NATIONAL INSURANCE CORPORATION

For the benefit of us all!

NATIONAL INSURANCE CORPORATION
ANNUAL REPORT 2012

TABLE OF CONTENTS

NATIONAL
INSURANCE
CORPORATION

For the benefit of us all!

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

CORPORATE INFORMATION

BANKERS

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

AUDITORS

Grant Thornton
Pointe Seraphine
Castries
St. Lucia

ATTORNEYS

Mrs. Cadie St. Rose Albertini LLB, LEC, LLM
Ms. Kit-Juelle Frank-Amoroso LLB, LEC
First Floor
Francis Compton Building
Waterfront
Castries
St. Lucia

Lisle Chase
(Chairman)

BOARD MEMBERS

Trevor Louisy
(Member)

Keigan Cox
(Member)

Margaret Monplaisir
(Member)

Matthew Mathurin
(Member)

Peter Alexander
(Member)

Michelle Phillips
(Member)

BOARD COMMITTEES, MANAGEMENT TEAM AND SENIOR STAFF

AUDIT COMMITTEE

Keigan Cox	*Chairperson*
Lisle Chase	
Peter Alexander	

HUMAN RESOURCE COMMITTEE

Margaret Monplaisir	*Chairperson*
Trevor Louisy	
Michelle Phillips	
Matthew Mathurin	

GOVERNANCE COMMITTEE

Trevor Louisy
Lisle Chase

APPEALS COMMITTEE

Lisle Chase	*Chairperson*
Trevor Louisy	
Michelle Phillips	
Peter Alexander	

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

Mrs. Relle Hippolyte	Public Relations/ Events Officer
Mr. Paul Kallicharan	Statistician
Mrs. Theresa Cox	Customer Service Supervisor
Mrs. Elmona Leonce	Benefits Supervisor
Ms. Mary Bruce	Personal Assistant to the Director
Ms. Merle Regis	Records Supervisor
Mr. Timothy John	Chief Security Officer

NATIONAL
INSURANCE
CORPORATION
For the benefit of us all!

Hon. Dr. Kenny D. Anthony

PRIME MINISTER AND MINISTER OF FINANCE, ECONOMIC AFFAIRS, SOCIAL SECURITY, PLANNING & NATIONAL DEVELOPMENT

NATIONAL INSURANCE CORPORATION
For the benefit of us all!

PRIME MINISTER'S STATEMENT

The National Insurance Corporation (NIC) continues to be the cornerstone of Saint Lucia's social security architecture. All modern societies require and expect reliable, responsive and responsible social security systems. Saint Lucia is no different. We want the comfort of knowing that the NIC will be there to support us through the hazards of life – while working and during retirement. Today, the NIC continues to provide a suite of benefits to the people of our land. These include pensions as well as benefits for maternity, injury and illness.

NIC's corporate position remains strong for the time being, and even despite this current cycle of economic sluggishness. However, for the year 2011-12, while net reserves continued to increase (by 4.5% over the previous year), contribution income fell slightly by 0.6% and benefits paid increased by 13%. A reduction of contribution albeit by a modest 0.6% is not unusual in this economic environment. However, we need to monitor closely the increased amount paid in benefits because it portends the future challenge that will face us all.

Our children will expect the same or perhaps even broader coverage and benefits than today's beneficiaries. It is in this light that I think it important to highlight the findings of the ninth Actuarial Review undertaken in 2007, which has been included in this Consolidated Financial Statements of this year's Annual Report. The Actuarial Review notes:

1. By 2060, Saint Lucia will have a population of slightly over 212,000;
2. However, our changing demographics will realise an ageing society and so the ominous projection for 2060 is that there will be 2.1 contributors to every pensioner, as compared to over 10 currently;
3. While income will be sufficient to meet total expenditure up to 2036, by 2037 total expenditure will exceed total income for the first time, leading to a decrease in reserves; and
4. By 2051, all reserves will be depleted unless relevant measures are taken to reverse the projected trend.

These are sobering statistics.

Our country must face the reality of these necessary "relevant measures". Many countries around the world already have what are known as super-aged societies, where over 20% of the populations are over 65. Nearly 13 countries are projected to be super-aged by 2020, and 34 by 2030. As such, countries in Europe, Asia and the Americas have begun fashioning responses to these realities as they have impacts beyond the issue of pensions that go to the economic viability of the state.

The year 2037 is less than a generation away and if we are to realise the long term viability of the fund through to 2060, it means policy responses will be required from early. We cannot wait until the eleventh hour.

Many years ago, we had to take the decision to incrementally increase the pensionable age, a direct response to the reality of an already aging society, living longer lives. It is inevitable that we will have to review these and other policies, such as the contribution rate, so as to secure the viability of the fund for our children and grandchildren.

More broadly, Government may well have to look at measures to reverse the current demographic trend and ensure we have a productive, healthy human resource base that can support economic growth and quality lives.

Economically, the NIC continues to be a key investor and public sector partner. Given the need to encourage investment and economic activity, the NIC is one of the few national entities with the capacity to rise to the times and spur growth. We are indeed seeing the benefits of smart, sound investments in the past reaping benefits today.

I remain confident that the NIC will remain strong through smart decision making and dedicated management.

Hon. Dr. Kenny D. Anthony
Prime Minister and Minister of Finance, Economic Affairs,
Social Security, Planning & National Development

Lisle Chase
CHAIRMAN

NATIONAL INSURANCE CORPORATION
For the benefit of us all!

CHAIRMAN'S REPORT
July 2011 - June 2012

The financial year ended 30th June 2012 was a challenging but successful one for the National Insurance Corporation. During the financial period under review, the Board navigated the Corporation through the continued slowdown in economic activity, high unemployment and downward trend in investment opportunities and returns while remaining focused on and committed to ensuring that the Corporation delivered on its mandate to provide adequate, timely, and relevant social insurance protection to the workers of this country.

FINANCIAL HIGHLIGHTS

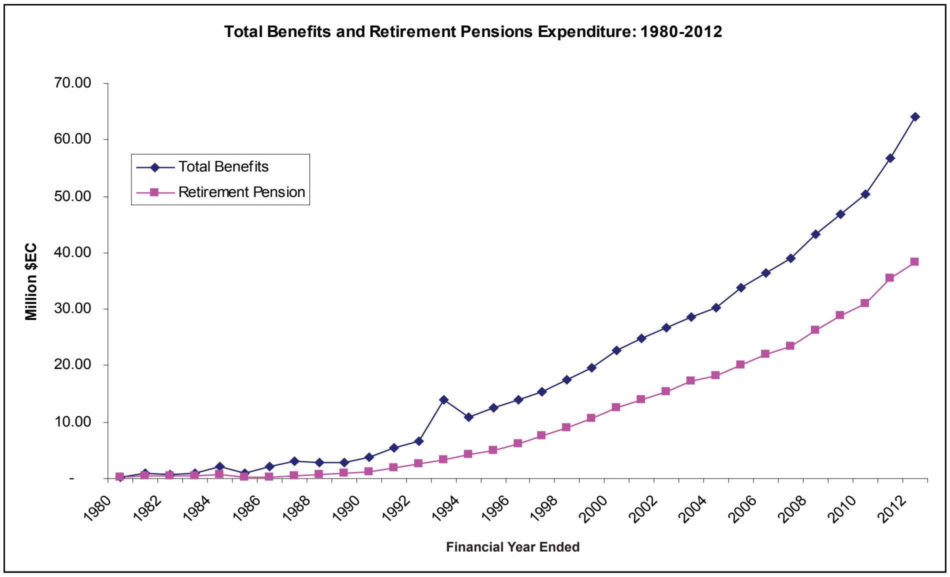
BENEFITS

Total benefits expenditure in 2011/2012 was $64.13 million, an increase of 13.08% over the $56.71 million paid in the previous fiscal year. Of this amount, long-term benefits payment accounted for 78.76% or $50.51 million, while short-term benefit payments including Medical Health Program accounted for the remaining 21.24% or $13.62 million. In 2011/2012, the cost of Medical Health Program increased by $2 million or approximately 67.0% to $5.0 million.

Retirement Pensions continue to be the principal component of pension expenditure and accounted for 60.10% of total benefits paid. This trend will continue into the future to reflect the projected steady increase in the rate of retirement of active contributors. As the National Insurance Program matures, it will develop into predominantly a pension program as illustrated in Figure 1 below.

When expressed as a percentage of contribution income, total benefits expenditure was 65.54% compared to 57.63% in the previous financial year.

Figure 1



RECIPROCAL AGREEMENTS

Saint Lucia is a signatory to a bilateral agreement on social security with Canada and a multilateral agreement on social security with member countries of CARICOM. During the period under review, eighteen transactions were processed under the Agreement between Saint Lucia and Canada and twenty one under the CARICOM Agreement on Social Security. As at 30th June 2012, a total of thirteen pensions were in-payment under these Agreements.

INCOME

Total income for the year was $151.15 million, a drop of 9.4% compared to $166.77 million in the previous fiscal year. The above decline in total income was influenced mainly by a $16.96 million difference in the change in the fair value of investment properties, from an increase of $1.40 million in 2011 to a decrease of $15.56 million in 2012. Contribution income remained relatively stable, reflecting a 0.6% drop from $98.40 million in the previous financial year to $97.85 million in the year ended 30th June 2012.

EXPENSES

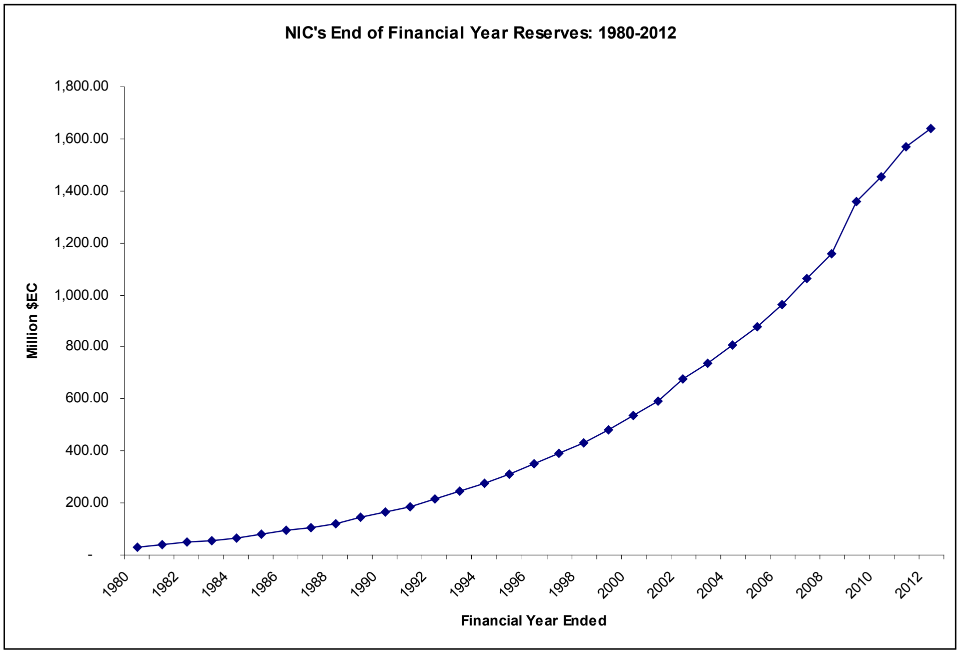
During the review period, General and Administrative Expenses declined by 3.30% to $16.99 million. General and Administrative Expenses were 17.36% of contribution income. When compared to the previous financial year, this indicator reflected an improvement of 2.75%, testament to our continuing efforts to keep costs under control.

ASSETS

Total assets at 30th June 2012 amounted to $1.64 billion, an increase of 4.63% over the previous financial year. This moderate growth was reflected in the Investment Portfolio of the Corporation, the balance of which stood at $1.59 billion at the end of the review period, as compared to $1.51 billion at the end of 30th June 2011.

At the end of the financial year in review, the Reserves of the Group stood at $1.62 billion, an increase of 4.49% from the previous year. The trend in Reserves is illustrated in Figure 2 below.

Figure 2



INVESTMENTS

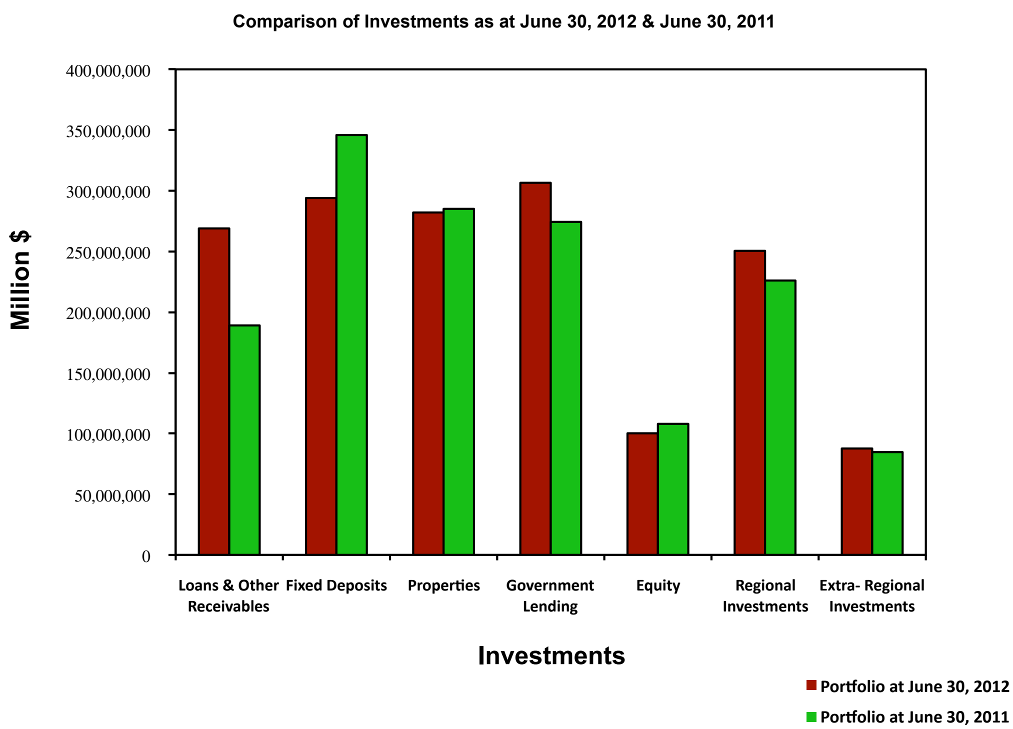
In this very volatile investment climate, the National Insurance Corporation continues to exercise prudence when undertaking investment decisions. Investment of surplus monies is critical to allow the Corporation to supplement contributions to meet future pension obligations and increase in the level of benefit payments to offset inflation. The Corporation is guided by the following objectives, in order of priority: Safety, Liquidity and Yield as outlined in its Investment Policy and Guidelines.

