NATIONAL INSURANCE CORPORATION

*For the benefit of us all!*

# 2013
# NATIONAL INSURANCE CORPORATION
## ANNUAL REPORT

PROVIDING SOCIAL PROTECTION FOR ALL

JULY 2012 - JUNE 2013

# HON. DR. KENNY D. ANTHONY

PRIME MINISTER
MINISTER FOR FINANCE, ECONOMIC AFFAIRS, PLANNING AND SOCIAL SECURITY

# Table Of Contents

# MISSION STATEMENT

**To ensure that every St. Lucian enjoys social and financial protection and to assist in the development of our nation through the efficient collection of contributions, payment of relevant benefits, prudent management of assets, use of cutting edge technology and a cadre of highly skilled staff.**

# VISION STATEMENT

**An effective, transparent and financially sound institution which is customer-focused, provides social protection to the St. Lucian population and plays a leading role in national development.**

# CORPORATE INFORMATION

## HEAD OFFICE

### National Insurance Corporation
Francis Compton Building
Waterfront
Castries
St. Lucia
Tel: 452-2808
Fax: 451-9882

## SUB OFFICES

### National Insurance Corporation
Antoine L. Theodore Building
Cnr. of Theodore and Hospital Streets
Vieux Fort
St. Lucia
Tel: 454-6758
Fax: 454-5001

### National Insurance Corporation
Sir Darnley Alexander Building
Bay Street
Soufriere
St. Lucia
Tel: 459-7241
Fax: 459-5434

### National Insurance Corporation
Providence Commercial Centre
Rodney Bay
Gros Islet
St. Lucia
Tel: 457-4074/75
Fax: 452-0516

## BANKERS

### Bank of Saint Lucia Ltd.
Bridge Street
Castries
St. Lucia

## AUDITORS

### BDO
Mercury Court
Choc Estate
P.O. Box 364
Castries
St. Lucia

## ATTORNEYS

**Mrs. Cadie St. Rose-Albertini LLB, LEC, LLM**

**Ms. Kit-Juelle Frank-Amoroso LLB, LEC, MCI Arb**
First Floor
Francis Compton Building
Waterfront
Castries
St. Lucia

# BOARD MEMBERS


Lisle Chase
(Chairman)


Trevor Louisy
(Deputy Chairman)


Keigan Cox
(Member)


Margaret Monplaisir
(Member)


Matthew Mathurin
(Member)


Michelle Phillips
(Member)


Peter Alexander
(Member)

# BOARD COMMITTEES

## AUDIT COMMITTEE

| | |
|---|---|
| Keigan Cox | Chairperson |
| Lisle Chase | |
| Peter Alexander | |
| Ryan Devaux | |

## HUMAN RESOURCE COMMITTEE

| | |
|---|---|
| Margaret Monplaisir | Chairperson |
| Trevor Louisy | |
| Michelle Phillips | |
| Matthew Mathurin | |

## GOVERNANCE COMMITTEE

| | |
|---|---|
| Trevor Louisy | Chairperson |
| Lisle Chase | |

## APPEALS COMMITTEE

| | |
|---|---|
| Lisle Chase | Chairperson |
| Trevor Louisy | |
| Michelle Phillips | |
| Peter Alexander | |

## INVESTMENT COMMITTEE

| | |
|---|---|
| Dr. Reginald Darius | Chairperson |
| Alvin Malaykhan | |
| Huanna Leon | |
| Matthew Mathurin | |

# MANAGEMENT TEAM & SENIOR STAFF

## MANAGEMENT TEAM

| | |
|---|---|
| Mr. Matthew Mathurin | Director |
| Mr. Desmond Dujon Henry | Assistant Director (Operations) |
| Mrs. Cadie St. Rose Albertini | Senior Legal Counsel/Corporate Secretary |
| Mrs. Paula Bleasdille | Chief Accountant |
| Mr. Irwin Jean | Investment Manager |
| Mr. Aloysius Burke | Systems Manager |
| Mr. Augustin Louis | Marketing and Corporate Communications Manager |
| Ms. Allison Delmede | Human Resource Manager |
| Mr. Linden Bollers | Internal Auditor |
| Ms. Callixta Emmanuel | Manager, Compliance and Records Department |
| Mr. Bernard Jankie | Manager, Branch Offices |
| Ms. Joan Leon | Manager, Customer Service Department |

## SENIOR OFFICERS

| | |
|---|---|
| Mr. Paul Kallicharan | Statistician |
| Mrs. Theresa Cox | Customer Service Supervisor |
| Mrs. Elmona Leonce | Benefits Supervisor |
| Mrs. Semanthia Wells-Joseph | Executive Assistant |
| Ms. Merle Regis | Records Supervisor |
| Mr. Timothy John | Chief Security Officer |

NATIONAL INSURANCE CORPORATION
*For the benefit of us all!*

# CHAIRMAN'S REPORT
## July 2012 - June 2013

I am pleased to present my report for the financial year 2012-13. As with the past years, the National Insurance Corporation (NIC) continued its efforts at strengthening the institution.

The NIC's performance during the year reflected the prudent management of the organization's resources. The resilient culture of our management and staff allowed us to meet the challenges in the economy.

The Corporation remained financially strong despite continued contraction in economic activities, increased unemployment and the downward trend in investment opportunities and returns.

Overall, the NIC performed creditably, having achieved most of the financial targets set for the period. Financial and Operational results for 2013 were commendable, as we were able to grow the resources of the fund, and provide excellent service to our contributors.

## FINANCIAL HIGHLIGHTS

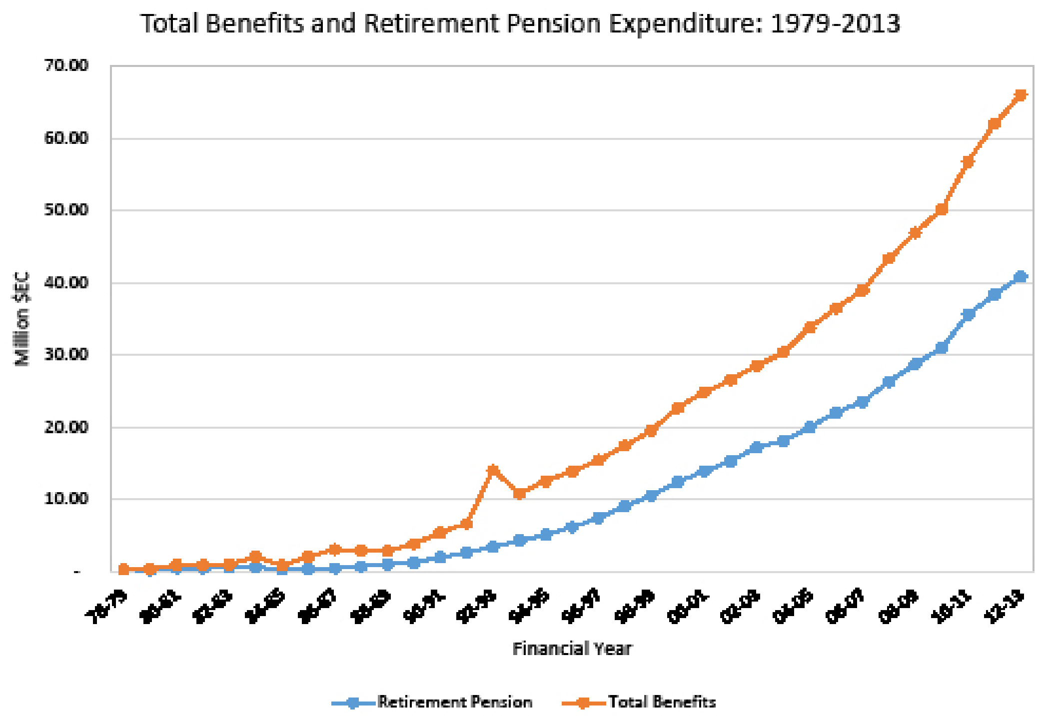
### BENEFITS

Total benefits expenditure in 2012/13 was $68.52 million, an increase of 6.84% over the $64.13 million incurred in the previous financial year. Of this amount, long-term benefit payments accounted for 78.94% or $54.08 million, while short-term benefit payments including Medical Health Program accounted for the remaining 21.08% or $14.43 million. The surplus of contribution income over benefit expenditure was $32.96 million or 32.48% of contribution income.

Retirement Pensions continue to be the major component of pension expenditure and accounted for 63.39% of total benefits paid. This trend will continue into the future to reflect the projected steady increase in retirement of active contributors. As the Social Security Program matures, NIC's benefit expenditure pattern will mirror that of a pension program, due to the fact that payments will be almost exclusively pensions (illustrated in Figure 1 below).

When expressed as a percentage of contribution income, total benefits expenditure was 67.52 % compared to 65.54% in the previous financial year.

Figure 1




With regard to benefits governed by reciprocal agreement, 6 transactions were processed under the Agreement between Saint Lucia and Canada and 18 under the CARICOM Agreement on Social Security. As at June 30th, 2013, a total of 33 pensions were in payment under these Agreements.

## INCOME

Total income for the financial year was $225.38 million, compared to $151.15 million for the previous year, an increase of 49.11%. The increase in total income was influenced mainly by the 132.45% growth in investment income, from $53.30 million to $123.90 million. A 3.71% rise in contribution income from $97.85 million in the previous financial year to $101.48 million in 2012/13 also contributed to improved performance.

## EXPENSES

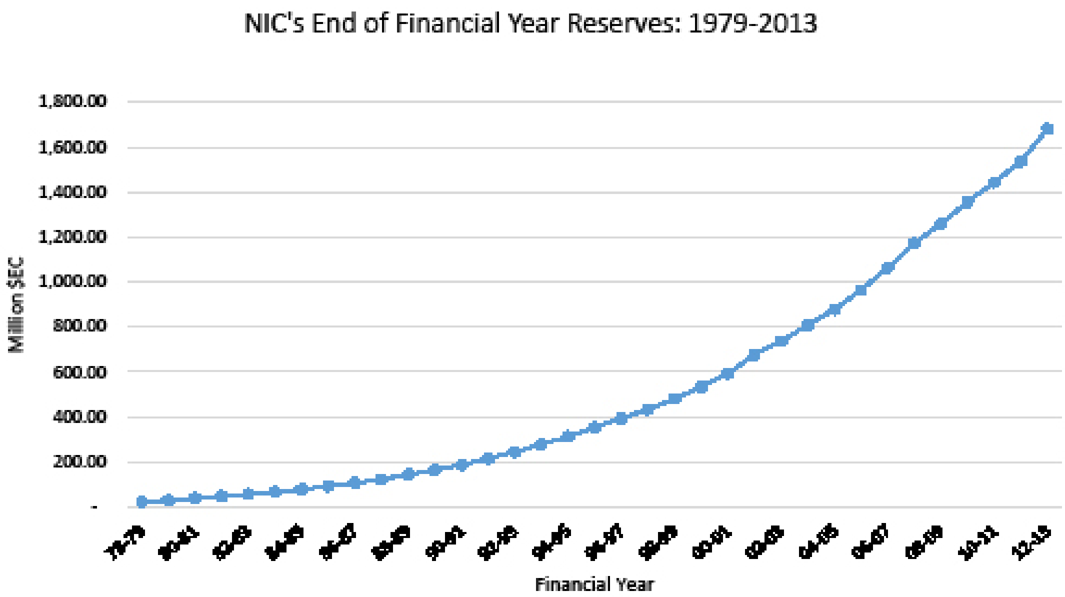
During the review period, General and Administrative Expenses declined by 2.21% to $16.62 million. General and Administrative Expenses as a percentage of contribution income was 16.37%. When compared to the previous fiscal year, this performance index showed a contraction of 0.99%, which indicated continued improvement in financial management.

## ASSETS

Total assets at 30th June, 2013 stood at $1.78 billion and represented a moderate increase of 8.45% over the previous financial year. This moderate growth was reflected in the Investment Portfolio of the Corporation whose balance stood at $1.73 billion at the end of the review period, as compared to $1.59 billion at the end of June 2012.

At the end of the financial year, Reserves expanded by 8.64% or $139.64 million to $1.76 billion. The trend in the Corporation's Reserves is illustrated in Figure 2 below.

**Figure 2**




## INVESTMENT PORTFOLIO

Cognizant of the erosive effect of inflation on the purchasing power of pensions and the expected decline over time in the ratio of active contributors per pensioner, the National Insurance Corporation continues to invest its surplus funds prudently in keeping with the provisions contained in its investment Policy and Guidelines. The key objectives are, in order of priority, Preservation of Capital, Liquidity and Yield.

The investment environment remained volatile during the period under review. The Corporation exercised continued significant due diligence in adding to, and in the management of, its investment assets.

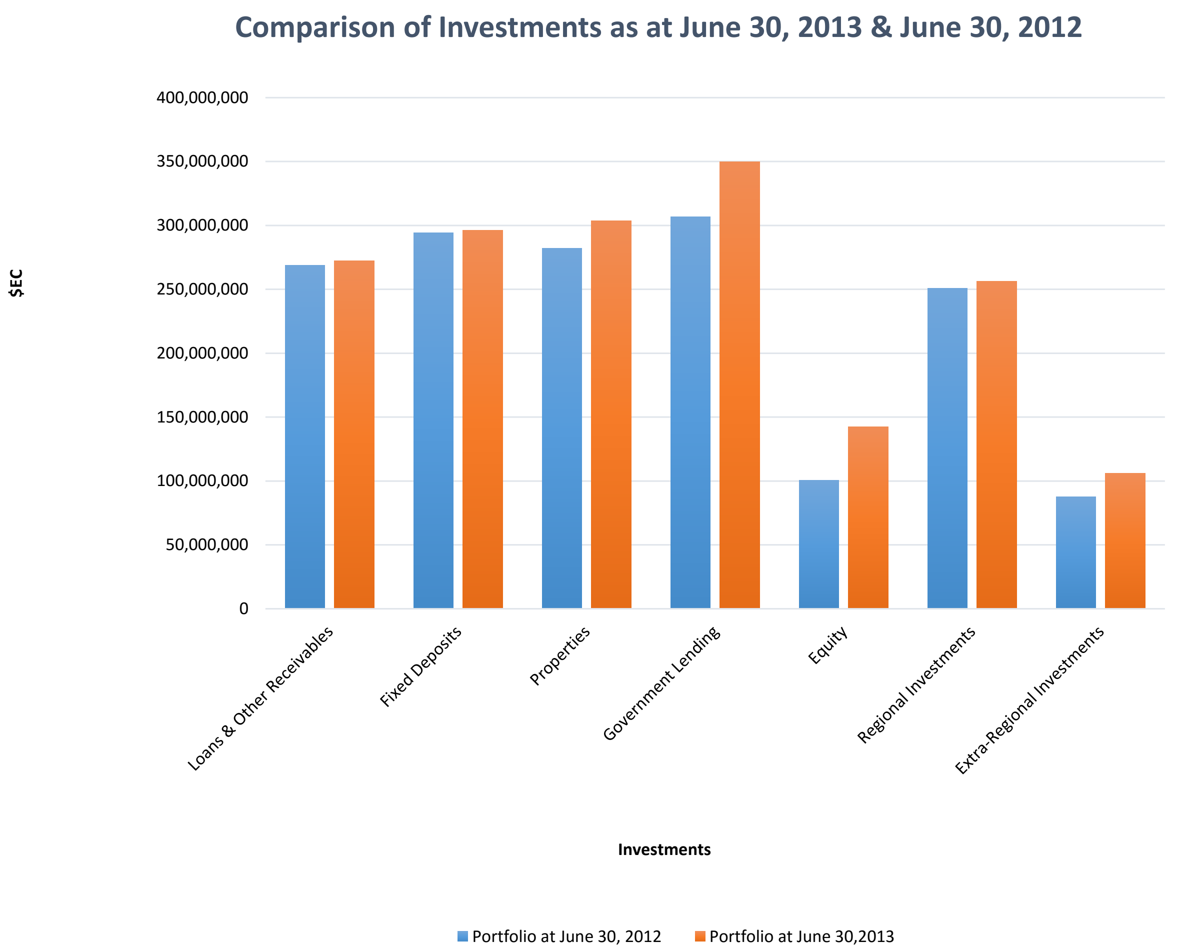
The following investments were undertaken during the year ended June 2013:

- *Purchased USD 5 million of Government of Saint Lucia Bond at an interest rate of 6.95% per annum maturing in 2019.*
- *Purchased EC$ 3.8 million of Eastern Caribbean Home Mortgage Bank 4 year Bonds maturing in 2017 at an interest rate of 3.75%.*
- *Purchased EC$ 10 million 91 day Government of Saint Lucia Treasury Bill at an interest rate of 3.00%.*
- *Purchased EC$ 5 million 91 day Government of Saint Lucia Treasury Bills at an interest rate of 2.749%.*

- *Purchased USD 2 million Government of Aruba Bonds at an interest rate of 4.63% per annum maturing 2023.*
- *Purchased EC$ 4 million of 7.00% Government of Saint Lucia 7 year Bonds maturing in 2020.*
- *Purchased EC$ 10 million of 6.75% Government of Saint Lucia 6 year bond maturing 2019.*
- *Purchased EC$ 5 million of Government of Saint Lucia Bond at an interest rate of 7.50% per annum maturing in 2023.*
- *Purchased EC$ 5 million 91 day Government of Saint Lucia Treasury Bill at an interest rate of 3.15%.*
- *Purchased EC$ 4 million of Government of Saint Lucia Bond at an interest rate of 4.75% per annum maturing in December 2013.*
- *Invested USD 5 million in a US Corporate Bond Portfolio.*
- *Placed EC$ 15 million in new term deposits with a Commercial Bank in Saint Lucia at an interest rate of 3.75%.*
- *Invested EC$ 5 million in repurchase agreements at an interest rate of 4.50%.*
- *Purchased approximately EC$ 507,000 91 day Government of Saint Lucia Treasury Bill at an interest rate of 6.00%.*
- *Purchased EC$ 10 million of 7.00% Government of Saint Lucia 7 year Bond maturing 2019.*
- *Purchased EC$ 27 million of 7.00% Government of Saint Lucia 4 year Bond maturing 2016.*

The following provides a summary of the investment portfolio at 30th June, 2013 with comparative figures as at 30th June, 2012

| INVESTMENTS | PORTFOLIO at 30th June, 2013 $ | PORTFOLIO at 30th June, 2012 $ |
|---|---|---|
| Loans & Other Receivables | 272,301,585 | 268,948,177 |
| Fixed Deposits | 296,189,548 | 294,300,265 |
| Properties | 303,640,364 | 282,112,224 |
| Government Lending | 349,680,743 | 306,728,040 |
| Equity | 142,448,395 | 100,482,629 |
| Regional Investments | 256,338,652 | 250,663,816 |
| Extra-Regional Investments | 106,117,918 | 87,644,378 |
| TOTAL | 1,726,717,205 | 1,590,879,529 |




# INFORMATION AND COMMUNICATIONS TECHNOLOGY SYSTEMS

The National Insurance Corporation is committed to the use of appropriate cutting edge technology in satisfying its mandate to provide social security services to the people of Saint Lucia having recognized technology as an indispensable tool to maximize efficiency, accuracy, productivity and organizational effectiveness. To that end, several initiatives were undertaken to enhance the NIC's Information Technology Systems and Infrastructure including inter alia:

## Web Services

SSL Certificates were updated for 3 years, to expire in 2015. These SSL certificates will provide encryption for data being viewed online and transferred from our website.

