		
(Decrease) in impairment allowances	(4,913)	-
Amortisation	24,484	-
Depreciation	9,422	15,746
	<u>134,264</u>	<u>421,671</u>
Changes in operating assets and liabilities:		
Decrease/(increase) in accounts receivable	30,240	(142,329)
(Increase) in prepayments and other receivables	(12,267)	(9,112)
Increase in accounts payable and accrued liabilities	8,402	35,404
(Decrease) in deferred annual fees	(5,606)	(816)
	<u>155,033</u>	<u>304,818</u>
INVESTING ACTIVITIES		
Purchase of intangible asset	(367,253)	-
Purchase of fixed assets	(4,534)	(2,958)
	<u>(371,787)</u>	<u>(2,958)</u>
FINANCING ACTIVITIES		
Dividends paid	-	(246,860)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(216,754)	55,000
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,488,860</u>	<u>1,433,860</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,272,106</u>	<u>\$ 1,488,860</u>
SUPPLEMENTARY INFORMATION ON CASH FLOW FROM OPERATING ACTIVITIES		
Interest received	<u>\$ 717</u>	<u>\$ 715</u>

See notes to financial statements

THE CAYMAN ISLANDS STOCK EXCHANGE LTD.

Notes to Financial Statements

for the years ended June 30, 2013 and 2012

(expressed in Cayman Islands dollars)

1. INCORPORATION AND GENERAL INFORMATION

The Cayman Islands Stock Exchange Ltd. (the "Company") was incorporated as a private company limited by shares on September 26, 1996 as CSX Ltd. pursuant to the Cayman Islands Companies Law. The Company changed its name to The Cayman Islands Stock Exchange Ltd. on December 23, 1996.

In accordance with the powers conferred by the Cayman Islands Stock Exchange Company Law, 1996 the Company is engaged in carrying on the business of establishing and operating a securities market for the listing and trading of securities. This business includes the admission of persons as exchange members entitled by reason of membership of the exchange to engage in the listing and trading of securities through the facilities made available by the Company for such purposes.

The Company is wholly owned by the Stock Exchange Authority (the "Authority") on behalf of the Government of the Cayman Islands (the "Government").

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The significant accounting policies adopted by the Company are as follows:

Cash and cash equivalents

The Company considers cash and short-term deposits with an original maturity of three months or less to be cash and cash equivalents.

Revenue recognition

Revenue is recognised as earned. Membership and listing fees are non refundable.

Accounts receivable

Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts at the year end. Allowances are established when the Company determines amounts are doubtful of collection.

Translation of foreign currencies

Assets and liabilities denominated or accounted for in currencies other than Cayman Islands dollars are translated into Cayman Islands dollars at the applicable exchange rate ruling at the statement of financial position date. Foreign currency income and expense transactions are translated at the appropriate exchange rate ruling at the transaction date. Realised and unrealised gains and losses arising from such transactions are included in the statements of comprehensive income.

THE CAYMAN ISLANDS STOCK EXCHANGE LTD.

Notes to Financial Statements

for the years ended June 30, 2013 and 2012

(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation and amortisation

Property, plant and equipment and intangible assets are depreciated using the straight-line method over their estimated useful lives as follows:

<u>Type of non-current asset</u>	<u>Estimated useful life</u>
Leasehold improvements	remainder of current lease term
Computer hardware	2 to 3 years
Office furniture and equipment	5 to 10 years
Intangible assets	5 years

Fair value of financial instruments

The fair value of financial instruments approximates their carrying value principally due to the short-term nature of such instruments.

Critical accounting judgement and key source of estimation uncertainty

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. The key areas of judgement or estimation are with regard to the recoverability of accounts receivable. Accounts receivable are considered to be recoverable in full by the Company after taking into consideration the age of the receivable, the financial stability of the debtors, and the post year end receipts to the date of the report.

New accounting pronouncements

At the date of authorisation of these financial statements, a number of standards and interpretations were in issue but not yet effective. The Standards and Interpretations that are likely to have an impact on the accounting policies and financial statements of the Company are as follows:

The amendments to IFRS 7, *Financial Instruments: Disclosures* ("IFRS 7") require entities to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement. The amendment is effective for periods beginning on or after January 1, 2013 and applies retrospectively for all comparative periods.

The amendments to IAS 32, *Offsetting Financial Assets and Financial Liabilities* ("IAS 32") clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. The amendments further clarify the meaning of the legally enforceable right of set-off and simultaneous realization and settlement. The amendment is effective for periods beginning on or after January 1, 2014 and applies retrospectively for all comparative periods.

IFRS 9 *Financial Instruments* ("IFRS 9") introduces new requirements for the classification and measurement of financial assets. The standard is effective for annual periods beginning on or after January 1, 2015 with earlier application permitted. IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be measured at

THE CAYMAN ISLANDS STOCK EXCHANGE LTD.

