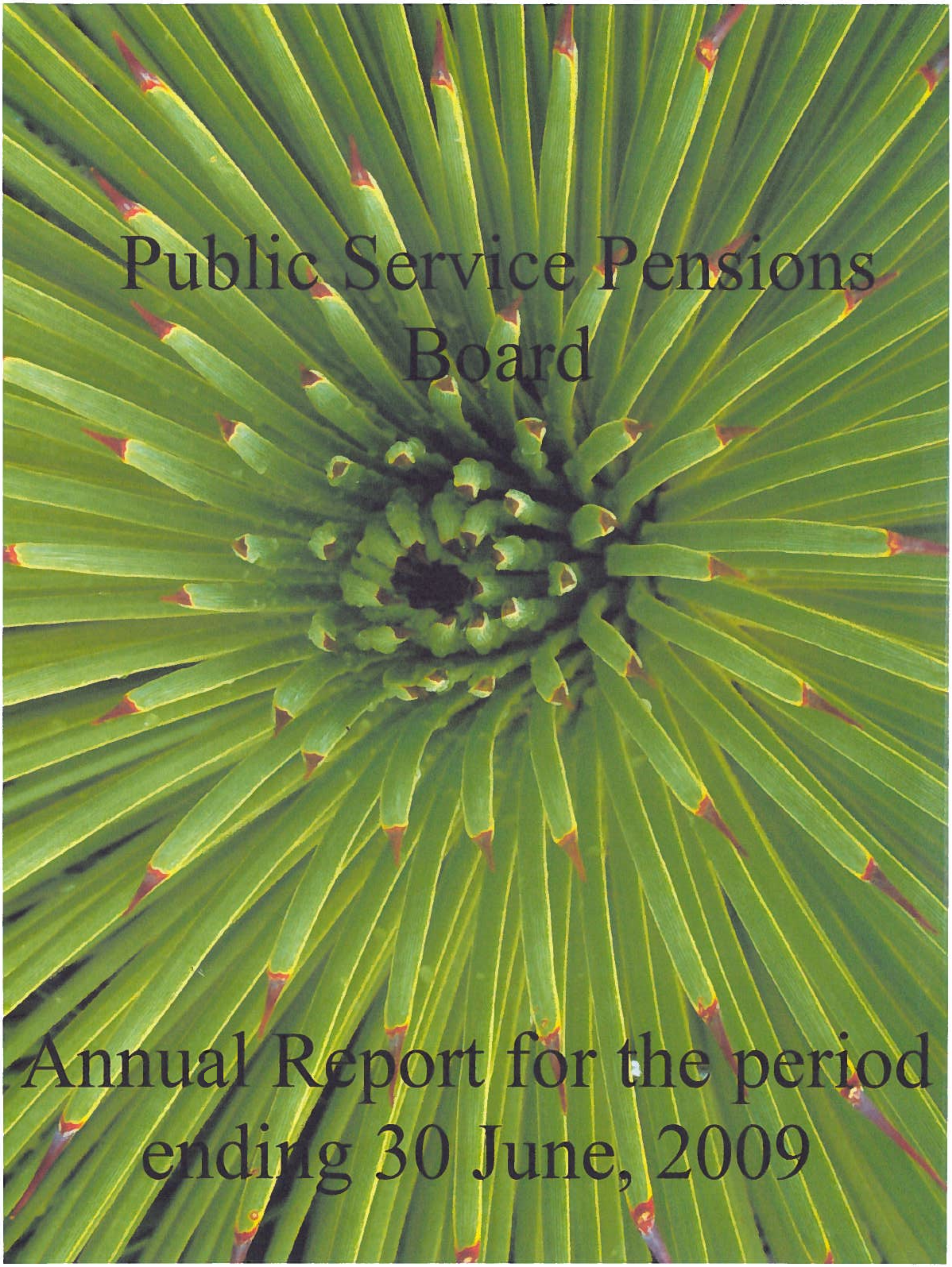
Public Service Pensions Board



Annual Report for the period ending 30 June, 2009

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BOARD OF DIRECTORS
AS AT 30 JUNE 2009

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. Nekita Rodriques
Secretary to the Board (acting)

BOARD ADVISORS AS AT 30 JUNE 2009

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.