The following investments were undertaken during the year ended June 30th 2012:

- Purchased EC$2.5 million 1 year Government of Grenada Treasury Bill at an interest rate of 5.75%.
- Purchased EC$7.8 million of Eastern Caribbean Home Mortgage Bank 3 year Bonds maturing in 2014 at an interest rate of 4.49%.
- Purchased EC$20 million of 7.10% Government of Saint Lucia 8 year Bonds maturing in 2020.
- Purchased EC$10 million of Government of Saint Lucia 91 day Treasury bill at an interest rate of 5.00%.
- Purchased US$5 million of Government of Saint Lucia Bonds at an interest rate of 7.50% per annum maturing in 2021.
- Purchased US$1 million of 6% Petroleum Company of Trinidad & Tobago 2022 Bonds.
- Invested EC$25 million in Repurchase Agreements with First Citizen Investment Services at rates ranging from 3.00% to 4.00% per annum.
- Placed EC$37.2 million in new term deposits within the commercial banks in Saint Lucia at rates ranging from 3.00% to 4.80%.
- Approved EC$15 million loan to Saint Lucia Development Bank for on-lending in various sectors of the economy.
- Approved EC$100 million loan to St. Lucia Electricity Services Limited.
- Approved EC$3.9 million loan to NIPRO under the BOLT project for the construction of the Babonneau Police Station.

The following provides a comparative summary of the investment portfolio:

Investments	Portfolio at June 30, 2012	Portfolio at June 30, 2011
Loans & Other Receivables	268,948,177	188,810,308
Fixed Deposits	294,300,265	346,064,878
Properties	282,112,224	284,956,453
Government Lending	306,728,040	274,271,429
Equity	100,482,629	108,232,989
Regional Investments	250,663,816	225,967,721
Extra-Regional Investments	87,644,378	84,997,419
Total	**1,590,879,529**	**1,513,301,197**



INFORMATION TECHNOLOGY SYSTEMS

We recognize the critical role of the Computer Department in providing an enabling environment for the provision of social security benefits. Additionally its value added services allows for leveraging web based services for institutional efficiency and communication expansion in a controlled environment encouraging efficiency, accuracy and transparency. The areas highlighted below underpin some of the developments on that front.

Re-Launch NIC Corporate Site

The new look redesign of our NIC Corporate Site was re-launched on 24th September, providing a fresh look to the organization's web presence as well as an appealing interface to encourage greater browsing experience and increased visitors to our websites.

Network Expansion

We have expanded the Metropolitan-E network to include our Archives to allow for scanning of documents at that remote location. We also upgraded our DIA (Direct Internet Access) bandwidth to 5 Megabits to accommodate increased internet traffic from all sub offices.

C3 Online System

We have begun assessing system requirements for developing a C3 Online contribution system. This system will provide a medium for employers to submit monthly records of contributions to the Corporation in a digital format, easily and in a secure environment promoting increased efficiency allowing us to:

1. Reduce manual entry and perform faster calculation of benefits.
2. Retire C3 Form Printing.
3. Retire laborious folding and packaging of C3 letters destined to employers.

Documentation of Social Security System

We started the process of documenting our benefit processing system built on the Powerhouse platform which forms the core of our social security system. The documentation of our Core Powerhouse Benefit processing system serves the purpose of mitigating the risks associated with institutional memory loss, retention of knowledge for transfer to new recruits and recovery of program code in the event of corruption of programs.

Security

We increased the protection of our remote Backup Server by installing an Uninterruptable Power Supply at the remote location.

IT Audit

We saw the completion of the annual audit of the Computer Department. The exercise addressed personnel, security, application quality, system development life cycle, project management and internal controls.

HUMAN RESOURCE

Recognizing the critical role our employees play in the success of the Corporation and to ensure that our employees are equipped with the necessary skills, significant attention was devoted to the area of training and development. To this end employees received customized training in Negotiations and Dispute Resolution and People Skills in the Workplace. In addition training was provided in the areas of Social Insurance Communication, Effective Communication and Human Relations, Serving Difficult Customers and Fire Safety. The management staff received training in Discovering Personal and Team Effectiveness and Stress as a Leadership Issue.

The National Insurance Corporation hosted the Social Security Regional Human Resource Training under the theme "Enhancing Productivity in Social Security Institutions". At this workshop 20 Human Resource practitioners from 9 regional territories shared on common HR issues and best practices.

In an effort to improve on the performance appraisal instrument, it became necessary to review the Key Performance Indicators for various departments. Additionally, the Corporation continued its development and review of internal policies necessary for the effective administration of staff and operations. These included

Staff Scholarship, Sexual Harassment, Recruitment and Selection, Sickness and Absence and Fraud policies.

This year we granted three scholarships to children of employees. As at 30th June 2012, the NIC had awarded 27 scholarships to members of staff, 9 of which were still active as at that date.

Consistent with our efforts in minimizing risks within the Corporation, we conducted a review of the Internal Audit Department and the identified shortfall in staff was made good by the appointment of an Internal Audit Assistant in September 2011.

At the end of June 2012 the total number of employees group-wide was 114.

SUBSIDIARIES

The following profiles the Corporation and its subsidiaries.

COMPANY	% HOLDING BY NIC	BUSINESS	DATE INCORPORATED	TOTAL ASSETS	NET ASSETS
National Insurance Corporation	-	Provision of social security services	April 1979	$1.60 Billion	$1.59 Billion
National Insurance Property Development & Management Company Limited	100%	Property development, management and maintenance services	April 1999	$26.10 Million	$8.02 Million
St. Lucia Mortgage Finance Company Limited	75%	Loans for the purchase, construction and extension of dwelling houses and the purchase of developed plots	January 1968	$43.41 Million	$9.42 Million
Blue Coral Limited	67%	Rental of space for office and commercial use	April 2003	$51.80 Million	$10.06 Million
Castries Car Park Facility Limited	100%	Provision of car parking facilities and rental of space for office and commercial use	January 1998	$26.88 Million	$14.98 Million

NATIONAL INSURANCE PROPERTY DEVELOPMENT & MANAGEMENT COMPANY LIMITED (NIPRO)

Despite the many challenges that it faced during the year under review, NIPRO was able to increase its net profit from $152,487 in 2010/2011 to $447,053 in 2011/2012.

This is due primarily to the following:

- Increased gross revenue.
- Income from the capital investment in the Babonneau Police station which was in an advanced state of completion in June 2012.
- Savings generated from lower than projected administrative expenses.

Operations Review

The Company continued to seek opportunities to improve operational efficiencies by leveraging the use of its internal resources reasonably well. During the year, a number of capital improvement works were undertaken without utilizing the services of external project managers for supervision of these works.

Additionally, the services of the staff in the electro-mechanical department were utilized for a number of projects and this also generated significant savings for both the clients and the Company.

During the year, the Company also commenced the development of systems, processes and procedures that would facilitate improvements in the planning, control and monitoring of the business of the Company in general and some departments in particular. These included:

- Review and where necessary, revamping all the Company's policies and procedures, inclusive of the administrative, accounting, procurement, inventory and vehicle policies.
- Review and improvement of the contract administration procedures.
- Increased utilization and streamlining of EPAC (the maintenance management system).
- The initiation of a job evaluation and reclassification exercise which should result in the streamlining of duties, bring about more equity in employee remuneration and improve staff morale and performance.

Financial Review

The Company's primary sources of revenue are project management fees, facilities management fees, lease payments and facilities maintenance fees.

For the period under review, NIPRO recorded a net profit of $447,053. This compares very favorably with the performance for 2010/2011 of $152,487 but is below the $509,056 earned in 2010.

Total Operating Income was $4,629,279, up from $3,843,867 which is an increase of 20% when compared to 2010/2011.

Total Expenses of $4,311,103, inclusive of interest payments, increased from $3,859,382 or by 12% when compared to the period 2010/2011.

Total Assets increased from $24.87 million in the prior period to $26.10 million at June 30, 2012, primarily as a result of the value of projects in progress.

BLUE CORAL LTD.

BLUE CORAL LIMITED (BCL)

Blue Coral Limited manages the Blue Coral Shopping Mall which is located in the city of Castries. BCL offers rental spaces for the sale of a wide range of products and services.

During the period under review 95% of the rentable space within the building was either being leased or was confirmed to be leased. The ground floor was 100% occupied, the first floor was 95% leased with only one unit available. The cinema remained the only rentable space not leased on the second floor. The entire third floor was confirmed to be leased.

Two areas which warranted attention with respect to level of cost were electricity and the maintenance of the building. In an effort to reduce on the electricity consumption various conservation measures were adopted which proved successful. However the maintenance cost particularly with respect to repairs to the structure remained high.

BCL recorded for the first time in its operations to date a surplus on operations i.e. Rental less General and Administrative Expenses of $26,932 in 2012 against a deficit of $457,612 in 2011. Finance costs increased from $717,531 in 2011 to $1,051,626 in 2012 resulting in net losses of $1,005,976 in 2012 compared to $1,162,582 in 2011. Total Assets remained relatively level at $51,801,350 in 2012 ($51,975,120 in 2011).

CASTRIES CAR PARK FACILITY LIMITED (CCFL)

Strategic Focus

During this reporting period, the Company focused on revenue optimization and on strengthening of the administrative and management functions to minimize potential revenue risks and to improve on the service and value added provided to the tenants and customers alike.

In so doing, specific attention was given to strengthening the relationship with the key anchor tenants namely Government of St. Lucia and Consolidated Foods Limited and improving on the support and maintenance provided on a daily basis.

Financial performance for the year ended June 30, 2012

Total Revenue for the period ending June 2012 was $2,743,223, which represented a marginal increase of 2.6% over the $2,674,619 recorded for the year ending June 2011.

Whilst revenue from rental income increased from $2,129,418 in 2011 to $2,254,940 in 2012, revenue from parking fees declined from $545,201 to $488,283 over the same period.

Revenue derived from property rental increased over the prior year by $125,522 or 6%. However, a 10% reduction in revenue from parking fees ($56,918) hampered the financial performance of the entity.

Total General and Administrative Expenses remained relatively unchanged while interest expenses incurred for the period reduced by $40,935 with the repayment of $493,693 in the long-term loan during the year.

Net income for the period under review declined by 2% from $514,563 in 2012 to $506,763 in the previous year. There was no significant change in financial position when compared to 2011. Total Assets were $26,878,900 at June 2012 as compared to $27,140,257 at June 2011.

With regard to liquidity, the Company was worse off than it was at June 2011. In 2011, cash and cash equivalents amounted to $441,470 but declined to an overdrawn position of ($47,600) as at 30th June 2012.

While overall performance fell short of budget, no critical challenges were presented to the overall future financial health and stability of the organization, as the Company was able to meet its financial obligations associated with its long term debt.

ST. LUCIA MORTGAGE FINANCE COMPANY LIMITED (SMFC)

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

The inadequate supply of affordable housing has not eased. Individuals who are willing and able to build their own houses continue to be hampered by a shortage of developed residential plots. The Company's efforts at stimulating mortgage demand by a "reduced interest rate promotion" met with some success – mortgage disbursements for the year to June 2012 were $1,259,152 or 33% higher than the previous year.

Over the twelve month period, SMFC disbursed the sum of $5,011,200 (2011 - $3,752,048) bringing cumulative disbursements from inception to $167,514,117. However, premature redemptions arising out of refinancing by the commercial banks resulted in the decrease of the net Mortgage Assets by 2.14%. There was reduction in the net mortgage interest income as compared with the previous year but this was offset by savings on administration expenses. There was significant reduction in the provision for loan impairment leading to net profits of $1,027,902 i.e. $497,433 (93.74%) more than the previous year.

APPRECIATION

The term for this Board of the National Insurance Corporation for which I am honoured to serve as Chairman started April 2012. Accordingly much of what has been achieved during the year falls to the credit of the previous Board under the Chairmanship of Mr. Llewlyn Gill SLMM. I therefore wish to thank both Boards and the respective committees, and the management and staff of the Corporation for the significant time and effort invested in ensuring that the National Insurance Corporation continues to fulfill its mandate in providing relevant social coverage. I also wish to thank the respective Ministers of Social Security for the support and general direction provided during the year.