Notes to Financial Statements

for the years ended June 30, 2013 and 2012

(expressed in Cayman Islands dollars)

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting pronouncements (continued)

amortised cost or fair value, with the determination to be made at initial recognition based on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

The standard is not expected to have a significant impact on the financial statements since the Company's financial assets approximate fair value.

IFRS 13 *Fair Value Measurement* ("IFRS 13") establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. IFRS 13 defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 *Financial Instruments: Disclosures* will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is currently assessing the impact of IFRS 13 on the financial statements.

There are no other standards or interpretations that are not yet effective that would be expected to have a material impact on the financial statements of the Company.

3. OPERATING REVENUES

Operating revenues are as follows:

	<u>2013</u>	<u>2012</u>
Listing fees:		
Debt securities	\$ 249,756	\$ 274,790
Mutual funds	244,073	354,773
Corporate debt securities	231,229	213,714
Insurance linked securities	82,410	99,630
International companies	34,440	65,190
Domestic companies	8,200	8,200
Listing document updates	<u>7,380</u>	<u>5,740</u>
	857,488	1,022,037
Listing agents fees	176,300	180,400
Broker membership fees	41,410	48,790
Affiliated membership fees (refunds)	<u>(2,950)</u>	<u>5,000</u>
	<u>\$ 1,072,248</u>	<u>\$ 1,256,227</u>

THE CAYMAN ISLANDS STOCK EXCHANGE LTD.

Notes to Financial Statements

for the years ended June 30, 2013 and 2012

(expressed in Cayman Islands dollars)

(continued)

4. CUSIP REVENUES

The Company is the exclusive Committee on Uniform Security Identification Procedures ("CUSIP") international numbering agent for issuing CUSIP numbering system identifiers for securities of issuers registered in the Cayman Islands and the British Virgin Islands.

CUSIP revenues are as follows:

	<u>2013</u>	<u>2012</u>
CUSIP revenue:		
British Virgin Islands	\$ 9,840	\$ 20,664
Cayman Islands	<u>307,418</u>	<u>382,038</u>
	<u>\$ 317,258</u>	<u>\$ 402,702</u>

5. PROPERTY, PLANT AND EQUIPMENT

	<u>Leasehold improvements</u>	<u>Computer hardware and software</u>	<u>Office furniture and equipment</u>	<u>Total</u>
<u>Cost:</u>				
At July 1, 2012	\$ 143,138	\$ 1,191,730	\$ 159,470	\$ 1,494,338
Additions	<u>-</u>	<u>2,807</u>	<u>1,727</u>	<u>4,534</u>
At June 30, 2013	<u>143,138</u>	<u>1,194,537</u>	<u>161,197</u>	<u>1,498,872</u>
<u>Depreciation:</u>				
At July 1, 2012	143,138	1,183,012	149,642	1,475,792
Charge for the year	<u>-</u>	<u>7,770</u>	<u>1,652</u>	<u>9,422</u>
At June 30, 2013	<u>143,138</u>	<u>1,190,782</u>	<u>151,294</u>	<u>1,485,214</u>
Net book value at June 30, 2013	<u>\$ -</u>	<u>\$ 3,755</u>	<u>\$ 9,903</u>	<u>\$ 13,658</u>
Net book value at June 30, 2012	<u>\$ -</u>	<u>\$ 8,718</u>	<u>\$ 9,828</u>	<u>\$ 18,546</u>

THE CAYMAN ISLANDS STOCK EXCHANGE LTD.

Notes to Financial Statements

for the years ended June 30, 2013 and 2012

(expressed in Cayman Islands dollars)

(continued)

6. INTANGIBLE ASSETS

	<u>Software</u>
<u>Cost:</u>	
At July 1, 2012	\$ -
Additions	<u>367,253</u>
At June 30, 2013	<u>367,253</u>
<u>Amortisation:</u>	
At July 1, 2012	-
Charge for the year	<u>24,484</u>
At June 30, 2013	<u>24,484</u>
Net book value at June 30, 2013	<u>\$ 342,769</u>
Net book value at June 30, 2012	<u>\$ -</u>

7. COMMITMENTS

The lease payments for the twelve months ended June 30, 2013, were \$83,895 (2012: \$82,376). From December 31, 2009, the Company has moved to a rolling monthly contract to lease its existing office premises on the 4th floor of Elizabethan Square. This rolling arrangement will be in place for the foreseeable future and as such the Company does not have any lease commitments for the years ended June 30, 2013 and 2012.