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 Public Service Pensions Board staff as well as the Fund experienced positive growth during the year ended 30th June, 2009. Mr. Richard Moody was welcomed to the PSPB team as Director of Plan Administration in May and comes to us with a wealth of pension knowledge after holding a position most recently with the Royal Mail Pension Plan as Secretary to the Trustees for two of three funds and membership manager for their main Plan.

The Plan experienced growth in the form of a positive bounce back from the negative impact of the global recession experienced by all. After the devastating collapse endured as a result of the Lehman Brothers failure in September, 2008 the Fund was able to post very positive returns of 15.3% in the following quarter bringing the year-to-date returns to 3.2%. While the global economy is by no means out of the woods, we are riding a positive trend that we hope will continue to gain market share and momentum and propel us as favorably as possible into the foreseeable future.

If we consider the severity of the financial crisis which continues to stifle the global economy even to these present times and we then consider the fact that the Fund's annual returns have ranked in the upper quartile for 3 of the last 4 years, our clients can feel confident that their pensions are being invested with care and diligence. A moderate conservative approach to investment has proven to be the most effective strategy for preserving capital and has saved the Fund from experiencing crippling losses during these trying times.

As we look towards the next fiscal year and usher in a new decade there are signs that the market will soon recover and that while it may take several years for circumstances to be completely normalized, we are heading in the right direction. The Board of Directors will continue to keep the preservation and development of the Fund as the main focus of our efforts along with delivering quality customer service.

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 Board based on 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 $455 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 2009, the Fund (inclusive of foreign and local investments) stood at $237.7 million, which represents a $9.3 million or 4% increase from 30 June 2008.

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 out perform other forms of investments.

Market Summary

Global Equities

By the beginning of the 2nd quarter of the fiscal year stocks were 3 weeks into a rally that continued almost uninterrupted for 2 months due to optimism surrounding the leveling off of initial jobless claims in the U.S.

During the last quarter, it became clear that the extreme risk aversion which characterized the last quarter of 2008 was likely over, which allowed equity markets around the world to rise substantially by more than 20%. Against this market movement, global equities within the pension plan advanced 18.1% for the quarter. As a result, year-to-date performance is now a positive 5.5%, while the 1-year performance ending June 30, 2009 remains negative at -11.7%.

In terms of outlook, interest rates are expected to remain low for an extended period. Economic conditions are starting to improve or at least settle globally, stimulus programs are beginning to impact economic growth and inflation appears to be contained over the short term. The substantial round of cost cutting that has occurred at many companies should lead to profit growth once the global economy turns around. On balance, the global equity markets appear to be in the early stages of a moderate rebound based on strong profit growth and low inflation.

Fixed Income

Risk aversion in the fixed income markets continued to subside during the 2nd quarter, as data suggested that constrained economic activity had slowed.

For the periods ending June 30, 2009 the fixed income segment experienced an excellent quarter generating a 12.0% return, bringing the year-to-date performance to 2.0% and the 1-year performance to 5.1%. This is due largely to the manager staying the course with bond holdings that became deeply oversold but began to rebound as the fundamentals bolstered the underlying value.

Regarding relative value, the bond manager's performance placed in the 14th and 28th percentile ranks, for the last quarter and year-to-date periods respectively. Over the 1-year period the relative rank is below average but the 4-year period is now recording above average performance which supports the value added assessment of 70 basis points.

Real Estate Equities

During the quarter pension plans became more constructive about real estate equities as the macroeconomic news increasingly suggested that the worst may be over with the property market slump being eased.

The fundamentals improved markedly for global real estate over the quarter, producing an impressive 32.5%, being the best returns within the investment mix of the Fund and, on a forward-looking basis, reinforcing the underlying value.

The strong performance pushed the year-to-date performance into positive territory at 3.1%. Despite this, value added performance for the quarter was negative 3.3% and year-to-date value added performance was negative at 2.5%. However, value added performance for the 1-year period was a positive 2.5% which was ahead of its benchmark of negative 35.5%.

Fund Performance

Many pension plans experienced one of their best quarters in recent years during the period ending June 30, 2009. The average pension plan recorded a return of 10.8 per cent for the second quarter following six straight quarters of losses.

During the 2nd quarter the Fund witnessed the capital markets break from the devastating collapse began following the failure of Lehman Brothers in September, 2008. As a result the Plan experienced an excellent quarter, recording a 15.3% return which brought the year-to-date returns to a positive 3.2%. It should be noted that the Plan derived further absolute and relative advantage from the bond segment which performed consistently well.

