St. Vincent & the Grenadines

NATIONAL INSURANCE SERVICES

2018 ANNUAL REPORT

Theme

"Transforming minds to enhance sustainability and dynamism of the social security system and build public confidence."

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OUR MISSION

To provide sustainable social security and to promote social and economic development in St. Vincent and the Grenadines through prudent financial and people-centered management.

OUR VISION

To be an institution that recognizes, assesses and responds to changing environmental trends and provides sustainable Social Security that adequately reflects our value system and satisfies our customers' needs.

MINISTER'S REVIEW

Camillo M. Gonsalves

It gives me great pleasure as Minister with responsibility for National Insurance Services (NIS) to submit my review in the institution's Annual Report. This report comes at a time when the NIS is at a period of transitioning into its more mature years of operation. Thirty-one years of operations are critical for any social security institution when one considers the significant changes that are taking place internationally, regionally, and locally in household living and working conditions. This is one of the reasons why the NIS' theme "transforming minds to enhance sustainability and dynamism of the social security system and build public confidence" is so pivotal. The National Insurance Services has continued to provide a cushion for its members despite the vagaries of economic, demographic and social turmoil that have been exerting tremendous pressure on the financial stability of pension systems globally. In our very own country, there is a growing increase in the number of retirees including the generation known as the baby boomers, increasing longevity, decreasing birth rates, and growing trends for early retirement due to the recommendation from the last Actuarial Review, which stipulated, inter alia, the increase of the retirement age.

As Minister of Finance, I see the Ministry and by extension, the Government of St. Vincent and the Grenadines as a development partner of the NIS and I firmly believe that an effective social protection system is a core component of all successful and sustainable economies. The benefits of investing in social protection, – combined with investments in other essential sectors such as education, health, energy, and infrastructure – are evident in socially cohesive societies. It is imperative, therefore, for any social protection system to pursue a model of inclusive growth, which requires that no one is left behind. This will serve the multi-dimensional purposes of reducing poverty and inequality, contributing to economic growth by raising labour productivity, enhancing social stability and protecting people against crises, while generating long-term and sustainable economic growth.

I am satisfied that most employers are fulfilling their obligations in paying their contributions for their employees. I admonish those who continue to evade their responsibilities to comply or face the consequences of non-compliance. The goal of social security is to have everyone covered under the social safety net. This is consistent with the ILO's mandate and Article 22 of the Universal Declaration of Human Rights, which emphasizes that "Everyone, as a member of society, has the right to social security and is entitled to realization, through national effort and international cooperation and in accordance with the organization and resources of each State, of the economic, social and cultural rights indispensable for his dignity and the free development of his personality." In this regard, I want to encourage the NIS to expedite its effort in broadening coverage to workers and self-employed persons in the informal sector. These categories of workers, which includes our farmers, fisher-folks, and artisans, need to get on board. These workers, by and large, are very vulnerable and should be included. They, too, as part of the working class, need a vehicle to guarantee them a better life in the event that they suffer irreversible loss of income. To this end, I am in full support of designing a special package, if necessary, to address their specific earnings capacity and their special Social Security needs. This will be a fitting complement to the voluntary coverage extended to the overseas nationals, both documented and undocumented in the Diaspora, who can make their contributions to the National Insurance Services to augment and in some cases make them eligible to receive their Age, and Survivors pension, and their funeral grant. Efforts to promote this must also be accelerated.

It would be remiss of me if I did not commend the NIS for its continued role in the social and economic development of St. Vincent and the Grenadines through its continued contribution to projects that generate employment particularly among the youth. I refer specifically in this instance to your partnership in employing young school leavers on the SET and YES programmes. I must also recognize your efforts in getting the Audited financial statements for submission to Parliament by the stipulated legislative deadline and I want to express thanks for your provision of reliable statistical information to the Ministry of Finance to assist in the preparation of the annual national budget.

In conclusion, as the Minister, I appreciate the role that NIS has played and is still playing in the social and economic landscape of St. Vincent and the Grenadines. It is my intention to continue to provide the institution with the necessary policy support to ensure that it continues to play its rightful role in meeting the needs of all its stakeholders. Once again, I would like to congratulate the NIS Board, management, and staff for a successful 31 years of providing sustainable social protection.

Hon. Camillo M. Gonsalves
Minister of Finance, with responsibility for social security

CHAIRMAN'S MESSAGE

Lennox A. Bowman

I am privileged to be serving as the Chairman of the National Insurance Services (NIS), which has built a reputable record of accomplishment upon which it plans to build an even more robust financial institution. I believe that the NIS will continue to transform and impact in a positive way the social and economic development of St. Vincent and the Grenadines for many more years to come. I wish to congratulate my fellow board members, management, staff and stakeholders of the National Insurance Services for the part they played in positioning the institution to where it is today. As a board, we have recognized that as a statutory corporation, the NIS needs a certain measure of autonomy and we were always careful in ensuring that this happened.

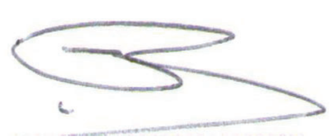
In terms of the asset base, the NIS has performed extremely well and is still one of the largest financial institutions in St. Vincent and the Grenadines with a total asset base close to $483 million dollars. This is a significant accomplishment given the fragile and open nature of our economy as well as the volatile international economic environment within which we operate. While we celebrate our achievements , we are still cognizant of the fact that we have to set benchmarks as a means of protecting the institution's assets, given that we are fiduciaries of the people's funds and must be in a position to meet our obligations in full to the pensioners and other beneficiaries when they fall due. In this regard, we are always striving to do better by seeking prudent and safe investment opportunities domestically, regionally, and internationally.

The Board acknowledges that the success of the NIS is dependent on the level of oversight of the Board of Directors as stipulated in the Principal Act Cap 209 and its attendant statutory rules and orders enshrined in the Laws of St. Vincent and the Grenadines. It is precisely because of this awareness that results in effective corporate governance. This is demonstrated in our efforts to convene our regular meetings as a Board, ensuring that all subsidiary committees meet as per the stipulations set, conduct our yearly external audits, conduct our triennial Actuarial review, maintain a functional Internal Audit Department, establish policies and standards to guide procurement and all our business processes, and preparing our annual report to give account of our stewardship to you our valued stakeholders.

We are making concerted efforts to continuously improve our governance framework, risk management and internal controls. The Board also recognizes that for the NIS to remain relevant in fulfilling its mandate that it must have a well-conceived, reliable and competitive business plan aimed at delivering value to you, our customers. In this regard, the Board has empowered the management to design a yearly tactical plan that is presented at the Board's year end meeting. The Board is satisfied that this strategy is working well in ensuring that the NIS continues to play a pivotal role in remaining relevant and making meaningful contributions in the lives of its members and the country in general.

The Board recognizes that in this modern age, it is imperative to be customer centric by creating a positive experience for our internal and external customers. We fulfill this obligation by ensuring that we address the short, medium- and long-term social security needs of our members and that a concerted effort is made to ensure that we treat our employees well. As we forge ahead, we plan to enhance the regulatory framework to include the regulations for coverage in the Informal sector. We also plan to re-engineer our core business processes for efficiency and effectiveness. In this regard, we will leverage technology to make us more responsive to our customers' needs and the changing market dynamics. To deliver all the above, we will continue as a Board to renew and revitalize our governance structure to ensure that it is in keeping with best international standards and practices. We know that a strong Board which exercises its oversight role unimpeded in compliance with the regulatory framework should be above reproach.

In closing, I wish to reiterate the Board's commitment to working with all major stakeholders including the Government, employers, and employees to provide social security protection.



Lennox A. Bowman
Chairman

DIRECTOR'S REPORT

FOR 2018 ANNUAL REPORT

Stewart K. Haynes

OVERVIEW

On January 5, 2018, the NIS celebrated 31 years of providing sustainable social security protection to the people of St. Vincent and the Grenadines through a comprehensive social security benefits system. Over this milestone, the Fund evolved into a systemically important financial and social institution as it served approximately 46% of the national population (about 39,210 insured persons and 7,419 pensioners), accumulated assets ($482.6 million) that represented approximately 21% of the country's 2018 GDP (at a market price of $2.255 billion). In addition, the NIS invested heavily in SVG's economic and social infrastructures. This demonstrates the critical importance of the institution and its substantial responsibilities and high public expectations.

During the review period, the Fund yielded negative cash flows from operations, as growth in recurrent expenditure outstripped contribution income. Consequently, a proportion of investment income was used to fund operations. As the system matures in an environment with population ageing, the financial sustainability indicators will deteriorate, and the need for further parametric reform becomes paramount.

To improve the resilience and financial soundness of the Fund, the Management exercised laser focus on strengthening administrative efficiency and sharpening key strategic enablers such as its people, process, technology, leadership, and partnerships. The efficient and optimum coordination and allocation of the strategic enablers contributed to the positive social security outcomes in 2018. The strategic priorities set by the NIS for its 2018-2020 transformational path include contribution collection and compliance, coverage, cost containment, capital enhancement, customer service and corporate governance.

STRATEGIC ENABLERS

In 2018 the NIS fashioned its 2018-2020 transformational path towards strengthening the social security systems under the theme "transforming minds to enhance sustainability and dynamism of the social security system and build public confidence". This strategic imperative was necessary as the Fund transitioned further into its second inflexion point, where contribution income is no longer sufficient to cover total expenses, and the linchpin of the short-term resolution involves organizational strengthening. Moreover, at this critical juncture in our financial sustainability necessitated and propelled us to eschew the "business-as-usual-mindset" and find creative and efficient means to build our resilience and relevance to the people of St. Vincent and the Grenadines. Accordingly, the NIS focused on sharpening the following strategic enablers to achieve positive outcomes in seven strategic priority areas, namely, contribution collection and compliance, coverage, cost containment, capital enhancement, customer service and corporate governance.

PEOPLE

As we evolve, we continue to support and invest in our workforce to acquire and harness the skills, talents, and experiences necessary for our organization to thrive and grow organically. Ultimately, we are aiming to develop a high-performing team with complementary skills to efficaciously provide adequate and affordable social protection to the people of St. Vincent and the Grenadines. Therefore, we adopted the following pragmatic measures to build a resilient, happy, committed, and agile workforce:

1. ***Transformation of minds*** - At this critical time in our operations, where our progress and growth depend on the strengthening of our internal resources and enhancing our administrative levers, it was paramount that we eschew the "business as usual" mindset and shape minds towards extolling resilience, excellence, customer-centeredness and dynamism. In this regard,

we invested in external and internal training and motivational sessions to build this new paradigm shift in mindset. In addition, we fashioned our performance management system, which includes recognition and reward programs around praising minds that are aligned with the organization's thrust. We also utilized networking and knowledge-sharing avenues with other regional social security organizations and the International Social Security Organization (ISSA) to adopt and support best practices and systems that are congruent with our mind transformation thrust.

2. ***Realignment of Staff*** – With the view of maximizing productivity and enhancing efficiency, the NIS undertook a comprehensive staff realignment exercise. Staff were realigned in a manner to ensure the right people are in the right positions to excel in their respective functions. This initiative proved successful as productivity and staff morale improved as adjudged by the cultural audit and the outcomes for the operational year.

3. ***Recruitment of Staff***- In the first quarter of 2018, we conducted a skills-gap analysis and identified that some essential, relevant and bench skills were necessary for the organization to thrive. In this regard, we recruited qualified and competent management staff in critical areas of operations, including investments, internal audit, corporate governance, legal and project management. The recruitment of these has bolstered the complementary skills, talents, and experiences at the NIS. Also, the addition of these human resources contributed to our success in the fiscal year and will be relevant for the future of the NIS.

4. ***Enhancement of skills and talent*** - We fundamentally believe that the best investment we can make is in our people. As such, the Board ensured that adequate resources were allocated for the development, consolidation and deepening of skills through practical, relevant, and appropriate training of staff. Some members of the team benefited from internal and external training in areas of investments, corporate governance, risk management, customer service and information technology. The Human Resource Department made a bold and deliberate effort to practice talent management and support succession planning.

5. ***Engagement of staff*** - In the transformational journey, the NIS strived to promote a balance between work and social activities. Accordingly, the Human Resource Department, the Marketing Department and the NIS Sports Clubs collectively and separately organized a range of social activities throughout the year to encourage teamwork, unity, camaraderie,

and a happy work environment. For example, The HR Division successfully organized an in-house public speaking competition, inter-departmental domino competition, and the Back 2 School initiatives.

LEADERSHIP

The NIS sees innovative leadership as an indispensable tool to move our organization forward. We also recognized this element as another critical strategic enabler that would propel us on our transformational journey to achieve our optimal outcomes. To this end, resources were allocated to deepen leadership capacity in the organization. For instance, Executive Managers, Managers, and supervisors were all exposed to appropriate leadership training programs. In addition, the Human Resource Department effectively managed the vacation schedule to operationalize the succession plan and ensure that for all critical positions, supervisors had opportunities to serve in managerial capacities. This is an ongoing initiative to build various layers of leaders within the NIS.

TECHNOLOGY

Our existing operating systems are predominantly manual and have adversely impacted the quality of our operations. Therefore, in the review period, the NIS embraced technology to improve efficiency, productivity and service delivery and quality. For instance, we invested in technology and digital capabilities to strengthen the following processes:

1. ***Electronic wage reporting*** - We allocated human and financial resources to enhance our electronic wage reporting system (e-submit). Employers provided positive feedback on the improvements in the systems. Also, we attracted more employers on our electronic wage reporting system in 2018.

2. ***Document Management System*** - There was an enhancement to the document management system that allowed more efficient record processing, record storage and record retrieval. This positively impacted the processing time of pensions. In addition, it encouraged less manual input and paperwork in the processing of employers' contribution records and benefit claims.

3. ***National Insurance Management System*** - The central operating system of the NIS is dated and does not meet our current and future business requirements. Accordingly, we commenced the procurement process for the replacement of our current management system. The intention is to replace and enhance our system to improve efficiency, reduce errors and provide a better customer experience.

PROCESSES

At the beginning of the period, we recognized that we had to revamp and tweak some key business processes to serve our customers better and improve operational efficiency. In this regard, we streamlined our operations relating to benefit adjudication procedures, contribution record procedures, compliance management and procurement of goods and services which resulted in faster query resolutions, reduction in processing times of benefits and contribution records, reduced errors and lower administrative costs.

PARTNERSHIP

The NIS is cognizant of the importance of institutional coordination and strategic linkages to assist with our realization of our strategic goals and optimal social security outcomes. Therefore, we commenced the process of consolidating, deepening, and forging of local, regional, and international working relationships. On the local front, we formalized our relationships with Government, parastatal entities, licensed financial institutions, credit unions and other corporations through the signing of non-binding Memoranda of Understandings. The principal goals of these local partnerships include data-sharing, ensuring NIS compliance, contribution collection agents, promotion of NIS' letters of good standing and broadening coverage among the self-employed and informal sector workers. On the regional level, we pooled resources through knowledge sharing and promotion of best practices with other social security organizations to improve social security administration. In addition, we utilized ECCB and CARICOM as platforms to collaborate and build regional human resources capacities in social security administration. We also leveraged on our international membership with ISSA to benefit from its tool kit of practical knowledge, bank of global best practices in social security operations, and centre of excellence. In addition, we capitalized on opportunities to have conversations with the IMF, ILO and World Bank on social security matters.

ENVIRONMENTAL LANDSCAPE

Our transformational journey to be dynamic, sustainable, resilient, relevant and responsive led us to astutely monitor the critical environmental trends that impact our optimal delivery of social security services and outcomes. To this end, we carefully considered the following environmental trends that impact sustainability, dynamism, and public confidence.

ECONOMIC DEVELOPMENTS

The National Insurance Fund (The Fund) operates in a small, open, resource-challenged economic space that is susceptible to external shocks, including natural disasters and economic disasters. Moreover, the financial sustainability of the Fund is inextricably linked to international, regional, and local economic developments.

According to the World Bank estimates, the global economic activity for 2018 has been mild with a growth rate of 3.6%. There was a noticeable slowdown in the second half of 2018, reflecting a confluence of factors. The weakening of financial market sentiments, geopolitical tension arising from trade policy uncertainty and Brexit, and financial distress experienced by some emerging markets and economies tempered economic activities in 2018.

On the regional level, average economic growth stood at 1.8%. The Caribbean Development Bank stated that "all but two of the CDB 19 borrowing member countries recorded positive economic growth in 2018". CDB cited that the economic uptick was attributed to strong performance in tourism and robust construction activity. The increased tourist arrivals caused positive knock-on effects on transportation and retail activities.

Following an anemic real economic growth of 0.7% in 2017, the Vincentian economy grew by 2.8% in 2018. The economic growth was driven by increased tourist arrivals and rise in regional demand for manufacturing materials, in the aftermath of the devastating natural disasters in 2017. The blue economy- fishing- also positively affected economic activity in St. Vincent and the Grenadines. The increased economic activity was accompanied by an inflation rate of 2.3%, compared to 2.2% in 2017. The public sector debt stood at approximately 73.4% of GDP at the end of 2018 compared to a target of 60%.

LABOUR MARKET DEVELOPMENTS

The principal financing source of our social security system is inextricably linked to the labour market. The labour market developments materially influenced social security financing. Therefore, we must monitor and broaden coverage of all workers.

Our labour market faced some structural challenges that emanate from the smallness, openness, and resource-challenged nature of our economy. The dominant features of our labour market include the above-average level of unskilled workers, growing informal sector workers as the economy transitioned into service-based, over-sized public sector workers, and slow and low take-up of technological advancements. These inherent labour market challenges are tempering the growth in productivity, wages, and employment. Therefore, the financial sustainability of the Fund was also impacted by the scope and scale of the developments within the labour market.