The Company entered into a five year licensing agreement on September 3, 2012 for the provision of trading software related services. The annual fee depends on the level of services provided with a minimum of €150,000 per year payable by the Company. The license fees paid for the twelve months ended June 30, 2013, were \$40,282 (2012: \$nil).

Licensing agreement future commitments

	<u>2013</u>	<u>2012</u>
Not later than one year	\$ 160,017	\$ -
Later than one year and not later than five years	600,064	-
Later than five years	<u>-</u>	<u>-</u>
	<u>\$ 760,081</u>	<u>\$ -</u>

Above commitments were originally denominated in Euro and have been converted into Cayman Islands dollars using the prevailing exchange rate as at June 30, 2013.

THE CAYMAN ISLANDS STOCK EXCHANGE LTD.

Notes to Financial Statements

for the years ended June 30, 2013 and 2012

(expressed in Cayman Islands dollars)

(continued)

8. CASH AND CASH EQUIVALENTS

	<u>2013</u>	<u>2012</u>
Current and call accounts	\$ 627,724	\$ 845,195
Short-term fixed deposits maturing within one month	<u>644,382</u>	<u>643,665</u>
	<u>\$ 1,272,106</u>	<u>\$ 1,488,860</u>

9. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS

The Company's operating activities expose it to various types of financial risks that are associated with the financial instruments and markets in which it invests. These financial risks include credit and counterparty risk, liquidity risk and market risk (including currency risk and interest rate risk). The Company's overall risk management program focuses on minimising potential adverse effects on the Company's operations resulting from these financial risks. The exposure to, and management of, these risks are summarised below.

Credit and counterparty risk

Credit and counterparty risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Financial instruments which potentially expose the Company to credit risk consist primarily of cash and cash equivalents and accounts receivable.

<u>Age of accounts receivable past due but not impaired</u>	<u>2013</u>	<u>2012</u>
31-61 days	\$ 126,032	\$ 134,513
61-90 days	8,042	19,501
91-120 days	35,977	27,950
Over 120 days	<u>169,429</u>	<u>138,136</u>
	<u>\$ 339,480</u>	<u>\$ 320,100</u>

<u>Movement in impairment allowances</u>	<u>2013</u>	<u>2012</u>
Balance at beginning of year	\$ 15,000	\$ 18,831
Impairment losses recognised on receivables	43,729	4,369
Amounts written off as uncollectible	(45,362)	(8,200)
Amounts recovered	<u>(3,280)</u>	<u>-</u>
Balance at end of year	<u>\$ 10,087</u>	<u>\$ 15,000</u>

THE CAYMAN ISLANDS STOCK EXCHANGE LTD.

Notes to Financial Statements

for the years ended June 30, 2013 and 2012

(expressed in Cayman Islands dollars)

(continued)

9. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS (continued)

Credit and counterparty risk (continued)

The aging of the impaired fee income receivables was as follows:

Age of impaired accounts receivable

	<u>2013</u>	<u>2012</u>
31-61 days	\$ -	\$ -
61-90 days	-	-
91-120 days	-	-
Over 120 days	<u>10,087</u>	<u>15,000</u>
Total – impaired	<u>\$ 10,087</u>	<u>\$ 15,000</u>

The Company mitigates its exposure to credit risk by placing cash with major international institutions. As the Company provides listing services, its revenue is made up of small fees from many customers. As such, any failure of a customer to pay their fees would not have a significant impact on the financial statements of the Company. The Company's policy is to provide for an allowance of doubtful debts based on specifically identified outstanding accounts receivable evaluated based on their age and assessed collectability.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

The Company's primary financial liabilities are accounts payable and accrued liabilities. The Company monitors current assets and liabilities to ensure that it has sufficient liquid assets to be able to meet its future expected cash outflows. All the Company's liabilities are expected to be paid within one year.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk for the Company comprises two types of risk: currency risk and interest rate risk. The Company is not exposed to any other market risks.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company operates in the Cayman Islands and the main currencies of its operations are the Cayman Islands dollar and the United States dollar.

The Cayman Islands dollar has a fixed exchange rate against the United States dollar so no currency risk or translation gains/losses arise from fluctuations between the currencies, and as such no

THE CAYMAN ISLANDS STOCK EXCHANGE LTD.

Notes to Financial Statements

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(expressed in Cayman Islands dollars)

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9. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS (continued)

Market risk (continued)

Currency risk (continued)

currency risk sensitivity analysis has been prepared. The Cayman Islands dollar to United States dollar exchange rate used by the Company is 0.82.

The only foreign currency monetary assets or liabilities held at June 30, 2013, were United States dollars as part of cash and cash equivalents in the amount of \$1,064,495 (2012: \$1,426,311).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The only financial instrument upon which changes in interest rates could have an impact is a fixed deposit, renewed monthly, in the amount of \$644,382 (2012: \$643,665) which is shown on the statements of financial position as part of cash and cash equivalents. As the financial instrument is short term in nature and a fixed rate is set at each monthly renewal of the fixed deposit, interest rate fluctuations would not significantly impact the Company's future cash flows. As such, no sensitivity analysis for interest rate risk has been prepared.