Lisle Chase
Chairman

ANNUAL STATISTICS REVIEW

July 2011 - June 2012

EXPLANATORY NOTES AND DEFINITIONS

CONTRIBUTION
Refers to the payroll deductions from employees matched by employers to be paid monthly to the National Insurance Corporation for social security coverage of employees.

CONTRIBUTION INCOME
The contribution income data provided in this report was based on contributions collected during the financial year.

INDUSTRIAL CLASSIFICATION
Refers to the international standard industrial classification of all economic activities.

INSURED PERSONS
Refers to all registered persons with at least one month's contribution.

ACTIVE INSURED
Refers to all registered persons who have paid at least one month's contribution in the review period.

NEW ENTRANTS
Refers to a person who was registered for the first time with the National Insurance Corporation in the review period.

BENEFITS
Includes any benefit, grant, allowance or pension payable under the National Insurance Corporation Act.

C3 FORM
Refers to a form that is sent by employers to the National Insurance Corporation on a monthly basis, indicating contribution deductions per employee and employer's matching contributions.

PENSION IN-PAYMENT
Refers to pensions in-force (active) at the end of the period in review.

ACTIVE EMPLOYERS
Refers to employers registered with the National Insurance Corporation and in operation during the review period.

CLOSED EMPLOYERS
Refers to employers registered with the National Insurance Corporation who were not in operation at the end of the review period.

CURRENT CONTRIBUTIONS
Refers to contributions for a given month which are collected within the required timeframe (before the 8th of the following month).

PAST-DUE CONTRIBUTIONS
Refers to contributions for a given month which are collected after the 7th day of the following month.

CONTRIBUTING EMPLOYERS
Refers to employers who paid contributions to the National Insurance Corporation during the review period.

SELF-EMPLOYED
A person who carries on any trade or business enterprise, including professional services or any other lawful activity which generates an income, is over 16 years and is ordinarily resident in St. Lucia.

VOLUNTARY CONTRIBUTOR

A person who is below pensionable age, resides in St. Lucia, has 60 months of contributions, and is no longer employed or generating an income but who is allowed to make contributions under the provisions of the National Insurance Corporation Act.

1. CONTRIBUTIONS RECEIVED

The financing of the NIC is based on a total contribution rate of 10.0% (5% employer and 5% employee) of insurable earnings. During the financial year ended June 2012, contributions collected totalled $102.89 million on behalf of 51,654 active insured persons. When compared to the previous financial year, contributions received increased by $10.86 million or 11.80% percentage points. A review of the last five (5) years indicated that the increase in contributions collected varied significantly.
Table 1 below shows the distribution of contributions received by Economic Sector.

Table 1

CONTRIBUTIONS RECEIVED BY ECONOMIC SECTOR: JULY 2007 – JUNE 2012

Economic Sector	Financial Year				
	2007/08	2008/09	2009/10	2010/11	2011/12
Agriculture, Hunting, Forestry and Fishing	1,176,285	1,231,410	1,083,646	1,148,007	1,475,258
Mining and Quarrying	403,610	247,642	327,197	245,398	371,534
Manufacturing	5,329,611	6,249,381	6,049,211	5,857,735	5,685,621
Electricity, Gas and Water Supply	2,577,630	2,895,623	2,571,106	2,714,031	2,918,090
Construction	4,587,951	2,969,522	3,371,616	2,760,326	3,443,465
Wholesale and Retail Trade	11,263,041	12,411,947	12,137,867	12,680,133	13,075,741
Restaurants and Hotels	17,561,736	16,588,842	16,549,010	17,381,963	20,110,112
Transport, Storage and Communication	6,340,133	6,164,852	5,835,486	6,793,877	6,524,482
Financial Intermediations	6,847,043	7,226,430	7,496,226	7,650,614	8,313,101
Real Estate, Renting and Business Services	6,268,277	6,875,888	6,869,756	7,739,946	7,448,526
Public Administration and Defense, Compulsory Social Security, Education, Health and Social work	14,583,529	17,140,526	20,160,553	20,026,103	25,536,445
Community, Social and Personal Services, Households with Employed Persons and Extra-Territorial Organizations and Bodies	4,883,598	5,794,213	7,470,991	6,117,007	6,987,853
Self-Employed	522,667	553,907	606,458	637,673	681,139
Voluntary Contributors	56,127	45,567	43,961	38,861	33,998
Activities not adequately defined	172,469	231,284	256,380	234,375	283,362
Total	83,289,239	86,627,034	90,829,464	92,026,049	102,888,727

Following marginal increases in the previous financial year, contributions received from the major Economic Sectors recorded strong performances in the review period, led by Public Administration, Hotels/Restaurants and the Distributive Trade sector. Collectively, these sectors accounted for approximately 57.07 percent of total contributions collected.

Contributions collected from the Public Administration sector grew by 27.51 percent to an all-time high of $25.54 million. This performance was mainly due to payment of arrears and a 5.2 percent growth in active insured persons from that sector.

Strong performances in contributions received also came from the Hotels/Restaurants and Wholesale/Retail economic sectors, which recorded 15.52 and 3.15 percent increase respectively influenced by modest growth in active insured persons from those sectors.

Other economic sectors which recorded positive performances in the review period included:

- Agriculture - 28.7 percent;
- Electricity, Gas and Water Supply - 7.4 percent;
- Construction - 25.9 percent;
- Financial Intermediations - 7.8 percent and
- Community, Social and Personal Services - 14.4 percent.

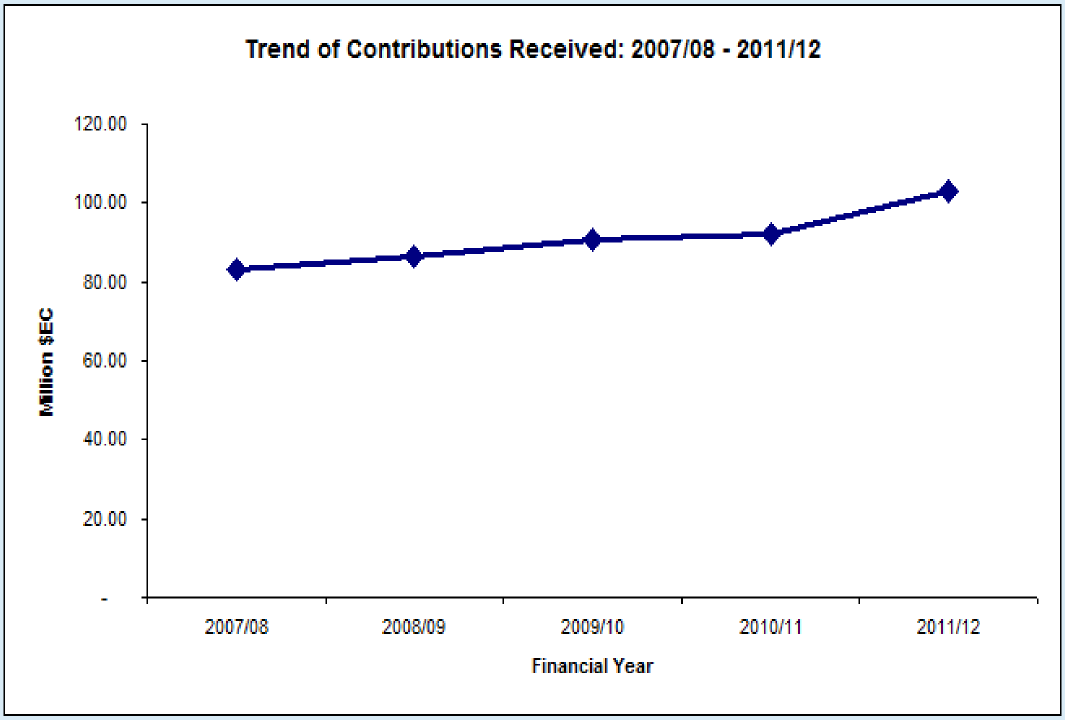
In the review period, contribution income from the Manufacturing sector has recorded its third consecutive decline. When compared to the previous financial year, contributions collected from the Manufacturing sector contracted by 3.4 percent evidenced by an overall downward trend in active insured.

Other sectors which recorded declines in contributions collected in the review period included the following:

1. Transport, Storage and Communication - 4.0 percent and
2. Real-Estate, Renting and Business Services - 4.0 percent.

Chart 1 illustrates the trend of contributions received during the last five (5) financial, July 2007 to June 2012.

Chart 1



2. ACTIVE INSURED POPULATION

The active insured population comprises formal sector employees, self-employed persons and voluntary contributors. In the review period, active insured totalled 51,654 of which 97.8 percent were from the formal employment sector, 2.1 percent were self-employed persons and 0.1 percent were voluntary contributors. When compared to the previous financial year, the number of active insured expanded by 1.1 percent. During the financial year ended June 2012, NIC coverage rate of the country's employed population stood at 69.1 percent.

An examination of employment on the basis of economic sector distribution revealed mixed performances. The largest decline in employment level was recorded from the Real Estate/Renting/Business Service sector, where the number of active insured contracted by 13.33 percent to 3,725. Other notable contractions in active insured also came from the Manufacturing and Agriculture sectors, which recorded declines of 3.5 and 14.3 percent respectively.

On the other hand, active insured from the Public Administration sector continued its increasing trend, and in the review period grew by 5.2 percent to 9,836. When compared to the previous financial year, active insured from the Construction and Hotels/Restaurants sectors realised modest growths of 8.8 and 4.8 percent respectively. The following economic sectors also recorded increases in active insured persons in the review period:

- Community, Social and Personal Services - 4.3 percent;
- Financial Intermediations - 1.1 percent and
- Electricity, Gas and Water Supply - 7.1 percent.

Table 2 below shows the distribution of active insured persons on the basis of economic sector.

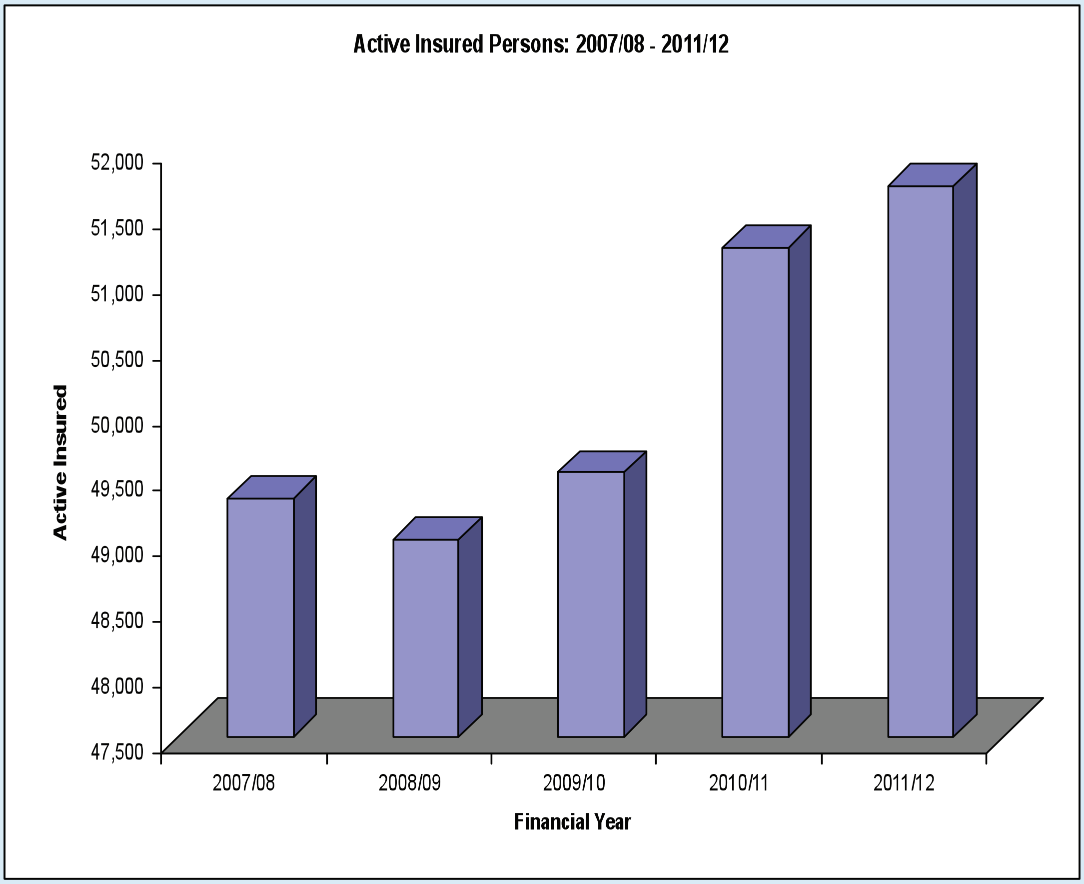
Table 2

DISTRIBUTION OF ACTIVE INSURED BY ECONOMIC SECTOR: JULY 2007 – JUNE 2012

Economic Sector	Financial Year				
	2007/08	2008/09	2009/10	2010/11	2011/12
Agriculture, Hunting, Forestry and Fishing	957	960	932	954	818
Mining and Quarrying	284	190	133	144	162
Manufacturing	3,706	3,843	3,914	3,762	3,631
Electricity, Gas and Water Supply	775	757	709	757	811
Construction	3,602	3,284	3,047	2,815	3,064
Wholesale and Retail Trade	8,168	8,203	8,120	8,507	8,493
Restaurants and Hotels	9,638	8,939	8,326	8,930	9,359
Transport, Storage and Communication	3,291	3,135	3,495	3,440	3,390
Financial Intermediations	2,632	2,735	2,781	2,835	2,867
Real Estate, Renting and Business Services	3,303	3,470	3,939	4,298	3,725
Public Administration and Defense, Compulsory Social Security, Education, Health and Social Work	8,122	8,495	8,986	9,351	9,836
Community, Social and Personal Services, Households with Employed Persons, Extra-Territorial Org. & Bodies	3,554	3,662	3,773	3,876	4,042
Self-Employed	940	969	924	1,052	1,087
Voluntary Contributors	124	111	85	84	75
Activities not adequately defined	227	243	286	306	294
Total	49,323	48,996	49,450	51,111	51,654

Chart 2 illustrates the active insured population during the financial period, July 2007 to June 2012.