INTERNATIONAL FINANCIAL MARKETS DEVELOPMENTS

Our social security system was at a phase where the contributors are no longer contributing to the building of the NIS' reserves. All contribution incomes are used to finance recurrent expenditures. Accordingly, we have engaged in de-risking and diversifying our investment portfolio into international securities (mainly US equities and fixed-income securities) to improve the risk/return profile of the investment portfolio. In executing that strategy, our exposure to international financial markets has increased, and our financial performance is linked to financial capital market developments.

After two years of steady growth in asset prices, the equity market witnessed its worst decline since the financial crisis. The year 2018 remained the worst year for US, London, and European indices since 2008. It was a year where investors were bruised and fraught with significant volatility. In the US, all three major indices finished 2018 in the red during the end of a tumultuous year. The Nasdaq Composite was down 2.84% for the year, while Dow Jones International Average Index and standard and Poors 500 Index declined 3.48% and 4.38% respectively. The MSCI Emerging Market Index was also down 14.58%.

The significant volatility was marked by the movement of the Chicago Bond Option Exchange Volatility Index (VIX), which hit its highest level (25.2%) in 2018. The market was troubled all year long by the trade war and by the apparent economic slowdown. For 2018, nine out of the 11 US sectors were in negative territory at the end of the year. Health and utility were the only sectors that ended in the positive space.

In the fixed-income space, the interest rate hikes saw the yield on the US 10-year treasuries increase from 2.4% to 2.7%. The tightening of the monetary policy also formed part of the macroeconomic policy measures in the US for 2018.

DEMOGRAPHIC DEVELOPMENTS

One of the key messages from the most recent actuarial valuation of the Fund (10th actuarial valuation), spoke to the significant impact of the demographic factors on the sustainability of the Fund. The demographic factors such as life expectancy, fertility rates and migration influence sustainability through the scheme's dependency ratio (ratio of pensioners to contributors).

Being guided by the United Nations 2015 Revision of World Population prospects, the global population is ageing as the growth of older age groups (aged 60 or older) as a share of the total population is increasing. For Latin America and the Caribbean, the demographic transition towards an ageing society is more acute relative to the advanced countries because the declining fertility and rising life expectancy are further aggravated by the higher rate of emigration from developing countries to developing countries.

The United Nations, 2015 Revision of World Population Prospects, revealed that the proportion of the population 80+ and older would be 3.5 times higher than in 2050 compared to 2015. In addition, within Latin America and the Caribbean, the ratio of population 80+ over to 15-64 is steadily increasing (year-on-year) from about 2.3% in 2015 to 9% in 2050.

At our Twenty-Ninth Meeting of Heads of CARICOM Social Security Organizations, we identified that this ageing phenomenon is one of the most critical challenges facing regional social security systems. Accordingly, we are pooling resources and knowledge and leveraging on the International Social Security Association to assess and respond to this challenge. At the same time, we are very cognizant that regional variations persist in terms of scale, timing and impact on the cost of providing social security pensions.

TECHNOLOGICAL DEVELOPMENTS

In 2018, we witnessed further acceleration of technological developments. On the positive side, social security systems have been utilizing information and communication technology (ICT) as a strategic enabler to improve productivity, enhance efficiency and improve service quality. We witnessed how some social security systems use mobile technologies, blockchain, analytics and big data and artificial intelligence to strengthen social security administration.

The scale-up and intensive use of technological applications and digitization also brought on specific risk factors including cybersecurity, access control customer identification and unauthorized access to data protection which negatively impact privacy.

According to Positive Technologies, a global digital security firm, billions of people were affected by data breaches and cyber-attacks in 2018 with losses surpassing tens of millions of dollars. Cyberattacks increased by 32% in the first three months of the year and 47% during the April-June period compared to the same periods in 2017. Of note is that there was not a breach quite significant as the Equifax data breach from September 2017.

We explored some aspects of the technological opportunities to rationalize cost and improve service quality. However, we strengthened our risk posture to mitigate on ICT related risks.

REGULATORY DEVELOPMENTS

The NIS continued to comply and operate within its legislative framework to ensure optimal delivery of social security services whilst being responsive to the changing environmental trends.

The significant regulatory change that faced the NIS in 2018 was the introduction of the International Financial Reporting Standards relating to the introduction of IFRS 9- Financial instruments (IFRS 9). The IFRS 9 standard introduced a principles-based approach to the classification of financial assets. Additionally, it introduced an impairment model that requires the recognition of expected credit loss on financial assets measured by Amortized Cost and Fair Value Through Comprehensive Income. The complexities associated with the adoption of the IFRS 9 caused delays in the preparations of the 2018 financial statements for most regional social security systems. St. Vincent and the Grenadines was one of the very few social security systems that completed its 2018 financial statements before its statutory deadline of June 30, 2018.

THE STRATEGIC OUTCOMES

The NIS managed its financial and human resources towards achieving the following outcomes:

COVERAGE

Considering population ageing and labour market developments where labour force participation is trending to the informal economy and self-employed sectors, and workforce automation, the issue of 'extending social security coverage to all' becomes a core ingredient for social security sustainability and relevance. With this backdrop, coupled with our guiding principles of universality, social cohesion and solidarity, the issue of extending social security coverage dominates the policy agenda for the NIS.

The NIS performed well in providing coverage to the formal economy workers where coverage is approximated at 87%. However, the NIS provided low coverage to rural areas, informal and self-employed sector workers. The coverage level for these categories of workers is below average, at about 18%.

In the review period, the NIS provided social protection for 41,953 employees, representing an increase of 2% compared to 2017. Also, the number of new registered employers advanced from 225 to 231and the number of new registered employees slightly reduced from 2,262 to 2,191. The broader coverage was mainly driven by enhanced compliance measures, including moral suasion, increased visits, improved record-keeping and comprehensive spot audits. In addition, the NIS forged strategic linkages with government agencies and licenced financial institutions to improve data sharing and promote compliance with the NIS' Act. Moreover, there was an increased consciousness among workers of the socio-economic importance of NIS among employees. For instance, there was an increasing number of cases where employees reported on employers' non-compliance. Actions like that are encouraging for the economic well-being of individuals, communities, and our country.

In the case of self-employed persons, the number of active self-employed persons rose from 1,183 in 2017 to 1,366 in 2018. Additionally, the number of new self-employed registrants climbed from 302 to 523. The growth among this cohort of workers was attributed to a confluence of factors. For instance, the NIS forged strategic partnerships with Centre for Economic Development (CED), Ministry of Agriculture, Fishermen Committee, Invest SVG and other cooperatives with the view of extending social protection to self-employed and informal economy workers. In addition, we conducted a self-employed survey to assess self- employed perception and expectations of the NIS. On average, the self-employed population requested higher benefits, more convenient payment systems, easier registration and payment processes and regular customer engagement programs. Resources were also allocated to use social media platforms and traditional media avenues as public outreach mediums for social security services.

CONTRIBUTION COLLECTION AND COMPLIANCE

The efficacious collection of contribution income is germane to the financial viability and legitimacy of our pay-as-you-go, defined benefit pension plan. Therefore, the NIS expended significant efforts to boost contribution collections and compliance in the review period.

Following a marginal decline in contribution income in 2017 compared to the previous year, contribution collection augmented in 2018. For the period under review, the NIS collected approximately $67.0 million in contribution income of which current contribution comprised $60M, and the balance of $7.0 million represented the collection of arrears. This represented an increase in contribution income of 9.5% compared to previous year collection of $61.2 million. The growth was underpinned by the rise in annual average insurable wages from $20,360.05 to $20,902.56 coupled with an improvement in contribution density, moving from 70% to 71% in the review period. Additionally, the number of contributors advanced from $40,994.00 to $41,953.00. The schematic movements in the contribution factors over the last years are presented below:

Chart 1: Contribution Income for periods 2014-2018

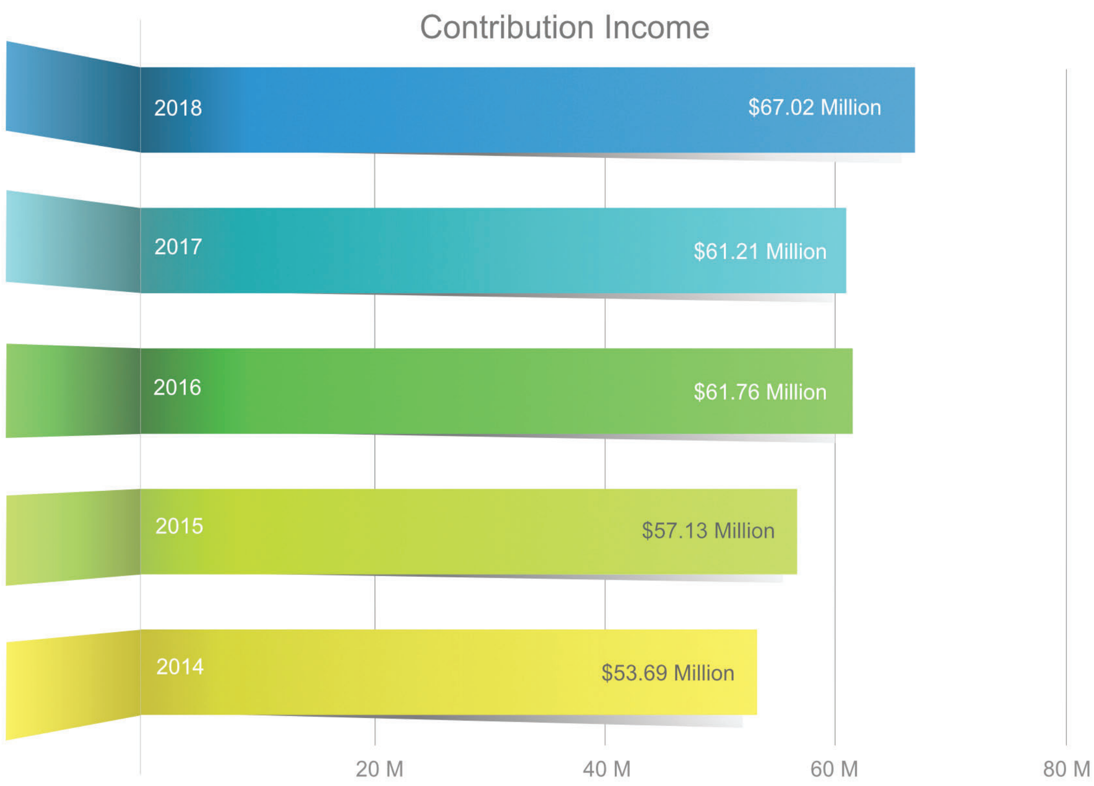


Chart 2: Average Annual Insurable wages for period 2014-2018

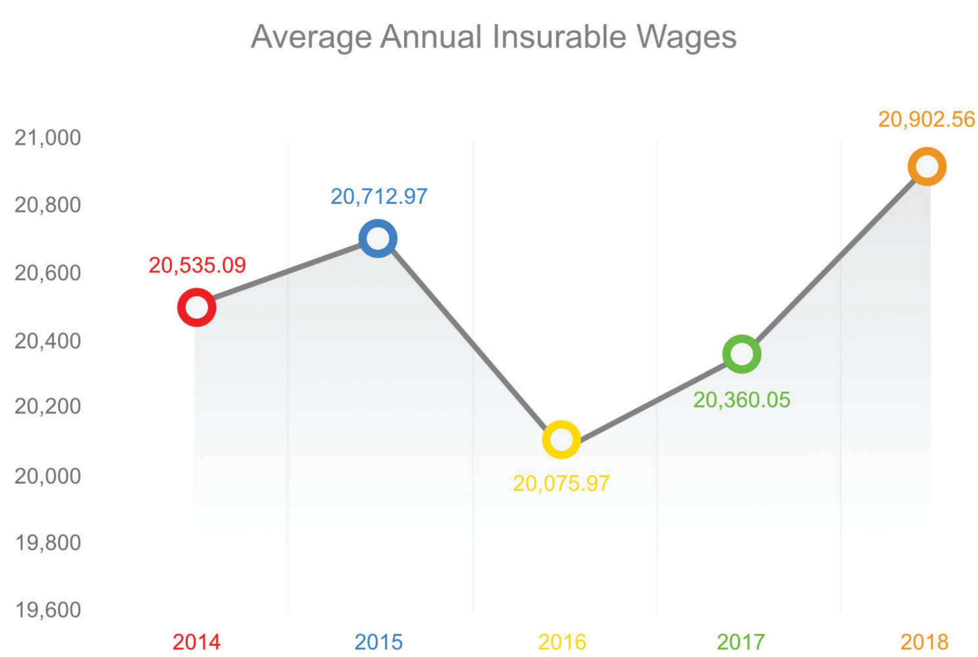
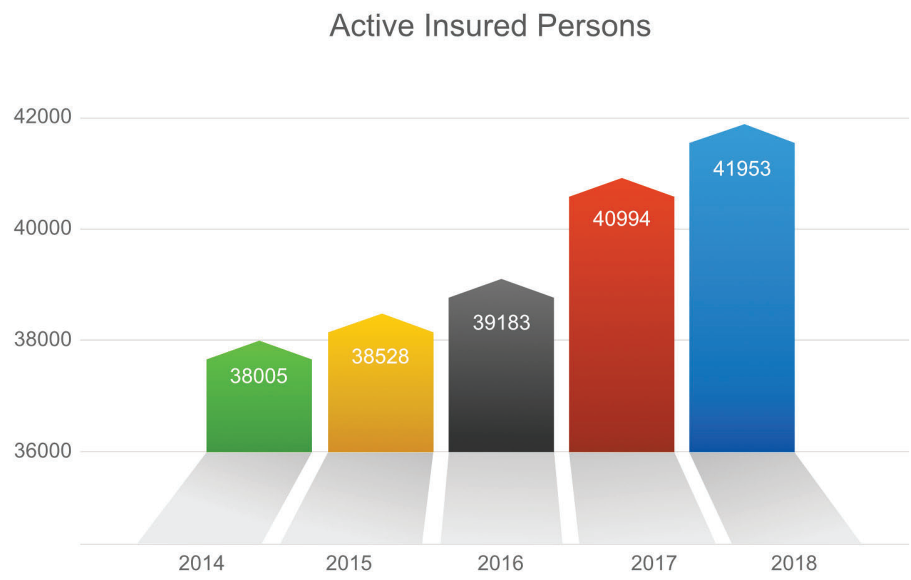


Chart 3: Active Insured Population for period 2014-2018



The upswing in contribution income did not only reflect the increased economic activities in St. Vincent and the Grenadines but also reflected the sharpened contribution collection and compliance processes. The processes executed include but are not limited to effective engagement with delinquent employers and aggressive execution of legal remedies including debt proposals, High Court actions, Magistrate Court actions, garnishing of accounts and placing liens on properties. The strengthening of strategic partnerships with the Ministry of Finance and National Tenders Board generated more than 50 requests for NIS' good standing letters.

INVESTMENTS

Since 2014, the NIS has been utilizing a proportion of investment income to fund recurrent expenditures. This financial situation continued in 2018. Accordingly, the NIS' investment objectives focused on capital preservation and income generation. In pursuit of the said objectives, the NIS adopted moderately conservative investment strategies. These strategies were anchored on de-risking and improving the risk/return profile of the investment portfolio through diversification across asset classes, issuers, sectors, and geographic locations.

During the period under review, the investment portfolio plummeted by 1.3% moving from $441.2 million to $435.2 million. The contributing factors were the reductions in fair values of international equities and bond sub-portfolios and increased provision for impairment under the new IFRS 9 standards. The volatility and fragility of the global financial markets triggered the losses in the fair value of some financial assets.

The composition of the portfolio by asset class and by geographic location is presented in figure 4 and figure 5 below.