Bond holdings, which had become very cheap and deeply oversold, began to rebound as it became clear that a financial Armageddon had been avoided. In spite of the excellent quarterly performance, the 1 -year performance remains negative at 5.7%.

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, amounted to a negative 0.41% for calendar 2008. All participant contribution accounts would have been credited at calendar year end with an interest base of –0.41%. Table 1 indicates the CRR earned for the period 2002 to 2008 expressed in percentages.

Table 1

Year	2002	2003	2004	2005	2006	2007	2008
Return	-5.08	8.10	4.40	7.85	12.78	4.40	-15.56
CRR	-4.41	-1.20	2.32	6.77	8.29	8.29	-0.41

APPENDIX 1

Copy of Public Service Pensions Board Certified Financial Statements and Notes for the year ended 30 June 2009

Public Service Pensions Board

Financial Statements

June 30, 2009

PUBLIC SERVICE PENSIONS BOARD

FINANCIAL STATEMENTS

JUNE 30, 2009

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Public Service Pensions Board
Financial Statements
30 June 2009

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 2009.

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 2009;

(b) fairly reflect the financial position as at 30th June 2009 and performance for the year ended 30th June 2009;

(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	Jewel Evans Lindsey
Chairman	Managing Director
Public Service Pensions Board	Public Service Pensions Board
Date- 24 May 2011	Date- 24 May 2011

Office of the Auditor General
CAYMAN ISLANDS

Phone (345) - 244-3211
Fax: (345) - 945-7738
AuditorGeneral@oag.gov.ky
www.auditorgeneral.gov.ky

3rd Floor, Anderson Square
64 Shedden Road, George Town
PO Box 2583
Grand Cayman KY1 1103,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 2009, 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 2009 and a summary of significant accounting policies and other explanatory notes as set out on pages 5 to 26 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 (2005 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 2009 and the results of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Matters of Emphasis

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 (2005 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 our opinion, we 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."

4. According to International Accounting Standard (IAS) 19, the Board should disclose the portion of assets or liabilities held for each ministry/ portfolio, statutory authority and government company participating in the plan. The Board's accounting system cannot provide this information.

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

Cayman Islands
24 May 2011

Public Service Pensions Board
Statement of Net Assets Available for Benefits
As at 30 June 2009
(Expressed in Cayman Islands Dollars)

	2009 $ 000		2008 $ 000	
ASSETS				
Current Assets				
Cash and Cash Equivalents (Note 3)				
Cash	1,388		4,949	
Term Deposits	5,888	7,276	2,506	7,455
Investments, at Fair Market Value (Note 4)		237,691		228,376
Receivables				
Contributions Receivable				
Employer's contributions	2,202		2,976	
Employer's - Additional Defined Benefit Costs	3,786		1,891	
Employee's contributions	451		1,210	
Pension Grants receivable				
Parliamentarian Grants Receivable (Note 7)	(131)		2,849	
Judiciary Grant Receivable (Note 9)	62		66	
Ex-gratia Grants Receivable (Note 7)	(272)		(229)	
Operating Grant Receivable	300		150	
Other Receivables	598	6,996	122	9,036
Prepayments				
PSP Fund Surplus	81		81	
Prepaid Expenses	-	81	24	105
Non-Current Assets				
Fixed Assets, Net (Note 5)		315		308
Total Assets		252,359		245,280
LIABILITIES				
Current Liabilities				
Investment Management Fees	15		-	
Accounts Payable	514		331	
Overpaid Contributions (Note 6)	1,745		1,765	
Benefits Due (Note 13)	438	2,712	438	2,534
Non-Current Liabilities				
Due in Respect of Judiciary Contributions (Note 9)	1,689		1,689	
Capitalized Government Grant (Note 11)	-	1,689	62	1,750
Total Liabilities		4,401		4,285
Net Assets		247,958		240,995
Represented by				
Net Assets Available for Benefits				
Accumulated Fund		247,958		240,995

Signed on behalf of the Public Service Pensions Board on 24 May 2011

Kenneth Jefferson, JP
Chairman

Jewel Evans Lindsey
Managing Director

Public Service Pensions Board
Statement of Changes in Net Assets Available for Benefits
For the Year Ended 30 June 2009
(Expressed in Cayman Islands Dollars)