Chart 2



3. EMPLOYERS' ACTIVITIES

As at 30th June 2012, total active employers stood at 3,681 - an expansion of 2.34 percent over the previous financial year. Table 3 below shows the distribution of active employers on the basis of industrial classification of economic activities.

During the review period, the number of employers who paid contributions on behalf of their employees increased marginally from 3,453 to 3,466. Table 4 illustrates the distribution of employers who paid contributions during the financial year in review on the basis of industrial classification. While most economic sectors recorded marginal growth in contributing employers, declines were recorded from the Hotels/Restaurants, Real-Estate, Renting, Business Services, Public Administration and Agriculture sectors, in order of rank.

Table 3

DISTRIBUTION OF ACTIVE EMPLOYERS BY ECONOMIC SECTOR AS AT JUNE 2011 AND JUNE 2012:

Economic Sector	June 2011	June 2012
Agriculture, Hunting, Forestry and Fishing	131	125
Mining and Quarrying	8	9
Manufacturing	261	268
Electricity, Gas and Water Supply	15	17
Construction	172	182
Wholesale and Retail Trade	644	651
Restaurants and Hotels	392	411
Transport, Storage and Communication	163	167
Financial Intermediations	125	140
Real Estate, Renting and Business Services	386	394
Public Administration and Defense, Compulsory Social Security, Education, Health and Social Work	263	272
Community, Social and Personal Services, Households with Employed Persons and Extra-Territorial Organizations and Bodies	914	933
Activities not adequately defined	123	112
Total	3,597	3,681

Employers who paid contributions in the review period accounted for 94.16 percent of active employers, which is a marginal (0.43 percent) improvement over the previous financial year. An examination of employers' data on the basis of economic sectors indicated that with the exception of Agriculture, all other sectors recorded increases in the number of employers who paid contributions during the financial year ended June 2012. Chart 3 on Page 25 shows the comparison between the pool of active employers and those who actually paid contributions during the last five (5) years (July 2007 – June 2012).

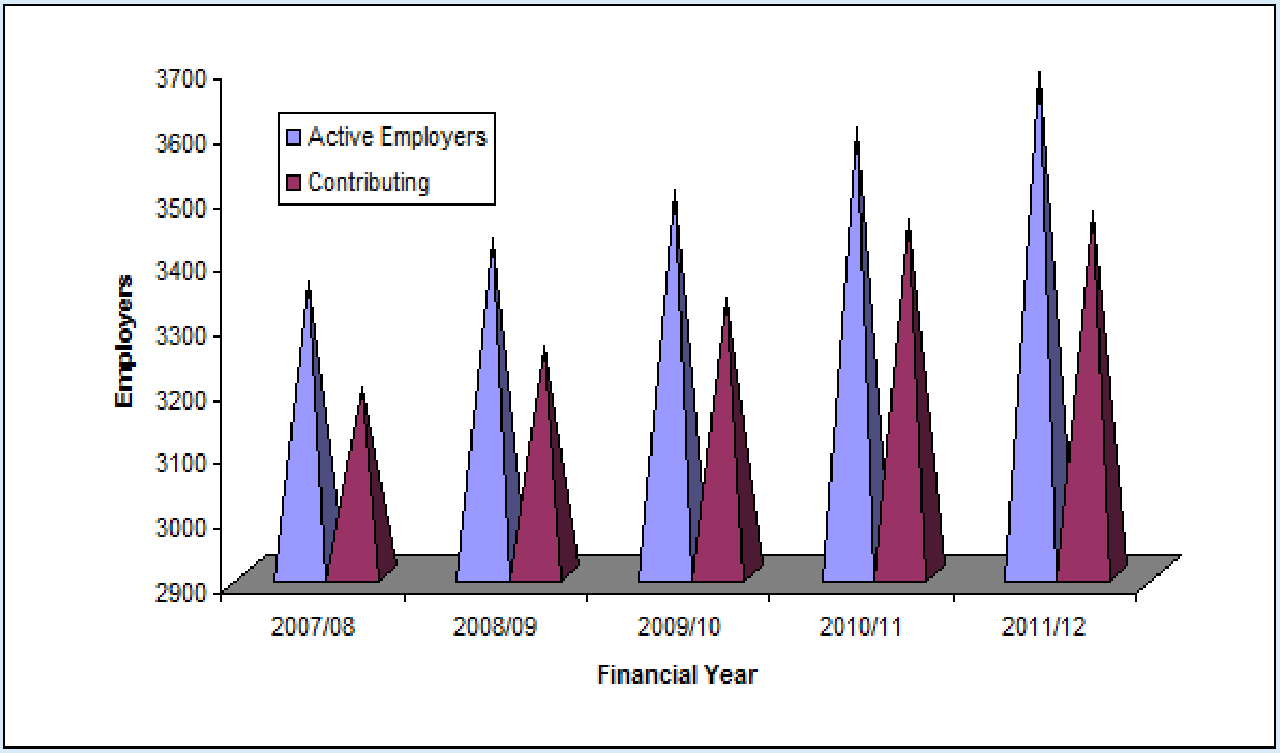
Table 4

CONTRIBUTING EMPLOYERS BY ECONOMIC SECTOR: JULY 2007 - JUNE 2012

Economic Sector	Financial Year				
	2007/08	2008/09	2009/10	2010/11	2011/12
Agriculture, Hunting, Forestry and Fishing	129	123	117	114	110
Mining and Quarrying	7	8	7	8	8
Manufacturing	218	215	230	227	230
Electricity, Gas and Water supply	19	18	15	14	17
Construction	137	132	126	124	127
Wholesale and Retail Trade	570	589	580	619	622
Restaurants and Hotels	307	315	316	340	329
Transport, Storage and Communication	141	148	150	148	158
Financial Intermediations	108	111	118	117	122
Real Estate, Renting and Business Services	328	342	353	359	352
Public Administration and Defense, Compulsory Social Security, Education, Health and Social Work	235	252	251	266	260
Community, Social and Personal Services, Households with Employed Persons and Extra-Territorial Organizations and Bodies	865	876	892	910	930
Activities not adequately defined	126	127	176	207	201
Total	3,190	3,256	3,331	3,453	3,466

Chart 3

COMPARISON BETWEEN ACTIVE AND CONTRIBUTING EMPLOYERS: 2007/08 – 2011/12



The expansion of both active and contributing employers is in part dependent on the emergence of new businesses. Registration of new employers also provides an indication of the level of possible increase in economic activities. During the review period, 340 new employers were registered; this number was 18.1 percent below that for the previous financial year (see Table 5 below).

Table 5

DISTRIBUTION OF NEWLY REGISTERED EMPLOYERS ON THE BASIS OF ECONOMIC SECTOR

Economic Sector	Financial Year				
	2007/08	2008/09	2009/10	2010/11	2011/12
Agriculture, Hunting, Forestry and Fishing	11	6	7	8	3
Mining and Quarrying	1	3	0	-	-
Manufacturing	23	19	28	18	15
Electricity, Gas and Water Supply	2	-	-	2	2
Construction	34	23	29	30	20
Wholesale and Retail Trade	57	64	56	73	46
Restaurants and Hotels	49	47	60	65	41
Transport, Storage and Communication	14	17	16	12	18
Financial Intermediations	7	10	9	4	6
Real Estates, Renting and Business Services	44	38	43	43	40
Public Administration and Defense, Compulsory Social Security, Education, Health and Social Work	17	27	23	23	13
Community, Social and Personal Services, Households with Employed Persons and Extra-Territorial Organizations and Bodies	112	110	104	119	122
Activities not adequately defined	21	13	16	18	14
Total	392	377	391	415	340

4. BENEFIT EXPENDITURE

A core function of the NIC is the payment of benefits to its insured persons when they are unable to work due to temporary incapacity (sickness, maternity, employment injury, hospitalisation, etc), long-term incapacity, death and retirement.

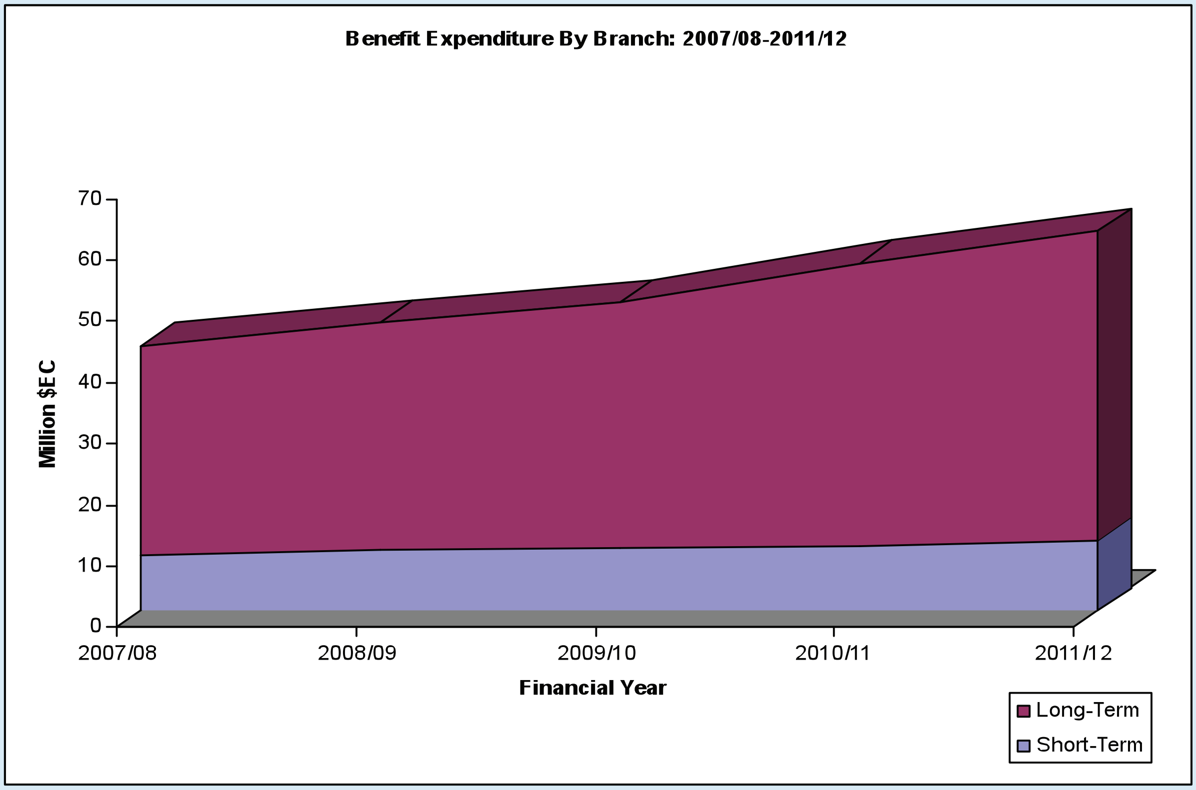
In the review period, 13,107 short-term claims were paid at a cost of $11.48 million and 6,316 pensions and long-term grants were paid at a cost of $50.49 million. Collectively, a total of 19,423 claims were paid at a cost of $61.97 million. Total claims paid rose by 9.12% whilst total benefits expenditure increased by 9.28%. Table 6 and Chart 4 below show benefits expenditure by type of benefit branch.

Table 6

SHORT-TERM AND LONG-TERM BENEFITS EXPENDITURE: JULY 2007 – JUNE 2012
(MILLION $EC)

Benefit Branch	Financial Year				
	2007/08	2008/09	2009/10	2010/11	2011/12
Short-Term	8.85	9.78	10.06	10.54	11.48
Long-Term	34.44	37.14	40.21	46.17	50.49
Total	43.29	46.92	50.27	56.71	61.97

Chart 4



Tables 7 and 8 provide information on the distribution of short-term claims paid and corresponding expenditure by type of benefit. In the review period, total short-term claims paid increased by 10.02 percent while expenditure increased by 8.92 percent to $11.48 million. The increase in short-term claims was dominated by sickness and maternity claims.