## Network Expansion

We have installed a structured cabling plant to the main office by upgrading to category 5E and 6 standards. This allows us to solve network faults speedily by going straight to the source.

## Documentation

We have now begun reviewing completed user and architecture documentation for our Social Security system. This process involves a team review of documentation sets.

## Security

In addition to Intrusion Detection System (IDS/IPS) monitoring, the entire network security has been enhanced to monitor and send alerts when important services are down such as servers and printers. Additionally, we monitor rejected emails against received emails, to analyze the rate of spammed email by external sources. This includes social network sites and illegal sites.

## IT Audit

The IT Audit of the Department was completed for 2012 -2013. The reviews addressed personnel, security, application quality, system development life cycle, project management and internal controls. IT processes are 100% compliant.

# HUMAN RESOURCE MANAGEMENT

Human Resource Management plays a critical role in the effective administration of the Corporation. In this regard, management undertook a number of activities to motivate staff and assist in their development.

## Job Reclassification

During the last quarter of 2013, the Human Resource Department's focus was primarily on the review of the Manual of Job Descriptions and finalization of a job evaluation and reclassification exercise.

## Training and Development

Training & Development continued to receive attention, particularly the area of Communication and Leadership Development where nine (9) employees joined the NIC Toastmasters Club and five (5) employees received training in Effective Communication and Human Relations. Other local training included: Conflict Management, Risk Management Sensitization exercise, Occupational Health and Safety in the Workplace, First Aid/CPR/AED, NIC Products and Services, Mediation, Microsoft Access, and Effective Purchasing. Some employees also received regional and international training.

## Scholarships

The NIC continued to award scholarships to the children of staff members who excelled at the Common Entrance Examination and Caribbean Examination Council (CXC). This year four (4) scholarships were awarded; two (2) to secondary school students and two (2) to students of Sir Arthur Lewis Community College. There are currently twelve (12) active scholarships.

## Policies

The Corporation continued its review of existing policies and implementation of new ones. Two policies, namely the Cellular Phone Policy and Vehicle Policy were developed while the Sickness Absence Policy and Staff Scholarship Policies were reviewed.

## Other

- *The Corporation continued to assist secondary and tertiary institutions by providing students with the opportunity to gain work experience as well as exposure to positive work ethics.*

- *Recognizing the importance of health to the performance of its employees, the Corporation continued providing bi-annual Diabetes and Hypertension screening.*

# CORPORATE COMMUNICATIONS

Communication with the public is a vital component of the work of the Corporation. During the year, the NIC focused on informing the public of their rights and obligations under the NIC Act, as well as the other benefits provided and projects undertaken by the NIC. The activities undertaken during the year in pursuit of its objectives were as follows:

- *Production of programs explaining the different benefits available to contributors under the Act, the qualifying conditions and the value of the benefits*

- *Distribution of Employee Statements: 41,814 statements were sent to contributors via their employers, to allow for confirmation of contributions made and to update contributor files.*

- *Collaboration with external marketing agency for the enhancement of the NIC Communication Plan.*

# SUBSIDIARIES

The following table profiles the Corporation and its subsidiaries.

| COMPANY | % Holding by NIC | Business | Date Incorporated | Total Assets $ | Net Assets $ |
|---|---|---|---|---|---|
| NIC | - | Provision of social security services. | April 1979 | 1,735,986,995 | 1,728,986,085 |
| NIPRO | 100 | Provides property development, management, and maintenance services. | April 1999 | 27,230,749 | 8,422,760 |
| SMFC | 75 | Providing loans for the purchase, construction, extension or completion of dwelling houses and the purchase of developed plots. | January 1968 | 41,913,486 | 9,369.338 |
| BCL | 66.7 | Rental of space for office and commercial use. | April 2003 | 21,183,585 | (23,037,298) |
| CCFL | 100 | Provision of car parking facilities and rental of space for office and commercial use. | January 1998 | 27,030,263 | 15,890,072 |

## SAINT LUCIA MORTGAGE FINANCE COMPANY LTD.

July 2012 to June 30 2013

The Company continued to provide residential mortgages in accordance with the terms of its Operating Agreement with the Government of Saint Lucia.

Despite the objective of the "stimulus package" the mortgage market was characterized by refinancing mainly for debt consolidation. The absence of housing and land development affordable to low and middle-income individuals continues to challenge all who are willing to supply, purchase and/or finance "Shelter" programmes.

Over the twelve month period, SMFC disbursed the sum of **$3,692,351** (2012 - $4,980,334) bringing cumulative disbursements from inception to **$171,182,641.**

Mortgage disbursements fell by $1,287,983 or 25.86% compared with the previous year. This ultimately resulted in the decline of the gross mortgage portfolio by 3.21%.

Net profit was **$402,879** i.e. $625,023 or (60.81%) less than the previous year.

SMFC withdrew **$1,500,000** in new loans but repaid **$3,220,000** of its existing debt to the NIC bringing the total indebtedness at June 30, 2013 to **$30,842,500** (2012 - $32,562,500); a dividend of 5% of issued shares (2012 – 5%) was declared and paid to shareholders.

## NATIONAL INSURANCE PROPERTY DEVELOPMENT AND MANAGEMENT COMPANY LIMITED (NIPRO)

**Summary of performance for the period July 2012 to June 2013**

### Introduction

The performance of the company during the year in review (July 2012 to June 2013) may be described as reasonable considering the economic environment and major operational challenges that the company had to navigate during that period.

Total revenue grew by 10%, from $4,629,279 in 2012 to $5,110,359 in 2013. This compares somewhat favorably with the budgeted revenue of $4,829,740 for the same period.

However, as a result of increases in interest expense, direct expenses, administrative expenses and taxation, net income declined from $447,053 to $404,009 in 2013. This is a shortfall of $301,436 from the projected net income of $705,445.

The main sources of revenue for the company continue to be:

1. *Lease payments from BOLT Facilities*

2. *Fees from Maintenance and Management contracts.*

3. *Project Management and Development fees.*

The majority of the revenue from leases and maintenance contracts is fixed over the short to medium term.

However, in October of 2012 an increase in fees associated with the maintenance of the NIC buildings was negotiated and this contributed an additional $232,000 to gross revenue.

On the negative side, revenue from Project management/supervision and Developers' fees did not meet projected levels as two BOLT projects did not get started and a decision to cut back on improvements to the Police and Fire stations had been effected. Also, there was a significant amount of the work approved in the NIC's budget which was not executed and consequently projected revenue from this source was not realized.

## Operations Review

The Company continued to seek ways to improve operational efficiencies during the year, including strategic recruitments.

Some of these initiatives included:

- *The recruitment of a new Chief Executive Officer in September 2012.*
- *The review of the operations of the Company by the Chief Executive Officer and presentation of a report to the Board of Directors.*
- *The adoption and implementation of the recommendations from a job evaluation exercise and the adjustment to the salary scales.*
- *The recruitment of a new Project Services Manager in March 2013.*
- *The revamping and strengthening of the contract administration procedures utilized by the Project Services Unit to include better safeguards for protecting the Company's interest.*
- *A review of the operations of the Accounting Department by the Accounting firm of BDO to evaluate the adequacy of controls, procedures, systems and processes to account for and protect the Company's financial resources.*
- *The strengthening of the Building Maintenance unit to allow for the execution of small repair jobs in a more cost-effective manner.*

## Financial Review

Total revenue grew by 10%, from $4,629,279 in 2012 to $5,110,359 in 2013 whilst total operating costs increased from $4,311,103 to $4,754,948 or by approximately 10%.

Whilst general and administrative expenses increased by nine percent (9%), direct expenses associated with the execution of works increased by sixteen percent (16%). This was due, in the main, to the additional cost of goods and services resulting from the implementation of Value Added Tax (VAT).

Total Assets increased from $26.10 million in the prior period to $27.23 million at June 30, 2013, primarily as a result of an increase in current assets resulting from the value of projects in progress (Babonneau Police Station).

Total Liabilities increased from $18.09 million to $18.81 million due to increased drawdown on the loan from the parent company to facilitate the construction of the Babonneau Police Station.

Retained earnings grew from $1.40 million to $1.80 million between June 30, 2012 and June 30, 2013.

The cash and cash equivalents held by the Company at June 30, 2013 were $1,717,493 as compared to $1,824,152 at June 30 the previous year.

## Investment in BOLT Projects

The Babonneau Police Station was substantially completed as at June 30, 2013.

NIPRO continued the planned preventative maintenance and repair of all BOLT facilities during the period under review.

## Castries Car Park Facility Limited

NIPRO continued to manage, maintain and provide accounting services to the Castries Car Park Facility.

An updated management proposal, which included provisions for increases in fees for both the management and accounting services, was submitted to the Board of CCFL for its consideration.

## National Insurance Corporation Facility Maintenance

NIPRO is responsible for the maintenance of all NIC-owned facilities. During the period under review NIPRO undertook the planned preventative maintenance program and was also called upon to undertake numerous repairs.

The maintenance agreement between NIPRO and the NIC, which was in effect from October 1, 2006 and which expired in 2011, was renewed effective October 1, 2012. This has resulted in an increase in maintenance fees from $59,655 to $175,000 per quarter.

## Administration and Human Resource Management

There were a number of changes to the Senior Management positions of the Company during the year. The position of Chief Executive Officer was filled in September 2012 after being vacant for one year and a new Project Services Manager was appointed in March 2013.

It is expected that the new Senior Managers will provide the necessary leadership and strategic direction to the Company that will result in improved operational efficiencies and greater returns to the shareholder.

The completion of the job evaluation exercise, the reclassification of staff, the adoption of new job descriptions and the increases in salary to the majority of employees should stimulate employee satisfaction and motivation to the benefit of the Company.

## Strategic Focus

Given the continuing decline of revenue earned from car parking fees over the years, emphasis continued to be placed on revenue optimization and the strengthening of administrative and management procedures to minimize potential revenue losses and to improve the service and value-added provided to the tenants and customers.

## Financial performance for the year ended June 30, 2013

Total revenue for the period ending June 2013 was $3,134,331 which represented an increase of 14% over the $2,743,223 recorded for the year ending June 2012.

Revenue from rental income increased from $2,254,940 to $2,635,205. Revenue from parking fees also showed a marginal increase from $488,283 to $499,126 over the same period.

Total general and administrative expenses increased from $1,212,787 to $1,267,980 (5%) while interest expenses incurred for the period were reduced by $44,636 from $1,010,451 in 2012 to $965,905 in 2013.

Net Income for the period under review increased by 79% from $506,763 in the previous year to $904,942. This improved performance is primarily the result of the increased revenue earned from rental income as vacant spaces became occupied.

There was no significant change in financial position over the review period.

Total assets at June 2013 were $27,030,263 as compared to $26,878,900 at June 2012.

Current assets amounted to $380,255 and cash and cash equivalents, $40,634.

While overall performance improved significantly over 2012, there is still some concern over the performance of the car parking segment of the Company's business.

## Operations and Maintenance

Other than the routine maintenance of the plant, there were no major capital improvement projects/works undertaken during the review period.

## The Future

The organization must continue to explore other revenue options as the car parking revenue continues to be threatened by free on-street parking.

The initiatives to find additional revenue generation opportunities must be sustained as the current sources of revenue are not expected to grow significantly in the short to medium term.

In the interim, advertising and promotional activities aimed at generating additional revenue from parking fees are being undertaken.

BLUE CORAL LIMITED (BCL)

Report for the period July 2012 to June 2013

## Introduction

Blue Coral Limited (BCL) manages the Blue Coral Shopping Mall which is located in Castries, Saint Lucia. This is a four storey building which occupies an entire block within the city and has public access points via the William Peter Boulevard as well as Bridge, Micoud and Bourbon Streets. BCL offers rental spaces primarily for the sale of a wide range of products and services. However, the upper two floors of the property are occupied by government offices.

## Occupancy

By June 30, 2013 the average occupancy rate was 87.5% with the ground floor at 80%, the first floor at 84%, the second at 86% and the third floor reflecting a rate of 100%.

## Financials

The Company incurred a loss of $2,126,507 for the year ended 30th June, 2013. This reflected a 43% improvement over the previous year's loss of $3,725,582

During the year under review, rental income grew by $437,736 or 21% when compared to 2012. This increase was offset by a similar increase in general and administrative expenditure of $488,715 or 24%.

Utilities and maintenance costs were substantial during the review period when compared to the previous period. Utilities, particularly electricity consumption, and maintenance (including repairs) reflected increases of 9% and 23% respectively.

Although investment property continued to diminish in value, it was at a significantly slower rate in 2013. The year's reduction in fair value was $1,068,516 compared to $2,719,606 in 2012. This event contributed considerably to the marked decrease in the overall loss for 2013.

The Company's total liabilities and shareholders' deficiency by the end of the review period amounted to $21,183,585.

# AFFILIATE

NATIONAL COMMUNITY FOUNDATION

The National Community Foundation (NCF) is a philanthropic, non-profit, community-based, non-governmental organization that functions primarily as a grant-making institution. The NCF was established in August 2002 and supports initiatives that engender self-development and social upliftment.

## Areas of Focus

The National Community Foundation focuses its attention in six main areas. The amounts spent on each focus areas were:-

1. *Youth at Risk:- $10,276 (8 projects) including summer school, food hampers*
2. *Older Persons:- $5,464.*
3. *Disadvantaged Children (Scholarship Program):- $196,724*
4. *Health Care:- $125,448*
5. *Homeless:- $6641 (Help for fire victims)*
6. *Persons with Disabilities:- $10,208*

Over 1,500 people benefited from NCF's activities and projects this year.

## Telethon

The NCF raised $191,914 during the 2013 Telethon. These funds, in addition to other donations, are used to finance philanthropic activities.

# APPRECIATION

As we acknowledge yet another successful year, I thank the Honourable Minister responsible for Social Security, the Prime Minister, for the trust placed in the Board of Directors. I applaud my colleagues on the Board and members of the Investment Committee for their insightful discussions on the various investment and other matters that arose during the year.

To the Management and Staff of the Corporation, I thank you for all of your efforts in ensuring that the mandate of the Corporation is fulfilled effectively and efficiently.