	2009 $ 000	2008 $ 000
Pensions		
Contributions		
Employers	13,509	12,460
Employers' - Additional Defined Benefit Cost	16,092	14,643
Employees	13,655	12,450
Total	43,256	39,553
Late payment penalty income	145	21
Pre-Funded Pensions in Payment (Note 7)		
Parliamentarian Pensions	-	-
Judicial	35	50
Ex-Gratia Pensions	447	520
Total Contributions	43,883	40,142
Benefits paid to participants (Note 10)		
Public Service Pensions	(20,234)	(16,752)
Parliamentarian Pensions	(1,076)	(1,027)
Judicial	(43)	(43)
Ex-Gratia Pensions	(283)	(312)
Total Benefits paid to participants	(21,636)	(18,134)
Net Pensions	22,247	22,008
Investing		
Investment Income		
Unrealized (Loss) on Investments	(14,170)	(14,569)
Unrealized (Loss) on Foreign Exchange	110	-
Interest Earned on Investments	(2)	223
Interest Earned on Term Deposits and Call Accounts	115	209
Dividends Earned on Investments	2,251	19
Gain (Loss) on Sale of Investments	390	-
Total Investment Income (Loss)	(11,306)	(14,118)
Investment Expenses		
Investment Management and Custodial Fees (Note 16)	(1,433)	(1,621)
Interest Attributable to Judiciary Contributions (Note 9)	-	(58)
Other Investment Expenses	(107)	-
Total Investment Expenses	(1,539)	(1,679)
Net Investment Income (Loss)	(12,846)	(15,798)
Operating		
Operating Income		
Government Grant (Note 11)	661	649
Gain (Loss) on Sale of Fixed Assets	(108)	-
Other Income	433	89
Total Operating Income	986	737
Operating Expenses		
Administrative Expenses (Note 12)	(3,125)	(2,386)
Depreciation - Fixed Assets (Note 2)	(299)	(116)
Total Operating Expense	(3,424)	(2,502)
Net Operating Loss	(2,438)	(1,764)
Net Increase in assets	6,963	4,446
Net Assets Available for benefits at start of year	240,995	236,549
Net Assets Available for benefits at end of year	247,958	240,995

The Notes to the Financial Statements on pages 9 to 26 form an integral part of these financial statements.

Public Service Pensions Board
Statement of Cash Flows
For the Year Ended 30 June 2009
(Expressed in Cayman Islands Dollars)

	2009 $ 000	2008 $ 000
Cash flows from operating activities		
Contributions received from employees	14,413	16,111
Contributions received from employers	14,293	9,450
Benefits Paid to Participants - Public Service	(20,234)	(16,608)
Benefits Paid to Participants - Parliamentarian	(1,076)	(1,027)
Benefits Paid to Participants - ExGratia	(284)	(288)
Net Investment Income Received	147	262
Other Income Received	553	691
Administrative Expenses Paid	(2,942)	(2,530)
Investment Management Fees and Other Expenses Paid	(1,161)	(1,736)
Net cash provided by operating activities	3,709	4,326
Cash flows from investing activities		
Purchase of investments	(21,109)	(27,605)
Proceeds from sale and maturity of investments	-	35,392
Purchase of Fixed Assets	(423)	(256)
Net cash applied to investing activities	(21,532)	(27,557)
Cash flows from financing activities		
Contributions received from employers - Additional Defined Benefit	14,176	14,427
Pensions in Payment Grant - Parliamentarian	2,981	-
Ex-gratia Grant and Prepaid Ex-gratia Grant	491	477
Net cash received from financing activities	17,648	14,903
Cash flows from judiciary contributions		
Contributions received from employees	-	-
Contributions received from employer	38	46
Benefits Paid to Participants	(42)	(66)
Interest Attributable to Judiciary Contributions	-	-
Net cash received from judiciary contributions	(4)	(20)
Net increase / (decrease) in cash and cash equivalents	(179)	(8,349)
Cash and cash equivalents at beginning of year (Note 3)	7,455	15,803
Cash and cash equivalents at end of year (Note 3)	7,276	7,455

The Notes to the Financial Statements on pages 9 to 26 form an integral part of these financial statements.