Chart 4: Investment Portfolio by Asset Class for period ended 31st December 2018

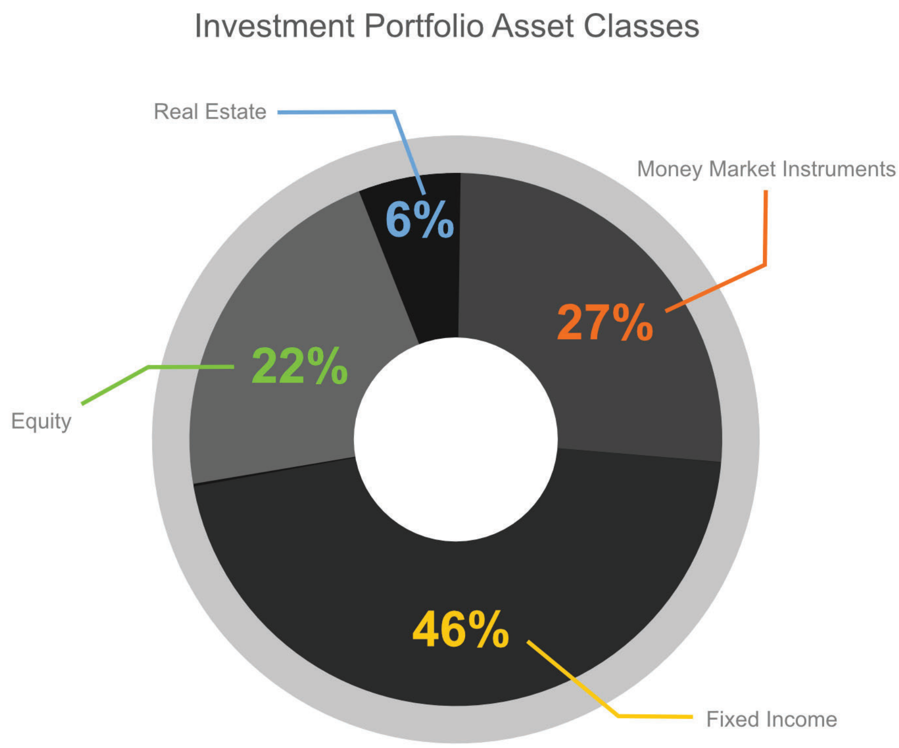
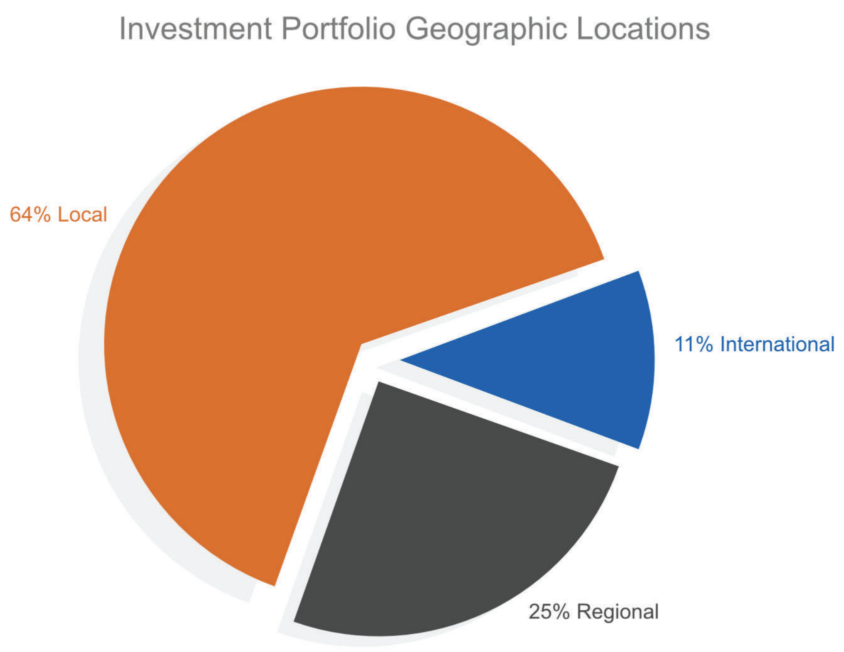
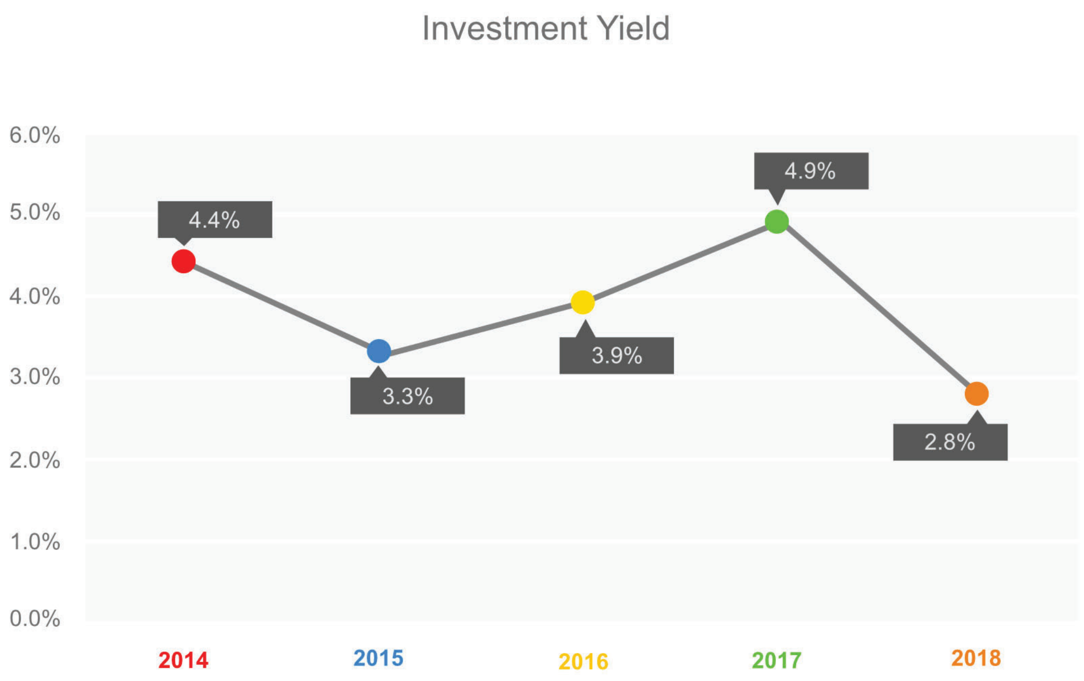


Chart 5: Investment Portfolio by Geographic Locations as at 31st December 2018



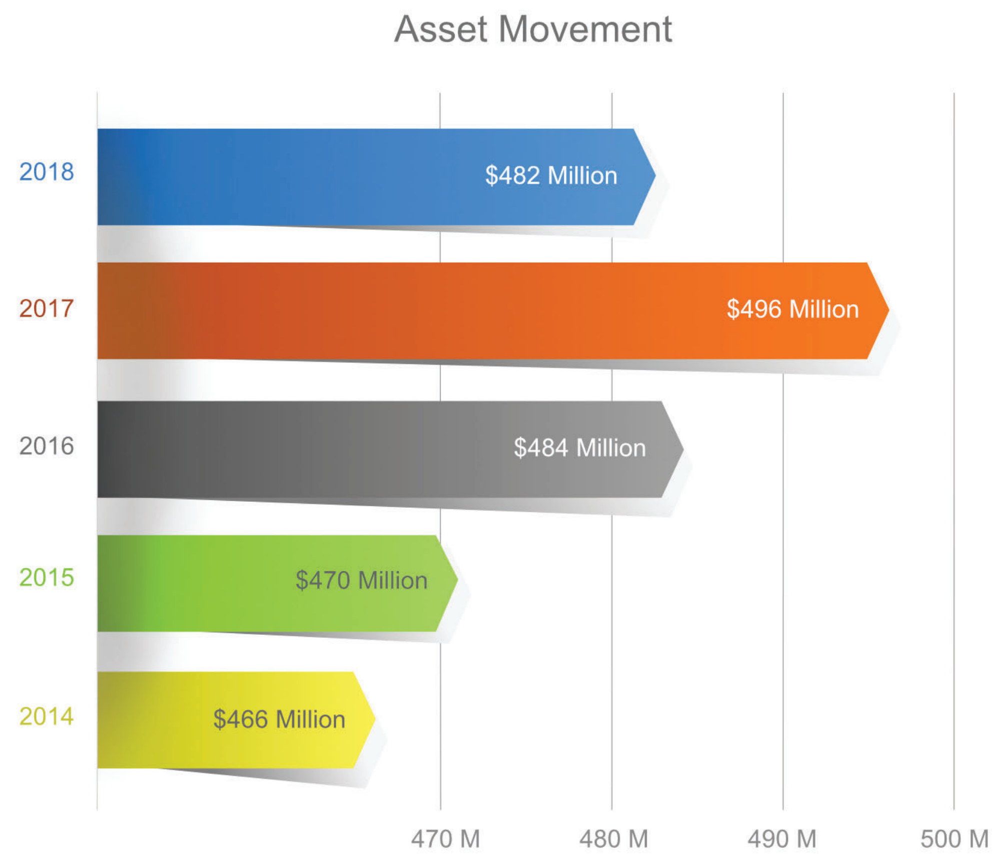
The investment portfolio generated a yield of 2.8% in 2018 compared to 4.9% in 2017. Returns on deposits and loans supported the yield. However, the yield was tempered by lower interest rates, impairment on financial assets and decline in fair values of traded assets. The annual investment yields for the last five years are presented below:

Chart 6: Investment Yield for periods 2014-2018



The decline in the investment portfolio caused a negative drag on the total value of the NIS' asset base. The total assets plummeted by 2.7%, moving from $496.0 million to $482.6 million. The five-year asset trend is depicted below;

Chart 7: Total assets for periods 2014-2018



The NIS continues to sharpen its investment management function through training of investment parties (Board, committee members and staff), reviewing its investment policy, and strengthening of the investment risk management activity.

COST CONTAINMENT

Being cognizant of its challenging funding position, the NIS strives to exercise prudence and enterprise in the administration of its social security program. In this regard, the NIS established efficiency benchmarks for its annual administrative expenditure program. The table below shows the NIS' performance relative to a benchmark.

Indicator	Values		Comments
	2017	2018	
Administrative Expenses	$10.5M	$11.1M	*Marginal increase due to staff expenses.*
Administrative Expenses/Contribution Income	17 cents	16.6 cents	*Above the internal rate of 15 cents but trended downwards.*
Administrative expenses/(Benefit and Contribution Income)	8.7 cents	8.4 cents	*Relatively stable as growth in benefits and contribution income exceeded the increase in administrative expenses.*
Administrative Expenses/Financing Income	50%	92%	*At this stage, where investment income financed administrative expenses, this ratio is critical. The increase represented a significant decline in investment income.*

Table 1: Administrative efficiency Indicators for 2018 and 2017

As can be seen from Table I above, the administrative efficiency ratio, which expresses administrative expenses as a percentage of contribution income, marginally improved relative to the previous period, moving from 17 cents in 2017 to 16.6 cents in 2018. This level is still above the institutional target of 15 cents. According to the last actuarial report of the Fund, the administrative efficiency ratio of SVG is relatively high on a regional scale.

The NIS inculcated a cost-conscious culture through a combination of training, accountability systems and recognition and reward program for employees who champion cost-saving measures. Also, the NIS focused on keeping discretionary expenses to low levels, mainly by cutting donation budgets. Also, The NIS utilized ICT to cut cost by using energy-saving equipment and where possible automate manual work processes (e-submit and document management systems) In addition, the recruitment of an internal legal counsel caused savings in legal expenses that may have been otherwise incurred at high levels by use of external counsel. Additionally, we have streamlined our procurement processes to improve efficiency.

RISK AND CORPORATE GOVERNANCE

Sound corporate governance is vital to the sustainability of NIS. In this regard, the NIS aligned its corporate governance practices with the ISSA led governance principles of:

1. ***Accountability*** - The ability to hold responsible the officials who oversee the institution.
2. ***Transparency*** - The availability and accessibility of accurate, essential, and timely information to ensure stakeholders are well-informed.
3. ***Participation*** - Active education and effective engagement of stakeholders.
4. ***Predictability*** - Consistent application of laws and its supporting policies, rules and regulations.
5. ***Dynamism*** - The element of positive change in governance.

During the review period, the NIS achieved the following governance outcomes:

- Established and operationalized a good governance policy and guidelines.
- Prepared and disseminated its audited financial statements well in advance of the statutory deadline.
- Recruited trained personnel with expertise in corporate governance.
- Facilitated Board and senior management training in corporate governance.
- Revised all divisional standard operating procedures to align to best practices.
- Embarked on a series of customer engagement programs geared at educating customers on their rights under the NIS Act and soliciting customers' views on NIS.

The NIS also believes that effective enterprise risk management is a fundamental pillar in strengthening corporate governance. Accordingly, the NIS bolstered its enterprise risk management governance structure by the establishment of a Risk Department and the appointment of a Chief Risk Officer. Further, the NIS augmented its risk governance mechanism by fashioning a robust and comprehensive Enterprise Risk Management Policy.

The NIS adopted a "Three Lines of a Defence" risk model to properly identify, assess, evaluate, manage, respond, and report on risks. The first line of defence is Managers, who own and manage risks associated with the day-to-day operational activities. The second line of the defence comprises the Chief Risk Officer, who provides compliance and oversight of the first line of defence. The third-line of defence is the Internal Auditor, who provides objective and independent assurance. The internal auditor assesses whether the Managers and Chief Risk officer operate efficiently. All three lines are accountable to Executive Management and the Board.

CUSTOMER SERVICE

The NIS' ethos has been shaped to encourage the Board, Management and Staff to promote and deliver excellent customer service. We pride ourselves on exceptional customer service, and we will continue to live our mantra of "serving because we care."

During the review period, the NIS' customer base augmented by 3.2% , moving from 52,200 (comprising employers-2,135, self-employed-1,366, voluntary contributors-214, employees-41,953 and pensioners-8,226) to 53, 894.This growth was attributed not only to improve efficiency but also to enhance customers' experience.

The NIS provides social security services in several areas, including the processing of contribution records, processing of registration documents and processing of benefit claims. The NIS measures the quality of our service by assessing the processing time for each of the critical services. The table below shows the results for 2018 compared to 2017.

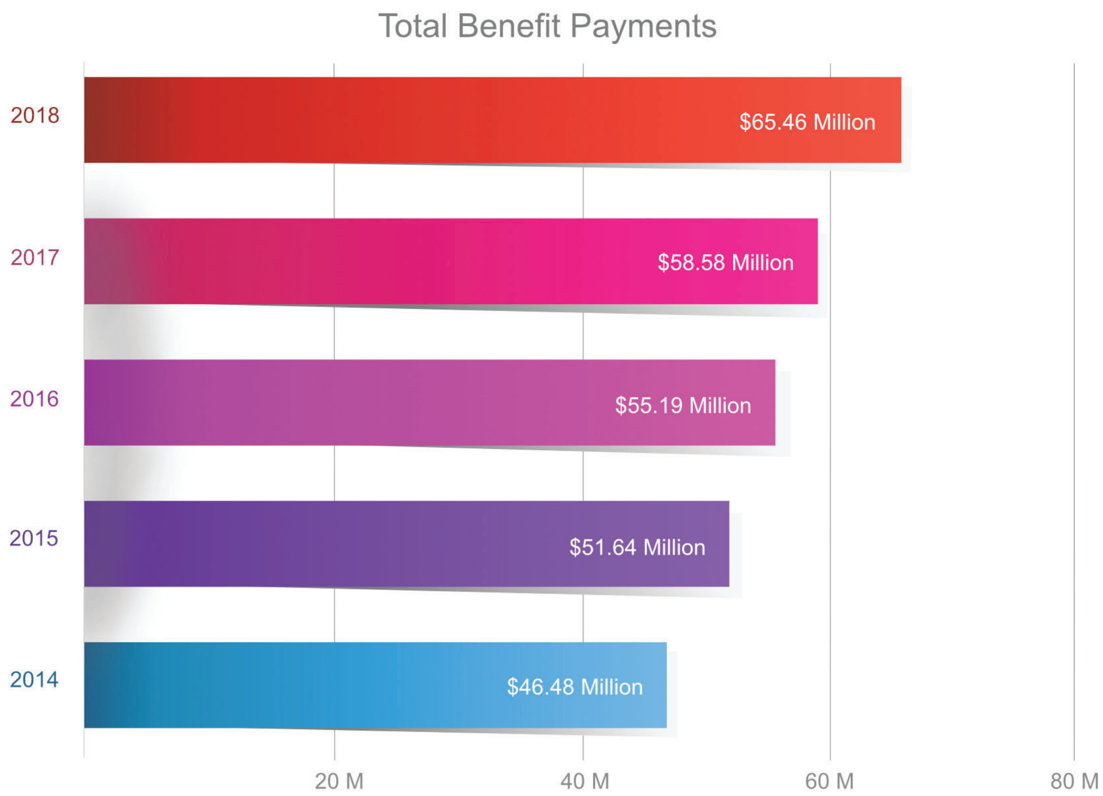
Table 2: Processing time for key Social security service areas

Particulars	Institutional Standard	2017	2018	Comments
Registration of employers	2 days	2 days	5 days	*The performance was below the institutional standard due to non-compliance on employers' part to submit complete documentation.*
Registration of employees	2 days	4 days	7 days	*Deteriorated due to system challenges and human lapses.*
Contribution records	5 days	4 days	4 days	*Acceptable performance*
Long Term Benefits	5 days	8 days	7 days	*Delays due to system challenges and late submission of documentation.*
Short Term Benefit	5 days	9 days	7 days	*Performance is below the standard but improved from 2017. The employers were tardy in the submission of wage records.*
Employment Injury benefit	5 days	10 days	9 days	*Need significant improvement.*
National Provident Fund	2 days	3 days	2 days	*Acceptable performance due to efficient employees and processes.*

The NIS listens to our customers' needs and continuously refines and re-engineers processes to improve service quality and service delivery.

In addition, the NIS principally provides social security benefits through Long-Term Benefit Branch (LTB) (pensions and grants), Short-Term Benefit branch (STB) (maternity and sickness benefits) and Employment Injury Branch (EIB) (employment injury allowance and medical expenses). For the review period, the NIS paid out $465.4 million in total benefits. This represented an increase of 12% compared to 2017. The following graph shows the 5-year picture of the movements in total benefit payments.

Chart 8: Total Benefit Payments for Periods 2014-2018



The 12% rise predominantly influenced the 12% growth in benefits in LTB payments. Similarly, the STB payments increased by 13% in the review period, and the EIB payments declined by 45% in the same period. It is important to note that the total benefits comprised 95% of LTB, 4% of STB and 1% of EIB.

The population ageing phenomena underpinned the rapid growth in the LTB. Age pensions accounted for 85% of LTB and old age pension grew by 13 % between 2017 and 2018. The increase in pensions was driven by the rise in the number of pensioners and the increase in average weekly pensions. The diagrams below show the upward movements of the pensioners' population and the average pension for the last 5 years.