Table 7

SHORT-TERM CLAIMS PAID BY TYPE: JULY 2009 – JUNE 2012

Short-term benefits	Financial Year		
	2009/10	2010/11	2011/12
Employment Injury	74	132	145
Sickness Allowance	9,482	9,909	10,850
Maternity Benefit	1660	1550	1,803
Funeral Grant	238	245	235
Medical Expenses	47	77	74
Total	11,501	11,913	13,107

Table 8

SHORT-TERM BENEFITS EXPENDITURE BY TYPE: JULY 2009 – JUNE 2012

Short-term benefits	Financial Year		
	2009/10	2010/11	2011/12
Employment Injury	137,145	172,076	206,314
Sickness Allowance	3,544,866	3,898,360	4,482,785
Maternity Benefit	2,916,021	2,971,494	3,342,592
Funeral Grant	417,296	431,750	405,963
Medical Expenses	3,049,542	3,064,497	3,038,140
Total	10,064,870	10,538,177	11,475,794

Long-Term Benefits

The long-term benefit branch comprises pensions and term grants relating to retirement, survivors, disablement, and invalidity. In the review period, 5,716 pensions were paid at a cost of $47.61 million and 600 grants were paid at a cost of $2.88 million. While cost of long-term benefits grew by 9.36 percent, pensions expenditure rose by 8.46 percent to $47.61 million. In particular, cost of retirement pensions expanded by 7.67 percent and accounted for approximately 76 percent of long-term benefits expenditure.

Table 9

LONG-TERM BENEFITS PAID BY TYPE: JULY 2009 – JUNE 2012

Long-term benefits	Financial Year		
	2009/10	2010/11	2011/12
Retirement	3,951	4,201	4,939
Survivors *	939	810	889
Invalidity	354	390	473
Disablement	13	12	15
Total	5,647	5,886	6,316

*Death Benefit Included

Table 10

LONG-TERM BENEFITS EXPENDITURE BY TYPE: JULY 2009 – JUNE 2012

Long-term benefits	Financial Year		
	2009/10	2010/11	2011/12
Retirement	32,461,253	37,439,605	40,652,915
Survivors *	4,629,723	5,012,717	5,557,357
Invalidity	2,998,847	3,620,735	4,156,493
Disablement	121,835	98,123	123,246
Total	40,211,658	46,171,180	50,490,011

*Death Benefit Included

Tables 11 and 12 illustrate the number and cost of pensions paid over the financial period July 2009 to June 2012

Table 11

PENSIONS PAID BY TYPE: JULY 2009 – JUNE 2012

Long-term benefits	Financial Year		
	2009/10	2010/11	2011/12
Retirement Pension	3,951	4,201	4,449
Survivors Pension	983	810	822
Invalidity Pension	354	390	432
Disablement Pension	13	12	13
Total	5,257	5,413	5,716

Table 12

PENSIONS EXPENDITURE BY TYPE: JULY 2009 – JUNE 2012

Pension	Financial Year		
	2009/10	2010/11	2011/12
Retirement Pension	30,977,728	35,576,734	38,311,420
Survivors Pension	4,521,268	4,804,159	5,242,406
Invalidity Pension	2,894,503	3,413,576	3,959,399
Disablement Pension	96,493	95,707	99.982
Total	38,538,649	43,890,176	47,613,207

NATIONAL INSURANCE CORPORATION
Consolidated Financial Statements
June 30, 2012
(expressed in Eastern Caribbean dollars)

Grant Thornton

April 17, 2014

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 (the Corporation) and its subsidiaries (together the Group), which comprise the consolidated balance sheet as of June 30, 2012 and the consolidated statements of comprehensive income and expenditure, changes in reserves and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of June 30, 2012 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Grant Thornton

Chartered Accountants

National Insurance Corporation

Consolidated Balance Sheet

As at June 30, 2012

(expressed in Eastern Caribbean dollars)

	2012 $	2011 $
Assets		
Cash and cash equivalents (Note 5)	**36,932,533**	50,034,373
Financial assets (Note 6)	**1,308,767,303**	1,228,344,744
Investment properties (Note 9)	**282,112,224**	284,956,453
Property, plant and equipment (Note 10)	**4,921,463**	5,070,559
Projects in progress	**1,893,413**	–
Inventory	**19,457**	19,580
Income tax recoverable	**–**	37,188
Other assets (Note 11)	**6,853,358**	420,577
Total assets	**1,641,499,751**	1,568,883,474
Liabilities		
Trade and other payables (Note 12)	**13,230,864**	10,240,857
Borrowings (Note 13)	**12,469,736**	12,351,410
Income tax liability	**1,151**	–
Deferred tax liability (Note 23)	**13,653**	8,344
Total liabilities	**25,715,404**	22,600,611
Reserves		
Short-term benefits (Note 15)	**58,333,213**	55,802,688
Long-term benefits (Note 15)	**1,502,568,602**	1,437,737,541
Reserves (Note 16)	**1,516,300**	1,120,884
Retained earnings	**57,907,157**	55,227,514
	1,620,325,272	1,549,888,627
Minority interest in reserves	**(4,540,925)**	(3,605,764)
Total reserves	**1,615,784,347**	1,546,282,863
Total liabilities and reserves	**1,641,499,751**	1,568,883,474

Approved by the Board of Directors on April 17, 2014

____________________ **Chairman**   ____________________ **Director**

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

National Insurance Corporation

Consolidated Statement of Comprehensive Income and Expenditure

For the year ended June 30, 2012

(expressed in Eastern Caribbean dollars)

	2012 $	2011 $
Contribution income (Note 17)	**97,847,505**	98,395,007
Benefits paid		
Short-term benefits (Note 18)	**(8,619,812)**	(7,538,177)
Long-term benefits (Note 18)	**(50,511,066)**	(46,171,180)
Medical health programme	**(5,000,000)**	(3,000,000)
	(64,130,878)	(56,709,357)
Surplus of contribution over benefits	**33,716,627**	41,685,650
General and administrative expenses (Note 19)	**(16,991,783)**	(17,566,498)
	16,724,844	24,119,152
Other income		
Investment income - net (Note 21)	**67,689,516**	66,193,297
(Decrease)/increase in fair value of investment properties (Note 9)	**(15,558,522)**	1,400,735
Other income	**1,171,897**	781,213
	53,302,891	68,375,245
Excess of income over expenditure before finance costs and income tax expense	**70,027,735**	92,494,397
Finance costs	**(413,603)**	(316,150)
Excess of income over expenditure before income tax expense	**69,614,132**	92,178,247
Income tax expense (Note 23)	**(43,648)**	(6,770)
Excess of comprehensive income over expenditure	**69,570,484**	92,171,477
Attributable to:		
Reserves	**70,436,645**	94,155,284
Minority interest	**(866,161)**	(1,983,807)
Excess of comprehensive income over expenditure	**69,570,484**	92,171,477

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

National Insurance Corporation

Consolidated Statement of Changes in Reserves

For the year ended June 30, 2012

(expressed in Eastern Caribbean dollars)

	Short-term Benefits $	Long-term Benefits $	Reserves $	Retained Earnings $	Minority Interest $	Total $
Balances at June 30, 2010	49,552,487	1,355,358,634	1,014,790	49,807,432	(1,552,957)	1,454,180,386
Excess of comprehensive income over expenditure for the year	6,250,201	82,378,907	–	5,526,176	(1,983,807)	92,171,477
Transfer to statutory reserve (Note 16)	–	–	106,094	(106,094)	–	–
Dividends paid	–	–	–	–	(69,000)	(69,000)
Balances 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 (Note 16)	–	–	205,581	(205,581)	–	–
Transfer from portfolio risk reserve (Note 16)	–	–	189,835	(189,835)	–	–
Dividends paid	–	–	–	–	(69,000)	(69,000)
Balances at June 30, 2012	**58,333,213**	**1,502,568,602**	**1,516,300**	**57,907,157**	**(4,540,925)**	**1,615,784,347**

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, 2012

(expressed in Eastern Caribbean dollars)

	2012 $	2011 $
Cash flows from operating activities		
Excess of income over expenditure before taxation	**69,614,132**	92,178,247
Adjustments for:		
Interest income	**(65,426,835)**	(60,035,072)
Decrease/(increase) in fair value of investment properties	**15,558,522**	(1,400,735)
Dividend income	**(4,223,600)**	(4,757,516)
Appreciation in value of financial assets at fair value through income	**(6,535,366)**	(3,273,111)
Provision for loan impairment	**988,561**	1,184,431
Depreciation	**728,280**	741,722
Finance costs	**413,603**	316,150
Loss/(gain) on disposal of property, plant and equipment	**2,049**	(62,117)
Loss on disposal of investment properties	–	130,217
Operating income before working capital changes	**11,119,346**	25,022,216
Decrease/(increase) in inventories	**123**	(12,510)
(Increase)/decrease in loans and receivables	**(51,526,377)**	26,177,306
Purchase of held-to-maturity investment securities	**(28,210,787)**	(43,266,001)
Decrease/(increase) in loans and receivables investment securities	**25,106,931**	(42,864,966)
Decrease in financial assets at fair value through income	**11,638,768**	4,536,758
Increase in trade and other payables	**2,990,007**	1,549,231
Increase in projects in progress	**(1,893,413)**	–
Increase in other assets	**(6,432,781)**	(420,577)
Cash used in operations	**(37,208,183)**	(29,278,543)
Interest received	**33,542,546**	35,034,724
Dividends received	**4,223,600**	4,757,516
Finance costs paid	**(413,603)**	(316,150)
Income tax paid	–	–
Net cash provided by operating activities	**144,360**	10,197,547
Cash flows from investing activities		
Improvements to investment properties	**(13,617,893)**	(1,204,756)
Proceeds from disposal of investment properties	**903,600**	1,675,674
Purchase of property, plant and equipment	**(581,233)**	(1,452,216)
Proceeds from disposal of property, plant and equipment	–	62,117
Net cash used in investing activities	**(13,295,526)**	(919,181)
Cash flows from financing activities		
Proceeds from borrowings	**92,167**	34,906
Issuance of preference shares	–	200,000
Dividends paid to minority interest	**(69,000)**	(69,000)
Net cash generated by financing activities	**23,167**	165,906
Net (decrease)/increase in cash and cash equivalent	**(13,127,999)**	9,444,272
Cash and cash equivalents, beginning of year	**50,010,974**	40,566,702
Cash, cash equivalents and bank overdraft, end of year (Note 5)	**36,882,975**	50,010,974

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

1 General information

The National Insurance Corporation (the Corporation) is engaged in the provision of social security services. The Corporation is governed by the National Insurance Corporation Act CAP 16 01 of the revised laws of Saint Lucia 2001. Its registered office and principal place of business is Francis Compton Building, John Compton Highway, Castries, 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) St. 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.

2 Summary of significant accounting policies

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

Basis of preparation
The consolidated financial statements 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 4.

New and amended standards adopted by the Corporation
(a) New and amended standards and interpretation adopted by the Group
There are no IFRS or IFRIC interpretations that are effective for the first time for the financial year end beginning on or after July 1, 2011 that would be expected to have a material impact on the Group.

2 Summary of significant accounting policies*...continued*

New and amended standards adopted by the Corporation*...continued*

(b) New standards, amendments and interpretations to published standards that are not yet effective and have not been early adopted

- IAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the International Accounting Standards Board's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The adoption had no material impact on the Group's financial statements.

- Revised IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. Earlier application, in whole or in part, is permitted. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. Under the standard, the Group will need to disclose any transactions between its subsidiaries and its associates. The Group is yet to assess the full impact of the amendment.

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after January 1, 2013 for its financial assets, if any. The standard is not applicable until January 1, 2013 but is available for early adoption.

- IFRS 10, 'Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included with the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after January 1, 2013.

- IFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after January 1, 2013.

2 Summary of significant accounting policies*...continued*

(b) New standards, amendments and interpretations to published standards that are not yet effective and have not been early adopted...continued

- IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Group is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after January 1, 2013.

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.

Consolidation

(a) Subsidiaries
Subsidiaries are all entities over which the Corporation 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 Corporation controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Corporation. 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 Corporation. 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 Corporation'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 and expenditure.

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.

(b) 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 income and expenditure. 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 and expenditure 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 and expenditure are reclassified to income and expenditure. 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 and expenditure are reclassified to income and expenditure where appropriate.

2 Summary of significant accounting policies*...continued*

Cash and cash equivalents

Cash and cash equivalents comprise liquid 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 balance sheet.

Financial assets

The Group classifies its investments into the following categories: financial assets at fair value through income, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

(a) 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 at fair value through income at inception are those that are:
• 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 6 for additional details on the Group's portfolio structure).

(b) 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.

(c) 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 debt securities held-to-maturity is established when there is objective evidence that the Group will not be able to collect all amounts due according to their original terms.

2 Summary of significant accounting policies*...continued*

Financial assets*...continued*

(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 income and expenditure.

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 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 income and expenditure 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 income and expenditure; 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 are included in the consolidated statement of comprehensive income and expenditure as net realised gains/losses on financial assets.

Interest on debt securities calculated using the effective interest method is recognised in the consolidated statement of comprehensive income and expenditure. Dividends on equity instruments are recognised in the consolidated statement of comprehensive income and expenditure 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.

2 Summary of significant accounting policies*...continued*

Impairment of assets

(a) Financial assets carried at amortised cost

The Group assesses at each balance sheet date 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 that 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
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 and expenditure. 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.

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 and expenditure.

2 Summary of significant accounting policies...*continued*

Impairment of assets...*continued*

(b) Financial assets carried at fair value
The Group assesses at each balance sheet date 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 and expenditure – is removed from equity and recognised in the consolidated statement of income and expenditure. Impairment losses recognised in the consolidated statement of income and expenditure on equity instruments are not subsequently reversed. The impairment loss is reversed through the consolidated statement of comprehensive income and expenditure, 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 income and expenditure.

(c) 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).

Leases

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset.

Lease income is recognised over the term of the lease on a straight-line basis.

2 Summary of significant accounting policies...*continued*

Investment property

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

Investment property comprises freehold land and office buildings. It is 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 and expenditure.