Public Service Pensions Board
Statement of Accumulated Plan Benefits
As at 30 June 2009
(Expressed in Cayman Islands Dollars)

	2009 $ 000	2008 $ 000
Actuarial present value of accumulated plan benefits		
Inactive and Active Participants	(456,329)	(316,931)
Total Actuarial present value of accumulated plan benefits	(456,329)	(316,931)
Fund's Net Assets Available for Benefits at the Valuation Date	247,958	240,995
Fund Deficit	(208,371)	(75,936)

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.

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.

1. Introduction and Background Information (continued)

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. 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.

2. Significant Accounting Policies (continued)

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 2008
Cash:	$ 1,388,119	$ 4,948,766
Term Deposits:	5,888,333	2,505,822
Total	**$ 7,276,452**	**$ 7,454,588**

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	$ 5,833,333	April 03/09	July 03/09	1.0625%
TD-013-06149	55,000	June 05/09	December 07/09	0.0625%
Total	**$ 5,888,333**			

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

The Plan (In General):

The 2nd quarter witnessed the capital markets break from the devastating collapse that began flowing the failure of Lehman Brothers in September 2008. The Plan experiences an excellent quarter, recording a 15.3% return, bringing the year-to-date returns to a positive 3.2%. In spite of the excellent quarterly performance, the 1-year performance remains negative at 5.7%. The Plan's long-term risk return trade-offs is moderate and well above the norm when measured against a peer universe sample of about 118 pension funds.

Global Equities:

During the last quarter, it became clear that the extreme risk aversion which characterized the last quarter of 2008 was likely over, which allowed equity markets around the world to rise substantially by more than 20.0%. Against this market movement, global equities within the pension plan advanced 18.1% for the quarter. As a result, year-to-date performance is now a positive 5.5%, while the 1-year performance ending June 30, 2009 remains negative at 11.7%

Real Estate Equities:

The fundamentals improved markedly for global real estate over the quarter, producing an impressive 32.5%, being the best returns within the investment mix of the plan and, on a forward-looking basis, reinforcing the underlying value. The strong performance pushed the year-to-date performance into positive territory at 3.1%. However, performance during the one year ending June 30, 2009 remains significantly negative at 33.0%.

Fixed Income:

For the periods ending June 30, 2009, the fixed income segment experienced an excellent quarter generating a 12.0% return, bringing the year-to-date performance to 2.0% and the 1-year performance to 5.1%.

4. Investments (continued)

Total Returns to June 30, 2009
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
2.5%	15.3%	3.2%	-5.7%	5.6%	1.3%	3.3%	3.6%	2.0%

The investment portfolios are detailed below:

	30 June 2009	30 June 2008
Equities	$ 109,805,008	$ 113,031,414
Fixed Income	120,605,384	104,326,898
Real Estate	7,280,275	11,017,597
Total	$ 237,690,667	$ 228,375,909

5. Fixed Assets

Fixed assets consist of the following components:

	Furniture & Fixtures	Computer Equipment	Office Equipment	Leasehold Improvements	Computer Software	Vehicles	Total
Cost							
As at 01 July 2008	$150,543	$116,282	$104,784	$348,155	$24,848	$19,900	$764,512
Purchased in the period	148,918	1,827	2,035	278,909	2,658	-	434,347
Disposals / adjustments	(153,852)	(549)	-	(348,155)	-		(502,556)
As at 30 June 2009	$145,609	$117,560	$106,819	$278,909	$27,506	$19,900	$696,303
Acc Depreciation							
As at 01 July 2008	$64,569	$69,605	$90,642	$211,715	$11,634	$7,960	$456,125
Provision in the period	34,743	11,836	5,333	223,091	3,851	3,980	282,834
Disposals / adjustments	(84,751)	16,736	2,934	(295,352)	2,942	-	(357,491)
As at 30 June 2009	$14,561	$98,177	$98,909	$139,454	$18,427	$11,940	$381,468
Net Book Value							
As at 30 June 2009	$131,048	$19,383	$7,910	$139,455	$9,079	$7,960	$314,835
As at 30 June 2008	$85,974	$46,677	$14,142	$136,440	$13,214	$11,940	$308,387

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 2009	30 June 2008
Overpaid Contributions – Employer	$ 128,916	$ 139,037
Overpaid Contributions – Employee	157,880	168,001
Overpaid Contributions – Additional Defined Benefit Cost	1,458,346	1,458,346
Total Overpaid Contributions	**$1,745,142**	**$1,765,384**

7. **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.