Chart 9: Total Pensioners Population For Periods 2014-2018

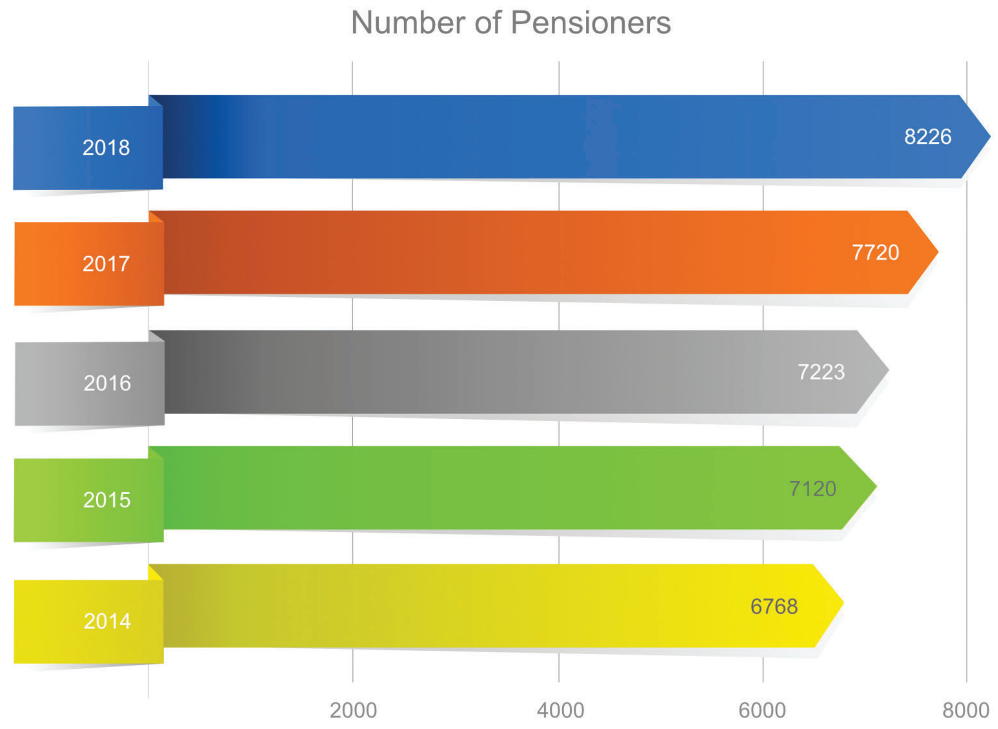
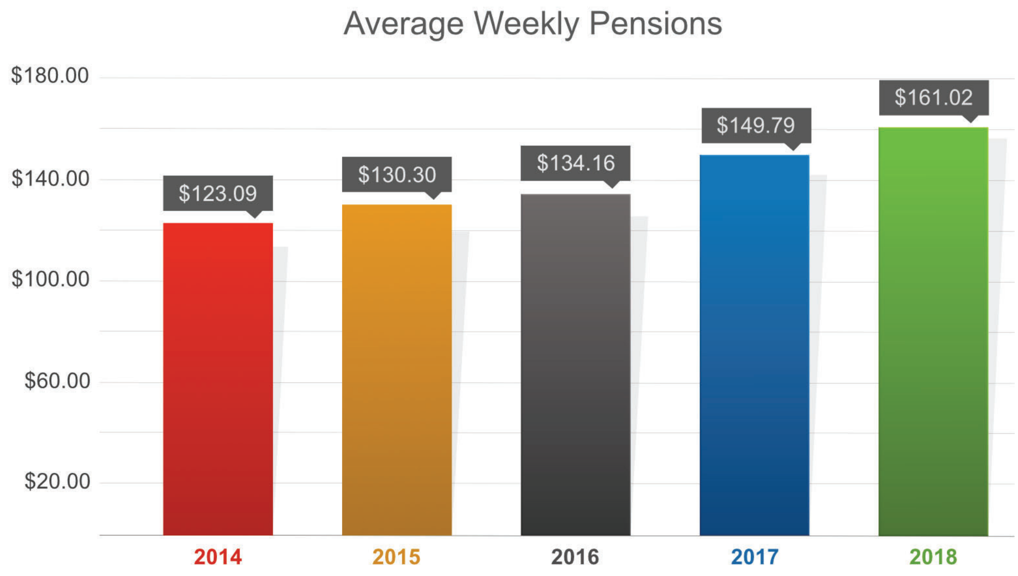


Chart 10: Average Weekly Pensions for period 2014-2018



On the other hand, the STB growth rate was higher, when compared to the growth in LTB. The STB moved from $3.1 million to $3.6 million. This was attributed to the advancement in sickness benefit from $1.6 million to $1.9 million, and maternity benefits from $1.1 million to $1.3 million.

Chart 11: Sickness Benefits for Periods 2014-2018

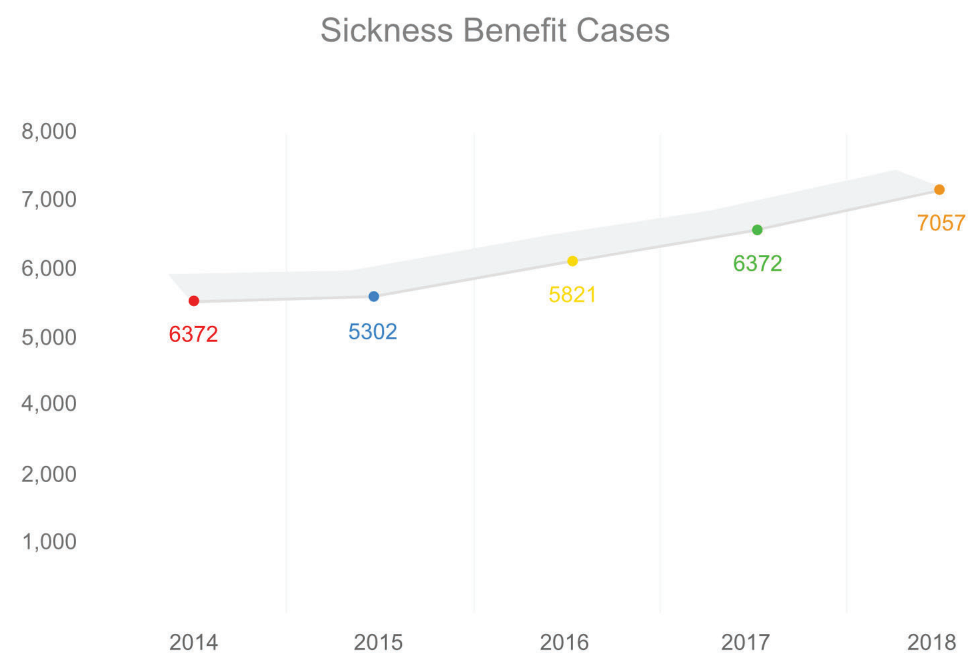
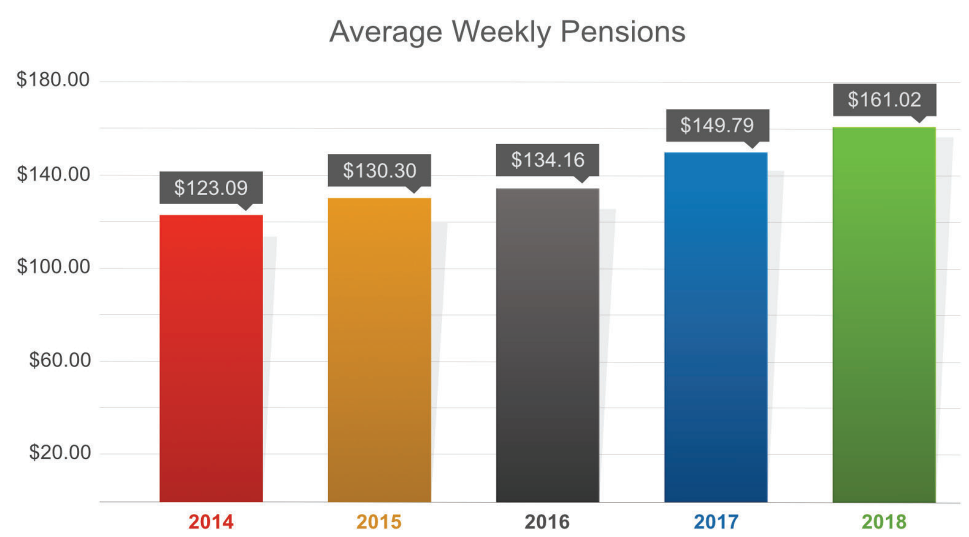


Chart 12: Maternity Benefit Cases for Periods 2014-2018



The pay-outs under the EIB oscillated over the last 5-year period. In the review period, the EIB pay-outs declined from $468K to $255K. This volatility is due to the nature of employment injury cases which may be low in occurrences but can be significant in pay-outs.

The payments under the National Provident Fund also fluctuated over the last five- year period. In 2018 the expenditure stood at $2.2 million, which represented a decline relative to 2017 expenditure of $2.4 million.

CONCLUSION

Notwithstanding the challenging and changing operating environment, the NIS would continue to focus on generating organic growth through improving efficiency and productivity. In this regard, the NIS would expend human and financial resources towards strengthening financial sustainability through prudent investment management, cost optimization, extending social security coverage, enhancing corporate governance and capacity building. In addition, the NIS would leverage on strategic partners such as ISSA, ILO and the World Bank to improve the administration of the social security program.

The NIS would also aim to deepen its socio-economic footprint in St. Vincent and the Grenadines as it supports the attainment of the sustainable development goals of no poverty, zero hunger, good health and well-being, quality education, gender equality, reduced inequalities, and decent work and economic growth.

Finally, let me extend my sincere gratitude to our stakeholders and customers for their trust and loyalty to the NIS. In addition, I recognize and appreciate my Board, Management and Staff for their dedication and commitment in providing social protection to the people of St. Vincent and the Grenadines.

Stewart K. Haynes
Director

BOARD OF DIRECTORS

Lennox Bowman
Chairman

Elroy John
Deputy Chairman

Liley Cato
Director

Ann Jones
Director

Gavin Jackson
Director

Joy Matthews
Director

Lloyd Small
Director

Gideon Browne
Director

EXECUTIVE MANAGEMENT

Left to Right:

Lennox Timm
Financial Comptroller

Stewart Haynes
Director

Mineva Glasgow
Deputy Director

DEPARTMENT HIGHLIGHTS

As the administrators of social security, the principal task of fulfilling the institution's mission and vision is shared between thirteen (13) departments; namely Accounts, Administration, Benefits, Compliance, Customer Service and Marketing, Data Processing, Human Resources, Information Technology, Internal Audit, Investments, Legal, Maintenance and Statistics and Risk. Each department plays a vital role in meeting the NIS' mandate of providing sustainable social security through prudent administration as well as contributing to the economic and social development of the state.

ACCOUNTS DEPARTMENT

This department is responsible for the financial operations of the NIS. All contributions and payments are processed through this department. In 2018 the department employed a cost effective measure through the implementation of cheque printing which replaced the manual preparation of cheques. Additionally, IFRS 9, an accounting standard became effective for accounting periods beginning on January 1, 2018. The standard contains the requirements of accounting for financial instruments. The major change in the new standard is the way in which impairment is measured for financial instruments. The institution was given the task of creating an expected credit loss model. The exercise was spearheaded by the Accounts and Investment Departments. Extensive work was carried out to ensure that the financial statements were in compliance with the requirements of the new standards. Despite the arduous task, the audit of the financial statements was complete and an unqualified opinion was issued, prior to the statutory deadline.

ADMINISTRATION DEPARTMENT

This department facilitates the administrative work of the institution and acts as support for the Executive Director. The department streamlines all incoming and outgoing correspondence and provides administrative support to other departments.

BENEFITS DEPARTMENT

The Benefits Department is responsible for the processing of long, short term and employment injury benefits. They are guided by the legislation and aim to consistently achieve a 90% customer satisfaction rate by paying the right person, the right amount at the right time. The processing rate for short terms benefits is five (5) business days.

COMPLIANCE DEPARTMENT

This department is responsible for ensuring employers are compliant with the regulations relating to the registration of businesses or persons with employment activity, and the remittance of contributions and supporting documentation. The department currently consist of eleven (11) officers of which eight (8) are inspectors who are specifically authorized to examine business and other relevant records that may assist in establishing liability of employers. The department collaborates closely with the Legal Department, which provides the necessary support in processing information for delinquent employers. Focus on the strategic objectives of Contribution Collection and Compliance, and Coverage enables the department to contribute to the provision of adequate Social Security coverage for all.

CUSTOMER SERVICE & MARKETING DEPARTMENT

The Customer Service and Marketing Department was established to provide quality service to our customers. The mandate is to improve customer service quality, working with all departments within the organisation to provide access to a full range of social security services and benefits to all. This is done through face to face interaction (a visit to our offices), via the telephone, internet, mail, or through our many public education programmes. This department is responsible for the registration of all new employers and employees.

DATA PROCESSING DEPARTMENT

The Data Processing Department is responsible for processing contribution information. Therefore, one of its main responsibilities is to provide contribution information to all departments. Another key function of the Department is to store documents in an electronic format for continuous usage. The department performs a supporting role mainly to Compliance, Benefits and Accounts Departments. As such, the mantra of the Department is to ensure that the data is accurate, timely, reliable and relevant to facilitate the efficient workings of other departments. The department processes electronic and manual records for private and public sectors via a First in, First out (FIFO) system. Likewise, the Document management unit scans, indexes, verifies and archives active and inactive records.

HUMAN RESOURCES DEPARTMENT (HRD)

The Human Resources Department (HRD) is responsible for staffing, employee compensation and benefits, recruitment of all new employees and identifying training opportunities that build capacity for existing employees. The department is also responsible for the development and implementation of policies and the execution of several initiatives throughout the year that seeks to build knowledge and comradery amongst staff. Essentially, the purpose of the HRD is to maximise the productivity and efficiency of the organisation by optimising the effectiveness of its employees for a productive and thriving workforce. The HR team also assists the Executive Management team with the placement of employees who are poised to meet the NIS' business needs.

INFORMATION TECHNOLOGY DEPARTMENT

This department is responsible for managing all the technological needs of the National Insurance Services. It provides proactive maintenance of the organisation's network, and utilizes innovation and automation to improve productivity and efficiency. The department plays a critical role in ensuring that the NIS is able to achieve its operational mandates by leveraging governance, modern infrastructure and functionality to deliver excellent customer service to stakeholders. The department has a well-rounded team of network administrators, software developers and content creators, which contribute to cost savings by reducing the reliance on external personnel.

INTERNAL AUDIT DEPARTMENT

Internal Audit provides independent assurance that the organisation's risk management, governance and internal control processes are operating effectively. The department deals with issues that are fundamentally important to the survival and growth of the NIS. Alongside looking at financial risks, the wider issues of the organization's reputation, growth and its impact on St. Vincent and the Grenadines (SVG) are considered. The department has a professional duty to provide an unbiased and objective view on the NIS' operations.

INVESTMENT DEPARTMENT

This department is responsible for the management of the NIS' investment portfolio. Our disciplined investment team focuses on identifying suitable investment opportunities and monitoring market events that could adversely impact the investment portfolio. Through these activities the NIS is able to grow and protect the Fund's reserves, ensuring that obligations to future generations are preserved.

LEGAL DEPARTMENT

Our legal team ensures that NIS is guided by the primary laws which governs its operations and complies with all other laws, common or statutory which apply to it. Further, they ensure that NIS complies with any international instruments which have effect on the way it does business. The department is tasked with the following activities:

1. Execution of the legal process relating to delinquent employers including representing the entity in Court proceedings to recover arrears in contribution payments.
2. Preparing agreements, legal documents and other official documents on

the entity's behalf.

3. Conducting legislative reviews of the Act and its subsidiary legislation.
4. Providing advice to the Board, Director and other Executive Managers in respect of legal matters, when required.
5. Providing a central source of advice and guidance on matters of law, ethics and good governance.
6. Documenting and advising on compliance-related issues; working closely with the Compliance Department and, where necessary, external counsel.
7. Drafting legal opinions for the Board.
8. Implementing the policies of the Board.
9. Performing corporate functions.

In 2018, the department increased the use of enforcement procedures against delinquent employers as provided by the NIS Act.

MAINTENANCE DEPARTMENT

The Maintenance Department is responsible for the upkeep of the NIS building and all other facilities owned by the Institution. The department is also tasked with executing special projects such as the rehabilitation of NIS properties and development of new ones. During 2018, the department focused on cost containment through energy conservation and improving customer's experience. In this regard, they embarked on the conversion to LED lighting and improved indoor air quality throughout the NIS building. The Department also embarked on several cost containment initiatives that yielded savings in external contracting and management of the electromechanical security access system. The department believes and adheres to preventative maintenance as such, efforts were also made to update the Standard Operating Procedures (SOPs) that govern the Department's preventative maintenance activities.

STATISTICS AND RISKS DEPARTMENT

The statistics department is primarily responsible for providing timely, reliable and consistent statistics to internal and external stakeholders. The department provides monthly performance reports to several departments, namely, Benefits, Compliance, Customer Service and Data Processing; as well as other requested statistical information from the various departments. The department also provides key labour market statistics to external stakeholders, such as the Central Statistical Office (CSO), Eastern Caribbean Central Bank (ECCB) and the International Labour Organisation (ILO). The department also plays a critical role in collating the data required to facilitate the conduct of the organisation's triennial actuarial valuation. The role of the Risk Department is to strengthen the corporate governance framework of the NIS through the adoption of an effective risk management programme. The programme involves the identification, assessment, monitoring and treatment of significant risks the organisation faces. The risk Department is the second line of defence and complements the role of the Internal Audit Department, the third life of defence.

NIS BACK TO SCHOOL DRIVE

NIS ON WHEELS

The mission of the National Insurance Services speaks to the promotion of social and economic development in St. Vincent and the Grenadines. This is done through many ways from the provision of student educational loans, contributions to the health sector and the provision of essential tools for educational advancement and development. Over the years, the NIS embarked on initiatives such as the back to school drive, where children all across SVG benefitted from the distribution of school supplies. The drive, which usually takes place over three weeks; targets children on the interior, windward and leeward side of St. Vincent. In addition to disturbing school supplies, our team also takes the opportunity to educate our customers about who we are and address their queries.