**Lisle Chase**
Chairman

# National Insurance Corporation

Consolidated Financial Statements

Year Ended June 30, 2013

(Expressed in Eastern Caribbean Dollars)

# Contents

# Corporate Information

**REGISTERED OFFICE**

Francis Compton Building
John Compton Highway
Castries
St. Lucia

**DIRECTORS**

Mr. Lisle Chase (Chairman)
Mr. Trevor Louisy (Deputy Chairman)
Mr. Keigan Cox
Mrs. Margaret Monplaisir
Mr. Matthew Mathurin
Mrs. Michelle Phillips
Mr. Peter Alexander

**SOLICITORS**

Mrs. Cadie St. Rose-Albertini, LLB, LEC, LCM
Ms. Kit-Juelle Frank-Amoroso, LLB, LEC, MCI Arb

**BANKER**

Bank of Saint Lucia Limited

**AUDITORS**

BDO
Chartered Accountants

Tel: 758-452-2500
Fax: 758-452-7317
www.bdo.lc

Mercury Court
Choc Estate
P.O. Box 364
Castries
St. Lucia

# INDEPENDENT AUDITORS' REPORT

To the Board of Directors of National Insurance Corporation

## Report on the Financial Statements

We have audited the accompanying consolidated financial statements of National Insurance Corporation, which comprise the consolidated statement of financial position as at June 30, 2013, and the consolidated statements of changes in reserves, comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## 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. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, 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 auditors consider internal controls 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 an opinion on the effectiveness of the entity's internal controls. 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of National Insurance Corporation as at June 30, 2013, and the results of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

BDO

July 2, 2015

# Consolidated Statement of Financial Position

For the Year Ended June 30, 2013

(Expressed in Eastern Caribbean Dollars)

| | Notes | 2013 $ | 2012 $ |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 6 | 45,252,506 | 36,932,533 |
| Financial assets | 7 | 1,423,076,843 | 1,308,767,303 |
| Investment properties | 10 | 303,640,364 | 282,112,224 |
| Property, plant and equipment | 11 | 4,716,260 | 4,921,463 |
| Projects in progress | | 3,430,102 | 1,893,413 |
| Inventory | | 21,997 | 19,457 |
| Other assets | 12 | - | 6,853,358 |
| **TOTAL ASSETS** | | 1,780,138,072 | 1,641,499,751 |
| **Liabilities** | | | |
| Trade and other accounts payable | 13 | 12,012,577 | 13,230,864 |
| Borrowings | 14 | 12,591,133 | 12,469,736 |
| Income tax liability | | 90,095 | 1,151 |
| Deferred tax liability | 24 | 12,957 | 13,653 |
| | | 24,706,762 | 25,715,404 |
| **Reserves** | | | |
| Short-term benefits | 17 | 63,502,153 | 58,333,213 |
| Long-term benefits | 17 | 1,635,835,209 | 1,502,568,602 |
| Reserves | 16 | 1,524,356 | 1,516,300 |
| Retained earnings | | 60,337,995 | 57,907,157 |
| | | 1,761,199,713 | 1,620,325,272 |
| Minority interest in reserves | | (5,768,403) | (4,540,925) |
| | | 1,755,431,310 | 1,615,784,347 |
| **TOTAL LIABILITIES AND RESERVES** | | 1,780,138,072 | 1,641,499,751 |

The accompanying notes form an integral part of these financial statements.

**APPROVED ON BEHALF OF THE BOARD:-**

Chairman

Director

# National Insurance Corporation

## Consolidated Statement of Changes in Reserves

## For the Year Ended June 30, 2013

## (Expressed in Eastern Caribbean Dollars)

| | Short-term Benefits $ | Long-term Benefits $ | Reserves $ | Retained Earnings $ | Minority Interest $ | Total $ |
|---|---|---|---|---|---|---|
| **Balance at June 30, 2011** | 55,802,688 | 1,437,737,541 | 1,120,884 | 55,227,514 | (3,605,764) | 1,546,282,863 |
| Excess of comprehensive income over expenditure for the year | 2,530,525 | 64,831,061 | - | 3,075,059 | (866,161) | 69,570,484 |
| Transfer to statutory reserve | - | - | 205,581 | (205,581) | - | - |
| Transfer from portfolio risk reserve | - | - | 189,835 | (189,835) | - | - |
| Dividends paid | - | - | - | - | (69,000) | (69,000) |
| **Balance at June 30, 2012** | 58,333,213 | 1,502,568,602 | 1,516,300 | 57,907,157 | (4,540,925) | 1,615,784,347 |
| Excess of comprehensive income over expenditure for the year | 5,168,940 | 133,266,607 | - | 2,438,894 | (1,158,478) | 139,715,963 |
| Transfer to statutory reserve | - | - | 60,432 | (60,432) | - | - |
| Transfer to portfolio risk reserve | - | - | (52,376) | 52,376 | - | - |
| Dividends paid | - | - | - | - | (69,000) | (69,000) |
| **Balance at June 30, 2013** | 63,502,153 | 1,635,835,209 | 1,524,356 | 60,337,995 | (5,768,403) | 1,755,431,310 |

The accompanying notes form an integral part of these financial statements.

# Consolidated Statement of Comprehensive Income
For the Year Ended June 30, 2013
(Expressed in Eastern Caribbean Dollars)

| | Notes | 2013<br>$ | 2012<br>$ |
|---|---|---|---|
| **Contribution income** | 18 | 101,478,977 | 97,847,505 |
| **Benefits expenses** | | | |
| Short-term benefits | 19 | (8,932,773) | (8,619,812) |
| Long-term benefits | 19 | (54,083,932) | (50,511,066) |
| Medical health programme | 18 | (5,500,000) | (5,000,000) |
| | | (68,516,705) | (64,130,878) |
| **Surplus of contribution over benefits** | | 32,962,272 | 33,716,627 |
| **General and administrative expenses** | 20 | (16,615,838) | (16,991,783) |
| | | 16,346,434 | 16,724,844 |
| **Other income** | | | |
| Investment income - net | 22 | 123,551,967 | 67,689,516 |
| Decrease in fair value of investment properties | 10 | (1,183,705) | (15,558,522) |
| Other | | 1,533,212 | 1,171,897 |
| | | 123,901,474 | 53,302,891 |
| **Excess of income over expenditure before finance costs and taxation** | | 140,247,908 | 70,027,735 |
| Finance costs | | (443,697) | (413,603) |
| **Excess of income over expenditure before taxation** | | 139,804,211 | 69,614,132 |
| Taxation | 24 | (88,248) | (43,648) |
| **EXCESS OF COMPREHENSIVE INCOME OVER EXPENDITURE FOR THE YEAR** | | 139,715,963 | 69,570,484 |
| **Attributable to:** | | | |
| Reserves | | 140,874,441 | 70,436,645 |
| Minority interest | | (1,158,478) | (866,161) |
| **EXCESS OF COMPREHENSIVE INCOME OVER EXPENDITURE FOR THE YEAR** | | 139,715,963 | 69,570,484 |

The accompanying notes form an integral part of these financial statements.

# National Insurance Corporation
## Consolidated Statement of Cash Flows
For the Year Ended June 30, 2013
(Expressed in Eastern Caribbean Dollars)

| | 2013 $ | 2012 $ |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Excess of comprehensive income over expenditure for the year before taxes | 139,804,211 | 69,614,132 |
| **Adjustments for:** | | |
| Interest income | (68,785,600) | (65,426,835) |
| Decrease/(increase) in fair value of financial assets at fair value through income | (45,683,089) | (6,535,366) |
| Decrease in fair value of investment properties | 1,183,705 | 15,558,522 |
| Provision for loan impairment | 1,397,476 | 988,561 |
| Dividend income | (3,951,981) | (4,223,600) |
| Depreciation | 715,263 | 728,280 |
| Finance costs | 443,697 | 413,603 |
| (Gain)/loss on disposal of property, plant and equipment | (4,306) | 2,049 |
| **Operating income before working capital changes** | 25,119,376 | 11,119,346 |
| Decrease/(increase) in loans and receivables | 35,902,378 | (51,526,377) |
| Purchase of held-to-maturity financial assets | (47,708,138) | (28,210,787) |
| (Increase)/decrease in loans and receivables investment securities | (4,419,340) | 25,106,931 |
| (Increase)/decrease in financial assets at fair value through income | (14,756,218) | 11,638,768 |
| Increase in projects in progress | (1,536,689) | (1,893,413) |
| (Increase)/decrease in inventory | (2,540) | 123 |
| Decrease/(increase) in other assets | 6,853,358 | (6,432,781) |
| (Decrease)/increase in trade and other payables | (1,218,287) | 2,990,007 |
| **Cash used in operations** | (1,766,100) | (37,208,183) |
| Interest received | 29,742,991 | 33,542,546 |
| Dividends received | 3,951,981 | 4,223,600 |
| Finance costs paid | (443,697) | (413,603) |
| **Net cash generated from operating activities** | 31,485,175 | 144,360 |
| **Cash Flows from Investing Activities** | | |
| Improvements to investment properties | (22,840,383) | (13,617,893) |
| Proceeds from disposal of investment properties | 128,538 | 903,600 |
| Purchase of property, plant and equipment | (510,341) | (581,233) |
| Proceeds from disposal of property, plant and equipment | 4,587 | - |
| **Net cash used in Investing Activities** | (23,217,599) | (13,295,526) |
| **Cash Flows from Financing Activities** | | |
| Proceeds from borrowings | 170,955 | 92,167 |
| Dividends paid to minority interest | (69,000) | (69,000) |
| **Net cash generated from financing activities** | 101,955 | 23,167 |
| **Increase/(Decrease) in Cash and Cash Equivalents** | 8,369,531 | (13,127,999) |
| **Cash and Cash Equivalents at Beginning of Year** | 36,882,975 | 50,010,974 |
| **Cash and Cash Equivalents at End of Year** | 45,252,506 | 36,882,975 |

The accompanying notes form an integral part of these financial statements.

## Index to Notes to the Consolidated Financial Statements

1. **Introduction**

The National Insurance Corporation (the Corporation) is governed by the National Insurance Corporation Act CAP 16.01 of the revised laws of Saint Lucia 2001. The principal activity of the Corporation is to provide social security services in the country of Saint Lucia.

The consolidated financial statements include the statements of National Insurance Corporation and its subsidiaries (together “the Group”) whose activities are as follows:-

(a) Saint Lucia Mortgage Finance Company Limited.

The principal activity of the company is to operate a mortgage finance company.

(b) National Insurance Property Development and Management Company Limited.

The company is currently engaged in the development and management of the Government of Saint Lucia Build-Own-Lease-Transfer (BOLT) and refurbishment projects; the provision of property development, management and maintenance services to NIC and its subsidiaries.

(c) Castries Car Park Facility Limited

The company provides car parking facilities, all other matters incidental thereto and rental of office block and commercial space.

(d) Blue Coral Limited

The company provides rental of office and commercial space.

The registered office and principal place of business of the Corporation is Francis Compton Building, John Compton Highway, Castries, Saint Lucia.

2. **Date of Authorisation of Issue**

These financial statements were authorised for issue by the Board of Directors on July 7, 2015.

3. **Significant Accounting Policies**

The principal accounting policies adopted are stated in order to assist in a general understanding of the financial statements. These policies have been consistently applied to the years presented, unless otherwise stated.

**(a) Basis of Preparation**

The consolidated financial statements of National Insurance Corporation have been prepared in accordance with the International Financial Reporting Standards (IFRS), and under the historical cost convention as modified by the revaluation of financial assets classified at fair value through income and investment properties.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

**3. Significant Accounting Policies (Cont'd)**

**(a) Basis of Preparation (Cont'd)**

Amendments to International Financial Reporting Standards effective in the 2013 financial year

IAS 1 (Revised), 'Presentation of Financial Statements'

The amendment to IAS 1, issued in June 2011, requires additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories:-

(a) Items that will not be reclassified subsequently to profit or loss; and

(b) Items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

These amendments became effective July 1, 2012.

New and revised International Financial Reporting Standards that have been issued but are not yet effective and have not been early adopted

IAS 27 (Revised), 'Separate Financial Statements'

A revised version of IAS 27 was issued in May 2011. It contains accounting and disclosure requirements for investment in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The revised standard requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 Financial Instruments. These amendments are effective for financial periods beginning on or after January 1, 2013; however, earlier application is allowed.

IFRS 12, 'Disclosures of Interest in Other Entities'

IFRS 12 was issued in May 2011. This new standard applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. The IFRS requires an entity to disclose information that enables users of financial statements to evaluate:

(a) the nature of, and risks associated with, its interests in other entities; and

(b) the effects of those interests on its financial position, financial performance and cash flows.

This standard is effective for financial periods beginning on or after January 1, 2013; however, earlier application is allowed.

IFRS 13, 'Fair Value Measurement'

IFRS 13 was issued in May 2011. This new standard defines fair value, provides a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies both to financial and non-financial instruments for which other IFRSs require or permit fair value measurement and disclosures about fair value measures, except in specified circumstances. This standard is effective for financial periods beginning on or after January 1, 2013; however, earlier application is allowed.

## 3. Significant Accounting Policies (Cont'd)

### (a) Basis of Preparation (Cont'd)

New and revised International Financial Reporting Standards that have been issued but are not yet effective and have not been early adopted

IFRS 9, 'Financial Instruments Part 1: Classification and Measurement'

IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition and the classification depends on the entity's business model for managing its financial assets and the contractual cash flow characteristics of the assets. In October 2010, the requirements for classification and measurement of financial liabilities, as well as the requirements for derecognition of financial assets and liabilities, were moved from IAS 39 to IFRS 9. This standard is effective January 1, 2018; however, earlier application is allowed.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

### (b) Consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Consolidated Statement of Comprehensive Income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

3. **Significant Accounting Policies (Cont'd)**

(b) **Consolidation (Cont'd)**

Transactions and non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in reserves. Gains or losses on disposals to non-controlling interests are also recorded in reserves.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in the Consolidated Statement of Comprehensive Income. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the Consolidated Statement of Comprehensive Income. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to the Consolidated Statement of Comprehensive Income where appropriate.

(c) **Foreign Currencies**

The financial statements are presented in Eastern Caribbean dollars which is the currency of the primary economic environment in which the Group operates (its functional currency).

Assets and liabilities expressed in foreign currencies are translated into the functional currency at the rates of exchange ruling at the date of the financial statements. Transactions arising during the year involving foreign currencies are translated into the functional currency and recorded at the rates of exchange prevailing on the dates of the transactions. Differences arising from fluctuations in exchange rates as well as including differences between buying and selling rates, are included in the Consolidated Statement of Comprehensive Income.

(d) **Cash and Cash Equivalents**

Cash and cash equivalents represent cash on hand and deposits held on call with financial institutions. For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash on hand and in financial institutions. Bank overdrafts are shown within borrowings on the Consolidated Statement of Financial Position.

3. **Significant Accounting Policies (Cont'd)**

(e) **Financial Assets**

The Group classifies its financial assets into these categories:-

1. Fair value through income
2. Loans and receivables
3. Held-to-maturity financial assets
4. Available-for-sale financial assets

Financial Assets at Fair Value through Income

A financial asset is classified into the 'financial assets at fair value through income' category at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking, or if so designated by management.

Financial assets designated as fair value through income at inception are those that are:-

- Held in internal funds to match insurance and investment contracts liabilities that are linked to the changes in fair value of these assets. The designation of these assets to be at fair value through income eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; and
- Managed and whose performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the Group's key management personnel. The Group's investment strategy is to invest in equity and debt securities and to evaluate them with reference to their fair values. Assets that are part of these portfolios are designated upon initial recognition at fair value through income (see Note 7 for additional details on the Group's portfolio structure).

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group intends to sell in the short term or that it has designated as at fair value through income or available-for-sale. Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to their original terms.

Held-to-Maturity Financial Assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities other than those that meet the definition of loans and receivables that the Group's management has the positive intention and ability to hold to maturity. These assets are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of held-to-maturity debt securities is established when there is objective evidence that the Group will not be able to collect all amounts due according to their original terms.

**3. Significant Accounting Policies (Cont'd)**

**(e) Financial Assets (Cont'd)**

Available-for-sale Financial Assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

Regular-way purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus, in the case of all financial assets not carried at fair value through income, transaction costs that are directly attributable to their acquisition. Financial assets carried at fair value through income are initially recognised at fair value, and transaction costs are expensed in the Consolidated Statement of Comprehensive Income.

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and the Group has also transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through income are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through income' category are included in the Consolidated Statement of Comprehensive Income in the period in which they arise.

Unrealised changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in the Consolidated Statement of Comprehensive Income; translation differences on non-monetary securities are recognised in equity. Unrealised changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the Consolidated Statement of Comprehensive Income as net realised gains on financial assets.

Interest on debt securities calculated using the effective interest method is recognised in the Consolidated Statement of Comprehensive Income. Dividends on equity instruments are recognised in the Consolidated Statement of Comprehensive Income when the Group's right to receive payments is established. Both are included in the investment income line.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

**3. Significant Accounting Policies (Cont'd)**

**(f) Impairment of Assets**

Financial Assets Carried at Amortised Cost

The Group assesses at each date of the financial statements whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence that impairment as a result of one or more events occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:-

i. Significant financial difficulty of the issuer or debtor;

ii. A breach of contract, such as a default or delinquency in payments;

iii. It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

iv. The disappearance of an active market for that financial asset because of financial difficulties; or

v. Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:-

- Adverse changes in the payment status of borrowers in the group; or
- National or local economic conditions that correlate with defaults on the assets in the group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on loans and receivables or held-to-maturity investments carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Consolidated Statement of Comprehensive Income. If the debt securities have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

**3. Significant Accounting Policies (Cont'd)**

**(f) Impairment of Assets (Cont'd)**

Financial Assets Carried at Amortised Cost (Cont'd)

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the asset being evaluated.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the Consolidated Statement of Comprehensive Income.