Ex-Gratia Pension Payment Actvitiy 2005-2009

Year	2005	2005-6	2006-7	2007-8	2008-9
Annual Grant	60,650	97,500	422,090	520,000	447,500
Annual Payments	(79,832)	(203,624)	(311,722)	(312,318)	(490,833)
Surplus / (Deficit)	(19,182)	(106,124)	110,368	207,692	(43,333)
Accumulated Surplus/(Deficit)	**17,497**	**(88,627)**	**21,741**	**229,433**	**272,766**

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

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.

8. 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.

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."

8. Assets Allocated to Parliamentary Pensions Fund (continued)

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.

9. 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

9. **Judiciary Pension Contributions (continued)**

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.

10. **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.

11. **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.

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 2009	30 June 2008
CAPITALIZED GOVERNMENT GRANT		
Opening Net Capitalized Government Grant	$61,556	$110,552
Amortization of Capitalized Government Grant	(61,556)	(48,996)
Closing Net Capitalized Government Grant	$-0-	$ 61,556

11. Capitalized and Operating Governments (continued)

	30 June 2009	30 June 2008
OPERATING INCOME FROM GOVERNMENT SUBSIDY		
Income from Government (Cash Basis)	$600,000	$600,000
Plus Amortization of Capitalized Government Subsidy	61,556	48,996
Total for the year	$661,556	$648,996

12. Administrative Expenses

	30 June 2009	30 June 2008
Salaries and Benefits	$2,216,655	$1,499,016
Office Accommodation	173,585	181,962
General Administrative	518,909	553,519
Actuarial Fees	-	37,491
Audit Fees	117,633	65,000
Other Professional Fees	55,157	27,196
Trustee Allowances & Training	42,387	21,318
Total	$3,124,326	$2,385,502

13. 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.

14. 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.

15. 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.

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)

15. Pension Contributions (continued)

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

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. 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.

b. Parliamentarian Pensions Plan Actuarial Valuation – 1 January 2008

The Actuarial Valuation calculated a Fund Deficiency as at 1 January 2008 of $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.

15. Pension Contributions (continued)

c. 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

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.

16. 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. Western Asset Management ("WAM", as Investment Manager)
b. Morgan Stanley Investment Management Ltd ("Morgan Stanley", as Investment Manager)
c. ING Clarion Real Estate Securities, L.P. ("ING", as Investment Manager)
d. RBC Dexia Investment Services ("RBC Dexia" as Custodian)
e. Advisory Capital (Investment Consultants)

The Board incurred Investment management and consultancy expenses as follows:

	30 June 2009	30 June 2008
Western Asset Management	$ 333,719	$ 327,878
Morgan Stanley	672,121	1,093,710
ING	139,693	-
RBC Dexla Custodial Fees	98,171	77,973
Advisory Capital	188,076	121,314
Total	$ 1,431,780	$1,620,875

17. 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. 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.

17. Financial Instruments (continued)

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.

18. Leases and Commitments

During the year, 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 installments in advance of 1 day of each month. The total mainfloor and second floor is approximately 1,632.58 sq ft. and 3,915.3 sq ft respectively of gross rentable area. Interest at a prescribed rate (3%) on any rent or other sum the 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 preceeding calendar year. Notwithstanding the actual CPI, the amount of increase

18. Leases and Commitments (continued)

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.

The Board terminated the lease agreements it previously held in Cricket Square and Mirco Center.

19. Subsequent Events

As noted in the disclosure notes for 2007 – 2008, 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 3rd quarter of physical year 2010.

Due to a clause in the lease for accommodations at Cricket Square the Board was unable to renew its lease and had to arrange for alternative accommodation. The Board entered into an agreement with the Smith Road Centre commencing April 1, 2009. The agreed rent was $32 per square foot or $4,354 per month for a term of two years ending March 31st 2011.

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.

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 2008-09 was approximately $353K (2008: $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 $114,041 and $117,633 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. Portfolio of Finance and Economics
f. Ministry of Tourism, Economics, Investment and Commerce
g. Office of the Complaints Commisioner
h. Portfolio of the Civil Service
i. Portfolio of Internal and External Affairs
j. Ministry of District Administration, Planning, Agriculture and Housing
k. Ministry of Education, Employment, Training, Youth, Sports, Culture
l. Ministry of Health and Human Services
m. Ministry of Communication, Works and Infrastructure

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