NIS

NIS SPONSORS SCHOOL BAND COMPETITION

Our dedication to the social and economic development of Saint Vincent and the Grenadines (SVG) spans beyond benefits and infrastructural development. Our commitment to the development of the youths has always been reflected through various initiatives throughout the year. The year 2018 was no exception when we sponsored the first National Secondary School Bands Showcase. The competition which saw performances from one hundred and forty (140) musicians from Secondary schools across SVG was held under the theme “Bringing a Modern Approach to Music Education”. From the eleven (11) participating schools the NIS sponsored the Emmanuel High School Mesopotamia whose rhythm and electrifying performance had the audience swaying.

NIS FINANCIAL STATEMENTS

FOR YEAR ENDED DECEMBER 31, 2018

NATIONAL INSURANCE SERVICES

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NATIONAL INSURANCE SERVICES

REGISTERED OFFICE
Bay Street, Kingstown
St. Vincent

DIRECTORS
Mr. Lennox Bowman - Chairman
Mr. Elroy John - Deputy Chairman
Mr. Gideon Browne
Mr. Garvin Jackson
Ms. Joy Matthews
Mr. Lloyd Small
Mr. Liley Cato
Ms. Ann Jones

DIRECTOR
Mr. Stewart Haynes

SECRETARY
Mr. Stewart Haynes

BANKS AND NON-BANK FINANCIAL INSTITUTIONS
Bank of St. Vincent and the Grenadines
Bank of Nova Scotia
RBTT Bank Caribbean Limited
Scotia Private Client Group
First Citizens Investment Services Ltd
St. Vincent Co-operative Bank Limited
St. Vincent Union of Teachers Co-operative Credit Union
RBC (Royal Bank) Trinidad and Tobago Ltd
National Bank of the British Virgin Islands

SOLICITORS
Baptiste and Company Law Firm Inc.
Duane Daniel Chambers
Saunders and Huggins

AUDITORS
KPMG Barbados and the Eastern Caribbean

KPMG
First Floor
National Insurance Services Headquarters
Upper Bay Street
P.O. Box 587, Kingstown
St. Vincent and the Grenadines

Telephone: (784) 451-1300
Fax: (784) 451-2329
Email: kpmg@kpmg.vc

INDEPENDENT AUDITORS' REPORT

To the Honourable Minister of Finance
National Insurance Services
Bay Street
Kingstown

Opinion

We have audited the financial statements of National Insurance Services ("the NIS"), which comprise the statement of financial position as at December 31, 2018, the statements of profit or loss and other comprehensive income, changes in reserves and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the NIS as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the NIS in accordance with the ethical requirements that are relevant to our audit of the financial statements in St. Vincent and the Grenadines, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Honourable Minister of Finance
National Insurance Services

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the NIS' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the NIS or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the NIS' financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 NIS' internal control.

KPMG

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Honourable Minister of Finance
National Insurance Services

Auditors' Responsibilities for the Audit of the Financial Statements (cont'd)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the NIS' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the NIS to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG

KPMG
Kingstown, St. Vincent and the Grenadines
June 19, 2019

NATIONAL INSURANCE SERVICES
Statement of Financial Position
As at December 31, 2018
(Expressed in Eastern Caribbean Dollars)

	Notes	2018 $	2017 $
ASSETS			
Cash and cash equivalents		48,116,371	40,871,472
Loans and advances	6	93,779,803	105,846,962
Interest receivable on investment securities	7	3,027,015	3,203,245
Interest receivable on loans	7	7,758,372	10,197,483
Investment securities and deposits	8	238,024,166	249,464,711
Investment in associate	9	23,535,138	20,854,534
Investment properties	10	22,716,487	15,811,287
Inventories	11	9,063,905	8,929,497
Property and equipment	12	27,589,764	28,338,729
Intangible assets	13	104,889	12,265
Contributions receivable	14	4,965,032	8,648,989
Other assets	15	3,908,394	3,907,771
TOTAL ASSETS		482,589,336	496,086,945
LIABILITIES AND RESERVES			
Liabilities			
Benefits payable		3,929,473	3,081,218
Accounts payable and accrued liabilities	16	1,881,127	2,123,143
Deferred income		33,250	42,460
Total liabilities		5,843,850	5,246,821
Reserves			
Short-term benefit	17(a)	28,120,069	26,765,216
Pension	17(a)	351,172,236	363,752,521
Employment injury benefit	17(a)	68,977,356	65,111,333
National provident fund	17(b)	37,600,176	39,400,981
Foreign exchange reserve		50,829	-
Fair value reserve	17(c)	(9,175,180)	(4,189,927)
Total reserves		476,745,486	490,840,124
TOTAL LIABILITIES AND RESERVES		482,589,336	496,086,945

The notes on pages 9 to 71 are an integral part of these financial statements.

APPROVED FOR ISSUE BY THE BOARD AND SIGNED ON ITS BEHALF BY:

Lennox Bowman - Chairman

Stewart Haynes - Secretary

Elroy John - Director

NATIONAL INSURANCE SERVICES
Statement of Profit or Loss and Other Comprehensive Income
For the year ended December 31, 2018
(Expressed in Eastern Caribbean Dollars)

	Notes	2018 $	2017 $
INCOME			
Contributions			
Employers' contributions		36,069,723	32,953,887
Employees' contributions		29,522,469	26,956,770
Self-employed persons' contributions		1,105,738	987,110
Voluntary contributions		323,235	319,463
		67,021,165	61,217,230
Benefits paid	20(a)	(65,457,117)	(58,582,045)
SURPLUS OF CONTRIBUTIONS OVER BENEFITS		1,564,048	2,635,185
Net finance income	18	12,079,842	20,810,036
Other income, net	19	2,171,984	443,999
Surplus before National Provident Fund (NPF) benefits and impairment losses		15,815,874	23,889,220
NPF benefits paid	20(b)	(2,158,891)	(2,388,158)
Impairment recovery/(loss) - contribution and rent receivables		83,703	(402,231)
Impairment loss - investment securities		(797,610)	(643,880)
General and administrative expenses	21	(11,141,918)	(10,458,176)
		(14,014,716)	(13,892,445)
Share of profit of associate	9	2,583,010	159,274
NET SURPLUS FOR THE YEAR		4,384,168	10,156,049
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Net change in fair value - FVOCI equity instruments		(1,406,742)	-
Foreign exchange gain - FVOCI equity instruments		50,829	-
		(1,355,913)	-
Items that are or may be reclassified subsequently to profit or loss:			
Net change in fair value of available-for-sale financial assets		-	2,168,834
Net change in fair value - FVOCI debt instruments		(192,660)	-
Share of OCI - associate	9	(19,077)	38,928
		(211,737)	2,207,762
Other comprehensive (loss)/income		(1,567,650)	2,207,762
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		2,816,518	12,363,811

The notes on pages 9 to 71 are an integral part of these financial statements.

NATIONAL INSURANCE SERVICES
Statement of Changes in Reserves
For the year ended December 31, 2018
(Expressed in Eastern Caribbean Dollars)

	Short-term benefit $	Long-term benefit $	Employment injury benefit $	National provident fund $	Fair value reserve $	Foreign exchange reserve $	Total $
Balance as of January 1, 2017	24,454,233	359,607,988	59,441,225	41,370,556	(6,397,689)	-	478,476,313
Net surplus/(deficit) for the year	2,310,983	4,144,533	5,670,108	(1,969,575)	-	-	10,156,049
Other comprehensive income	-	-	-	-	2,207,762	-	2,207,762
Balance as of December 31, 2017	26,765,216	363,752,521	65,111,333	39,400,981	(4,189,927)	-	490,840,124
Net impact of adopting IFRS 9	(1,123,382)	(14,089,054)	(2,124,554)	-	(200,837)	-	(17,537,827)
Net impact of adopting IFRS 9 on investee	36,815	500,308	89,548	-	-	-	626,671
Transfer to statutory reserves	185,978	2,527,533	452,426	-	(3,165,937)	-	-
Restated opening balance under IFRS 9	25,864,627	352,691,308	63,528,753	39,400,981	(7,556,701)	-	473,928,968
Net surplus/(deficit) for the year	2,255,442	(1,519,072)	5,448,603	(1,800,805)	-	-	4,384,168
Other comprehensive (loss)/income	-	-	-	-	(1,618,479)	50,829	(1,567,650)
Balance as of December 31, 2018	28,120,069	351,172,236	68,977,356	37,600,176	(9,175,180)	50,829	476,745,486

The notes on pages 9 to 71 are an integral part of these financial statements.

NATIONAL INSURANCE SERVICES
Statement of Cash Flows
For the year ended December 31, 2018
(Expressed in Eastern Caribbean Dollars)

	Notes	2018 $	2017 $
Cash flows from operating activities			
Net surplus for the year		4,384,168	10,156,049
Adjustments for:			
Depreciation expense	12, 21	1,193,717	1,327,916
Amortisation expense	13, 21	44,109	78,349
Gain on disposal of property and equipment	19	-	(10,102)
Impairment of intangible asset	13	-	1,139,650
Impairment recovery/(loss) - contributions and rent receivables		(83,703)	402,231
Impairment loss - investment securities		797,610	643,880
Share of profits of associate	9	(2,583,010)	(159,274)
Finance income	18	(12,079,842)	(20,810,036)
		(8,326,951)	(7,231,337)
Change in other assets		(623)	352,946
Change in contributions receivable		(11,100)	452,113
Change in benefits payable		848,255	684,697
Change in deferred income		(9,210)	42,460
Change in accounts payable and accrued liabilites		(242,016)	(1,068,400)
Change in inventories		(134,408)	(6,254)
Net cash used in operating activities		(7,876,053)	(6,773,775)
Cash flows from investing activities			
Change in investment in associate		(135,747)	510,000
Change in investment properties	10	(6,905,200)	(124,955)
Change in investment securities and deposits		2,319,869	(3,602,156)
Change in loans and advances		1,539,371	13,081,390
Acquisition of property and equipment	12	(444,752)	(1,324,555)
Acquisition of intangible assets	13	(136,733)	(10,705)
Proceeds from disposal of property and equipment		-	110,000
Interest received		17,382,535	14,282,069
Dividend received		1,501,609	1,475,564
Net cash from investing activities		15,120,952	24,396,652
Net change in cash and cash equivalents		7,244,899	17,622,877
Cash and cash equivalents at January 1		40,871,472	23,248,595
Cash and cash equivalents at December 31		48,116,371	40,871,472

The notes on pages 9 to 71 are an integral part of these financial statements.

1. Reporting entity

The National Insurance Scheme ("the NIS" or "the Service") was established in 1986, and the name was changed to the National Insurance Services ("the NIS" or "the Service") in March 2004. It was established by the National Insurance Act # 33 OF 1986 and assumed the assets and obligations of the former National Provident Fund. The principal activity of the National Insurance Services is the provision of social security services in the state of St. Vincent and the Grenadines. The registered office is at Bay Street, Kingstown, St. Vincent.

2. Basis of preparation

(a) Statement of compliance

These financial statements were prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements were approved by the Board of Directors on June 18, 2019.

(b) Basis of measurement

The financial statements were prepared on the historical cost basis except for the following material items:

Items	Measurement Basis
Financial instruments at FVTPL	Fair value
Financial instruments at FVOCI (applicable from January 1, 2018)	Fair value
Available-for-sale financial assets (applicable before January 1, 2018)	Fair value
Investment properties	Fair value

(c) Functional and presentation currency

The financial statements are presented in Eastern Caribbean dollars, which is the Service's functional currency. All financial information presented in Eastern Caribbean dollars has been rounded to the nearest dollar.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make estimates, based on assumptions and judgments. Management also makes judgments, other than those involving estimations, in the process of applying the accounting policies. The estimates and judgments affect (1) the reported amounts of assets, liabilities, contingent assets and contingent liabilities at the reporting date and the income and expenses for the year then ended, and (2) the carrying amounts of assets and liabilities in the next financial year.

The estimates and the underlying assumptions, as well as the judgments are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2. Basis of preparation (cont'd)

(d) Use of estimates and judgements (cont'd)

The NIS' accounting policies provide scope for financial assets and liabilities to be designated on inception into different accounting categories in certain circumstances, and the Service exercises judgment in carrying out such designation; this judgment relates to whether the instruments meet the criteria for the particular classification. Judgments that have a significant effect on the amounts recognised in the financial statements, and estimates that can cause a significant adjustment to the carrying amounts of assets and liabilities in the next financial year include the following:

Applicable to 2018 only:

Note 25: classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Note 26(b): establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of expected credit losses and selection and approval of models used to measure expected credit losses.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended December 31, 2018 is included in the following notes:

Applicable to 2018 only:

Note 26(b): impairment of financial instruments: determining inputs into the expected credit loss measurement model, including forward-looking information.

Applicable to 2018 and 2017 only:

A number of the NIS’ accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

Management performs the significant fair value measurements including Level 3 fair values and reports to the audit committee through the internal auditor. The Audit Committee reviews the fair value measurements and recommends the same to the board for approval.

2. Basis of preparation (cont'd)

(d) Use of estimates and judgements (cont'd)

Significant valuation issues noted are reported to the NIS' Audit Committee.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 10 - Investment properties
- Note 26 - Financial risk review
- Note 27 - Fair value of financial instruments

Residual values and useful lives of property and equipment

As noted in note 4(e), the residual values and useful life of each asset are reviewed at least at each reporting date and if expectations differ from previous estimates, the change is accounted for as a change in accounting estimate. The assumptions regarding residual values give rise to estimation uncertainty.

3. Changes in accounting policies

The Service adopted IFRS 9 (see 3(a)) and IFRS 15 (See 3(b)) from January 1, 2018.

A number of other new standards are also effective from January 1, 2018 but they do not have a material effect on NIS' financial statements.

Due to the transition method chosen by the Service in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

The effect of initially applying this standard is mainly attributed to the following:

— an increase in impairment losses recognised on financial assets (see Note 26)

— additional disclosures related to IFRS 9 (see Note 26)

(a) IFRS 9 *Financial Instruments*

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

Additionally, the Service has adopted consequential amendments to IFRS 7 *Financial Instruments*: *Disclosures* that are applied to disclosures about 2018, but have not been applied to the comparative information.

The key changes to the Service's accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in Notes 25 and 26.

3. Changes in accounting policies (cont'd)

(a) IFRS 9 *Financial Instruments* (cont'd)

(i) Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. For an explanation of how the Service classifies financial assets under IFRS 9, see Note 25.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

— the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and

— the remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Service classifies financial liabilities under IFRS 9, see Note 25.

(ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Service applies the impairment requirements of IFRS 9, see Note 4(c)(vi).

(iii) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

— Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in reserves as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

— The following assessments have made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

3. Changes in accounting policies (cont'd)

(a) IFRS 9 *Financial Instruments* (cont'd)

(iii) Transition (cont'd)

- The designation of certain investments in equity instruments not held for trading as at FVOCI.

For debt securities the Service performed credit analyis of these instruments. If a debt security had low credit risk at the date of initial application of IFRS 9, then the Service has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Notes 4, 25 and 26.

(b) IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations.

The Service initially applied IFRS 15 on January 1, 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Service's revenue was not impacted by the adoption of IFRS 15.

4. Significant accounting policies

Except for the changes below, the NIS has consistently applied the following accounting policies to all periods presented in these financial statements.

(a) Foreign currency transactions

Transactions in foreign currencies are translated into Eastern Caribbean dollars at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising on the translation of the available-for-sale equity instruments are recognised in OCI.

4. Significant accounting policies (cont'd)

(b) Investment in associate

Associates are those entities in which the Service has significant influence, but not control or joint control, over the financial and operating policies.

Interests in associates are accounted for using the equity method. They are initally recognised at cost, which includes transaction costs. Subsequent to initial recognition, the financial statements include the Service's share of the profit or loss and OCI of the associate, until the date on which significant influence ceases.

(c) Financial assets and liabilities

(i) Recognition and initial measurement

The Service initially recognises loans and advances, deposits, debt and equity securities issued and liabilities on the date on which they are originated.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets – Policy applicable from January 1, 2018

On initial recognition, a financial asset is classified as measured at:
— amortised cost;
— fair value through other comprehensive income (FVOCI); and
— fair value through profit or loss (FVTPL).

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables.

Classification and subsequent measurement of debt instruments depend on:
— The business model for managing the asset; and
— The cash flow characteristics of the asset.

Based on the factors the debt instruments will be classified into the three following categories:

— **Amortised cost**: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVTPL, are measured at amortised cost.

— **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at fair value through other comprehensive income (FVOCI).

— **Fair value through profit or loss (FVTPL):** Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss.

4. Significant accounting policies (cont'd)

(c) Financial assets and liabilities (cont'd)

(ii) Classification (cont'd)

Business model assessment

The Service makes an assessment of the objectives of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and guidelines for the investment portfolio;
- how the performance of the portfolio is evaluated and reported to the Service's management; and
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs.

In assessing whether the contractual cash flows are SPPI, the Service considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Service considers contingent events that would change the amount and timing of cash flows.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Service changes its business model for managing financial assets.

Financial assets – Policy applicable before January 1, 2018

The Service classified its financial assets into one of the following categories:

- loans and receivables;
- held-to-maturity;
- available-for-sale; and
- at FVTPL, and within this category as;
  - held-for-trading; or
  - designated as at FVTPL.

4. Significant accounting policies (cont'd)

(c) Financial assets and liabilities (cont'd)

(ii) Classification (cont'd)

Financial liabilities

The Service classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

(iii) Derecognition

Financial assets

The Service derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Service neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Service is recognised as a separate asset or liability.

From January 1, 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities.

Financial liabilities

The Service derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iv) Offsetting

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Service's trading activity.

(v) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Service has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Service measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

4. Significant accounting policies (cont'd)

(c) Financial assets and liabilities (cont'd)

(v) Fair value measurement (cont'd)

If there is no quoted price in an active market, then the Service uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Service determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

(vi) Impairment

From January 1, 2018, the Service assesses on a forward looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Service recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 26 provides more detail of how the expected credit loss allowance is measured.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Service determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Service's procedures for recovery of amounts due.