10. SHARE CAPITAL

The authorised and issued share capital of the Company is \$100,000 divided into 100,000 shares of \$1 each. All of the shares were exclusively subscribed on behalf of the Government by the Authority in 1996 in accordance with the Cayman Islands Stock Exchange Company Law, 1996.

The present dividend policy is for the Company to pay 75% of net operating income to the Government. The Government is the 100% shareholder of the Company and the dividend policy is reviewed on an annual basis. On October 28, 2011, the Stock Exchange Council approved dividend payments for the years ended June 30, 2011 and June 30, 2010 of \$1.2343 per share totaling \$123,430 and \$1.2343 per share totaling \$123,430, respectively. The dividends declared for the years ended June 30, 2010 and 2011 were fully paid to the Government during the year ended June 30, 2012. The Stock Exchange Council deferred declaration of the dividend related to the year ended June 30, 2012. The dividend related to the year end June 30, 2013 was declared subsequent to year end and is included within Note 17.

11. PERSONNEL

Included within personnel expenses are the salary, bonus, pension and healthcare payments made to and on behalf of the six (2012: eight) members of staff employed during the year. For the year ended June 30, 2013 total personnel expenses amounted to \$732,753 (2012: \$761,568). Total remuneration for the Company's three key management personnel was \$490,533 for the year ended June 30, 2013 (2012: \$431,233). At June 30, 2013, key management personnel consisted of the Chief Executive

THE CAYMAN ISLANDS STOCK EXCHANGE LTD.

Notes to Financial Statements

for the years ended June 30, 2013 and 2012

(expressed in Cayman Islands dollars)

(continued)

11. PERSONNEL (continued)

Officer, the Head of Listings and the Head of Information Technology. At June 30, 2012, key management personnel consisted of the Chief Executive Officer, Head of Markets and Compliance and the Head of Listings. The Head of Markets and Compliance resigned from the Company effective February 29, 2012.

Included in prepayments and other receivables are amounts receivable from employees amounting to \$2,810 (2012: \$7,182) of which \$ nil (2012: \$2,932) is receivable from key management personnel.

12. CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that the Company will be able to continue as a going concern without additional funding from the Cayman Islands Government. The Company's overall strategy remains unchanged from the year ended June 30, 2012. The capital structure of the Company consists of issued shares and retained earnings.

13. MARKETING, TRAVEL AND SUBSISTENCE

Marketing, travel and subsistence largely consists of promotional costs of \$23,412 (2012: \$5,937), and cost for conferences, and international trade events in New York, Chicago, London and the Cayman Islands of \$33,639 (2012: Canada, Colombia, the Cayman Islands and New York of \$25,254). Travel and subsistence expenses relating to conferences, international trade events and other marketing travel totaled \$30,578 (2012: \$27,583).

14. PENSION SCHEME

As required by the National Pensions Law of the Cayman Islands, the Company has established for its employees a defined contribution pension scheme with a third party pensions provider based in the Cayman Islands of the mandatory contribution rate on up to the current maximum pensionable earnings of \$60,000 per annum. The mandatory contribution rate under the law is 10% of the employee's salary, borne equally by the employer and employee. The Company contributions are borne 5.00% by the employer and 5.00% by the employee. The total pension cost recorded during the year ended June 30, 2013, was \$17,500 (2012: \$18,404). This represents the employer's portion and is included in personnel expenses.

15. RELATED PARTY TRANSACTIONS

In addition to the related party balances and transactions disclosed elsewhere in these financial statements, in the normal course of business, the Company transacted with Travers Thorp Alberga who is a listing agent for the Company. During the year, expenditures of \$7,493 were paid to Travers Thorp Alberga for legal services rendered. The Company's Chairman is also a Senior Partner of Travers Thorp Alberga.

16. COMPARATIVE FIGURES

Certain of the prior year figures have been reclassified to conform with the current year's presentation.

Notes to Financial Statements

for the years ended June 30, 2013 and 2012

(expressed in Cayman Islands dollars)

(continued)

17. SUBSEQUENT EVENTS

Management has evaluated the possibility of subsequent events existing in the Company's financial statements through October 25, 2013, the date the financial statements were available to be issued.

On September 27, 2013 the Stock Exchange Council approved a dividend payment for the year ended June 30, 2013 of \$0.7895 per share totaling \$78,950.

Management has determined that there are no further material events that would require disclosure in the Company's financial statements.

18. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Stock Exchange Council and authorised for issue on October 25, 2013.