Financial Assets Carried at Fair Value

The Group assesses at each date of the financial statements whether there is objective evidence that an available-for-sale financial asset is impaired, including in the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in the Consolidated Statement of Comprehensive Income – is removed from equity and recognised in the Consolidated Statement of Comprehensive Income. Impairment losses recognised in the Consolidated Statement of Comprehensive Income on equity instruments are not subsequently reversed. The impairment loss is reversed through the Consolidated Statement of Comprehensive Income, if in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Consolidated Statement of Comprehensive Income.

Impairment of Other Non-Financial Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

**3. Significant Accounting Policies (Cont'd)**

**(g) Investment Property**

Property held for long-term rental yields is classified as investment property.

Investment property comprises freehold land and office buildings. It is measured initially at cost and all subsequent assessments are carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are reviewed by an independent valuation expert. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

Changes in fair values are recorded in the Consolidated Statement of Comprehensive Income.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference arising between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the Consolidated Statement of Comprehensive Income. Upon the disposal of such investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through the Consolidated Statement of Comprehensive Income.

**(h) Property, Plant and Equipment**

Items of property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis, so as to write down the cost of property, plant and equipment over their estimated useful lives as follows:-

| **Assets** | **Estimated Useful Lives** |
|---|---|
| Buildings | 50 years |
| Leasehold improvements | 2 – 10 years |
| Motor vehicles | 3 - 5 years |
| Furniture and equipment | 4 - 10 years |
| Computer hardware | 5 years |
| Computer software | 5 years |
| Generators | 5 years |
| Maintenance equipment | 10 years |

Gains or losses arising on the disposal or retirement of an item of property, plant and equipment are determined as the difference between the sales proceeds and the carrying amount of the asset and are recognised in the Consolidated Statement of Comprehensive Income.

**(i) Projects in Progress**

**Build-Own-Lease-Transfer (BOLT) Projects**

These include all costs associated with the construction and furnishing of the buildings. Direct costs of construction are recognised when an interim valuation is done. On completion, they are accounted for as finance leases.

**3. Significant Accounting Policies (Cont'd)**

**(j) Inventory**

Inventory is valued at the lower of cost and net realisable value. Net realisable value is the price at which the inventory can be realised in the normal course of business after allowing for the cost of realisation. Provision is made for slow moving and obsolete stocks.

**(k) Borrowings and Borrowings Costs**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Consolidated Statement of Comprehensive Income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the date of the financial statements. Interest costs on borrowings to finance the construction of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

**(l) Financial Liabilities**

Financial liabilities comprise trade and other accounts payable and borrowings and are measured at amortised cost.

**(m) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate of the amount can be made.

**(n) Recognition of Income and Expenses**

(a) Contribution Income and Benefits

Contribution income is accounted for on an accrual basis to take account of all collections subsequent to the year-end that relate to the current year, and to recognise all known significant receivables.

Benefits expense is accounted for on an accrual basis to take account of all benefits paid subsequent to the year-end that relate to the current year, and to recognise all known significant benefits payable.

(b) Dividend income

Dividend income for investment in equity securities is recognised when the right to receive payment is established – this is the ex-dividend date for equity securities.

(c) Interest income and expense

Interest income and expense for all interest-bearing financial instruments, including financial instruments measured at fair value through income, are recognised within investment income in the Consolidated Statement of Comprehensive Income using the effective interest rate method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

**3. Significant Accounting Policies (Cont'd)**

**(n) Recognition of Income and Expenses (Cont'd)**

(d) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over the period of the lease.

(e) Other income and expenses

All other income and expenses are accounted for on the accrual basis.

**(o) Basis of Allocation of Income and Expenses**

(a) Contributions

Contribution income, as recommended by the seventh actuarial review, is allocated as follows:-

| | 2013 | 2012 |
|---|---|---|
| | % | % |
| Short-term benefits fund | 17 | 17 |
| Long-term benefits fund | 83 | 83 |
| | 100 | 100 |

(b) Investment income and expenses

Investment income and expenses are allocated to the benefit fund in the ratio of the beginning of year reserve of each fund to the total beginning of year reserves.

Investment expenses comprise all costs relating to the management of investment properties and financial assets and provision for impairment of financial assets.

(c) Changes in fair value of investment properties

Changes in fair value of investment properties are allocated to the benefit fund in the ratio of the beginning of year reserve of each fund to the total beginning of year reserves.

(d) Expenses

General and administrative expenses and amortisation and impairment of intangible assets are allocated in proportion to the sum of contributions and benefits.

(e) Other income

Other income is allocated in the same proportion as contribution income.

**3. Significant Accounting Policies (Cont'd)**

**(p) Income Tax**

National Insurance Corporation is exempt from the payment of income tax under the Income Tax Act.

As per Cabinet conclusions, the following exemptions have been granted to the subsidiary companies:

Saint Lucia Mortgage Finance Company Limited is exempt from income tax on any income accruing to the company by way of interest on loans up to $500,000.

National Insurance Property Development and Management Company Limited is exempt from income tax on the profits earned by the company, which are specific to refurbishment and BOLT projects. All other income is subject to income taxes at a rate of 30% per annum.

Castries Car Park Facility Limited had been granted a tax holiday for the first ten years of operation, which expired October 2008. A further ten year tax holiday was granted to the Company as per Cabinet Conclusion No.1031 with effect from November 2009.

Blue Coral Limited is subject to income taxes at a rate of 30% per annum.

Current Income Tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of the financial statements. Management periodically evaluates positions taken in tax returns with respect to situations where applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred Income Tax

The Group follows the liability method of accounting for deferred tax whereby all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes are provided for at the Group tax rates which are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are only recognised when it is probable that taxable profits will be available against which the assets may be utilised.

**(q) Comparatives**

Except when a standard or an interpretation permits or requires, all amounts are reported or disclosed with comparative information.

## 4. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. In particular, the key financial risk is that the proceeds from its financial assets will not be sufficient to fund its obligations arising from claims. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Income earned from investments, together with the excess of contributions after benefits are paid, is used to earn interest rate margins through investment in high quality, high yielding assets with acceptable level of risks.

The Board of Directors has overall responsibility for the establishment of a risk management framework. The following are the systems and structures put in place to ensure that the Group's exposure to risk is minimised:-

- Investment Section, which conducts regular due diligence exercises based on published financial reports and other available data. Detailed monthly and quarterly reports are submitted to the Executive Director and to the Investment Committee.
- The Investment Committee, whose role is to review the results of the due diligence exercises conducted by the Investment Manager. Decisions/recommendations are submitted to the Board of Directors for ratification.

Investment decisions are made in the context of Section 21 of the National Insurance Corporation Act Cap 16.01 of the laws of Saint Lucia 2001 and the Group's Investment policy and guidelines.

The investment policy and guidelines establish asset categories with targeted asset allocations.

**Credit Risk**

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge an obligation. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Group's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Group's asset portfolio. There is also credit risk in off-balance sheet financial instruments such as loan commitments. The credit risk management and control are centralised and report to the Board of Directors.

**Credit Risk Measurement**

(a) <u>Loans and Advances</u>

If customers are independently rated, their ratings are used. Otherwise, if there is no independent rating, the Investment Committee assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

The Group uses the historical information about counterparty default rates to classify the customers in different groups. Clients of the Group are segmented into two rating classes, customers with no history of default and customers with history of default. The Group regularly validates the performance of the rating and its predictive power with regard to default events.

(b) <u>Debt Securities and Other Bills</u>

For debt securities and other bills, external ratings such as Moody's Investment Service, Standard & Poor's rating, CariCRIS or their equivalents are used by the Board for managing of the credit risk exposures.

**4. Financial Risk Management (Cont'd)**

**Credit Risk (Cont'd)**

**Risk Limit Control and Mitigation Policies**

The Group manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries.

The Group limits its credit risk exposure with respect to its debt securities portfolio by investing only in financial instruments with a minimum rating of BAA (Moody's Investment Service) or BBB (Standard & Poor Group) and Regional Governments or institutions with high credit worthiness. The Board through the Investments Section and the Investment Committee consistently monitors the performance of these instruments.

The Group constantly monitors its Loans and advances portfolio and outstanding contributions. The necessary contact with debtors and employers is maintained to ensure that payments are received in a timely manner. Where necessary, re-scheduling of repayments is done, which considers the borrower's new financial position. In the event where recovery may seem doubtful, provisions are set aside to cover any potential losses.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to the industry segments as established by the investment policy. Such risks are monitored regularly by the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items. Actual exposures against limits are monitored daily.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below.

Collateral

The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Government guarantee; and
- Charges over business assets such as premises, inventory and accounts receivable.

Longer-term finance and lending to corporate entities are generally secured. In addition, in order to minimise the credit loss the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

**4. Financial Risk Management (Cont'd)**

**Credit Risk (Cont'd)**

**Impairment and Provisioning Policies**

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group:-

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The Group's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

**Maximum exposure to credit risk before collateral held or other credit enhancements**

Credit risk exposures relating to on-balance sheet assets are as follows:-

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| Cash at bank | 32,719,012 | 24,887,148 |
| Short term deposits – cash equivalents | 12,533,494 | 12,043,985 |
| Fair value through income | | |
| - Debt securities | 68,545,715 | 54,453,145 |
| Loans and receivables | | |
| - Loans to Government of Saint Lucia and statutory bodies | 45,831,510 | 48,831,511 |
| - Other loans | 165,384,058 | 158,059,753 |
| - Other advances and receivables from Government of Saint Lucia | 51,797,570 | 51,774,101 |
| - Contributions receivable | 7,934,171 | 8,906,341 |
| - Other receivables | 1,250,715 | 1,740,391 |
| Projects in progress | 3,430,102 | 1,893,413 |
| Debt security investments | | |
| - Held-to-maturity | 364,594,298 | 317,813,458 |
| – Loans and receivables | 537,614,647 | 533,878,662 |
| Credit risk exposures relating to off-balance sheet items are as follows:- | | |
| Financial Guarantees | | |
| - Loan commitments and other credit related liabilities | 17,478,399 | 45,018,718 |
| **At June 30** | 1,309,113,691 | 1,259,300,626 |

**4. Financial Risk Management (Cont'd)**

**Credit Risk (Cont'd)**

**Maximum exposure to credit risk before collateral held or other credit enhancements (Cont'd)**

The above table represents a worst case scenario of credit risk exposure to the Group at June 30, 2013 and 2012, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the Consolidated Statement of Financial Position.

As shown above, 21% of the total maximum exposure is derived from loans and receivables (2012 - 22%); 74% represents investments in debt securities other than loans and receivables (2012 - 72%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from both its loan and advances portfolio based on the following:

Loans to Government of Saint Lucia which represents the largest percentage of the portfolio, followed by loans to subsidiaries, are backed by collateral;

72% of the loans and advances portfolio are considered to be neither past due nor impaired (2012 - 72%); and

The Group continues to grant loans and advances in accordance with its lending policies and guidelines.

**Loans and Receivables**

Loans and receivables are summarised as follows:-

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| Neither past due nor impaired | 217,194,300 | 215,596,459 |
| Past due but not impaired | 38,078,144 | 36,458,984 |
| Impaired | 48,140,799 | 46,606,916 |
| **Gross** | 303,413,243 | 298,662,359 |
| Less: Allowance for impairment (Note 8) | (31,111,658) | (29,714,182) |
| **Net** | 272,301,585 | 268,948,177 |

The total impairment provision for loans and receivables recognised in the Consolidated Statement of Comprehensive Income is $1,397,476 (2012 - $988,561). Further information of the impairment allowance for loans and receivables is provided in Note 8.

4. **Financial Risk Management (Cont'd)**

**Credit Risk (Cont'd)**

**Loans and Receivables (Cont'd)**

(a) Neither past due nor impaired

The credit quality of the portfolio of loans and receivables that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group.

| | Loans | | Other advances and receivables | | |
|---|---|---|---|---|---|
| | Statutory bodies $ | Other $ | Government of St. Lucia $ | Other $ | Total $ |
| **June 30, 2013** | | | | | |
| Customers with no history of default | 30,750,000 | 158,324,686 | 19,450,055 | 8,669,559 | 217,194,300 |
| **June 30, 2012** | | | | | |
| Customers with no history of default | 33,750,000 | 151,796,837 | 20,380,830 | 9,668,792 | 215,596,459 |

**4. Financial Risk Management (Cont'd)**

**Credit Risk (Cont'd)**

**Loans and Receivables (Cont'd)**

(b) Past due but not impaired

Gross amount of loans and receivables by class to customers net of unearned interest that were past due but not impaired were as follows:-

| | Loans | Other advances and receivables | | |
|---|---|---|---|---|
| | Other<br>$ | Government of St. Lucia<br>$ | Other<br>$ | Total<br>$ |
| **June 30, 2013** | | | | |
| With amounts past due up to 30 days | - | 646,031 | 142,852 | 788,883 |
| With amounts past due 31 to 60 days | - | 2,438,902 | 50,315 | 2,489,217 |
| With amounts past due 61 to 90 days | 645,023 | 126,075 | 147,436 | 918,534 |
| With amounts past due over 90 days | 4,506,224 | 29,094,376 | 280,910 | 33,881,510 |
| | 5,151,247 | 32,305,384 | 621,513 | 38,078,144 |
| **Fair value of collateral** | 12,707,085 | - | - | 12,707,085 |
| **June 30, 2012** | | | | |
| With amounts past due up to 30 days | - | 583,493 | 325,625 | 909,118 |
| With amounts past due 31 to 60 days | - | 697,693 | 193,736 | 891,429 |
| With amounts past due 61 to 90 days | 492,840 | 369,966 | 79,661 | 942,467 |
| With amounts past due over 90 days | 3,958,853 | 29,604,132 | 152,985 | 33,715,970 |
| | 4,451,693 | 31,255,284 | 752,007 | 36,458,984 |
| **Fair value of collateral** | 12,827,034 | - | - | 12,827,034 |

Upon initial recognition of loans and receivables, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

**4. Financial Risk Management (Cont'd)**

**Credit Risk (Cont'd)**

**Loans and Receivables (Cont'd)**

(c) Impaired

Other advances and receivables are unsecured.

The table below shows the gross amount of individually impaired loans and receivables before taking into consideration the cash flows from collateral held.

| | **Loans** | | **Other advances and receivables** | | |
|---|---|---|---|---|---|
| | Statutory body $ | Other $ | Government of St. Lucia $ | Other $ | Total $ |
| **June 30, 2013** | | | | | |
| Impaired | 44,972,965 | 2,562,041 | 412,943 | 192,850 | 48,140,799 |
| **June 30, 2012** | | | | | |
| Impaired | 43,612,598 | 2,296,175 | 528,282 | 169,861 | 46,606,916 |

The impaired loan to a statutory body is secured by a Government guarantee with respect to a principal balance of $20,000,000 together with accrued interest. Other advances and receivables are unsecured.