Before January 1, 2018, at each reporting date, the Service assessed whether there was objective evidence that financial assets not carried at FVTPL were impaired. A financial asset or a group of financial assets was 'impaired' when objective evidence demonstrated that a loss event had occurred after the initial recognition of the asset(s) and that the loss event had an impact on the future cash flows of the asset(s) that could be estimated reliably.

4. Significant accounting policies (cont'd)

(c) Financial assets and liabilities (cont'd)

(vi) Impairment (cont'd)

Measurement of impairment

Impairment losses on assets measured at amortised cost were calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses on available-for-sale assets were calculated as the difference between the carrying amount and the fair value.

Reversal of impairment

For assets measured at amortised cost: If an event occurring after the impairment was recognised caused the amount of impairment loss to decrease, then the decrease in impairment loss was reversed through profit or loss.

For available-for-sale debt security: If, in a subsequent period, the fair value of an impaired debt security increased and the increase could be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss; otherwise, any increase in fair value was recognised through OCI. Any subsequent recovery in the fair value of an impaired available-for-sale equity security was always recognised in OCI.

Presentation

Impairment losses were recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired assets continued to be recognised through the unwinding of the discount.

Impairment losses on available-for-sale investment securities were recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that was reclassified from equity to profit or loss was the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment attributable to the application of the effective interest method were reflected as a component of interest income.

Write-off

The Service will write off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when the Service determines that there is no realistic prospect of recovery.

(d) Investment properties

Investment properties are initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When investment property that was previously classified as property and equipment is sold, any related amount included in the revaluation reserve is transferred to reserves.

4. Significant accounting policies (cont'd)

(e) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any impairment losses. Any gain or loss on disposal of an item of property and equipment is recognised in profit or loss.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(ii) Reclassification to investment property

When the use of a property changes from owner-occupied to investment property, the property is re-measured to fair value and reclassified accordingly. Any gain arising on this re-measurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognized in OCI and presented in the revaluation reserve. Any loss is recognised in profit or loss.

(iii) Subsequent costs

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if is probable that the future economic benefits embodied within the part will flow to the Service and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iv) Depreciation

Depreciation is recognised in profit or loss on the straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated.

The annual rates for the current and comparative periods are as follows:

Freehold buildings	4%
Furniture and fixtures	15%
Office equipment	15-20%
Building related equipment	10%
Computer equipment	20-33%
Motor vehicles	20%

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

4. Significant accounting policies (cont'd)

(f) Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

(i) Recognition and measurement

Intangible assets are measured at cost less accumulated amortisation charge and impairment losses.

(ii) Amortisation

Intangible assets are amortised using the straight line method. Amortisation commences when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation expense is recognised in profit or loss.

(iii) Derecognition

Gains or losses arising from the disposal of an intangible asset are determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset and are recognised in profit or loss when the asset is disposed.

(iv) Internally generated intangible assets

To assess whether an internally generated intangible asset meets the criteria for recognition, an entity classifies the generation of the asset into:

(i) Research phase
Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

(ii) Development phase
An intangible asset arising from development (or from the development phase of an internal project) is capitalised only if an entity can demonstrate all of the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale.
- its intention to complete the intangible asset and use or sell it.
- its ability to use or sell the intangible asset.
- how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

4. Significant accounting policies (cont'd)

(g) Impairment

(i) Financial assets

From January 1, 2018

IFRS 9 was initially adopted on January 1, 2018. The new standard requires the estimation of expected credit losses which are derived from unbiased and probability weighted estimates. The following assets and disclosures that are applicable to the Service are within the scope of IFRS 9:

- Financial assets measured at amortsed cost
- Financial assets measured at FVOCI
- Loan commitments (except those measured at FVTPL)
- Lease receivables under the scope of IAS 17

There are two impairment approaches required: the general approach and the simplified approach. The general approach is a three-stage expected credit loss approach as follows:

Stage 1 – There was no significant increase in credit risk since initial recognition and the instrument was not credit impaired upon purchase. The expected credit losses to be incurred within 12 months of the assessment date is recognized.

Stage 2 – There was a significant increase in credit risk since initial recognition but the instrument is not credit impaired. The expected credit losses to be incurred during the lifetime of the instrument is recognized.

Stage 3 – The instrument is credit impaired. The expected credit losses to be incurred during the lifetime of the instrument is recognized.

The inputs used to estimate the balances are the probability of default, the exposure at default and the loss given default. The expected credit loss is discounted by the effective interest rate. Information about future events and economic conditions are incorporated in the model.

The simplified approach is based on the historic default rate. The actuarial hurdle rate is used as a proxy for the effective interest rate.

Prior to January 1, 2018

Non-derivative financial assets

Financial assets not classified as at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment. For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost.

4. Significant accounting policies (cont'd)

(g) Impairment (cont'd)

(i) Financial assets (cont'd)

Financial assets measured at amortised cost

The NIS considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics. In assessing collective impairment, the NIS uses historical information and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

Available-for-sale (AFS) financial assets

Impairment losses on AFS financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. If the fair value of an impaired AFS debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; otherwise, it is reversed through OCI.

Further details of the NIS' impairment method and policy are disclosed in Note 26(b).

(ii) Investment in associate

An impairment loss in respect of an associate is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

(iii) Non-financial assets

At each reporting date, the NIS reviews the carrying amounts of its non-financial assets (other than investment properties and inventories), to determine whether there is any indication of impairment. If any such indication exists for any asset, then that asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less cost to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4. Significant accounting policies (cont'd)

(h) Contributions receivable

Contributions receivable on active accounts are estimated based on the most recent remittance by contributors. No estimate is made for dormant or ceased accounts as it is not probable that any economic benefits will flow to the Service.

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and sale.

(j) Revenue

Revenue from contributions is recognised in profit or loss on the accrual basis.

(k) Finance income and expense

Finance income comprises interest income, dividend income, gains on the disposal financial assets and foreign currency gains on invesments. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Service's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expense comprises foreign currency losses on investments.

(l) Loan commitments

Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

The Service has not issued any loan commitments that are measured at FVTPL.

For other loan commitments:

From January 1, 2018
The Service recognises a loss allowance.

Before January 1, 2018
The Service recognised a provision in accordance with IAS 37 if the contract was considered to be onerous.

Liabilities arising from loan commitments are included within provisions.

5. New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2018 and earlier application is permitted; however, the Service has not early adopted them in preparing these financial statements.

5. New standards and interpretations not yet adopted (cont'd)

IFRS 16 *Leases*

The Service is required to adopt IFRS 16 *Leases* from January 1, 2019. The impact of adopting IFRS 16 is currently being assessed by Management.

Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. Lessee accounting is not applicable to the NIS.

Other standards

The following amended standards are not expected to have a significant impact on the Service's financial statements:

- *Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards*
- *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)*
- *Amendments to References to Conceptual Framework in IFRS Standards*
- *Amendments to IFRS 9 – Prepayment features with negative compensation*

6. Loans and advances

	2018 $	2017 $
Loans guaranteed by the Government of St. Vincent and the Grenadines	46,989,136	44,990,841
Loans secured by mortgage	57,102,529	60,873,317
Unsecured staff loans	336,445	103,322
	104,428,110	105,967,480
Provision for impairment losses	(10,648,307)	(120,518)
	93,779,803	105,846,962

The movement in the allowance for impairment losses in respect of loans and advances during the year was as follows:

	2018 $	2017 $
Balance at January 1	120,518	120,158
Effect of adoption of IFRS 9	11,335,057	-
Movements during the year	(807,268)	-
Balance at December 31	10,648,307	120,518

7. Interest receivable on loans and investment securities

	2018 $	2017 $
Interest receivable – investment securities	3,027,015	4,973,894
Provision for impairment losses	-	(1,770,649)
	3,027,015	3,203,245
Interest receivable - loans	7,758,372	10,197,483
Provision for impairment losses	-	-
	7,758,372	10,197,483
Totals:		
Interest receivable	10,785,387	15,171,377
Provision for impairment losses	-	(1,770,649)
Net	10,785,387	13,400,728

The movement in the allowance for impairment losses in respect of interest receivable during the year was as follows:

	2018 $	2017 $
Balance at January 1	1,770,649	2,252,178
Reclassification	(1,770,649)	-
Recoveries	-	(481,529)
Balance at December 31	-	1,770,649

8. Investment securities and deposits

	2018 $	2017 $
Investment securities at FVTPL		
Debt securities	-	-
Equities	25,415,159	-
Investment securities at amortised cost		
Debt securities	160,779,721	-
Investment securities at FVOCI		
Debt securities	6,365,258	-
Equities designated as at FVOCI	45,464,028	-
	51,829,286	-
Held-to-maturity		
Government bonds	-	91,920,787
Corporate bonds	-	3,966,716
Treasury bills	-	6,649,534
Fixed deposits	-	67,637,376
	-	170,174,413
Provision for impairment of government bonds	-	(1,384,042)
Provision for impairment of corporate bonds	-	-
Provision for impairment of fixed deposits	-	(17,056,604)
	-	(18,440,646)
	-	151,733,767
Available-for-sale		
Government bonds	-	11,878,500
Corporate bonds	-	8,103,739
Equity securities with readily determinable fair values	-	56,196,116
Unquoted equity securities at cost	-	4,572,060
	-	80,750,415
Provision of impairment of equity securities	-	(2,673,000)
	-	78,077,415
Fair value through profit or loss		
Equity securities held for trading	-	19,653,529
	-	19,653,529
	238,024,166	249,464,711

8. Investment securities and deposits (cont'd)

In January 2009, the Central Bank of Trinidad and Tobago affirmed the financial problems, and announced that it had intervened into the operations of CL Financial Limited, Colonial Life (Trinidad) Ltd., CLICO Investment Bank, British American Insurance Company (Trinidad) Limited and Caribbean Money Market Brokers, all members of the CL Financial Group (the Group).

Later during 2009, British American Insurance Company Limited, a Bahamian registered subsidiary of CL Financial Limited, which owned and operated branches in the Organisation of Eastern Caribbean States (OECS) was deemed to be insolvent. Consequently, the Company and its branches throughout the OECS were placed under Judicial Management.

In April 2013, the Supreme Court of Barbados placed CLICO International Life Insurance Limited, also a CL Financial Limited subsidiary, under Judicial Management. Effective with the appointment, the Judicial Manager assumed immediate control of the affairs of the Company, and is responsible for assessing its financial position and reporting to the Court.

The Government and Central Bank of Trinidad and Tobago, where CL Financial Limited is incorporated, the Government of Barbados, where CLICO International Life Insurance Limited is incorporated, and the OECS Governments, including the Government of St. Vincent and the Grenadines, have undertaken by way of various actions and initiatives, to protect the interests of the Group's respective policy holders, depositors, and other creditors. The outcome of these undertakings cannot be guaranteed.

The NIS has investments in fixed deposits classified at amortised cost (2017: held-to-maturity), in CL Financial Group as at December 31 as follows:

	2018 $	2017 $
Fixed deposits	18,116,034	18,116,034
Capitalisation of interest receivable	1,770,649	-
Gross carrying value at December 31	19,886,683	18,116,034
Provision for impairment	(18,824,282)	(17,056,604)
Fixed deposits, net	1,062,401	1,059,430
Interest receivable	1,770,649	1,770,649
Capitalisation of interest receivable	(1,770,649)	-
Provision for impairment	-	(1,770,649)
Fixed deposits, net	-	-

On December 15, 2018 the NIS received a payout of ten percent (10%) in the amount of $685,406.

The movement in the allowance for impairment in respect of investment securities and deposits during the year was as follows:

	2018 $	2017 $
Balance at January 1	21,113,646	21,697,481
Effect of adoption of IFRS 9	675,548	-
Charge for the year	1,668,785	553,091
Reversal of impairment	(65,903)	(1,136,926)
Balance at December 31	23,392,076	21,113,646

9. Investment in associate

The NIS has a twenty percent (20%) ownership of the Bank of St. Vincent and the Grenadines. The Bank's principal place of business is located at Reigate Building, Granby Street, Kingstown, St. Vincent. The principal activities of the Bank are the provision of retail, corporate banking and investment services. The NIS is represented by two (2) persons on the Board of Directors.

The following table summarises the financial information of the Bank of St. Vincent and the Grenadines as indicated in it's own financial statements:

	2018 $	2017 $
Percentage ownership interest	20%	20%
Non-current assets	762,378,937	679,984,638
Current assets	238,903,902	294,598,005
Non-current liabilities	(136,167,645)	(160,329,342)
Current liabilities	(747,439,480)	(709,980,630)
Net assets (100%)	117,675,714	104,272,671
NIS' share of net assets, being carrying amount of interest in associate	23,535,138	20,854,534
Revenue	53,992,318	53,992,318
Profit from continuing operations (100%)	12,915,048	796,372
Other comprehensive (loss)/income (100%)	(95,386)	194,638
Total comprehensive income (100%)	12,819,662	991,010
Balance as at January 1	20,854,534	21,166,332
Net impact of adopting IFRS 9 – share of profit	665,599	-
Net impact of adopting IFRS 9 – OCI	(38,928)	-
Share of profit	2,583,010	159,274
Share of OCI	(19,077)	38,928
Dividend received	(510,000)	(510,000)
Balance as at December 31	23,535,138	20,854,534

10. Investment properties

	2018 $	2017 $
Balance at January 1	15,811,287	15,686,332
Additions	6,905,200	124,955
Balance at December 31	22,716,487	15,811,287

Investment properties comprise parcels of land and buildings located at Beachmont, Kingstown; Halifax Street; Kingstown and Union Island. The properties were revalued by an independent valuer.

Rental income from investment properties of $1,443,171 (2017: $1,347,300) has been recognised in other income.

10. Investment properties (cont'd)

Measurement of fair values

(i) *Fair value hierarchy*

The fair value of investment property was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the NIS investment property portfolio every three years.

The fair value measurement for all of the investment properties has been categorised as a Level 3 fair value based on the inputs to the valuation technique used (see note 2(d)).

(ii) *Valuation technique and significant unobservable inputs*

The following table shows the valuation technique used in measuring the fair value of investment properties, as well as the significant unobservable inputs used.

Valuation technique	**Significant unobservable inputs**	**Inter-relationship between key unobservable inputs and fair value measurement**
Replacement cost. This model takes into account: Building: An estimate of the full replacement cost at the reporting date. Land: (i) An estimate of the site improvements made, if any; and (ii) An estimate of the market value of the land with the site improvements, if any.	Estimates of material, labour, professional fees and other costs of planning, design and construction, expressed as cost per square foot. Judgments about the physical condition of the building. Judgments about the environment in which the property is located.	The estimated fair value would increase (decrease) if: • The cost per square foot were higher (lower); and • Judgment about the condition of the building had determined the condition to be better or worse.

11. Inventories

	2018 $	2017 $
Balance at January 1	8,929,497	8,923,243
Acquisitions/Additions	134,408	6,254
Balance at December 31	9,063,905	8,929,497

Inventories comprise land at Peter's Hope held for real estate development.

The General Employees Cooperative Credit Union Limited (GECCU) owns property adjoining the lands owned by the NIS. Both parties, the NIS and GECCU, entered into a Memorandum of Understanding (MOU) that establishes a working relationship for the joint planning and physical infrastructural development of the properties owned by the parties ("the Project"). The MOU establishes and defines the Project activities and provides for, among other things, a framework for project administration and cost allocation. The total size of the proposed development is 55 acres. GECCU is the owner of 35 acres and the NIS owns 25 acres. The parties plan to develop the lands for residential and commercial purposes with the intention of sale in the ordinary course of business.

12. Property and equipment

	Freehold buildings $	Furniture and fixtures $	Office equipment $	Building related equipment $	Computer equipment $	Motor vehicles $	Total $
Cost							
Balance at January 1, 2017	34,530,344	2,099,065	515,840	1,401,821	1,488,916	316,383	40,352,369
Additions	682,225	4,630	8,460	185,307	16,537	427,396	1,324,555
Disposals	-	-	-	-	(10,004)	(262,052)	(272,056)
Balance at December 31, 2017	35,212,569	2,103,695	524,300	1,587,128	1,495,449	481,727	41,404,868
Balance at January 1, 2018	35,212,569	2,103,695	524,300	1,587,128	1,495,449	481,727	41,404,868
Additions	-	14,753	6,945	216,768	206,286	-	444,752
Disposals	-	(15,346)	-	-	-	-	(15,346)
Balance at December 31, 2018	35,212,569	2,103,102	531,245	1,803,896	1,701,735	481,727	41,834,274
Accumulated depreciation							
Balance at January 1, 2017	7,069,904	2,080,705	498,476	767,583	1,215,414	278,298	11,910,380
Depreciation for the year	1,052,682	5,797	8,066	105,041	113,411	42,919	1,327,916
Disposals	-	-	-	-	(7,365)	(164,792)	(172,157)
Balance at December 31, 2017	8,122,586	2,086,502	506,542	872,624	1,321,460	156,425	13,066,139
Balance at January 1, 2018	8,122,586	2,086,502	506,542	872,624	1,321,460	156,425	13,066,139
Depreciation for the year	861,659	6,389	7,440	113,935	127,025	77,269	1,193,717
Disposals	-	(15,346)	-	-	-	-	(15,346)
Balance at December 31, 2018	8,984,245	2,077,545	513,982	986,559	1,448,485	233,694	14,244,510
Carrying amounts							
At December 31, 2017	27,089,983	17,193	17,758	714,504	173,989	325,302	28,338,729
At December 31, 2018	26,228,324	25,557	17,263	817,337	253,250	248,033	27,589,764

13. Intangible assets

	Computer software $
Cost	
Balance at January 1, 2017	3,067,956
Additions	10,705
Write-off	(1,139,650)
Balance at December 31, 2017	1,939,011
Balance at January 1, 2018	1,939,011
Additions	136,733
Balance at December 31, 2018	2,075,744
Accumulated amortisation	
Balance at January 1, 2017	1,848,397
Amortisation for the year	78,349
Balance at December 31, 2017	1,926,746
Balance at January 1, 2018	1,926,746
Amortisation for the year	44,109
Balance at December 31, 2018	1,970,855
Carrying amounts	
At December 31, 2017	12,265
At December 31, 2018	104,889

During 2017, $1,139,650 incurred during the development phase of an internally generated software, project liberate, was written off in the statement of profit or loss. The NIS was unable to complete the intangible asset due to the unavailability of adequate technical resources.