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 and expenditure. 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 and expenditure.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of comprehensive income and expenditure during the financial period in which they were incurred.

Depreciation is calculated on the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statement of comprehensive income and expenditure.

2 Summary of significant accounting policies*...continued*

Borrowings and borrowing 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 statement of comprehensive income and expenditure 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 balance sheet date. 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.

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.

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.

Benefit 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 benefit payables.

(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' (Note 21) in the consolidated statement of comprehensive income and expenditure 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.

(d) Other income and expenses
All other income and expenses are accounted for on the accrual basis.

2 Summary of significant accounting policies*...continued*

Basis of allocation of income and expenditure

(a) Contribution income
Contribution income, as recommended by the seventh actuarial review, is allocated as follows:

	2012 %	2011 %
Short-term benefits fund	17	17
Long-term benefits fund	83	83
	100	100

(b) Investment income
Investment income and expenses is 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 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.

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:

- St. 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.
- Castries Car Park Facility Limited has been granted a tax holiday for the first ten years of operation.
- Blue Coral Limited has been granted a tax holiday for the first ten years of operation.

2 Summary of significant accounting policies*...continued*

Income tax*...continued*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available, against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Foreign currency transactions

(a) Functional and presentation currency
Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Eastern Caribbean dollars, which is the Group's functional and presentation currency. The functional currency of each of the Group's subsidiaries is also Eastern Caribbean dollars.

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income and expenditure. Translation differences on non-monetary items, such as equities held at fair value through income, are reported as part of the fair value gain or loss. Translation differences on non-monetary items such as equities held as available-for-sale are included in reserves in the balance sheet.

Comparatives

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

3 Management of financial risk

Financial risk

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 are 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 20 of the National Insurance Act No 18 of 2000 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) Loans and advances
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 ratings and their predictive power with regard to default events.

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

3 Management of financial risk*...continued*

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) or 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 Loan 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.

It is common practice for the Group to require collateral as security for loans and advances. 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.

3 Management of financial risk*...continued*

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:

	Maximum exposure	
	2012 **$**	**2011** **$**
Cash at banks	**24,887,148**	38,481,683
Short-term deposits – (cash equivalents)	**12,043,985**	11,551,290
Fair value through income		
− Debt securities	**54,453,145**	52,527,815
Loans and receivables		
− Loans to Government of Saint Lucia and statutory bodies	**48,831,511**	51,831,511
− Other loans	**158,059,753**	63,862,877
− Other advances and receivables from Government of Saint Lucia	**51,635,611**	55,043,457
− Contribution receivables	**8,906,341**	11,588,921
− Other receivables	**1,369,579**	6,367,708
Projects in progress	**1,893,413**	–
Debt securities investments		
− Held-to-maturity	**317,813,458**	286,005,004
− Loans and receivables	**533,878,662**	560,299,024
Credit risk exposures relating to off-balance sheet items are as follows:		
Loan commitments and other credit related liabilities	**45,018,718**	12,293,082
At June 30	**1,258,791,324**	1,149,852,372

3 Management of financial risk*...continued*

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

The above table represents a worst case scenario of credit risk exposure to the Group at June 30, 2012 and 2011, 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 balance sheet.

As shown above, 22% of the total maximum exposure is derived from loans and receivables (2011 - 16%) while 72% represents investments in debt securities (2011 - 78%).

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 receivables portfolio based on the following:

- Loans to Government of Saint Lucia which represents the largest percentage of the portfolio, are backed by collateral;
- 72% of the loans and receivables portfolio is considered to be neither past due nor impaired (2011 - 60%);
- 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:

	2012 $	2011 $
Loans and receivables		
Neither past due nor impaired	**215,596,459**	130,929,378
Past due but not impaired	**36,458,984**	41,473,518
Impaired	**46,606,916**	45,133,033
Gross	**298,662,359**	217,535,929
Less: Allowance for impairment (Note 7)	**(29,714,182)**	(28,725,621)
Net	**268,948,177**	188,810,308

During the year 2012, the total impairment provision for loans and receivables increased by $988,561 (2011 - $1,184,431). The creation and release of provision for impaired loans and receivables have been included in ‘Investment income - net’ in the statement of income and expenditure (Notes 19 and 21). Further information of the impairment allowance for loans and receivables is shown in Note 7.

3 Management of financial risk*...continued*

Loans and receivables*...continued*

(a) Loans and receivables 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 receivables		
	Statutory bodies $	Other $	Government of St. Lucia $	Other $	Total $
June 30, 2012					
Grade					
Customers with no history of default	33,750,000	151,796,837	20,380,830	9,668,792	215,596,459
June 30, 2011					
Grade					
Customers with no history of default	36,750,000	58,090,176	23,732,335	12,356,867	130,929,378

(b) Loans and receivables past due but not impaired

As of June 30, 2012, the Group has $36,458,984 loans and receivables that are past due but not impaired (2011 - $41,473,518). Gross amounts of these loans and receivables by class of customers net of unearned interest are as follows:

	Loans		Other advances and receivables		
	Statutory bodies $	Other $	Government of St. Lucia $	Other $	Total $
June 30, 2012					
Past due up to 30 days	–	–	583,493	325,625	909,118
Past due 31-60 days	–	–	697,693	193,736	891,429
Past due 61-90 days	–	492,840	369,966	79,661	942,467
Past due over 90 days	–	3,958,853	29,604,132	152,985	33,715,970
Total	–	**4,451,693**	**31,255,284**	**752,007**	**36,458,984**
Fair value of collateral	**–**	**12,827,034**	**–**	**–**	**12,827,034**
June 30, 2011					
Past due up to 30 days	–	–	159,012	5,212,454	5,371,466
Past due 31-60 days	–	–	818,200	107,188	925,388
Past due 61-90 days	–	703,951	55,710	17,996	777,657
Past due over 90 days	–	3,251,991	30,769,934	377,082	34,399,007
Total	–	**3,955,942**	**31,802,856**	**5,714,720**	**41,473,518**
Fair value of collateral	**–**	**9,535,313**	**–**	**–**	**9,535,313**

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.

3 Management of financial risk*...continued*

Loans and receivables*...continued*

(c) Loans and receivables individually impaired

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

	Loans		**Other advances and receivables**		
	Statutory bodies $	**Other $**	**Government of St. Lucia $**	**Other $**	**Total $**
June 30, 2012					
Impaired	43,612,598	2,296,175	528,282	169,861	46,606,916

The impaired loan due from Statutory bodies is secured by a Government guarantee with respect to a principal balance of $20,000,000 together with accrued interest. Fair value of collateral of other impaired loans as at June 30, 2012 totalled $1,811,223. Other advances and receivables are unsecured.

	Loans		**Other advances and receivables**		
	Statutory bodies $	**Other $**	**Government of St. Lucia $**	**Other $**	**Total $**
June 30, 2011					
Impaired	42,252,230	2,674,156	12,612	194,035	45,133,033

The impaired loan due from Statutory bodies is secured by a Government guarantee with respect to a principal balance of $20,000,000 together with accrued interest. Fair value of collateral of other impaired loans as at June 30, 2011 totalled $1,816,759. Other advances and receivables are unsecured.

3 Management of financial risk...*continued*

Debt securities, treasury bills, fixed deposits and other eligible bills

The table below presents an analysis of debt securities, treasury bills, fixed deposits 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
Total	**74,312,758**	**874,468,500**	**948,781,258**

The table below presents an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at June 30, 2011, based on Standard & Poor's ratings, CariCRIS or their equivalent:

	Treasury bills $	Debt securities $	Total $
A- to A+	–	138,651,151	138,651,151
Lower than A-	71,323,534	244,016,055	315,339,589
Unrated	–	456,392,394	456,392,394
Total	**71,323,534**	**839,059,600**	**910,383,134**

3 Management of financial risk*...continued*

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 $
Cash and cash equivalents	36,931,133	–	–	36,931,133
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
As at June 30, 2012	908,856,451	248,569,597	54,453,145	1,211,879,193
Credit commitments	45,018,718	–	–	45,018,718
Cash and cash equivalents	50,032,973	–	–	50,032,973
Financial assets:				
Fair value through income	–	–	52,527,815	52,527,815
Loans and receivables	188,694,472	–	–	188,694,472
Investment securities				
– Held-to-maturity	269,653,566	16,351,438	–	286,005,004
– Loans and receivables	439,371,027	120,927,997	–	560,299,024
As at June 30, 2011	947,752,038	137,279,435	52,527,815	1,137,559,288
Credit commitments	12,293,082	–	–	12,293,082

3 Management of financial risk...*continued*

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

(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 and statutory bodies (Local) $	Government (Regional) $	Construction $	Personal $	Other industries $	Total $
Cash and cash equivalents	36,931,133	–	–	–	–	–	–	36,931,133
Financial assets:								
Fair value through income	54,453,145	–	–	–	–	–	–	54,453,145
Loans and receivables	26,970,497	91,366,954	100,467,123	–	–	39,759,465	10,238,757	268,802,795
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
As at June 30, 2012	541,914,452	99,058,913	407,195,163	96,021,144	–	39,759,465	27,930,057	1,211,879,193
Credit commitments	42,719,000	–	–	–	–	–	2,299,718	45,018,718
As at June 30, 2011	573,582,507	10,660,743	381,133,686	97,530,237	–	40,654,723	33,997,392	1,137,559,288
Credit commitments	9,320,781	–	–	–	–	–	2,972,301	12,293,082

3 Management of financial risk*...continued*

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, 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 $	US $	Total $
As at June 30, 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	13,232,015	–	13,232,015
Borrowings	12,469,736	–	12,469,736
Total financial liabilities	25,701,751	–	25,701,751
Net on-balance sheet financial position	1,072,354,080	247,644,005	1,319,998,085
Credit commitments	45,018,718	–	45,018,718

-

3 Management of financial risk*...continued*

Market risk*...continued*

(a) Currency risk...continued

	EC $	US $	Total $
As at June 30, 2011			
Assets			
Cash and cash equivalents	50,034,373	–	50,034,373
Financial assets:			
Fair value through income	106,719,240	85,759,288	192,478,528
Loans and receivables	188,810,308	–	188,810,308
Investment securities			
– Held-to-maturity	261,277,616	24,727,388	286,005,004
– Loans and receivables	431,932,748	128,366,276	560,299,024
– Available-for-sale	751,880	–	751,880
Total financial assets	1,039,526,165	238,852,952	1,278,379,117
Liabilities			
Trade and other payables	10,240,857	–	10,240,857
Borrowings	12,328,011	–	12,328,011
Total financial liabilities	22,568,868	–	22,568,868
Net on-balance sheet financial position	1,016,957,297	238,852,952	1,255,810,249
Credit commitments	12,293,082	–	12,293,082

(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, 2012 if equity securities prices had been 200 basis points higher/lower with all variables held constant reserves for the year would have been $2,658,440 (2011 - $2,799,014) 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 interest rate 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.

(expressed in Eastern Caribbean dollars)

3 Management of financial risk...*continued*

Market risk ...*continued*

(c) Cash flow and fair value interest rate risk...continued
The table below summarises the Group's exposure to interest rate risks. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Up to 1 month $	1-3 months $	3-12 months $	1-5 years $	Over 5 years $	Non-interest bearing $	Total $
As at June 30, 2012							
Assets							
Cash and cash equivalents	36,116,776	–	801,643	–	–	14,114	36,932,533
Financial assets:							
Fair value through income	–	–	54,453,145	–	–	132,921,981	187,375,126
Loans and receivables	–	4,198,763	17,995,212	92,929,144	160,412,743	42,683,218	318,219,080
Investment securities							
– Held-to-maturity	2,500,000	10,631,928	88,360,246	174,140,122	110,291,827	–	385,924,123
– Loans and receivables	–	159,894,707	268,900,909	45,843,801	138,413,156	–	613,052,573
– Available-for-sale	–	–	–	–	–	751,880	751,880
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
Liabilities							
Trade and other payables	–	–	–	–	–	13,235,152	13,235,152
Borrowings	49,558	–	442,365	1,860,567	8,140,173	127,073	10,619,736
Preference shares	1,850,000	–	–	–	–	–	1,850,000
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		
As at June 30, 2011							
Total financial assets	49,180,654	138,324,278	493,731,709	278,964,001	264,534,202	190,071,645	1,414,806,489
Total financial liabilities	1,873,399	–	122,051	1,146,096	9,174,958	10,275,763	22,592,267
Total interest repricing gap	47,307,255	138,324,278	493,609,658	277,817,905	255,359,244		

3 Management of financial risk*...continued*

Market risk*...continued*

(c) Cash flow and fair value interest rate risk…continued

The Group's fair value interest rate risk arises from debt securities classified as fair value through income.
At June 30, 2012 if market interest rates had been 100 basis points higher/lower with all variables held constant, reserves for the year would have been $544,531 (2011 - $525,278) lower/higher as a result of the decrease/increase in fair value of fair value through income debt securities.

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 balance sheet 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 $	1–5 years $	Over 5 years $	Total $
At June 30, 2012				
Liabilities				
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
Total liabilities (Contractual maturity dates)	14,430,914	2,588,745	10,681,338	27,700,997
Assets held for managing liquidity risk (Contractual maturity dates)	36,932,533	–	–	36,932,533
At June 30, 2011				
Liabilities				
Trade and other payables	10,240,857	–	–	10,240,857
Borrowings	614,480	3,886,334	14,954,253	19,455,067
Preference shares	1,850,000	–	–	1,850,000
Total liabilities (Contractual maturity dates)	12,705,337	3,886,334	14,954,253	31,545,924
Assets held for managing liquidity risk (Contractual maturity dates)	50,034,373	–	–	50,034,373

The daily liquidity position for both operational activities 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.