**4. Financial Risk Management (Cont'd)**

**Credit Risk (Cont'd)**

**Debt securities, treasury bills and other eligible bills**

The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at June 30, 2013, based on Standard & Poor's ratings, CariCRIS or their equivalent:-

| | Treasury bills $ | Debt securities $ | Total $ |
|---|---|---|---|
| A- to A+ | - | 151,107,974 | 151,107,974 |
| Lower than A- | 63,061,684 | 302,140,171 | 365,201,855 |
| Unrated | - | 454,444,831 | 454,444,831 |
| | 63,061,684 | 907,692,976 | 970,754,660 |

The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at June 30, 2012, based on Standard & Poor's ratings, CariCRIS or their equivalent:-

| | Treasury bills $ | Debt securities $ | Total $ |
|---|---|---|---|
| A- to A+ | - | 108,428,839 | 108,428,839 |
| Lower than A- | 74,312,758 | 275,876,645 | 350,189,403 |
| Unrated | - | 490,163,016 | 490,163,016 |
| | 74,312,758 | 874,468,500 | 948,781,258 |

**4. Financial Risk Management (Cont'd)**

**Credit Risk (Cont'd)**

**Concentration of risks of financial assets with credit risk exposure**

(a) Geographical Sectors

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorised by the geographical sectors of our counterparties.

| | Local $ | Regional $ | Extra Regional $ | Total $ |
|---|---|---|---|---|
| **As at June 2013** | | | | |
| Cash and cash equivalents | 45,252,506 | - | - | 45,252,506 |
| Financial assets: | | | | |
| - Fair value through income | - | - | 68,545,715 | 68,545,715 |
| - Loans and receivables | 272,198,024 | - | - | 272,198,024 |
| Investment securities: | | | | |
| - Held-to-maturity | 349,680,743 | 14,913,555 | - | 364,594,298 |
| - Loans and receivables | 298,377,749 | 239,236,898 | - | 537,614,647 |
| **On-balance sheet financial position** | 965,509,022 | 254,150,453 | 68,545,715 | 1,288,205,190 |
| **Credit commitments** | 17,478,399 | - | - | 17,478,399 |
| | 982,987,421 | 254,150,453 | 68,545,715 | 1,305,683,589 |
| **As at June 2012** | | | | |
| Cash and cash equivalents | 36,932,533 | - | - | 36,932,533 |
| Financial assets: | | | | |
| - Fair value through income | - | - | 54,453,145 | 54,453,145 |
| - Loans and receivables | 268,802,795 | - | - | 268,802,795 |
| Investment securities: | | | | |
| - Held-to-maturity | 306,728,040 | 11,085,418 | - | 317,813,458 |
| - Loans and receivables | 296,394,483 | 237,484,179 | - | 533,878,662 |
| **On-balance sheet financial position** | 908,857,851 | 248,569,597 | 54,453,145 | 1,211,880,593 |
| **Credit commitments** | 45,018,718 | - | - | 45,018,718 |
| | 953,876,569 | 248,569,597 | 54,453,145 | 1,256,899,311 |

**4. Financial Risk Management (Cont'd)**

**Credit Risk (Cont'd)**

**Concentration of risks of financial assets with credit risk exposure (Cont'd)**

(b) Industry Sectors

The following table breaks down the Group's main credit exposure at their carrying amounts, as categorised by the industry sectors of our counterparties.

| | Financial Institutions $ | Utilities $ | Government & statutory bodies (local) $ | Government (regional) $ | Oil & Energy $ | Medical/ Pharmaceutical $ | Beverage $ | Conglomerates $ | Government Extra Regional $ | Goods $ | Communication $ | Machinery & Equipment $ | Retail $ | Rental $ | Other Industries $ | Total $ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **As at June 2013** | | | | | | | | | | | | | | | | |
| Cash and cash equivalents | 45,252,506 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 45,252,506 |
| Financial assets: | | | | | | | | | | | | | | | | |
| - Fair value through income | 17,562,278 | - | - | - | 2,957,605 | 2,674,984 | 1,689,213 | 5,185,601 | 30,021,919 | 1,472,880 | 1,192,624 | 1,826,504 | 1,723,190 | - | 2,238,917 | 68,545,715 |
| - Loans and receivable | 29,461,688 | 97,657,797 | 97,629,080 | - | - | - | - | - | - | - | - | - | - | 38,264,572 | 9,184,887 | 272,198,024 |
| Investment securities: | | | | | | | | | | | | | | | | |
| - Held-to-maturity | 14,456,711 | - | 349,680,743 | 456,844 | - | - | - | - | - | - | - | - | - | - | - | 364,594,298 |
| - Loans and receivables | 415,180,316 | 7,005,915 | - | 88,665,054 | 16,667,094 | - | - | - | - | - | - | - | - | - | 16,096,268 | 543,614,647 |
| | 521,913,499 | 104,663,712 | 447,309,823 | 89,121,898 | 19,624,699 | 2,674,984 | 1,689,213 | 5,185,601 | 30,021,919 | 1,472,880 | 1,192,624 | 1,826,504 | 1,723,190 | 38,264,572 | 27,520,072 | 1,294,205,190 |
| **Credit Commitments** | 17,478,399 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 17,478,399 |
| **As at June 2012** | | | | | | | | | | | | | | | | |
| Cash and cash equivalents | 36,931,133 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 36,931,133 |
| Financial assets: | | | | | | | | | | | | | | | | |
| - Fair value through income | 7,499,220 | - | - | - | 2,852,547 | 2,932,243 | - | 2,658,358 | 31,496,523 | 1,535,576 | 1,976,430 | 571,377 | 1,807,369 | - | 1,123,502 | 54,453,145 |
| - Loans and receivables | 26,970,497 | 91,366,954 | 100,467,123 | - | - | - | - | - | - | - | - | - | - | 39,759,465 | 10,238,757 | 268,802,796 |
| Investment securities: | | | | | | | | | | | | | | | | |
| - Held-to-maturity | 10,567,562 | - | 306,728,040 | 517,856 | - | - | - | - | - | - | - | - | - | - | - | 317,813,458 |
| - Loans and receivables | 412,992,115 | 7,691,959 | - | 95,503,288 | - | - | - | - | - | - | - | - | - | - | 17,691,300 | 533,878,662 |
| | 494,960,527 | 99,058,913 | 407,195,163 | 96,021,144 | 2,852,547 | 2,932,243 | - | 2,658,358 | 31,496,523 | 1,535,576 | 1,976,430 | 571,377 | 1,807,369 | 39,759,465 | 29,053,559 | 1,211,879,194 |
| **Credit Commitments** | 42,719,000 | - | - | - | - | - | - | - | - | - | - | - | - | - | 2,299,718 | 45,018,718 |

**4. Financial Risk Management (Cont'd)**

**Market Risk**

(a) Currency Risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from recognised assets. The exchange rate of the Eastern Caribbean dollar (EC$) to the United States dollar (US$) has been formally pegged at EC$2.70 = US$1.00 since July 1976.

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group's strategy of managing this risk is to limit foreign exchange exposure to Eastern Caribbean dollars and United States dollars, avoid speculation with an aim to keep a balanced portfolio and match foreign currency denominated assets with foreign currency denominated liabilities. The table below summarises the Group's exposure to foreign currency exchange rate risk at June 30, 2013 and June 30, 2012.

Included in the table are the Group's financial assets and liabilities at carrying amounts, categorised by currency.

**Concentration of currency risk - on- and off-balance sheet financial instruments**

| | EC<br>$ | US<br>$ | Total<br>$ |
|---|---|---|---|
| **As at June 2013** | | | |
| **Assets** | | | |
| Cash and cash equivalents | 45,252,506 | - | 45,252,506 |
| Financial assets: | | | |
| - Fair value through income | 140,484,367 | 107,330,066 | 247,814,433 |
| - Loans and receivables | 272,301,585 | - | 272,301,585 |
| Investment securities: | | | |
| - Held-to-maturity | 339,922,325 | 24,671,973 | 364,594,298 |
| - Loans and receivables | 425,276,585 | 112,338,062 | 537,614,647 |
| - Available-for-sale | 751,880 | - | 751,880 |
| **Total Financial Assets** | 1,223,989,248 | 244,340,101 | 1,468,329,349 |
| **Liabilities** | | | |
| Trade and other payables | 12,012,577 | - | 12,012,577 |
| Borrowings | 12,591,133 | - | 12,591,133 |
| **Total Financial Liabilities** | 24,603,710 | - | 24,603,710 |
| **Net on-balance sheet financial position** | 1,199,385,538 | 244,340,101 | 1,443,725,639 |
| **Credit commitments** | 17,478,399 | - | 17,478,399 |

4. **Financial Risk Management (Cont'd)**

**Market Risk**

(a) Currency Risk (Cont'd)

| | EC $ | US $ | Total $ |
|---|---|---|---|
| **As at June 2012** | | | |
| **Assets** | | | |
| Cash and cash equivalents | 36,932,533 | - | 36,932,533 |
| Financial assets: | | | |
| - Fair value through income | 98,968,806 | 88,406,320 | 187,375,126 |
| - Loans and receivables | 268,948,177 | - | 268,948,177 |
| Investment securities: | | | |
| - Held-to-maturity | 279,462,320 | 38,351,138 | 317,813,458 |
| - Loans and receivables | 412,992,115 | 120,886,547 | 533,878,662 |
| - Available-for-sale | 751,880 | - | 751,880 |
| **Total Financial Assets** | 1,098,055,831 | 247,644,005 | 1,345,699,836 |
| **Liabilities** | | | |
| Trade and other payables | 13,230,864 | - | 13,230,864 |
| Borrowings | 12,469,736 | - | 12,469,736 |
| **Total Financial Liabilities** | 25,700,600 | - | 25,700,600 |
| **Net on-balance sheet financial position** | 1,072,355,231 | 247,644,005 | 1,319,999,236 |
| **Credit commitments** | 45,018,718 | - | 45,018,718 |

(b) Price Risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified as available-for-sale or at fair value through income. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Board of Directors.

The majority of the Group's publicly traded equity securities are included on the Eastern Caribbean Stock Exchange (ECSE). At June 30, 2013 if equity securities prices had been 200 basis points higher/lower with all variables held constant, reserves for the year would have been $3,585,374 (2012 - $2,658,440) higher/lower as a result of the increase/decrease in fair value of available for sale and fair value through income equity securities.

(c) Cash Flow and Fair Value Risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. As the Group does not hold financial instruments with variable rates, it is not exposed to cash flow interest rate risk.

**4. Financial Risk Management (Cont'd)**

**Market Risk (Cont'd)**

(c) Cash Flow and Fair Value Risk (Cont'd)

| | Up to 1 month $ | 1-3 months $ | 3-12 months $ | 1-5 years $ | Over 5 years $ | Non-interest Bearing $ | Total $ |
|---|---|---|---|---|---|---|---|
| **As at June 30, 2013** | | | | | | | |
| **Assets** | | | | | | | |
| Cash and cash equivalents | 41,371,778 | - | 880,728 | - | - | - | 42,252,506 |
| Financial assets: | | | | | | | |
| - Fair value through income | - | - | 68,545,715 | - | - | 179,268,718 | 247,814,433 |
| - Loans and receivables | 2,000,000 | 2,879,657 | 20,864,378 | 147,659,958 | 160,809,449 | 59,943,850 | 394,157,292 |
| Investment securities: | | | | | | | |
| - Held-to-maturity | 31,294,000 | 18,964,415 | 38,979,131 | 216,190,284 | 74,616,548 | - | 380,044,378 |
| - Loans and receivables | 94,949,113 | 125,368,631 | 229,058,649 | 35,555,825 | 97,404,061 | - | 582,336,279 |
| - Available-for-sale | - | - | - | - | - | 751,880 | 751,880 |
| **Total Financial Assets** | 169,614,891 | 147,212,703 | 358,328,601 | 399,406,067 | 332,830,058 | 239,964,448 | 1,647,356,768 |
| **Liabilities** | | | | | | | |
| Trade and other payables | - | - | - | - | - | 12,012,577 | 12,012,577 |
| Borrowings | - | - | 461,280 | 1,940,126 | 8,041,699 | 298,028 | 10,741,133 |
| Preference shares | 1,850,000 | - | - | - | - | - | 1,850,000 |
| **Total Financial Liabilities** | 1,850,000 | - | 461,280 | 1,940,126 | 8,041,699 | 12,310,605 | 24,603,710 |
| **Total interest repricing gap** | 167,764,891 | 147,212,703 | 357,867,321 | 397,465,941 | 324,788,359 | | |
| **As at June 30, 2012** | | | | | | | |
| Total financial assets | 38,616,776 | 174,725,398 | 430,511,155 | 312,913,067 | 409,117,726 | 176,371,193 | 1,542,255,315 |
| Total financial liabilities | 1,899,558 | - | 442,365 | 1,860,567 | 8,140,173 | 13,362,225 | 25,704,888 |
| **Total interest repricing gap** | 36,717,218 | 174,725,398 | 430,068,790 | 311,052,500 | 400,977,553 | | |

The Group's fair value interest rate risk arises from debt securities classified as fair value through income. At June 30, 2013 if market interest rates had been 100 basis points higher/lower with all variables held constant, reserves for the year would have been $685,457 (2012 - $544,531) lower/higher as a result of the decrease/increase in fair value of fair value through income debt securities.

**4. Financial Risk Management (Cont'd)**

**Liquidity Risk**

The Group is exposed to daily calls on its available cash resources mainly from payments of short-term benefits. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. Management ensures that a minimum level of cash and short-term resources are available to meet its current obligations.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the date of the financial statements to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

| | 1 year<br>$ | 1-5 years<br>$ | Over 5 years<br>$ | Total<br>$ |
|---|---|---|---|---|
| **As at June 30, 2013** | | | | |
| Trade and other payables | 10,554,654 | - | 1,457,923 | 12,012,577 |
| Borrowings | 665,929 | 2,663,717 | 9,212,021 | 12,541,667 |
| Preference shares | 1,850,000 | - | - | 1,850,000 |
| | 13,070,583 | 2,663,717 | 10,669,944 | 26,404,244 |
| **As at June 30, 2012** | | | | |
| Trade and other payables | 11,933,728 | - | 1,297,136 | 13,230,864 |
| Borrowings | 647,186 | 2,588,745 | 9,384,202 | 12,620,133 |
| Preference shares | 1,850,000 | - | - | 1,850,000 |
| | 14,430,914 | 2,588,745 | 10,681,338 | 27,700,997 |

The liquidity position for both operational and the payment of benefits is monitored daily by the Investment Manager, who ensures that the bank accounts are adequately serviced. Transfers are done between bank accounts and the excess of contribution income over benefit payments is taken up by the Investment Manager who will seek to earn above average interest rate margins through investing in high quality, high yielding assets with acceptable risk.

**Fair Value Estimation of Financial Instruments**

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market value, if one exists.

The carrying amounts and fair values of financial instruments other than financial assets through income and available-for-sale are as follows:-

| | Carrying Amount | | Fair Value | |
|---|---|---|---|---|
| | 2013<br>$ | 2012<br>$ | 2013<br>$ | 2012<br>$ |
| Cash and cash equivalents | 45,252,506 | 36,932,533 | 45,252,506 | 36,932,533 |
| - Loans and receivables | 272,301,585 | 268,948,177 | 265,410,208 | 279,419,546 |
| Investment securities: | | | | |
| - Held-to-maturity | 364,594,298 | 317,813,458 | 351,179,490 | 313,589,078 |
| - Loans and receivables | 537,614,647 | 533,878,662 | 543,098,803 | 537,122,272 |
| Trade and other payables | 12,012,577 | 13,232,015 | 12,012,577 | 13,232,015 |
| Borrowings | 12,591,133 | 12,469,736 | 12,591,133 | 12,420,178 |

**4. Financial Risk Management (Cont'd)**

**Fair Value Estimation of Financial Instruments (Cont'd)**

The carrying value of cash and cash equivalents, other advances and receivables, and trade and other payables approximate their fair values due to the short-term maturity of these items.

The fair value of held-to-maturity and other loans and receivables financial assets for disclosure purposes are estimated by discounting the future contractual cash flows at the current market rate of 7.58% (2012- 7.0%) that is available to the Group in respect of similar financial instruments.

The Group is not able to reliably estimate the fair value of available-for-sale financial assets since the shares are not traded in an active market and the future cash flows relating to the investment cannot be reliably estimated.

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

**4. Financial Risk Management (Cont'd)**

**Fair Value Estimation of Financial Instruments (Cont'd)**

| | Level 1<br>$ | Level 2<br>$ | Level 3<br>$ | Total<br>$ |
|---|---|---|---|---|
| **June 30, 2013** | | | | |
| Financial assets at fair value through income | | | | |
| - Investment securities - debt | 68,545,715 | - | - | 68,545,715 |
| - Investment securities - equity | 35,574,906 | 139,337,030 | 4,356,782 | 179,268,718 |
| Financial assets at available-for-sale | | | | |
| - Investment securities - equity | - | - | 751,880 | 751,880 |
| **Total assets** | 104,120,621 | 139,337,030 | 5,108,662 | 248,566,313 |
| **June 30, 2012** | | | | |
| Financial assets at fair value through income | | | | |
| - Investment securities - debt | 48,879,927 | 5,573,218 | - | 54,453,145 |
| - Investment securities - equity | 122,993,743 | 5,495,398 | 4,432,840 | 132,921,981 |
| Financial assets at available-for-sale | | | | |
| - Investment securities - equity | - | - | 751,880 | 751,880 |
| **Total assets** | 171,873,670 | 11,068,616 | 5,184,720 | 188,127,006 |

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily NYSE, NASDAQ, and OTC Bulletin Board equity investments classified as trading securities or available-for-sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter fixed income securities) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. This category includes financial instruments such as mutual funds, preference shares and other equity instruments whose market value could not be readily obtained and, as such, the carrying value has been used to approximate fair value.

**4. Financial Risk Management (Cont'd)**

**Fair Value Estimation of Financial Instruments (Cont'd)**

Assets measured at fair value

The following table presents the changes in Level 3 instruments for the year ended June 30, 2013 and 2012.

| | Financial assets at fair value through income |
|---|---|
| | Equity securities |
| | $ |
| **June 30, 2013** | |
| At beginning of year | 4,432,840 |
| Transfers from Level 3 | (42,750) |
| Sale of securities | (29,861) |
| Loss recognised in profit and loss | (3,447) |
| At end of year | 4,356,782 |
| Total loss for the period included in profit or loss for assets held at the end of the reporting period, under "Investment income" | (3,447) |
| Change in unrealised gains or losses for the period included in profit or loss for assets held at the end of the reporting period | (3,447) |
| **June 30, 2012** | |
| At beginning of year | 4,712,834 |
| Transfers from Level 3 | (288,114) |
| Gains recognized in profit and loss | 8,120 |
| At end of year | 4,432,840 |
| Total gains for the period included in profit or loss for assets held at the end of the reporting period, under "Investment income" | 8,120 |
| Change in unrealised gains or losses for the period included in profit or loss for assets held at the end of the reporting period | 8,120 |

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. The transfers noted in 2013 and 2012 are due to the availability of observable data for those financial instruments held which were unavailable in the prior period.