14. Contributions receivable

	2018 $	2017 $
Contributions receivable	14,794,919	14,783,819
Provision for impairment losses	(9,829,887)	(6,134,830)
	4,965,032	8,648,989

The movement in the provision for impairment losses in respect of contributions receivable during the year was as follows:

	2018 $	2017 $
Balance at January 1	6,134,830	5,732,599
Effect of adoption of IFRS 9	3,787,508	-
Change in provision for impairment losses	(92,451)	402,231
Balance at December 31	9,829,887	6,134,830

15. Other assets

	2018 $	2017 $
Prepayments	251,404	238,555
Staff receivables	137,782	176,758
Rent and other receivables	4,935,944	4,272,085
	5,325,130	4,687,398
Provision for impairment losses	(1,416,736)	(779,627)
	3,908,394	3,907,771

16. Accounts payable and accrued liabilities

	2018 $	2017 $
Due to BVI Social Security	98,084	12,814
Contributions refundable	33,637	65,027
Accounts payable and accruals	1,679,730	1,991,472
Other payables	69,676	53,830
	1,881,127	2,123,143

17. Reserves

(a) Benefit reserves

Section 20 of the National Insurance Services (Financial and Accounting) Regulations, 1996 stipulates that at the end of each year, the excess of income over expenses for each branch be transferred to a separate reserve fund to finance the approved benefits.

Apportionment of contribution income

Section 18 of the National Insurance Services (Financial and Accounting) Regulations, 1996 stipulates that contribution income be apportioned to the benefit branches in accordance with the approved recommendations of the actuary.

Contribution income is allocated as follows:

	2018 %	2017 %
Long-term benefit	85.45	85.45
Short-term benefit	8.25	8.25
Employment injury benefit	6.30	6.30
	100.00	100.00

17. Reserves (cont'd)

(b) National Provident Fund

The National Provident Fund (NPF) includes legacy contributors under the National Insurance Services.

(c) Fair value reserve

The fair value reserve comprises:

(i) the commulative net change in the fair value of equity securities designated at FVOCI (2017: available-for-sale financial assets);
(ii) the commulative net change in the fair value of debt securities at FVOCI (2017: available-for-sale financial assets) until the assets are derecognized or reclassified. This amount is reduced by the amount of loss allowance; and
(iii) revaluation reserves relating to revaluation of investment properties.

18. Net finance income

	2018 $	2017 $
Interest on loans	6,237,756	7,326,597
Interest income on unimpaired investments	8,529,438	8,762,838
Dividend income on financial assets	1,501,609	1,475,564
Finance income	16,268,803	17,564,999
Net foreign exchange (loss)/gain on investments	(397,072)	480,971
(Loss)/gain on disposal of investments	(3,791,889)	2,764,066
Other (losses)/gains	(4,188,961)	3,245,037
Net finance income recognised in profit or loss	12,079,842	20,810,036

19. Other income, net

	2018 $	2017 $
Gain on disposal of property and equipment	-	10,102
Rental income	1,443,171	1,347,300
Impairment of intangible assets	-	(1,139,650)
Surcharges and other fees	728,813	226,247
	2,171,984	443,999

20. Classification of benefits

a. Benefits are classified to benefit branches in accordance with Section 3 of the National Insurance Services (Financial and Accounting) Regulations, 1996.

	Short-term benefit		Long-term benefit		Employment injury benefit		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
	$	$	$	$	$	$	$	$
Sickness benefit	1,858,001	1,615,531	-	-	-	-	1,858,001	1,615,531
Maternity benefit	1,333,590	1,189,780	-	-	-	-	1,333,590	1,189,780
Maternity grant	361,680	325,380	-	-	-	-	361,680	325,380
Funeral grant	-	-	2,193,872	2,071,914	-	-	2,193,872	2,071,914
Invalidity benefit	-	-	886,618	693,480	-	-	886,618	693,480
Survivor's benefit	-	-	4,854,830	4,411,748	-	-	4,854,830	4,411,748
Age benefit	-	-	50,391,075	44,657,013	-	-	50,391,075	44,657,013
Age grant	-	-	2,110,993	1,805,148	-	-	2,110,993	1,805,148
NIS employment injury medical	-	-	-	-	11,193	138,695	11,193	138,695
NIS employment injury	-	-	-	-	113,343	179,795	113,343	179,795
NIS employment disablement	-	-	-	-	84,117	87,060	84,117	87,060
NIS employment death	-	-	-	-	46,303	62,825	46,303	62,825
Non-contributory assistance age pension	-	-	844,246	963,421	-	-	844,246	963,421
Elderly assistance benefit	-	-	367,256	380,255	-	-	367,256	380,255
Total expenditure	3,553,271	3,130,691	61,648,890	54,982,979	254,956	468,375	65,457,117	58,582,045

b. Schedule of benefits paid from National Provident Fund as at December 31,

	2018	2017
	$	$
Age benefit	2,048,413	2,302,920
Survivor's benefit	75,314	66,000
Invalidity benefit	35,164	19,238
	2,158,891	2,388,158

NATIONAL INSURANCE SERVICES
Notes to the Financial Statements
December 31, 2018
(Expressed in Eastern Caribbean Dollars)

21. General and adminstrative expenses

	2018 $	2017 $
Accommodation and travel expenses	282,714	169,747
Advertising and promotion	138,221	129,965
Amortisation expense	44,109	78,349
Annual awards dinner and anniversary celebrations	10,450	95,307
Audit fees	77,549	80,333
Bank charges	22,510	20,938
Cleaning expense	114,634	103,825
Depreciation expense	1,193,717	1,327,916
Directors’ fees and expenses	166,527	151,649
Donations, community and education projects	788,764	588,100
Insurance	205,200	205,290
Legal fees	9,694	-
Management fees	755,173	450,706
Miscellaneous expenses	41,876	22,418
Office expenses	44,217	38,655
Postage and stationery	123,319	144,692
Post office charges	48,000	48,000
Professional fees	60,794	131,047
Repairs and maintenance	257,217	276,620
Staff costs	5,878,563	5,459,625
Subscriptions	189,203	183,572
Security	179,438	218,612
Utilities	510,029	532,810
	11,141,918	10,458,176

22. Staff costs

	2018 $	2017 $
Salaries and wages	5,158,777	4,839,211
National Insurance contributions	187,076	177,531
Retirement benefit contributions	241,311	233,991
Staff training	109,919	58,704
Uniforms and medical insurance	181,480	150,188
	5,878,563	5,459,625
Number of employees at December 31	92	92

23. Income tax

The National Insurance Services is exempt from the payment of income tax under the Income Tax Act, 1979.

24. Pension plan

The National Insurance Services provides retirement benefits under a defined contribution plan administered by Colonial Life Insurance Company (Trinidad) Limited (CLICO) for all of its employees. Under the provisions of the plan, the National Insurance Services and its employees are required to contribute 6% and 3%, respectively, of the employees' basic monthly salary towards the plan. During the year, National Insurance Services' contribution to the pension plan amounted to $241,311 (2017-$233,991). This amount was charged to profit or loss. The NIS suspended payment directly to CLICO because of the financial instability of the insitution effective October 2010. However, the contributions are paid into a deposit accout at BOSVG for the benefit of staff.

25. Classification of financial assets and financial liabilities

The table below provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

IFRS 9 classification

December 31, 2018	Amortised cost	Fair value through other comprehensive income	Financial asset at fair value through profit/loss	Total
Assets				
Cash and cash equivalents	48,116,371	-	-	48,116,371
Loans and advances	93,779,803	-	-	93,779,803
Interest receivable on investment securities	2,898,301	128,714	-	3,027,015
Interest receivable on loans	7,758,372	-	-	7,758,372
Investment securities and deposits	160,779,721	51,829,286	25,415,159	238,024,166
Contributions receivable	4,965,032	-	-	4,965,032
Other assets	3,908,394	-	-	3,908,394
Total financial assets	322,205,994	51,958,000	25,415,159	399,579,153
Liabilities				
Benefits payable	3,929,473	-	-	3,929,473
Accounts payable and accrued liabilities	1,881,127	-	-	1,881,127
Deferred income	33,250	-	-	33,250
Total financial liabilities	5,843,850	-	-	5,843,850

25. Classification of financial assets and financial liabilities (cont'd)

IAS 39 classification

December 31, 2017	Available-for-sale	Held-to-maturity	Loans and receivables	Financial asset at fair value through profit/loss	Other	Total
Assets						
Cash and cash equivalents	-	-	40,871,472	-	-	40,871,472
Loans and advances	-	-	105,846,962	-	-	105,846,962
Interest receivable on investment securities	343,895	2,859,350	-	-	-	3,203,245
Interest receivable on loans	-	-	10,197,483	-	-	10,197,483
Investment securities and deposits	78,077,415	151,733,767	-	19,653,529	-	249,464,711
Contributions receivable	-	-	8,648,989	-	-	8,648,989
Other assets	-	-	3,907,771	-	-	3,907,771
Total financial assets	78,421,310	154,593,177	169,472,677	19,653,529	-	422,140,633
Liabilities						
Benefits payable	-	-	-	-	3,081,218	3,081,218
Accounts payable and accrued liabilities	-	-	-	-	2,123,143	2,123,143
Deferred income	-	-	-	-	42,460	42,460
Total financial liabilities	-	-	-	-	5,246,821	5,246,821

25. Classification of financial assets and financial liabilities (cont'd)

Classification reconciliation

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
January 1, 2018				
Financial assets				
Cash and cash equivalents	Loans and receivables	Amortised cost	40,871,472	40,871,472
Loans and advances	Loans and receivables	Amortised cost	105,846,962	94,511,905
Interest receivable on loans	Loans and receivables	Amortised cost	10,197,483	10,197,483
Investment securities and deposits	Available-for-sale	FVOCI	62,130,325	62,130,325
Investment securities and deposits	Available-for-sale	Amortised cost	15,947,090	15,732,244
Investment securities and deposits	Held-to-maturity	Amortised cost	151,733,767	150,157,710
Interest receivable on investment securities	Available-for-sale	FVOCI	123,817	123,817
Interest receivable on investment securities	Available-for-sale	Amortised cost	220,078	220,078
Interest receivable on investment securities	Held-to-maturity	Amortised cost	2,859,350	2,859,350
Investment securities and deposits	FVTPL	FVTPL	19,653,529	19,653,529
Contributions receivable	Loans and receivables	Amortised cost	8,648,989	4,865,481
Other assets	Loans and receivables	Amortised cost	1,136,987	508,628
Other assets	Loans and receivables	Amortised cost	2,770,784	2,770,784
Total financial assets			422,140,633	404,602,806

25. Classification of financial assets and financial liabilities (cont'd)

Classification reconciliation (cont'd)

	IAS 39 carrying amount as at December 31, 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at January 1, 2018
Financial assets				
Amortised cost:				
Cash and cash equivalents	40,871,472	-	-	40,871,472
Loans and advances:				
Opening balance	105,846,962	-	-	-
Remeasurement	-	-	(11,335,057)	-
Closing balance	-	-	-	94,511,905
Interest receivable on loans	10,197,483	-	-	10,197,483
Investment securities and deposits:				
From held-to-maturity	151,733,767	-	-	-
From available-for-sale	-	15,947,090	-	-
Remeasurement	-	-	(1,790,903)	-
Closing balance	-	-	-	165,889,954
Interest receivable on investment securities:				
From held-to-maturity	2,859,350	-	-	-
From available-for-sale	-	220,078	-	-
Closing balance	-	-	-	3,079,428
Contributions receivable:				
Opening balance	8,648,989	-	-	-
Remeasurement	-	-	(3,783,508)	-
Closing balance	-	-	-	4,865,481

25. Classification of financial assets and financial liabilities (cont'd)

Classification reconciliation (cont'd)

	IAS 39 carrying amount as at December 31, 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at January 1, 2018
Financial assets				
Other assets:				
Opening balance	3,907,771	-	-	-
Remeasurement	-	-	(628,359)	-
Closing balance	-	-	-	3,279,412
Total amortised cost	**324,065,794**	**16,167,168**	**(17,537,827)**	**322,695,135**
Availabe-for-sale:				
Investment securities and deposits:				
Opening balance	78,077,415	-	-	-
To FVOCI	-	(62,130,325)	-	-
To amortised cost	-	(15,947,090)	-	-
Closing balance	-	-	-	-
Interest receivable on investment securities:				
Opening balance	343,895	-	-	-
To FVOCI	-	(123,817)	-	-
To amortised cost	-	(220,078)	-	-
Closing balance	-	-	-	-
Total available-for-sale	**78,421,310**	**(78,421,310)**	**-**	**-**

25. Classification of financial assets and financial liabilities (cont'd)

Classification reconcliation (cont'd)

	IAS 39 carrying amount as at December 31, 2017	Reclassification	Remeasurement	IFRS 9 carrying amount as at January 1, 2018
Financial assets				
Fair value through other comprehensive income:				
Investment securities and deposits:				
Opening balance	-	-	-	-
From available-for-sale	-	62,130,325	-	-
Closing balance	-	-	-	62,130,325
Interest receivable on investment securities:				
Opening balance	-	-	-	-
From available-for-sale	-	123,817	-	-
Closing balance	-	-	-	123,817
Total FVOCI	**-**	**62,254,142**	**-**	**62,254,142**
Fair value through profit or loss:				
Investment securities and deposits:	19,653,529	-	-	19,653,529
Total FVTPL	**19,653,529**	**-**	**-**	**19,653,529**
Total financial assets	**422,140,633**	**-**	**(17,537,827)**	**404,602,806**

26. Financial Risk Review

(a) Introduction and overview

The Service has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Service's exposure to each of the above risks, the Service's objectives, policies and processes for measuring and managing risk, and the Service's management of reserves.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Service's risk management framework.

The Service's risk management policies are established to identify and analyse the risks faced by the Service, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and services offered. The Service, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Service's Audit and Risk Committees are responsible for monitoring compliance with the Service's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Service. The Audit Committee and the Risk Management Committee are assisted in these functions by Internal Audit Department and Internal Risk Management Unit. Both internal units perform both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee and Risk Management Committee.

(b) Credit risk

Credit risk is the risk of financial loss to the Service if a contributor or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from contributions receivable, loans to related parties and investments.

Exposure to credit risk

The carrying amount of the financial assets represents the maximum credit exposure.

Management of credit risk

The Board of Directors has responsibility for the management of credit risk and this includes:

- *Formulating credit policies* covering collateral requirements, credit assessment, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval of investments and loans.
- *Reviewing and assessing credit risk* including assessing all credit exposures in excess of designated limits, prior to funds being committed to new investments. Loans are subject to the same review process.

Impaired loans and securities are loans and securities for which the Service determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / security agreements.

26. Financial Risk Review (cont'd)

(b) Credit risk (cont'd)

Expected credit loss measurement

Policy applicable from January 1, 2018

The Service recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- contributions receivable;
- rent receivables; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

Expected credit losses are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the entity expects to receive);
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the NIS if the commitment is drawn down and the cash flows that the Service expects to receive;
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

General approach

Loss allowances under IFRS 9 for investment securities and the staff loan portfolio would be calculated under the requirements of the general approach. The following outlines the requirements of IFRS 9 general approach for impairment provisions, which is based on changes in credit quality since initial recognition:

Stage 1
A debt instrument is categorised in stage 1 if there is no significant increase in credit risk. Expected credit losses are estimated based on default events that are possible in the next 12 months.

Stage 2
If the debt instrument is not credit impaired but there is a signifincant increase in credit risk (see below), the debt instrument is transferred to stage 2. Expected credit losses at stage 2 are estimated based on all possible events over the life of an asset. Interest revenue is recorded on the carrying amount; gross of expected credit losses.

26. Financial Risk Review (cont'd)

(b) Credit risk (cont'd)

General approach (cont'd)

Stage 3
If a debt instrument is credit impaired it is categorised as Stage 3. Like stage 2 instuments, lifetime expected losses are estimated. Interest revenue is recorded on the carrying amount, net of expected credit losses.

Simplified approach

The Service estimates expected credit losses for contributions receivable and rent receivables by applying the simplified approach. Under this approach, expected credit losses are recognised on a lifetime basis, utilising a provision matrix or ageing analysis to calculate default rates.

Significant increase in credit risk

The Service evaluates significant increase in credit risk for debt securities exclusive of the staff loan porfolio based on a credit rating transition matrix. Conversely, significant credit risk migration within the staff loan portfolio is assessed by utilising the 30 day past due backstop indicator.

As far as available, public external ratings is the source of credit ratings. In instances where securities are unrated, the ratings are determined internally by applying Moody's Methodology for the sector to which the investment security is assigned. As a matter of policy, if there is insufficient information available to conduct an internal rating, then significant increase in credit risk may be determined by qualitative credit risk factors. In these situations, the Service must exercise clear and sound judgement in credit risk rating. Qualitative credit risk factors include inter alia:

— Significant adverse changes in business, financial or economic risk associated with the borrower
— Expected forbearance or restructuring
— Indications of significant adverse operating results
— Significant reduction in collateral value for secured obligations
— Early signs of liquidity problems

Default and credit impaired

The NIS defines a financial instrument as 'in default' or credit impaired based on the following:

— Quantitative criteria:

  - More than 90 days past due on its contractual payments

— Qualitative criteria:

  - The issuer is in long-term forbearance
  - The issuer is insolvent
  - The issuer is in breach of financial covenants
  - The issuer is expected to enter into bankruptcy

26. Financial Risk Review (cont'd)

(b) Credit risk (cont'd)

Credit risk curing

Debt instruments classified as stage 3 and stage 2 are reclassified if the following conditions are satisfied:

— Stage 3 debt instruments are reclassified to stage 2 or 1 if the instrument is no longer deemed to be credit impaired. The quantitative and qualitative criteria for both stages 2 and 1 will determine the stage to which the instrument is categorised.
— An instrument classified as stage 2 will be classified as stage 1 when the credit risk is deemed to be low based on the quantitative and qualitiative factors.