3 Management of financial risk*...continued*

Fair value of financial assets and liabilities

(a) Financial instruments not measured at fair value
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	
	2012 $	2011 $	2012 $	2011 $
Cash and cash equivalents	**36,932,533**	50,034,373	**36,932,533**	50,034,373
Loans and receivables	**268,948,177**	188,810,308	**279,419,546**	181,503,747
Investment securities				
– Held-to-maturity	**317,813,458**	286,005,004	**313,589,078**	284,042,655
– Loans and receivables	**533,878,662**	560,299,024	**537,122,272**	562,195,303
Trade and other payables	**13,232,015**	10,240,857	**13,232,015**	10,240,857
Borrowings	**12,469,736**	12,351,410	**12,420,178**	9,749,347

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 7.00% (2011- 7.10%) 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.

(b) Fair value hierarchy
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.

3 Management of financial risk*...continued*

Fair value of financial assets and liabilities*...continued*

Assets measured at fair value

	Level 1 $	Level 2 $	Level 3 $	Total $
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 available for sale				
- Equity securities	–	–	751,880	751,880
Total assets	171,873,670	11,068,616	5,184,720	188,127,006
June 30, 2011				
Financial assets at fair value through income				
- Investment securities – debt	52,527,815	–	–	52,527,815
- Investment securities – equity	125,856,667	9,381,212	4,712,834	139,950,713
Financial assets available for sale				
- Equity securities	–	–	751,880	751,880
Total assets	178,384,482	9,381,212	5,464,714	193,230,408

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 Corporation 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.

3 Management of financial risk*...continued*

Fair value of financial assets and liabilities*...continued*

Assets measured at fair value

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

	Financial assets at fair value through income
	Equity securities **$**
June 30, 2012	
At beginning of year	**4,712,834**
Transfers into 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 recognize 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 transfer noted in 2012 is due to lack of observable data available for those financial instruments held.

3 Management of financial risk*...continued*

Fair value of financial assets and liabilities*...continued*

Assets measured at fair value

The following table presents the changes in Level 3 instruments for the year ended June 30, 2011.

	Financial assets at fair value through income
	Equity securities **$**
June 30, 2011	
At beginning of year	**1,061,127**
Transfers into Level 3	**3,590,799**
Gains recognized in profit and loss	**60,908**
At end of year	**4,712,834**
Total gains for the period included in profit or loss for assets held at the end of the reporting period, under "Investment income"	**60,908**
Change in unrealised gains or losses for the period included in profit or loss for assets held at the end of the reporting period	**60,908**

The Group's policy is to recognize 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 transfer noted in 2011 is due to lack of observable data available for those financial instruments held.

Capital risk management

The Corporation'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 24, actuarial reviews are conducted periodically in order to ensure that the Corporation'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.

4 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 $4,224,380 (2011 decrease by $1,962,349) 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 Corporation'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, 2012 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 $3,685,628 higher/lower (2011-$8,926,923).

5 Cash and cash equivalents

	2012 $	2011 $
Cash at bank and in hand	**24,888,548**	38,483,083
Short-term deposits	**12,043,985**	11,551,290
Total cash and cash equivalents	**36,932,533**	50,034,373

The effective interest rate on short-term bank deposits ranges from 0% to 4.15% (2011 - 0% to 4.5%) per annum.

Cash and cash equivalents include the following for the purposes of the statement of cash flow:

	2012 $	2011 $
Cash and cash equivalents	**36,932,533**	50,034,373
Bank overdraft (Note 13)	**(49,558)**	(23,399)
Total cash, cash equivalents and bank overdraft	**36,882,975**	50,010,974

6 Financial assets

The Group’s financial assets are summarised by measurement category in the table below.

	2012 $	2011 $
Fair value through income	**187,375,126**	192,478,528
Loans and receivables (Note 7)	**268,948,177**	188,810,308
Investment securities		
– Held-to-maturity	**317,813,458**	286,005,004
– Loans and receivables	**533,878,662**	560,299,024
– Available-for-sale	**751,880**	751,880
Total financial assets	**1,308,767,303**	1,228,344,744

6 Financial assets*...continued*

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

	2012 $	2011 $
Financial assets at fair value through income		
Equity securities:		
– Listed	**132,921,981**	139,950,713
Debt securities:		
– Listed	**54,453,145**	52,527,815
	187,375,126	192,478,528

Equity and debt 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 1.74% to 9.75% (2011 – 1.0% to 7.25 %).

	2012 $	2011 $
Investment securities		
Debt securities at fixed interest rate:		
– Held-to-maturity – listed	**317,813,458**	286,005,004
– Loans and receivables – unlisted	**533,878,662**	560,299,024
	851,692,120	846,304,028
Available-for-sale – unlisted equity securities	**751,880**	751,880

Available-for-sale equity securities – unlisted totalling $751,880 (2011 - $751,880) are carried at cost less impairment. The Group is not able to reliably measure the fair value of the equity securities since the shares are not traded in an active market and the future cash flows relating to the securities cannot be reliably estimated.

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

	2012 $	2011 $
Current portion	**489,484,251**	507,119,849
Non-current portion	**362,207,869**	339,184,179
	851,692,120	846,304,028

Debt securities bear interest rates ranging from 1% to 9.41% (2011 – 3% to 10.25%). There were no debt securities and available-for-sale financial assets that were considered past due or impaired at the reporting date.

(expressed in Eastern Caribbean dollars)

6 Financial assets...*continued*

Movements of the Group's financial assets are summarised as follows:

	Investment securities					
	Held-to-maturity $	**Loans and receivables $**	**Available-for-sale $**	**Fair value through income $**	**Loans and receivables $**	**Total $**
At the beginning of 2011	242,135,753	518,620,982	751,880	193,742,175	190,588,023	1,145,838,813
Net additions	43,869,251	85,796,837	–	2,009,464	9,513,034	141,188,586
Disposals (redemption)	–	(44,118,795)	–	–	(10,106,318)	(54,225,113)
Net increase in provisions for impairment	–	–	–	–	(1,184,431)	(1,184,431)
Fair value losses on debt securities	–	–	–	77,114	–	77,114
Fair value gains on equity securities	–	–	–	(3,350,225)	–	(3,350,225)
At the end of 2011	286,005,004	560,299,024	751,880	192,478,528	188,810,308	1,228,344,744
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 gains on debt securities	–	–	–	729,577	–	729,577
Fair value gains on equity securities	–	–	–	(7,264,943)	–	(7,264,943)
At the end of 2012	317,813,458	533,878,662	751,880	187,375,126	268,948,177	1,308,767,303

7 Loans and receivables

	2012 $	2011 $
Loans to Government of Saint Lucia and statutory bodies	**77,362,598**	79,002,230
Provision for impairment	**(28,531,087)**	(27,170,719)
	48,831,511	51,831,511
Other loans	**158,544,705**	64,720,274
Provision for impairment	**(484,952)**	(857,397)
	158,059,753	63,862,877
	206,891,264	115,694,388
Other advances and receivables:		
Due from Government of Saint Lucia		
– Other receivables	**32,129,217**	31,827,940
– Contributions receivable	**797,131**	3,025,144
– Finance lease receivables (Note 8)	**19,218,565**	20,694,719
	52,144,913	55,547,803
Contributions receivable	**8,906,341**	11,588,921
Other receivables	**1,703,802**	6,676,701
Provision for impairment	**(698,143)**	(697,505)
	62,056,913	73,115,920
Total loans and receivables	**268,948,177**	188,810,308
Current portion	**43,637,033**	45,689,621
Non-current portion	**225,311,144**	143,120,687
	268,948,177	188,810,308

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 4.00% to 8.750% (2011 - 4.00% to 8.75%).

7 Loans and receivables*...continued*

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, 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)
Recoveries	–	–	–	–
At June 30, 2012	**28,531,087**	**484,952**	**698,143**	**29,714,182**
Balance at July 1, 2010	**25,810,351**	**691,837**	**1,039,002**	**27,541,190**
Provision for loan impairment	1,360,368	165,560	–	1,525,928
Write offs	–	–	(60,397)	(60,397)
Recoveries	–	–	(281,100)	(281,100)
At June 30, 2011	**27,170,719**	**857,397**	**697,505**	**28,725,621**

The Group has recognised a net loss of $988,561 (2011 - $1,184,431) for the impairment of its loans and receivables during the year ended June 30, 2012. The loss has been included under investment income - net in the consolidated statement of comprehensive income and expenditure.

8 Finance lease receivables

	2012 $	2011 $
Due from Government of Saint Lucia:		
Finance leases	**19,051,442**	20,480,502
Unpaid charges	**167,123**	214,217
	19,218,565	20,694,719
Finance leases - gross receivables	**29,986,833**	33,688,027
Unearned finance income	**(10,768,268)**	(12,993,308)
	19,218,565	20,694,719
Current receivables	**1,771,044**	1,648,721
Non-current receivables	**17,447,521**	19,045,998
	19,218,565	20,694,719
Gross receivables from finance leases:		
No later than 1 year	**3,821,223**	3,868,317
Later than 1 year and not later than 5 years	**14,616,400**	14,616,400
Later than 5 years	**11,549,210**	15,203,310
	29,986,833	33,688,027
Unearned future finance income on finance leases	**(10,768,268)**	(12,993,308)
Net investment in finance leases	**19,218,565**	20,694,719
The net investment in finance leases may be analysed as follows:		
No later than 1 year	**1,771,044**	1,648,721
Later than 1 year and not later than 5 years	**8,552,744**	7,646,905
Later than 5 years	**8,894,777**	11,399,093
	19,218,565	20,694,719

(expressed in Eastern Caribbean dollars)

9 Investment properties

	2012 $	2011 $
Beginning of year	**284,956,453**	284,156,853
Additions	**13,617,893**	1,204,756
Disposals	**(903,600)**	(1,805,891)
(Decrease)/increase in fair value (Note 17)	**(15,558,522)**	1,400,735
End of year	**282,112,224**	284,956,453

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, 2011 and 2012. Fair values of investment properties buildings are estimated by discounting expected rentals at market yields.

The following amounts have been recognised in the consolidated statement of income and expenditure:

	2012 $	2011 $
Rental income	**10,984,319**	10,545,128
Direct operating expenses arising from investment properties that generate rental income	**5,093,695**	4,842,750

(expressed in Eastern Caribbean dollars)

10 Property, plant and equipment

	Land & Building $	Leasehold Improvements $	Motor Vehicles $	Furniture & Equipment $	Computer Hardware $	Computer Software $	Generators $	Maintenance Equipment $	Total $
At June 30, 2010									
Cost	2,780,521	257,836	840,933	5,859,253	1,557,646	845,791	325,430	112,867	12,580,277
Accumulated depreciation	(205,558)	(251,388)	(679,883)	(4,652,933)	(1,233,989)	(810,118)	(325,430)	(60,913)	(8,220,212)
Net book amount	2,574,963	6,448	161,050	1,206,320	323,657	35,673	–	51,954	4,360,065
Year ended June 30, 2011									
Opening net book amount	2,574,963	6,448	161,050	1,206,320	323,657	35,673	–	51,954	4,360,065
Additions	–	–	394,980	624,071	156,180	197,262	–	79,723	1,452,216
Disposals	–	–	(413,475)	(308,930)	(194,300)	(333,744)	–	(41,283)	(1,291,732)
Write back on disposals	–	–	413,475	308,930	194,300	333,744	–	41,283	1,291,732
Depreciation	(33,702)	(6,448)	(130,355)	(324,004)	(174,572)	(57,510)	–	(15,131)	(741,722)
Closing net book amount	2,541,261	–	425,675	1,506,387	305,265	175,425	–	116,546	5,070,559
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 amount	2,541,261	–	425,675	1,506,387	305,265	175,425	–	116,546	5,070,559

(expressed in Eastern Caribbean dollars)

10 Property, plant and equipment...*continued*

	Land & Building $	Leasehold Improvements $	Motor Vehicles $	Furniture & Equipment $	Computer Hardware $	Computer Software $	Generators $	Maintenance Equipment $	Total $
Year ended June 30, 2012									
Opening net book amount	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	–	–	–	(59,926)	–	–	–	–	(59,926)
Write back on disposals	–	–	–	57,877	–	–	–	–	57,877
Depreciation	(33,701)	–	(170,985)	(313,203)	(138,062)	(56,689)	–	(15,640)	(728,280)
Closing net book amount	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 amount	2,507,560	–	371,040	1,567,423	245,512	121,077	–	108,851	4,921,463

11 Other assets

Other assets consists primarily of the mobilisation fee paid for the construction of the Point Seraphine Financial Complex, on which the actual works began after year-end.

12 Trade and other payables

	2012 $	2011 $
Trade payables	**7,854,110**	5,735,139
Benefit payables	**1,616,640**	1,265,697
Other liabilities	**3,760,114**	3,240,021
	13,230,864	10,240,857

13 Borrowings

	2012 $	2011 $
Bank overdraft (Note 5)	**49,558**	23,399
Bank borrowings	**10,570,178**	10,478,011
Redeemable preference shares	**1,850,000**	1,850,000
Total borrowings	**12,469,736**	12,351,410
Current	**1,899,558**	1,873,399
Non-current	**10,570,178**	10,478,011
	12,469,736	12,351,410

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% (2011 - 7%). The Group was granted a moratorium on principal repayments from 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 4% for the first two years increasing to 7% from 2010.