**Capital Risk Management**

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern and to meet its statutory obligation to pensioners and contributors.

As further discussed in Note 25, actuarial reviews are conducted periodically in order to ensure that the Group's management has all the information required to adjust the rate of contribution to ensure that the statutory requirements to pensioners and contributors are met.

## 5. Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements 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.

Impairment of Loans and Advances

The Group reviews its loan portfolio to assess impairment annually. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity Investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost. If the entire held-to-maturity investments are tainted, the carrying value would decrease by $13,414,808 (2012 - $4,224,380) with a corresponding entry in the fair value reserve in reserves.

Basis of Allocation of Income and Expenditure

The Group allocates income and expenditure to short-term and long-term benefits in accordance with the approved recommendations of the actuarial review. This allocation involves the use of estimates concerning factors such as demographic, economic and financial assumptions. Assumptions to project benefits and expenses are based on the Group's experience and are updated in each actuarial review.

Fair Value of Investment Properties

The fair value of buildings included in investment properties as at June 30, 2013 is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Fair value of buildings is estimated by discounting expected rentals at market yields. If net cash flows had been 5% higher/lower with all variables held constant, the fair value of investment properties determined using the valuation model would have been $4,432,947 higher/lower (2012 - $3,685,628).

## 6. Cash and Cash Equivalents

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| Cash at bank and in hand | 32,719,012 | 24,888,548 |
| Short-term deposits | 12,533,494 | 12,043,985 |
| | 45,252,506 | 36,932,533 |

The effective interest rate on short-term bank deposits ranges from 0%-3.8% (2012: 0% - 4.15%).

For the purpose of the Statement of Cash Flows, cash and cash equivalents comprise the following:-

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| Cash and cash equivalents | 45,252,506 | 36,932,533 |
| Bank overdraft (note 14) | - | (49,558) |
| | 45,252,506 | 36,882,975 |

## 7. Financial Assets

The Group's financial assets are summarised by measurement category in the table below:-

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| Fair value through income | 247,814,433 | 187,375,126 |
| Loans and receivables | 272,301,585 | 268,948,177 |
| Investment securities | | |
| - Held-to-maturity | 364,594,298 | 317,813,458 |
| - Loans and receivables | 537,614,647 | 533,878,662 |
| - Available-for-sale | 751,880 | 751,880 |
| Total financial assets | 1,423,076,843 | 1,308,767,303 |

The assets comprised in each of the categories above are detailed in the tables below:

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| **Financial assets at fair value through income** | | |
| Equity securities | | |
| - Listed | 179,268,718 | 132,921,981 |
| Debt securities | | |
| - Listed | 68,545,715 | 54,453,145 |
| | 247,814,433 | 187,375,126 |

Equity securities classified at fair value through income are designated in this category upon initial recognition. There are no non-derivative financial assets held for trading.

Debt securities bear interest rates ranging from 1.7% - 9.75% (2012: 1.74% - 9.75%).

7. **Financial Assets (Cont'd)**

The assets comprised in each of the categories above are detailed in the table below:-

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| **Investment securities** | | |
| Debt securities at fixed interest rate | | |
| - Held-to-maturity - listed | 364,594,298 | 317,813,458 |
| - Loans and receivables - unlisted | 537,614,647 | 533,878,662 |
| | 902,208,945 | 851,692,120 |
| Equity securities | | |
| - Available-for-sale - unlisted | 751,880 | 751,880 |

The breakdown of debt securities at fixed interest rate into current and non-current portion are shown below:-

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| Current portion | 537,451,679 | 489,484,251 |
| Non-current portion | 364,757,266 | 362,207,869 |
| | 902,208,945 | 851,692,120 |

Debt securities bear interest rates ranging from 5% - 10.25% (2012: 1% - 9.41%). There were no debt securities and available-for-sale financial assets that were considered past due or impaired at the reporting date.

**7. Financial Assets (Cont'd)**

| | Investment Securities Held -to- Maturity $ | Investment Securities Loans and Receivables $ | Available -for- Sale $ | Fair Value Through Income $ | Loans and Receivables $ | Total $ |
|---|---|---|---|---|---|---|
| **At the beginning of 2012** | 286,005,004 | 560,299,024 | 751,880 | 192,478,528 | 188,810,308 | 1,228,344,744 |
| Net additions | 37,074,474 | 32,761,252 | - | 1,431,964 | 102,966,071 | 174,233,761 |
| Disposals (redemption) | (5,266,020) | (59,181,614) | - | - | (21,839,641) | (86,287,275) |
| Net increase in provisions for impairment | - | - | - | - | (988,561) | (988,561) |
| Fair value losses on equity/debt securities | - | - | - | (6,535,366) | - | (6,535,366) |
| **At the end of 2012** | 317,813,458 | 533,878,662 | 751,880 | 187,375,126 | 268,948,177 | 1,308,767,303 |
| **At the beginning of 2013** | 317,813,458 | 533,878,662 | 751,880 | 187,375,126 | 268,948,177 | 1,308,767,303 |
| Net additions | 58,092,927 | 18,032,918 | - | 14,756,218 | 17,507,094 | 108,389,157 |
| Disposals (redemption) | (11,312,087) | (14,296,933) | - | - | (12,762,854) | (38,371,874) |
| Net increase in provisions for impairment | - | - | - | - | (1,390,832) | (1,390,832) |
| Fair value gains on equity/debt securities | - | - | - | 45,683,089 | - | 45,683,089 |
| **At the end of 2013** | 364,594,298 | 537,614,647 | 751,880 | 247,814,433 | 272,301,585 | 1,423,076,843 |

**8. Loans and Receivables**

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| **Loans and receivables** | | |
| Loans to Government of Saint Lucia and statutory bodies | 75,722,965 | 77,362,598 |
| Provision for impairment on loans | (29,891,455) | (28,531,087) |
| | 45,831,510 | 48,831,511 |
| Other loans | 166,037,974 | 158,544,705 |
| Provision for impairment | (653,916) | (484,952) |
| | 165,384,058 | 158,059,753 |
| | 211,215,568 | 206,891,264 |
| **Other advances and receivables** | | |
| **Due from Government of Saint Lucia** | | |
| Other receivables | 32,523,268 | 32,129,217 |
| Finance lease receivables | 18,479,407 | 19,218,565 |
| Contributions receivable | 1,165,707 | 797,131 |
| Provision for impairment | (370,812) | (370,812) |
| | 51,797,570 | 51,774,101 |
| **Other receivables** | | |
| Contributions receivable | 7,934,171 | 8,906,341 |
| Other receivables | 1,549,751 | 1,703,802 |
| Provision for impairment | (195,475) | (327,331) |
| | 9,288,447 | 10,282,812 |
| **Total loans and receivables** | 272,301,585 | 268,948,177 |

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| Current portion | 44,982,469 | 43,637,033 |
| Non-current portion | 227,319,116 | 225,311,144 |
| | 272,301,585 | 268,948,177 |

The estimated fair values of loans and receivables are the discounted amount of the estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Interest rates range from 2% - 8.75% (2012: 4% - 8.75%).

**8. Loans and Receivables (Cont'd)**

**Allowance for Impairment**

Reconciliation of allowance account for losses on loans and receivables by class is as follows:

| | Loans Statutory bodies $ | Other $ | Other receivables $ | Total $ |
|---|---|---|---|---|
| **Balance at July 1, 2012** | 28,531,087 | 484,952 | 698,143 | 29,714,182 |
| Provision for loan impairment | 1,360,368 | 168,964 | - | 1,529,332 |
| Loans recoveries | - | - | (131,856) | (131,856) |
| **At June 30, 2013** | 29,891,455 | 653,916 | 566,287 | 31,111,658 |
| **Balance at July 1, 2011** | 27,170,719 | 857,397 | 697,505 | 28,725,621 |
| Provision for loan impairment | 1,360,368 | - | 92,402 | 1,452,770 |
| Write-offs | - | (372,445) | (91,764) | (464,209) |
| **At June 30, 2012** | 28,531,087 | 484,952 | 698,143 | 29,714,182 |

The Group has recognised a loss of $1,397,476 (2012 - $988,561) for the impairment of its loans and receivables during the year ended June 30, 2013. The losses have been included under expenses attributable to investment income in the Consolidated Statement of Comprehensive Income.

**9. Finance Lease Receivable**

| | 2013 $ | 2012 $ |
|---|---|---|
| **Due from Government of Saint Lucia** | | |
| Finance leases | 17,441,856 | 19,051,442 |
| Unpaid charges | 1,037,551 | 167,123 |
| | 18,479,407 | 19,218,565 |
| Finance leases - gross receivables | 27,203,161 | 29,986,833 |
| Unearned finance income | (8,723,754) | (10,768,268) |
| | 18,479,407 | 19,218,565 |
| Current receivables | 2,831,109 | 1,771,044 |
| Non-current receivables | 15,648,298 | 17,447,521 |
| | 18,479,407 | 19,218,565 |
| **Gross receivables from finance leases** | | |
| No later than 1 year | 4,691,651 | 3,821,223 |
| Later than 1 year and not later than 5 years | 14,307,800 | 14,616,400 |
| Later than 5 years | 8,203,710 | 11,549,210 |
| | 27,203,161 | 29,986,833 |
| Unearned future finance income on finance leases | (8,723,754) | (10,768,268) |
| **Net investment in finance leases** | 18,479,407 | 19,218,565 |
| **The net investment in finance leases may be analysed as follows:** | | |
| No later than 1 year | 2,831,109 | 1,771,044 |
| Later than 1 year and not later than 5 years | 9,249,699 | 8,552,744 |
| Later than 5 years | 6,398,599 | 8,894,777 |
| | 18,479,407 | 19,218,565 |

## 10. Investment Properties

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| Beginning of year | 282,112,224 | 284,956,453 |
| Additions | 22,840,383 | 13,617,893 |
| Disposals | (128,538) | (903,600) |
| Decrease in fair value | (1,183,705) | (15,558,522) |
| End of year | 303,640,364 | 282,112,224 |

The Group's investment properties are carried at fair value. Fair values of land included in investment properties are based on valuations performed by independent, professionally qualified valuers as at June 30, 2013 and 2012. Fair value of investment properties are estimated by discounting expected rentals at market yields.

The following amounts have been recognised in the Consolidated Statement of Comprehensive Income:-

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| Rental income | 11,881,680 | 10,984,319 |
| Direct operating expenses arising from investment properties that generate rental income | 3,955,145 | 5,093,695 |

**11. Property, Plant and Equipment**

| | Land and Buildings $ | Leasehold Improvements $ | Motor Vehicles $ | Furniture and Equipment $ | Computer Hardware $ | Computer Software $ | Generators $ | Maintenance Equipment $ | Total $ |
|---|---|---|---|---|---|---|---|---|---|
| **At June 30, 2011** | | | | | | | | | |
| Cost | 2,780,521 | 257,836 | 822,438 | 6,174,394 | 1,519,526 | 709,309 | 325,430 | 151,307 | 12,740,761 |
| Accumulated depreciation | (239,260) | (257,836) | (396,763) | (4,668,007) | (1,214,261) | (533,884) | (325,430) | (34,761) | (7,670,202) |
| **Net book value** | 2,541,261 | - | 425,675 | 1,506,387 | 305,265 | 175,425 | - | 116,546 | 5,070,559 |
| **Year ended June 30, 2012** | | | | | | | | | |
| Opening net book value | 2,541,261 | - | 425,675 | 1,506,387 | 305,265 | 175,425 | - | 116,546 | 5,070,559 |
| Additions | - | - | 116,350 | 376,288 | 78,309 | 2,341 | - | 7,945 | 581,233 |
| Disposals | - | - | - | (2,049) | - | - | - | - | (2,049) |
| Depreciation charge | (33,701) | - | (170,985) | (313,203) | (138,062) | (56,689) | - | (15,640) | (728,280) |
| **Closing net book value** | 2,507,560 | - | 371,040 | 1,567,423 | 245,512 | 121,077 | - | 108,851 | 4,921,463 |
| **At June 30, 2012** | | | | | | | | | |
| Cost | 2,780,521 | 257,836 | 938,788 | 6,490,756 | 1,597,835 | 711,650 | 325,430 | 159,252 | 13,262,068 |
| Accumulated depreciation | (272,961) | (257,836) | (567,748) | (4,923,333) | (1,352,323) | (590,573) | (325,430) | (50,401) | (8,340,605) |
| **Net book value** | 2,507,560 | - | 371,040 | 1,567,423 | 245,512 | 121,077 | - | 108,851 | 4,921,463 |
| **Year ended June 30, 2013** | | | | | | | | | |
| Opening net book value | 2,507,560 | - | 371,040 | 1,567,423 | 245,512 | 121,077 | - | 108,851 | 4,921,463 |
| Additions | - | - | 102,000 | 340,762 | 60,846 | 2,708 | - | 4,025 | 510,341 |
| Disposals | - | - | - | (281) | - | - | - | - | (281) |
| Depreciation charge | (33,701) | - | (182,175) | (321,070) | (121,341) | (40,916) | - | (16,060) | (715,263) |
| **Closing net book value** | 2,473,859 | - | 290,865 | 1,586,834 | 185,017 | 82,869 | - | 96,816 | 4,716,260 |
| **At June 30, 2013** | | | | | | | | | |
| Cost | 2,780,521 | 257,836 | 1,040,788 | 5,325,972 | 1,658,681 | 714,358 | 325,430 | 163,277 | 12,266,863 |
| Accumulated depreciation | (306,662) | (257,836) | (749,923) | (3,739,138) | (1,473,664) | (631,489) | (325,430) | (66,461) | (7,550,603) |
| **Net book value** | 2,473,859 | - | 290,865 | 1,586,834 | 185,017 | 82,869 | - | 96,816 | 4,716,260 |

## 11. Property, Plant and Equipment (Cont'd)

Gain/loss on Disposal

| | Cost $ | Accumulated Depreciation $ | Net Book Value $ | Proceeds $ | (Gain)/ loss $ |
|---|---|---|---|---|---|
| **June 30, 2013** | | | | | |
| Furniture and equipment | 1,505,546 | (1,505,265) | 281 | 4,587 | (4,306) |
| **June 30, 2012** | | | | | |
| Furniture and equipment | 59,926 | (57,877) | 2,049 | - | 2,049 |

## 12. Other Assets

Other assets consisted of mobilisation fee paid for the construction of the Pointe Seraphine Financial Complex on which works were not completed.

## 13. Trade and Other Accounts Payable

| | 2013 $ | 2012 $ |
|---|---|---|
| Trade payables | 5,139,185 | 7,854,110 |
| Benefits payable | 882,051 | 1,616,640 |
| Other payables | 5,991,341 | 3,760,114 |
| | 12,012,577 | 13,230,864 |
| Current | 10,554,654 | 11,933,728 |
| Non-current | 1,457,923 | 1,297,136 |
| | 12,012,577 | 13,230,864 |

## 14. Borrowings

| | 2013 $ | 2012 $ |
|---|---|---|
| Bank overdraft (note 6) | - | 49,558 |
| Bank borrowings | 10,741,133 | 10,570,178 |
| Redeemable preference shares | 1,850,000 | 1,850,000 |
| **Total borrowings** | 12,591,133 | 12,469,736 |
| Current | 1,850,000 | 1,899,558 |
| Non-current | 10,741,133 | 10,570,178 |
| | 12,591,133 | 12,469,736 |

Bank borrowings are secured by a registered mortgage debenture and hypothecary obligation for $9,773,000 over the Group's property on Bridge Street and assignment of insurance over the same property. The principal amount due bears interest at 7% (2012: 7%). The Group was granted a moratorium on principal repayments from January 1 to December 31, 2013 (2012 – January 1 to December 31, 2012) during which time interest-only payments will be required at a reduced rate of 2% per annum. The bank will review the repayment terms at the end of the moratorium.

The preference shares are redeemable after 12 years in 2020 with an earlier redemption clause at the option of the holder. Dividends are payable annually at 7% (2012: 4% and 7%).

## 15. Principal Subsidiary Undertakings

| | 2013 % | 2012 % |
|---|---|---|
| St. Lucia Mortgage Finance Company Limited | 75 | 75 |
| Castries Car Park Facility Limited | 100 | 100 |
| National Insurance Property Development and Management Company Limited (NIPRO) | 100 | 100 |
| Blue Coral Limited | 66 2/3 | 66 2/3 |

All holdings are in the ordinary share capital of the undertaking concerned. The companies noted above are all incorporated and domiciled in Saint Lucia.

## 16. Reserves

| | Statutory Reserve $ | Portfolio Risk Reserve $ | Total $ |
|---|---|---|---|
| **Balances as at June 30, 2011** | 1,120,884 | - | 1,120,884 |
| Transfer to statutory reserve | 205,581 | - | 205,581 |
| Transfer from portfolio risk reserve | - | 189,835 | 189,835 |
| **Balances as at June 30, 2012** | 1,326,465 | 189,835 | 1,516,300 |
| Transfer to statutory reserve | 60,432 | (52,376) | 8,056 |
| Transfer from portfolio risk reserve | - | - | - |
| **Balances as at June 30, 2013** | 1,386,897 | 137,459 | 1,524,356 |

### Statutory Reserve

This reserve is maintained in accordance with Section 14(1) of the Banking Act, 1991 which requires that every licensed financial institution maintain a reserve fund and shall, out of its net profit of each year, transfer to that fund a sum equal to not less than 20% of such profits whenever the amount of the fund is less than one hundred percent of the paid-up capital of the financial institution.

### Excess Loan Fees

It is the policy of St. Lucia Mortgage Finance Company Limited to provide finance not exceeding 80% of the value of the asset. If finance is in excess of 80%, an additional charge of 2.5% of the loan amount is requested and kept as a reserve. In prior years, these fees were recognised as income when the loans were repaid. In the current year the deferred excess loan fees were transferred to the loan balances and it will be accounted for as an adjustment to the effective interest rate of the corresponding loan.

### Portfolio Risk Reserve

This reserve represents amounts set aside for impairment losses on loans and advances to comply with the Prudential Credit Guidelines issued by the Eastern Caribbean Central Bank (ECCB) in addition to those losses that have been recognised under IAS 39. The Prudential Credit Guidelines require a provision to be made in respect of the portion of the portfolio where loans are three payments or more in arrears.

By letter dated 23rd, July 2009, the ECCB clarified that only when the regulatory requirement for loan loss provisions exceeds provisions determined for accounting purposes are licensees are required to establish a special reserve for the amount by which the regulatory requirement exceeds that computed under the applicable accounting standard.

No further regulatory provision was required as at June 30, 2013.

**17. Short-term and Long-term Benefits Fund**

Short-term benefits fund is held to cover sickness benefit, maternity allowance and grant, funeral grant, employment injury benefit, hospitalization and medical benefits in respect of qualifying persons.

Long-term benefit fund is held to cover retirement pensions, retirement grants, death and disablement, invalidity and survivors' benefits in respect of qualifying persons.

## 18. Detailed Statement of Income and Expenditure

| | Short-term | | Long-term | | Retained Earnings | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2013 $ | 2012 $ | 2013 $ | 2012 $ | 2013 $ | 2012 $ | 2013 $ | 2012 $ |
| **Contribution income** | 17,251,426 | 16,634,076 | 84,227,551 | 81,213,429 | - | - | 101,478,977 | 97,847,505 |
| **Benefits expenses** | | | | | | | | |
| Short-term benefits | (8,932,773) | (8,619,812) | - | - | - | - | (8,932,773) | (8,619,812) |
| Long-term benefits | - | - | (54,083,932) | (50,511,066) | - | - | (54,083,932) | (50,511,066) |
| Medical health programme | (5,500,000) | (5,000,000) | - | - | - | - | (5,500,000) | (5,000,000) |
| | (14,432,773) | (13,619,812) | (54,083,932) | (50,511,066) | - | - | (68,516,705) | (64,130,878) |
| **Surplus of contributions over benefits** | 2,818,653 | 3,014,264 | 30,143,619 | 30,702,363 | - | - | 32,962,272 | 33,716,627 |
| General and administrative expenses | (2,103,046) | (2,296,083) | (9,180,459) | (9,997,076) | (5,332,333) | (4,698,624) | (16,615,838) | (16,991,783) |
| **Income from Operations** | 715,607 | 718,181 | 20,963,160 | 20,705,287 | (5,332,333) | (4,698,624) | 16,346,434 | 16,724,844 |
| **Other income** | | | | | | | | |
| Investment income - net | 4,218,071 | 2,144,310 | 109,176,186 | 55,531,303 | 10,157,710 | 10,013,903 | 123,551,967 | 67,689,516 |
| Decrease in fair value of investment properties | 94,217 | (465,615) | 2,438,627 | (12,058,049) | (3,716,549) | (3,034,858) | (1,183,705) | (15,558,522) |
| Other income | 141,045 | 133,649 | 688,634 | 652,520 | 703,533 | 385,728 | 1,533,212 | 1,171,897 |
| | 4,453,333 | 1,812,344 | 112,303,447 | 44,125,774 | 7,144,694 | 7,364,773 | 123,901,474 | 53,302,891 |
| **Excess of income over expenditure before finance costs and income tax expense** | 5,168,940 | 2,530,525 | 133,266,607 | 64,831,061 | 1,812,361 | 2,666,149 | 140,247,908 | 70,027,735 |

**18. Detailed Statement of Income and Expenditure (Cont'd)**

| | Short-term | | Long-term | | Retained Earnings | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2013 $ | 2012 $ | 2013 $ | 2012 $ | 2013 $ | 2012 $ | 2013 $ | 2012 $ |
| **Excess of income over expenditure before finance costs and income tax brought forward** | 5,168,940 | 2,530,525 | 133,266,607 | 64,831,061 | 1,812,361 | 2,666,149 | 140,247,908 | 70,027,735 |
| **Finance costs** | - | - | - | - | (443,697) | (413,603) | (443,697) | (413,603) |
| **Excess of income over expenditure before income tax** | 5,168,940 | 2,530,525 | 133,266,607 | 64,831,061 | 1,368,664 | 2,252,546 | 139,804,211 | 69,614,132 |
| **Income tax expense** | - | - | - | - | (88,248) | (43,648) | (88,248) | (43,648) |
| **Excess of income over expenditure** | 5,168,940 | 2,530,525 | 133,266,607 | 64,831,061 | 1,280,416 | 2,208,898 | 139,715,963 | 69,570,484 |
| **Attributable to:** | | | | | | | | |
| Reserves | 5,168,940 | 2,530,525 | 133,266,607 | 64,831,061 | 2,438,894 | 3,075,059 | 140,874,441 | 70,436,645 |
| Minority interest | - | - | - | - | (1,158,478) | (866,161) | (1,158,478) | (866,161) |
| **Excess of income over expenditure** | 5,168,940 | 2,530,525 | 133,266,607 | 64,831,061 | 1,280,416 | 2,208,898 | 139,715,963 | 69,570,484 |

## 19. Short-term and Long-term Benefits Expenses

| | Short-term Benefits | | Long-term Benefits | | Total | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| | $ | $ | $ | $ | $ | $ |
| Retirement | - | - | 43,431,745 | 40,673,798 | 43,431,745 | 40,673,798 |
| Survivorship | - | - | 6,205,918 | 5,489,390 | 6,205,918 | 5,489,390 |
| Sickness | 4,562,843 | 4,591,807 | - | - | 4,562,843 | 4,591,807 |
| Maternity | 3,646,936 | 3,364,920 | - | - | 3,646,936 | 3,364,920 |
| Invalidity | - | - | 4,220,613 | 4,155,971 | 4,220,613 | 4,155,971 |
| Funeral | 485,173 | 416,213 | - | - | 485,173 | 416,213 |
| Disablement | - | - | 158,939 | 123,244 | 158,939 | 123,244 |
| Employment injury | 192,164 | 201,129 | - | - | 192,164 | 201,129 |
| Death | - | - | 66,717 | 68,663 | 66,717 | 68,663 |
| Confinement fees and medical expenses | 45,657 | 45,743 | - | - | 45,657 | 45,743 |
| | 8,932,773 | 8,619,812 | 54,083,932 | 50,511,066 | 63,016,705 | 59,130,878 |

## 20. Expenses by Nature

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| **Administrative and general expenses** | | |
| Employee benefits | 8,033,281 | 8,227,559 |
| Repairs and maintenance | 1,749,650 | 1,428,791 |
| Electricity, water and sewage | 1,426,556 | 1,444,760 |
| Rent | 1,108,918 | 1,099,260 |
| Depreciation | 566,560 | 590,253 |
| Other | 497,105 | 341,042 |
| Insurance | 482,028 | 536,312 |
| Contribution to National Community Foundation | 400,000 | 350,000 |
| Professional and legal fees | 365,230 | 1,073,363 |
| Public relations | 321,310 | 254,680 |
| Postage and telephone | 320,348 | 353,854 |
| Stationery and printing | 299,385 | 325,413 |
| Security | 277,817 | 252,422 |
| Audit fees | 193,065 | 146,036 |
| Motor vehicle expenses | 154,242 | 143,762 |
| Subscriptions | 109,712 | 108,104 |
| Board expenses | 101,110 | 107,492 |
| Overseas meetings and conferences | 81,972 | 37,313 |
| Bank charges | 60,453 | 55,353 |
| Management fees | 39,069 | 48,898 |
| Office and general expenses | 28,027 | 67,116 |
| | 16,615,838 | 16,991,783 |
| **Expenses attributable to investment income** | | |
| Repairs and maintenance | 2,237,695 | 2,150,295 |
| Employee benefits | 2,159,879 | 2,022,129 |
| Provision for loan impairment | 1,397,476 | 988,561 |
| Subcontractor fees | 835,106 | 676,172 |
| Insurance | 617,285 | 441,746 |
| Security services | 551,781 | 464,065 |
| Electricity, water and sewage | 548,384 | 519,285 |
| Professional and legal fees | 305,653 | 27,574 |
| Depreciation | 148,703 | 138,027 |
| Audit fees | 83,507 | 52,900 |
| Overseas meetings and conferences | 81,973 | 37,313 |
| Bad debts | 51,167 | 648,867 |
| Board expenses | 45,874 | 47,358 |
| Motor vehicle expenses | 34,659 | 33,562 |
| Foreign exchange loss | - | 37,180 |
| | 9,099,142 | 8,285,034 |
| **Total administrative and general expenses and Expenses attributable to investment income** | 25,714,980 | 25,276,817 |

## 20. Expenses by Nature (Cont'd)

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| **Administrative and general expenses and expenses attributable to investment income** | | |
| Employee benefits | 10,193,160 | 10,249,688 |
| Repairs and maintenance | 3,987,345 | 3,579,086 |
| Electricity, water and sewage | 1,974,940 | 1,964,045 |
| Provision for loan impairment | 1,397,476 | 988,561 |
| Rent | 1,108,918 | 1,099,260 |
| Insurance | 1,099,313 | 978,058 |
| Subcontractor fees | 835,106 | 676,172 |
| Security services | 829,598 | 716,487 |
| Depreciation | 715,263 | 728,280 |
| Professional and legal fees | 670,883 | 1,100,937 |
| Other | 455,066 | 302,939 |
| Contribution to National Community Foundation | 400,000 | 350,000 |
| Public relations | 321,310 | 254,680 |
| Postage and telephone | 320,348 | 353,854 |
| Stationery and printing | 299,385 | 325,413 |
| Audit fees | 276,572 | 198,936 |
| Motor vehicle expenses | 188,901 | 177,324 |
| Overseas meetings and conferences | 163,945 | 74,626 |
| Board expenses | 146,984 | 154,850 |
| Subscriptions | 109,712 | 108,104 |
| Bank charges | 60,453 | 55,353 |
| Bad debts | 51,167 | 648,867 |
| Management fees | 39,069 | 48,898 |
| Office and general expenses | 28,027 | 67,116 |
| Scholarships and quiz sponsorships | 27,564 | 27,666 |
| Medical board fees | 9,112 | 3,040 |
| Books and periodicals | 2,934 | 5,547 |
| Donations | 2,429 | 1,850 |
| Foreign exchange loss | - | 37,180 |
| | 25,714,980 | 25,276,817 |

## 21. Employee and Management Costs

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| Salaries | 8,889,244 | 8,825,192 |
| Gratuities | 396,800 | 385,782 |
| Other staff costs | 907,116 | 1,038,714 |
| | 10,193,160 | 10,249,688 |

## 22. Investment Income - Net

| | 2013 $ | 2012 $ |
|---|---|---|
| Cash and cash equivalents interest income | 3,463,773 | 3,090,095 |
| Fair value through income: | | |
| - Dividend income | 3,951,981 | 4,223,600 |
| - Fair value gains/(losses) on equity/debt securities | 45,683,089 | (6,535,366) |
| - Interest income on debt securities | 1,428,267 | 1,168,585 |
| Loans and receivables interest income | 20,762,811 | 14,302,410 |
| Investment securities interest income | | |
| - Held-to-maturity | 21,297,160 | 20,151,936 |
| - Loans and receivables | 21,833,589 | 26,713,809 |
| Rental income | 11,881,680 | 10,823,771 |
| Development income | 61,454 | - |
| Maintenance fees | 1,087,148 | 595,272 |
| Parking fees | 499,126 | 488,283 |
| Management fees | 701,031 | 952,155 |
| | 132,651,109 | 75,974,550 |
| Expenses attributable to investment income | (9,099,142) | (8,285,034) |
| | 123,551,967 | 67,689,516 |

## 23. Related Party Transactions

The following transactions were carried out with related parties:-

| | 2013 $ | 2012 $ |
|---|---|---|
| Interest income | 4,240,930 | 4,299,430 |
| Rental income | 4,731,015 | 4,539,240 |
| Finance lease interest income | 2,044,514 | 2,225,040 |
| Key management compensation is as follows:- | | |
| Salaries and wages | 2,430,397 | 1,871,159 |
| Other benefits | 389,995 | 273,536 |
| | 2,820,392 | 2,144,695 |
| Year-end balances with related parties are as follows:- | | |
| **Loans to Government of St. Lucia and Statutory Bodies** | | |
| Held-to-maturity investment securities | 286,619,060 | 232,415,282 |
| Loans | 45,831,510 | 48,831,511 |
| Other advances and receivables | 32,152,456 | 32,129,217 |
| Contributions receivable | 1,165,707 | 797,131 |
| Finance lease receivable | 18,479,407 | 19,218,565 |

## 24. Taxation

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| Current tax | 88,944 | 38,339 |
| Deferred tax | (696) | 5,309 |
| | 88,248 | 43,648 |

The tax on the Group's income before taxation for the year differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| **Excess of income over expenditure before income tax** | 139,804,211 | 69,614,132 |
| Tax calculated at domestic tax rates applicable to income of the respective companies | 41,941,263 | 20,884,240 |
| Tax effect of exempt income | (42,886,548) | (20,840,592) |
| Effect of tax losses not recognised in the prior year | 1,033,533 | - |
| | 88,248 | 43,648 |

The weighted average applicable tax rate was 0.063% (2012 – 0.065%).

**Deferred tax liability**

The Group has recognised deferred tax relating to the subsidiary company, NIPRO which is detailed below:

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| Accelerated capital allowance | 12,957 | 13,653 |

The movement on the deferred income tax account is as follows:

| | 2013 | 2012 |
|---|---|---|
| At beginning of year | 13,653 | 8,344 |
| Statement of income and expenditure (credit) charge | (696) | 5,309 |
| At end of year | 12,957 | 13,653 |

**25. Actuarial Review**

Section 24 of the National Insurance Act requires an actuarial review of the National Insurance Fund to be conducted at least every five years.

The tenth actuarial review of the National Insurance Fund as at June 30, 2010 was conducted by an Actuary of the International Labour Organisation.

Key results of the financial and demographic projections based on the contribution and benefit provisions in place as of the valuation date:

- The total population of St. Lucia is expected to increase from 165,568 in 2010 to 183,365 in 2038 and decrease thereafter to 175,497 in 2060.

- The employed population is expected to increase from 67,704 in 2010 to 88,776 in 2036, decreasing thereafter to 78,828 in 2060.

- The aging of the general population will have a significant impact on the ratio of workers to retirees. Those aged 65 and over represent an increasing percentage of the total population, up from 8.6 percent in 2010 to 16.5% in 2035 and 24.6% in 2060.

- Contribution income is expected to be sufficient to meet total expenditure through 2051.

- The NIC is relatively young, so the long-term benefits branch has not yet reached a state of maturity and the cost of pensions expressed as a percentage of insurable earnings is still increasing. In 2011, the annual expenditure represented 6.1% of total insurable earnings and will gradually increase to 28.7% in 2063.

- Reserves are expected to begin decreasing in 2036 when total expenditure will begin to exceed total income for the first time. In 2051 projected reserves will be exhausted unless relevant measures are taken to reverse the projected trend.

- The pay-as-you-go rate or the contribution rate that would be required to produce just enough income to meet expenditure if there is no fund will increase gradually from 6.1% in 2011 to over 20% in the long term. This indicates that there will be a need to eventually increase the contribution rate of the branch in order to face its long-term cost.

**26. Commitments**

As at end of year, loans and receivables approved by the Group but not yet disbursed amounted to approximately $17,478,399 (2012 - $45,018,718).