(expressed in Eastern Caribbean dollars)

14 Principal subsidiary undertakings

	2012 %	2011 %
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.

15 Short-term and long-term benefit funds

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

16 Reserves

	Statutory reserve $	Excess loan fees $	Portfolio risk reserve $	Total $
Balances at June 30, 2010	1,014,790	–	–	1,014,790
Transfer to statutory reserve	106,094	–	–	106,094
Balances 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 at June 30, 2012	1,326,465	–	189,835	1,516,300

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 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, 2012.

17 Detailed statement of income and expenditure

	Short-term Benefits		Long-term Benefits		Retained Earnings		Total	
	2012 $	2011 $	2012 $	2011 $	2012 $	2011 $	2012 $	2011 $
Contribution income	**16,634,076**	16,727,151	**81,213,429**	81,667,856	–	–	**97,847,505**	98,395,007
Benefits paid								
Short-term benefits (Note 18)	**(8,619,812)**	(7,538,177)	–	–	–	–	**(8,619,812)**	(7,538,177)
Long-term benefits (Note 18)	–	–	**(50,511,066)**	(46,171,180)	–	–	**(50,511,066)**	(46,171,180)
Medical health programme	**(5,000,000)**	(3,000,000)	–	–	–	–	**(5,000,000)**	(3,000,000)
	(13,619,812)	(10,538,177)	**(50,511,066)**	(46,171,180)	–	–	**(64,130,878)**	(56,709,357)
Surplus of contributions over benefits	**3,014,264**	6,188,974	**30,702,363**	35,496,676	–	–	**33,716,627**	41,685,650
General and administrative expenses	**(2,296,083)**	(2,029,241)	**(9,997,076)**	(9,514,509)	**(4,698,624)**	(6,022,748)	**(16,991,783)**	(17,566,498)
Income from operations	**718,181**	4,159,733	**20,705,287**	25,982,167	**(4,698,624)**	(6,022,748)	**16,724,844**	24,119,152
Other income								
Investment income – net	**2,144,310**	1,988,137	**55,531,303**	54,643,167	**10,013,903**	9,561,993	**67,689,516**	66,193,297
(Decrease)/increase in fair value of investment properties	**(465,615)**	55,480	**(12,058,049)**	1,524,841	**(3,034,858)**	(179,586)	**(15,558,522)**	1,400,735
Other income	**133,649**	46,851	**652,520**	228,732	**385,728**	505,630	**1,171,897**	781,213
	1,812,344	2,090,468	**44,125,774**	56,396,740	**7,364,773**	9,888,037	**53,302,891**	68,375,245
Excess of income over expenditure before finance costs and income tax expense	**2,530,525**	6,250,201	**64,831,061**	82,378,907	**2,666,149**	3,865,289	**70,027,735**	92,494,397

17 Detailed statement of income and expenditure...*continued*

	Short-term Benefits		Long-term Benefits		Retained Earnings		Total	
	2012 $	**2011 $**	**2012 $**	**2011 $**	**2012 $**	**2011 $**	**2012 $**	**2011 $**
Excess of income over expenditure before finance costs and income tax brought forward	**2,530,525**	6,250,201	**64,831,061**	82,378,907	**2,666,149**	3,865,289	**70,027,735**	92,494,397
Finance costs	–	–	–	–	**(413,603)**	(316,150)	**(413,603)**	(316,150)
Excess of income over expenditure before income tax	**2,530,525**	6,250,201	**64,831,061**	82,378,907	**2,252,546**	3,549,139	**69,614,132**	92,178,247
Income tax expense	–	–	–	–	**(43,648)**	(6,770)	**(43,648)**	(6,770)
Excess of income over expenditure	**2,530,525**	6,250,201	**64,831,061**	82,378,907	**2,208,898**	3,542,369	**69,570,484**	92,171,477
Attributable to:								
Reserves	**2,530,525**	6,250,201	**64,831,061**	82,378,907	**3,075,059**	5,526,176	**70,436,645**	94,155,284
Minority interest	–	–	–	–	**(866,161)**	(1,983,807)	**(866,161)**	(1,983,807)
	2,530,525	6,250,201	**64,831,061**	82,378,907	**2,208,898**	3,542,369	**69,570,484**	92,171,477

(expressed in Eastern Caribbean dollars)

18 Short-term and long-term benefits

	Short-term Benefits		Long-term Benefits		Total	
	2012 $	2011 $	2012 $	2011 $	2012 $	2011 $
Retirement	–	–	**40,673,798**	37,439,604	**40,673,798**	37,439,604
Survivorship	–	–	**5,489,390**	4,945,687	**5,489,390**	4,945,687
Sickness	**4,591,807**	3,898,360	–	–	**4,591,807**	3,898,360
Maternity	**3,364,920**	2,971,494	–	–	**3,364,920**	2,971,494
Invalidity	–	–	**4,155,971**	3,620,735	**4,155,971**	3,620,735
Funeral	**416,213**	431,750	–	–	**416,213**	431,750
Disablement	–	–	**123,244**	98,123	**123,244**	98,123
Employment injury	**201,129**	172,076	–	–	**201,129**	172,076
Death	–	–	**68,663**	67,031	**68,663**	67,031
Confinement fees and medical expenses	**45,743**	64,497	–	–	**45,743**	64,497
Total	**8,619,812**	7,538,177	**50,511,066**	46,171,180	**59,130,878**	53,709,357

19 Expenses by nature

	2012 $	2011 $
General and administrative expenses		
Salaries, wages and other employee benefits	**8,227,559**	8,053,348
Electricity, water and sewerage	**1,444,760**	1,424,008
Repairs and maintenance	**1,428,791**	1,614,255
Rent	**1,099,260**	906,960
Professional and legal fees	**1,073,363**	370,709
Depreciation	**590,253**	596,190
Insurance	**536,312**	554,878
Postage and telephone	**353,854**	365,047
Contribution to National Community Foundation	**350,000**	320,000
Stationery and printing	**325,413**	316,416
Public relations	**254,680**	621,989
Security	**252,422**	276,911
Audit fees	**146,036**	152,320
Motor vehicle expenses	**143,762**	176,616
Subscriptions	**108,104**	121,432
Board expenses	**107,492**	111,129
Office and general expenses	**67,116**	88,012
Bank charges	**55,353**	43,932
Management fees	**48,898**	148,862
Overseas meetings and conferences	**37,313**	146,123
Other expenses	**341,042**	1,157,361
Total	**16,991,783**	17,566,498
Expenses attributable to investment income		
Repairs and maintenance	**2,150,295**	2,098,362
Salaries and wages	**2,022,129**	1,918,892
Provision for loan impairment - net	**988,561**	1,184,431
Bad debt expense	**648,867**	–
Subcontractor fees	**676,172**	–
Electricity, water and sewerage	**519,285**	363,978
Security services	**464,065**	351,098
Insurance	**441,746**	432,454
Depreciation	**138,027**	145,532
Audit fees	**52,900**	52,600
Board expenses	**47,358**	126,902
Overseas meetings and conferences	**37,313**	145,923
Motor vehicle expenses	**33,562**	36,652
Professional and legal fees	**27,574**	27,574
Foreign exchange loss	**37,180**	11,416
Total	**8,285,034**	6,895,814
Total general and administrative expenses and expenses attributable to investment income	**25,276,817**	24,462,312

19 Expenses by nature*...continued*

	2012 $	2011 $
General and administrative expenses and expenses attributable to investment income		
Employee benefits (Note 20)	**10,249,688**	9,972,240
Repairs and maintenance	**3,579,086**	3,712,618
Electricity, water and sewerage	**1,964,045**	1,787,986
Rent	**1,099,260**	906,960
Professional and legal fees	**1,100,937**	398,282
Provision for loan impairment - net	**988,561**	1,184,431
Insurance	**978,058**	987,332
Depreciation	**728,280**	741,722
Security services	**716,487**	628,009
Subcontractor fees	**676,172**	–
Bad debts expense	**648,867**	–
Postage and telephone	**353,854**	365,047
Contribution to National Community Foundation	**350,000**	320,000
Stationery and printing	**325,413**	316,416
Public relations	**254,680**	621,989
Audit fees	**198,936**	204,920
Motor vehicle expenses	**177,324**	213,268
Board expenses	**154,850**	228,572
Subscriptions	**108,104**	121,432
Overseas meetings and conferences	**74,626**	292,046
Office and general expenses	**67,116**	88,011
Bank charges	**55,353**	43,932
Management fees	**48,898**	148,862
Foreign exchange loss	**37,180**	11,416
Scholarships and quiz sponsorships	**27,666**	26,615
Books and periodicals	**5,547**	–
Medical board fees	**3,040**	14,770
Donations	**1,850**	9,538
Other expenses	**302,939**	1,115,898
Total general and administrative expenses and expenses attributable to investment income	**25,276,817**	24,462,312

(expressed in Eastern Caribbean dollars)

20 Employee benefit expense

	2012 $	2011 $
Salaries	**8,825,192**	8,483,262
Gratuities	**385,782**	374,246
Other staff cost	**1,038,714**	1,114,732
	10,249,688	9,972,240

21 Investment income - net

	2012 $	2011 $
Fair value through income:		
– Dividend income	**4,223,600**	4,757,516
– Fair value losses on equity securities	**(7,264,943)**	(3,350,225)
– Fair value gains on debt securities	**729,577**	77,114
– Interest income on debt securities	**1,168,585**	1,549,879
Loans and receivables interest income	**14,302,410**	12,111,827
Investment securities interest income		
– Held-to-maturity	**20,151,936**	16,484,568
– Loans and receivables	**26,713,809**	27,259,330
Cash and cash equivalents interest income	**3,090,095**	2,629,468
Rental income	**10,823,771**	10,390,908
Maintenance fees	**595,272**	566,719
Parking fees	**488,283**	545,201
Management fees	**952,155**	66,806
	75,974,550	73,089,111
Expenses attributable to investment income (Note 19)	**(8,285,034)**	(6,895,814)
	67,689,516	66,193,297

22 Related party balances and transactions

The following transactions were carried out with related parties:

	2012 $	2011 $
Interest income	**4,299,430**	4,546,930
Rental income	**4,539,240**	4,392,873
Finance lease interest income	**2,225,040**	2,381,411

Key management compensation is as follows:

	2012 $	2011 $
Salaries and wages	**1,871,159**	1,800,901
Other benefits	**273,536**	256,411
	2,144,695	2,057,312

Year-end balances with related parties are as follows:

	2012 $	2011 $
Government of Saint Lucia and statutory bodies:		
Held-to-maturity investment securities	**232,415,282**	198,330,032
Loans (Note 7)	**48,831,511**	51,831,511
Other advances and receivables (Note 7)	**32,129,217**	31,827,940
Contributions receivable	**797,131**	3,025,144
Finance lease receivables (Notes 7 and 8)	**19,218,565**	20,694,719

23 Taxation

	2012 $	2011 $
Current tax	**38,339**	–
Deferred tax	**5,309**	6,770
	43,648	6,770

The tax on the Group's profit 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:

	2012 $	2011 $
Excess of income over expenditure before income tax	**69,614,132**	92,178,247
Tax calculated at domestic tax rates applicable to profits of the respective companies	**20,884,240**	27,653,474
Tax effect of exempt income	**(20,840,592)**	(27,648,639)
Expenses not deductible for tax	–	1,935
	43,648	6,770

The weighted average applicable tax rate was 0.065% (2011 – 0.08%).

Deferred tax liability

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

	2012 $	2011 $
Accelerated capital allowance	**13,653**	8,344

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

	2012 $	2011 $
At beginning of year	**8,344**	1,574
Statement of income and expenditure (credit)/charge	**5,309**	6,770
At end of year	**13,653**	8,344

24 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 ninth actuarial review of the National Insurance Fund as at June 30, 2007 was conducted by an actuary of the International Labour Organization.

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

(a) The population will increase from 167,000 in 2006 to just over 212,000 by 2060.

(b) The ageing of the general population will have a major impact on the ratio of workers to retirees. For the Corporation, it is projected that the number of contributors for each pensioner will fall from 10.9 in 2008 to only 2.1 in 2060.

(c) Contribution income is expected to be sufficient to meet total expenditure through 2051.

(d) Reserves are expected to begin decreasing in 2037 when total expenditure will exceed total income for the first time. In 2051, projected reserves will be depleted unless relevant measures are taken to reverse the projected trend.

(e) 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 5.1% in 2008 to more than 20% in the long term. This indicates that there will be a need to eventually increase the contribution rate of the Corporation in order to face its long-term cost.

(f) Beginning 2008, 11% is the constant contribution rate that will make the present value of contributions equal to the present value of expenditure through 2060.

25 Commitments

Loans and advances
As at the end of year, loans and receivables approved by the Group but not yet disbursed amounted to approximately $45,018,718 (2011 - $12,293,082).

NOTES

NOTES

NATIONAL INSURANCE CORPORATION

Francis Compton Building
Waterfront, Casries
Tel: 758 452 2808 | Fax: 758 451 9882

Providence Commercial Centre
Rodney Bay
Tel: 758 457 4075 | Fax: 758 452 0516

Antoine L. Theodore Building
Vieux Fort
Tel: 758 454 6758 | Fax: 758 454 5001

Sir Darnley Alexander Building
Soufriere
Tel: 758 459 7241 | Fax: 758 459 5434

Email: slu-nic@stlucianic.org | **Web**: www.stlucianic.org