# STATISTICAL APPENDIX

**The following Statistics have been prepared on a cash basis.**

## Table 1

**Contribution Income By Economic Sector (July 2008 - June 2013)**

| Economic Sector | Financial Year | | | | |
|---|---|---|---|---|---|
| | 08-09 | 09-10 | 10-11 | 11-12 | 12-13 |
| Agriculture, Hunting, Forestry and Fishing | 1,239,195 | 1,095,453 | 1,148,116 | 1,475,258 | 1,173,503 |
| Mining and Quarrying | 249,208 | 330,762 | 245,398 | 371,534 | 321,526 |
| Manufacturing | 6,288,891 | 6,115,924 | 5,857,336 | 5,685,074 | 6,210,340 |
| Electricity, Gas and Water Supply | 2,913,930 | 2,599,119 | 2,717,816 | 2,918,090 | 3,085,859 |
| Construction | 2,988,296 | 3,408,351 | 2,760,690 | 3,443,517 | 3,415,825 |
| Wholesale and Retail Trade | 12,490,418 | 12,270,112 | 12,680,462 | 13,075,882 | 13,459,601 |
| Restaurants and Hotels | 16,693,721 | 16,729,316 | 17,382,015 | 20,111,069 | 19,535,921 |
| Transport, Storage and Communication | 6,203,828 | 5,899,065 | 6,786,060 | 6,521,535 | 6,721,774 |
| Financial Intermediaries | 7,272,117 | 7,577,899 | 7,650,617 | 8,313,101 | 7,789,677 |
| Real Estate/ Renting /Business Services | 6,919,359 | 6,973,921 | 7,725,811 | 7,446,569 | 9,076,214 |
| Public Administration and Defence, Compulsory Social Security, Education, Health and Social Work | 17,248,893 | 20,380,207 | 20,039,006 | 25,540,890 | 23,995,805 |
| Community, Social and Personal Services, Households with Employed Persons and Extra-Territorial Organisations and Bodies | 5,830,845 | 7,552,389 | 6,120,003 | 6,987,350 | 6,726,121 |
| Self-Employed | 557,409 | 613,065 | 635,203 | 679,539 | 755,205 |
| Voluntary Contributors | 45,855 | 44,440 | 38,861 | 34,599 | 30,817 |
| Activities not adequately defined | 232,747 | 229,857 | 237,498 | 284,863 | 306,311 |
| **Total** | **87,174,711** | **91,819,880** | **92,024,893** | **102,888,870** | **102,604,498** |

## Table 2

**Active Insured Persons by Economic Sector: 2009/13**

| Economic Sector | Financial Year | | | | |
|---|---|---|---|---|---|
| | 08-09 | 09-10 | 10-11 | 11-12 | 12-13 |
| Agriculture, Hunting, Forestry and Fishing | 965 | 940 | 958 | 820 | 852 |
| Mining and Quarrying | 191 | 144 | 144 | 161 | 176 |
| Manufacturing | 3,842 | 3,930 | 3,765 | 3,639 | 3,516 |
| Electricity, Gas and Water Supply | 756 | 738 | 755 | 808 | 821 |
| Construction | 3,288 | 3,081 | 2,820 | 3,079 | 2,633 |
| Wholesale and Retail Trade | 8,197 | 8,143 | 8,518 | 8,501 | 8,314 |
| Restaurants and Hotels | 8,935 | 8,447 | 8,960 | 9,370 | 9,399 |
| Transport, Storage and Communication | 3,143 | 3,329 | 3,444 | 3,400 | 3,574 |
| Financial Intermediaries | 2,733 | 2,855 | 2,830 | 2,862 | 2,825 |
| Real Estate, Renting and Business Services | 3,468 | 4,006 | 4,304 | 3,727 | 4,638 |
| Public Administration and Defence, Compulsory Social Security, Education, Health and Social Work | 8,496 | 8,899 | 9,421 | 9,829 | 10,259 |
| Community, Social and Personal Services,Households with Employed Persons and Extra-Territorial Organisations and Bodies | 3,670 | 3,644 | 3,882 | 4,046 | 3,761 |
| Self-Employed | 966 | 1,010 | 1,052 | 1,086 | 1,123 |
| Voluntary Contributors | 112 | 92 | 84 | 75 | 66 |
| Activities not adequately defined | 243 | 258 | 290 | 294 | 341 |
| **Total** | **49,005** | **49,516** | **51,227** | **51,697** | **52,298** |

## Table 3

**Active Employers By Industrial Classification: June 2009 - June 2013**

| Economic Sector | Financial Year Ending | | | | |
|---|---|---|---|---|---|
| | June 2009 | June 2010 | June 2011 | June 2012 | June 2013 |
| Agriculture, Hunting, Forestry and Fishing | 139 | 129 | 131 | 125 | 127 |
| Mining and Quarrying | 7 | 8 | 8 | 9 | 9 |
| Manufacturing | 248 | 257 | 261 | 259 | 256 |
| Electricity, Gas and Water Supply | 15 | 15 | 15 | 17 | 17 |
| Construction | 172 | 171 | 172 | 165 | 167 |
| Wholesale and Retail Trade | 630 | 623 | 644 | 639 | 633 |
| Restaurants and Hotels | 359 | 370 | 392 | 378 | 375 |
| Transport, Storage and Communication | 159 | 162 | 163 | 167 | 170 |
| Financial Intermediaries | 122 | 126 | 125 | 135 | 135 |
| Real Estate, Renting and Business Services | 379 | 392 | 386 | 394 | 398 |
| Public Administration and Defence, Compulsory Social Security, Education, Health and Social Work | 250 | 256 | 263 | 258 | 264 |
| Community, Social and Personal Services, Households with Employed Persons and Extra-Territorial Organisations and Bodies | 870 | 895 | 914 | 933 | 955 |
| Activities not adequately defined | 198 | 191 | 210 | 202 | 208 |
| **Total** | **3,548** | **3,595** | **3,684** | **3,681** | **3,714** |

## Table 4

**Contributing Employers by Economic Sector: 2009/13**

| Economic Sector | Financial Year | | | | |
|---|---|---|---|---|---|
| | **08-09** | **09-10** | **10-11** | **11-12** | **12-13** |
| **Agriculture, Hunting, Forestry and Fishing** | 123 | 117 | 114 | 110 | 107 |
| **Mining and Quarrying** | 8 | 7 | 8 | 8 | 8 |
| **Manufacturing** | 215 | 230 | 227 | 230 | 225 |
| **Electricity, Gas and Water Supply** | 18 | 15 | 14 | 17 | 19 |
| **Construction** | 132 | 126 | 124 | 127 | 136 |
| **Wholesale and Retail Trade** | 589 | 580 | 619 | 621 | 617 |
| **Restaurants and Hotels** | 315 | 316 | 340 | 329 | 316 |
| **Transport, Storage and Communication** | 148 | 150 | 148 | 158 | 155 |
| **Financial Intermediaries** | 111 | 118 | 117 | 122 | 127 |
| **Real Estate, Renting and Business Services** | 342 | 353 | 359 | 352 | 359 |
| **Public Administration and Defence, Compulsory Social Security, Education, Health and Social Work** | 252 | 251 | 266 | 261 | 265 |
| **Community, Social and Personal Services, Households with Employed Persons and Extra-Territorial Organisations and Bodies** | 876 | 892 | 910 | 930 | 921 |
| **Activities not adequately defined** | 127 | 176 | 207 | 207 | 205 |
| **Total** | **3,256** | **3,331** | **3,453** | **3,472** | **3,460** |

## Table 5

**Newly Registered Employers by Economic Sector: 2009/13**

| Economic Sector | Financial Year | | | | |
|---|---|---|---|---|---|
| | 08-09 | 09-10 | 10-11 | 11-12 | 12-13 |
| Agriculture, Hunting, Forestry and Fishing | 6 | 7 | 8 | 3 | 7 |
| Mining and Quarrying | 1 | 0 | 0 | 0 | 0 |
| Manufacturing | 18 | 28 | 18 | 15 | 26 |
| Electricity, Gas and Water Supply | 0 | 0 | 2 | 2 | 1 |
| Construction | 21 | 29 | 30 | 20 | 43 |
| Wholesale and Retail Trade | 62 | 56 | 72 | 46 | 67 |
| Restaurants and Hotels | 45 | 59 | 65 | 41 | 35 |
| Transport, Storage and Communication | 17 | 16 | 12 | 18 | 16 |
| Financial Intermediaries | 10 | 9 | 4 | 13 | 5 |
| Real Estate, Renting and Business Services | 39 | 42 | 44 | 35 | 40 |
| Public Administration and Defence, Compulsory Social Security, Education, Health and Social Work | 27 | 22 | 23 | 13 | 19 |
| Community, Social and Personal Services, Households with Employed Persons and Extra-Territorial Organisations and Bodies | 106 | 106 | 118 | 120 | 123 |
| Activities not adequately defined | 66 | 63 | 73 | 39 | 38 |
| **Total** | **418** | **437** | **469** | **365** | **420** |

## Table 6

**Number of Short-Term Benefits Paid by Type: 2009/13**

| Short-Term Benefits | Financial Year | | | | |
|---|---|---|---|---|---|
| | 08-09 | 09-10 | 10-11 | 11-12 | 12-13 |
| Employment Injury | 118 | 74 | 132 | 145 | 166 |
| Sickness Allowance | 8,927 | 9,482 | 9,909 | 10,850 | 10,767 |
| Maternity Allowance | 850 | 813 | 778 | 866 | 921 |
| Maternity Grant | 880 | 847 | 772 | 937 | 923 |
| Funeral Grant | 230 | 238 | 245 | 235 | 286 |
| Medical Expenses | 53 | 47 | 77 | 74 | 90 |
| **Total** | **11,058** | **11,501** | **11,913** | **13,107** | **13,153** |

## Table 7

**Short-Term Benefits Expenditure by Type: 2009/13**

| Short-Term Benefits | Financial Year | | | | |
|---|---|---|---|---|---|
| | 08-09 | 09-10 | 10-11 | 11-12 | 12-13 |
| Employment Injury | 97,647 | 122,176 | 162,484 | 206,314 | 208,088 |
| Sickness Allowance | 3,241,433 | 3,602,593 | 3,847,781 | 4,482,785 | 4,568,549 |
| Maternity Allowance | 2,450,532 | 2,400,683 | 2,488,955 | 2,771,392 | 3,112,546 |
| Maternity Grant | 531,000 | 523,800 | 466,200 | 571,200 | 557,400 |
| Funeral Grant | 393,450 | 417,296 | 421,250 | 405,963 | 492,023 |
| Medical Expenses | 3,016,869 | 3,049,668 | 3,084,516 | 3,038,140 | 3,034,383 |
| **Total** | **9,730,931** | **10,116,216** | **10,471,187** | **11,475,793** | **11,972,990** |

## Table 8

**Number of Long-Term Benefits Paid by Type: 2009/13**

| Long-Term Benefits | Financial Year | | | | |
|---|---|---|---|---|---|
| | 08-09 | 09-10 | 10-11 | 11-12 | 12-13 |
| Retirement Pension | 3,756 | 3,951 | 4,201 | 4,449 | 4,683 |
| Survivors' Pension | 963 | 939 | 1,054 | 1,051 | 1,008 |
| Invalidity Pension | 326 | 354 | 396 | 432 | 475 |
| Disablement Pension | 13 | 13 | 12 | 13 | 13 |
| Retirement Grant | 341 | 350 | 394 | 490 | 494 |
| Survivors' Grant | 46 | 50 | 42 | 56 | 61 |
| Invalidity Grant | 22 | 34 | 35 | 41 | 35 |
| Disablement Grant | 4 | 1 | 2 | 2 | 3 |
| **Total** | **5,471** | **5,692** | **6,136** | **6,534** | **6,772** |

## Table 9

**Long-Term Benefits Expenditure by Type: 2008/13**

| Long-Term Benefits | Financial Year | | | | |
|---|---|---|---|---|---|
| | 08-09 | 09-10 | 10-11 | 11-12 | 12-13 |
| **Retirement Pension** | 28,758,978 | 30,977,728 | 35,576,734 | 38,311,420 | 40,825,761 |
| **Survivors' Pension** | 4,295,761 | 4,521,268 | 4,804,159 | 5,242,406 | 5,951,723 |
| **Invalidity Pension** | 2,473,367 | 2,894,503 | 3,413,576 | 3,959,399 | 4,064,326 |
| **Disablement Pension** | 93,118 | 96,493 | 95,707 | 99,852 | 99,111 |
| **Retirement Grant** | 1,372,184 | 1,505,992 | 1,997,769 | 2,341,495 | 2,607,217 |
| **Survivors' Grant** | 135,538 | 120,398 | 154,040 | 246,288 | 252,174 |
| **Invalidity Grant** | 52,833 | 107,389 | 190,539 | 197,093 | 173,385 |
| **Disablement Grant** | 62,630 | 40,651 | 34,604 | 23,394 | 57,661 |
| **Total** | **37,244,409** | **40,264,422** | **46,267,128** | **50,421,347** | **54,031,359** |

## Table 10

**Pensions Paid by Type: 2008/13**

| Pensions | Financial Year | | | | |
|---|---|---|---|---|---|
| | 08-09 | 09-10 | 10-11 | 11-12 | 12-13 |
| **Retirement Pension** | 3,756 | 3,951 | 4,201 | 4,449 | 4,683 |
| **Survivors' Pension** | 963 | 939 | 1,054 | 1,051 | 1,008 |
| **Invalidity Pension** | 326 | 354 | 396 | 432 | 475 |
| **Disablement Pension** | 13 | 13 | 12 | 13 | 13 |
| **Total** | **5,058** | **5,257** | **5,663** | **5,945** | **6,179** |

## Table 11

**Pensions Expenditure by Type: 2008/13**

| Pensions | Financial Year | | | | |
|---|---|---|---|---|---|
| | 08-09 | 09-10 | 10-11 | 11-12 | 12-13 |
| **Retirement Pension** | 28,758,978 | 30,977,728 | 35,576,734 | 38,311,420 | 40,825,761 |
| **Survivors' Pension** | 4,295,761 | 4,521,268 | 4,804,159 | 5,242,406 | 5,951,723 |
| **Invalidity Pension** | 2,473,367 | 2,894,503 | 3,413,576 | 3,959,399 | 4,064,326 |
| **Disablement Pension** | 93,118 | 96,493 | 95,707 | 99,852 | 99,111 |
| **Total** | **35,621,224** | **38,489,992** | **43,890,175** | **47,613,077** | **50,940,921** |

## Table 12

**Pensions In-Payment by Type: 2008/13**

| Pensions | Financial Year | | | | |
|---|---|---|---|---|---|
| | 08-09 | 09-10 | 10-11 | 11-12 | 12-13 |
| **Retirement Pension** | 3,493 | 3,807 | 4,028 | 4,272 | 4,525 |
| **Survivors' Pension** | 901 | 939 | 882 | 940 | 965 |
| **Invalidity Pension** | 308 | 351 | 356 | 396 | 432 |
| **Disablement Pension** | 8 | 8 | 12 | 13 | 12 |
| **Total** | **4,710** | **5,105** | **5,278** | **5,621** | **5,934** |

## Table 13

**Average Monthly Pensions by Type: 2009/13**

| Pensions | Financial Year | | | | |
|---|---|---|---|---|---|
| | 08-09 | 09-10 | 10-11 | 11-12 | 12-13 |
| **Retirement Pension** | 650.33 | 664.61 | 758.93 | 763.42 | 768.05 |
| **Survivors' Pension** | 345.48 | 387.92 | 486.66 | 501.82 | 702.65 |
| **Invalidity Pension** | 685.82 | 724.78 | 803.18 | 811.69 | 856.30 |
| **Disablement Pension** | 536.88 | 565.00 | 653.58 | 657.58 | 704.92 |

## Table 14

**Benefits Expenditure by Type and Branch: 2009/13**

| Benefit Branch | Financial Year | | | | |
|---|---|---|---|---|---|
| | 08-09 | 09-10 | 10-11 | 11-12 | 12-13 |
| ***Long-Term*** | | | | | |
| **Retirement** | 30,131,162 | 32,483,720 | 37,574,502 | 40,652,915 | 43,432,978 |
| **Survivorship** | 4,431,299 | 4,641,666 | 4,958,199 | 5,488,694 | 6,203,897 |
| **Incapacitation** | 2,681,948 | 3,139,036 | 3,734,426 | 4,279,738 | 4,394,483 |
| **Sub-Total** | 37,244,409 | 40,264,422 | 46,267,128 | 50,421,347 | 54,031,359 |
| | | | | | |
| ***Short-Term*** | | | | | |
| **Employment Injury** | 97,647 | 122,176 | 162,484 | 206,314 | 208,088 |
| **Sickness Allowance** | 3,241,433 | 3,602,593 | 3,847,781 | 4,482,785 | 4,568,549 |
| **Maternity Allowance** | 2,450,532 | 2,400,683 | 2,488,955 | 2,771,392 | 3,112,546 |
| **Maternity Grant** | 531,000 | 523,800 | 466,200 | 571,200 | 557,400 |
| **Funeral Grant** | 393,450 | 417,296 | 421,250 | 405,963 | 492,023 |
| **Medical Expenses** | 3,016,869 | 3,049,668 | 3,084,516 | 3,038,140 | 3,034,383 |
| **Sub-Total** | 9,730,931 | 10,116,216 | 10,471,187 | 11,475,793 | 11,972,990 |
| **Total** | **46,975,340** | **50,380,638** | **56,738,314** | **61,897,140** | **66,004,348** |

# 2013

# NATIONAL INSURANCE CORPORATION

ANNUAL REPORT

PROVIDING SOCIAL PROTECTION FOR ALL