Expected credit loss model

The components of the expected credit loss model are the probability of default (PD), the exposure at default (EAD), the loss given default (LGD) and the effective interest rate.

Debt securities

The expected credit loss for debt securities, including the staff loan portfolio is determined by discounting to report date, the product of the Probability of Default, Loss Given Default and Exposure at Default. In addition, the effective interest rate of each instrument is the discount rate applied in the calculation.

Contribution and rent receivables

For contribution and rent receivables, expected credit loss is determined by discounting to report date the product of the Default rate and the carrying value at report date. In discounting the expected credit loss on contribution and rent receivables, the NIS actuarial hurdle rate serves as a proxy for the effective interest rate.

Loan commitments

Where a financial instrument includes both a drawn and an undrawn component, and the Service cannot identify the expected credit loss on the loan commitment component separately from those on the drawn component: the Service presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Probability of default

The probability of default (PD) represents the likelihood of default over the next 12 months or over the remaining lifetime of the financial asset.

For debt securities exclusive of staff loans, cumulative PDs published in Moody's rating agency Default Study are integrated into the expected credit loss model on the basis of credit rating or credit quality.

Due to insufficient historical data and supportable information, staff loan PDs would be approximated by calculating employee turnover rate. Additionally, an exponential transformation is applied to estimate lifetime PDs.

26. Financial Risk Review (cont'd)

(b) Credit risk (cont'd)

Probability of default (cont'd)

Default rates for contribution and rent receivables comprise the following:

- Calculation of marginal PDs from historical ageing analysis; and
- Exponentional transformation of marginal PDs into cumulative or lifetime PDs.

Exposure at default

Exposure at default (EAD) include amounts the NIS estimates to be outstanding at the time of default, over the next 12 months or over the remaining lifetime. Estimates should take account of cash flow profiles to establish a point in time measure of the EAD.

Loss given default

Loss given default provides an estimate of the expectation of the extent of loss on a defaulted exposure. The LGD takes the form of the percentage loss per unit of exposure, which is residual of any recoverable value. Therefore, the LGD model is applied as one (1) minus the recovery rate of the security (1-r) with the recoverable amount calculated based on the following considerations:

- The value of collateral for secured financial assets;
- Risk netrual credit spreads;
- Cashflows from debt exchange/workout;
- Moody's recovery rates as per priority ranking;
- The prospect of regulatory or home authority support for regulated financial institutions; and
- The application of adequate management overlay where estimates of the recoverable value are irrelevant.

The expected credit losses are discounted between the assessment date and the expected life of the instrument. The rate used to discount the expected credit losses is the effective interest rate.

Forward looking information

To incorporate forward looking information into the Service's allowance for credit losses, forecasts from reputable sources on key macroeconomic indicators were considered. These indicators include inter alia:

- Unemployment rate
- GDP growth
- Inflation
- Debt to GDP

The Service observes credit loss forecasts issued by rating agencies or examines historical relationships between the forecasted economic indicators and credit loss data to determine the appropriate adjustment to the PDs, as well as components of LGD and EAD. To account for the possiblibility of non-linearity between economic indicators and credit loss data, the Service calculates ECL based on multiple scenarios, incorporating forward looking information. In these calculations, scenario weightings are applied to estimate a probability weighted outcome of the ECL measurement. Notably, the Service relies on expert credit judgement to quantify inputs in the various scenarios utlised in the estimation of the ECL.

26. Financial Risk Review (cont'd)

(b) Credit risk (cont'd)

Prior to January 1, 2018

Objective evidence of impairment

At each reporting date, the Service assessed whether there was objective evidence that financial assets not carried at FVTPL were impaired. A financial asset or a group of financial assets was 'impaired' when objective evidence demonstrated that a loss event had occurred after the initial recognition of the asset(s) and that the loss event had an impact on the future cash flows of the asset(s) that could be estimated reliably.

In addition, an instrument that was overdue for 90 days or more was considered impaired.

Objective evidence that financial assets were impaired included:

— significant financial difficulty of a borrower or issuer;

— default or delinquency by a borrower;

— indications that a borrower or issuer would enter bankruptcy;

— the disappearance of an active market for a security; or

— observable data relating to a group of assets, such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlated with defaults in the group.

An instrument that was renegotiated due to a deterioration in the borrower's condition is usually considered to be impaired unless there was evidence that the risk of not receiving contractual cash flows had reduced significantly and there were no other indicators of impairment.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost was objective evidence of impairment. In general, the Service considered a decline of 20% to be 'significant' and a period of nine months to be 'prolonged'. However, in specific circumstances a smaller decline or a shorter period may have been appropriate.

The Service considered evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and advances and held-to-maturity investment securities were assessed for specific impairment. Those found not to be specifically impaired were then collectively assessed for any impairment that had been incurred but not yet identified. Loans and advances and held-to maturity investment securities that were not individually significant were collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar credit risk characteristics.

26. Financial Risk Review (cont'd)

(b) Credit risk (cont'd)

Prior to January 1, 2018 (cont'd)

Individual or collective assessment

An individual measurement of impairment was based on management's best estimate of the present value of the cash flows that were expected to be received. In estimating these cash flows, management made judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset was assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable were independently approved by the Credit Risk function.

The collective allowance covered credit losses inherent in portfolios of trade receivables, and held to-maturity investment securities with similar credit risk characteristics when there was objective evidence to suggest that they contained impaired items but the individual impaired items could not yet be identified.

In assessing the need for collective loss allowance, management considered factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions were made to define how inherent losses were modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depended on the model assumptions and parameters used in determining the collective allowance.

Loans that were subject to a collective provision were not considered impaired.

26. Financial risk review (cont'd)

(b) Credit risk (cont'd)

Credit quality analysis IFRS 9

	Stage 1 $	Stage 2 $	Stage 3 $	POCI $	Total 2018 $	Total 2017 $
Debt securities measured at amortised cost						
Investment grade	34,521,891	-	-	-	34,521,890	23,992,549
Non investment grade	108,179,577	14,825,647	-	-	123,005,224	127,737,423
Credit impaired	-	-	26,644,683	-	26,644,683	20,215,089
Gross carrying amount	**142,701,468**	**14,825,647**	**26,644,683**	**-**	**184,171,797**	**171,945,061**
Less: loss allowance	(1,127,721)	(1,112,619)	(21,151,737)	-	(23,392,076)	(20,211,294)
Carrying amount	**141,573,747**	**13,713,028**	**5,492,946**	**-**	**160,779,721**	**151,733,767**
Debt securities measured at FVOCI						
Investment grade	5,042,180	-	-	-	5,042,180	18,256,336
Non investment grade	1,047,592	268,820	-	-	1,316,412	1,316,412
Credit impaired	-	-	-	-	-	-
Gross carrying amount	**6,089,772**	**268,820**	**-**	**-**	**6,358,592**	**19,572,748**
Loss allowance	(9,004)	(1,154)	-	-	(10,158)	-
Carrying amount – fair value	**6,090,389**	**274,868**	**-**	**-**	**6,365,258**	**19,982,239**

26. Financial risk review (cont'd)

(b) Credit risk (cont'd)

Credit quality analysis IFRS 9

	Stage 1	Stage 2	Stage 3	POCI	Total	2017
	$	$	$	$	$	$
December 31, 2018						
Loans to corporations and public sector measured at amortised cost						
Investment grade	-	-	-	-	-	-
Non investment grade	35,815,277	-	-	-	35,815,278	35,376,010
Credit impaired	-	-	63,725,494	-	63,725,494	65,395,010
Gross amount	**35,815,277**	**-**	**63,725,494**	**-**	**99,540,772**	**100,771,020**
Less: loss allowance	(345,448)	-	(10,151,977)	-	(10,497,425)	-
Carrying amount	**35,469,829**	**-**	**53,573,517**	**-**	**89,043,347**	**100,771,020**
Loans to employees measured at amortised cost						
Performing	4,618,880	-	-	-	4,618,880	4,760,727
Past due but not credit impaired	-	-	-	-	-	-
Credit impaired	-	-	268,458	-	268,458	435,733
Gross carrying amount	**4,618,880**	**-**	**268,458**	**-**	**4,887,338**	**5,196,460**
Less: loss allowance	(40,545)	-	(110,337)	-	(150,882)	(120,518)
Carrying amount	**4,578,335**	**-**	**158,121**	**-**	**4,736,456**	**5,075,942**

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26. Financial risk review (cont'd)

(b) Credit risk (cont'd)

Credit quality analysis IAS 39

	Interest receivable $	Loans and advances $	Investment securities $	Lending commitments $
December 31, 2017				
Off balance sheet				
Lending commitments	-	-	-	1,161,500
Loans with renegotiated terms				
Gross carrying amount	-	-	-	-
Impaired amount	-	-	-	-
Allowance for impairment	-	-	-	-
Net carrying amount	-	-	-	1,161,500
Neither past due nor impaired				
Gross carrying amount	5,344,422	40,136,737	237,863,167	-
Past due but not impaired				
30-60 days	2,549	-	-	-
60-90 days	3,920	-	-	-
90-180 days	251,717	-	-	-
Over 180 days	7,798,120	65,567,439	-	-
Individually impaired				
Gross carrying amount	1,770,649	263,304	32,715,190	-
	15,171,377	105,967,480	270,578,357	-
Allowance for impairment				
Individual	(1,770,649)	(120,518)	(21,113,646)	-
	13,400,728	105,846,962	249,464,711	-

26. Financial risk review (cont'd)

(b) Credit risk (cont'd)

	Contributions receivable	
Credit quality analysis	**2018 $**	**2017 $**
Neither past due nor impaired		
Gross carrying amount	-	-
Past due but not impaired		
Less than 30 days	-	5,408
30-60 days	-	8,870
60-90 days	-	4,443
90-1080 days	-	355,798
Over 1080 days	-	1,451,573
	-	1,826,092
Individually impaired		
Gross carrying amount	-	12,957,727
	-	14,783,819
Allowance for impairment		
Individual	-	(5,732,011)
Collective	-	(402,819)
	-	8,648,989

Contributions receivable measured at amortised cost	**2018 $**	**2017 $**
Current	569,897	-
Past due 0 - 30	82,961	-
Past due 31 - 60	50,125	-
Past due 61 – 90	53,229	-
Non-performing	14,038,707	-
Gross carrying amount	14,794,919	-
Less: loss allowance	(9,829,887)	-
Carrying amount	4,965,032	-

26. Financial risk review (cont'd)

(b) Credit risk (cont'd)

Rent receivables measured at amortised cost	2018 $	2017 $
Current	131,436	9,472
Past due 0 - 30	36,028	112,569
Past due 31 - 60	28,192	28,512
Past due 61 – 90	33,469	19,314
Non performing	847,924	865,834
Gross carrying amount	1,077,049	1,035,701
Less: loss allowance	(655,563)	(18,456)
Carrying amount	421,486	1,017,245

	2018 $	2017 $
Government bonds		
Rated AAA	3,042,905	1,947,955
Rated AA- to AA+	4,309,414	4,320,499
Rated A- to A+	2,636,949	13,965,703
Rated BBB+ to BBB-	17,243,390	60,424,594
Rated BB+ and below	73,074,444	19,934,744
Securities not rated	3,775,157	1,821,750
	104,082,259	102,415,245
Corporate bonds		
Rated AAA	-	-
Rated AA- to AA+	-	-
Rated A- to A+	-	-
Rated BBB+ to BBB-	10,755,800	10,229,568
Rated BB+ and below	1,839,322	1,512,481
Securities not rated	-	328,406
	12,595,122	12,070,455

26. Financial risk review (cont'd)

(b) Credit risk (cont'd)

Amount arising from ECLs

	2018				2017
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
Debts securities measured at amortised cost					
Balance at January 1	**1,087,044**	**1,979,708**	**18,722,442**	**21,789,194**	**21,519,659**
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	(964,927)	964,927	-	-
Net remeasurement of loss allowance	(36,822)	97,838	1,464,367	1,525,383	(1,308,365)
New assets originated or purchased	143,402	-	-	143,402	-
Assets derecognised or repaid	(65,903)	-	-	(65,903)	-
Write-offs	-	-	-	-	-
Balance at December 31	**1,127,721**	**1,112,619**	**21,151,736**	**23,392,076**	**20,211,294**

	2018				2017
	Stage 1	**Total**	**Stage 3**	**Total**	**Total**
Debts securities measured at FVOCI					
Balance at January 1	**6,223**	**1,939**	**-**	**8,162**	**-**
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Net remeasurement of loss allowance	298	(785)	-	(487)	-
New assets originated or purchased	2,483	-	-	2,483	-
Assets derecognised or repaid	-	-	-	-	-
Write-offs	-	-	-	-	-
Balance at December 31	**9,004**	**1,154**	**-**	**10,158**	**-**

26. Financial risk review (cont'd)

(b) Credit risk (cont'd)

Amount arising from ECLs (cont'd)

	2018				2017
	Stage 1	**Total**	**Stage 3**	**Total**	**Total**
Loans to corporations and public sector measured at amortised cost					
Balance at January 1	**330,254**	**-**	**10,864,324**	**11,194,578**	**-**
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Net remeasurement of loss allowance	(15,951)	-	(712,347)	(728,298)	-
New assets originated or purchased	32,714	-	-	32,714	-
Assets derecognised or repaid	(1,569)	-	-	(1,569)	-
Write-offs	-	-	-	-	-
Balance at December 31	**345,448**	**-**	**10,151,977**	**10,497,425**	**-**

	2018				2017
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
Loans to employees measured at amortised cost					
Balance at January 1	**96,421**	**-**	**164,576**	**260,997**	**120,518**
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Net remeasurement of loss allowance	(57,118)	-	-	(57,118)	-
New assets originated or purchased	2,428	-	-	2,428	-
Assets derecognised or repaid	(1,186)	-	(54,239)	(55,425)	-
Write-offs	-	-	-	-	-
Balance at December 31	**40,545**	**-**	**110,337**	**150,882**	**120,518**

26. Financial risk review (cont'd)

(b) Credit risk (cont'd)

Amount arising from ECLs (cont'd)

	2018						2017
	Current	0 - 30	31 - 60	61 - 90	Over 90	Total	Total
Contributions receivable							
Balance at January 1	**85,998**	**2,282**	**2,934**	**7,490**	**9,823,634**	**9,922,338**	**5,732,599**
Net remeasurement of loss allowance	126,868	51,807	28,331	28,115	(327,572)	(92,451)	402,231
Balance at December 31	**212,866**	**54,089**	**31,265**	**35,605**	**9,496,062**	**9,829,887**	**6,134,830**
Rent receivables							
Balance at January 1	**4,706**	**70,434**	**17,840**	**12,085**	**541,750**	**646,815**	**18,456**
Net remeasurement of loss allowance	59,949	(49,199)	(183)	8,877	(10,696)	8,748	-
Balance at December 31	**64,655**	**21,235**	**17,657**	**20,962**	**531,054**	**655,563**	**18,456**

26. Financial risk review (cont'd)

(b) Credit risk (cont'd)

The Service holds collateral against certain of its credit exposures. The table below sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure:

	Percentage of exposure that is subject to collateral requirements		
	2018 %	**2017 %**	**Principal type of collateral held**
Loans and advances			
Loans to the Government of St. Vincent and the Grenadines	100	100	Property and Government guarantees
Loans to other statutory bodies	100	100	Property and Government guarantees
Staff loans	99	99	Property and bills of sale
Other	100	100	Property and Government guarantees
Investment debt securities			
Government bonds	-	-	None
Corporate bonds	-	-	None
Contributions receivable	-	-	None

26. Financial risk review (cont'd)

(b) Credit risk (cont'd)

Concentration of credit risk

The maximum exposure to credit risk by geographic region was:

	Contributions receivable	Interest receivable	Loans and advances	Investment securities and deposits	Total
December 31, 2018					
Domestic	4,965,032	9,506,093	93,779,803	102,007,857	210,258,785
OECS	-	83,787	-	18,718,777	18,802,564
Other Caribbean	-	1,093,279	-	77,914,049	79,007,328
Other	-	102,228	-	39,383,483	39,485,711
Carrying amount	4,965,032	10,785,387	93,779,803	238,024,166	347,554,388
December 31, 2017					
Domestic	8,648,989	11,934,084	105,846,962	104,020,087	230,450,122
OECS	-	56,942	-	17,570,970	17,627,912
Other Caribbean	-	1,342,617	-	95,292,383	96,635,000
Other	-	67,085	-	32,581,271	32,648,356
Carrying amount	8,648,989	13,400,728	105,846,962	249,464,711	377,361,390

The maximum exposure to credit risk by sector was:

	Interest receivable	Loans and advances	Investment securities and deposits	Total
December 31, 2018				
Local government and other related entities	8,737,939	72,277,183	53,771,878	134,787,000
Other governments	1,079,577	-	51,051,743	52,131,320
Corporate	948,615	16,766,164	133,200,545	150,915,324
Employees	19,256	4,736,456	-	4,755,712
Carrying amount	10,785,387	93,779,803	238,024,166	342,589,356
December 31, 2017				
Local government and other related entities	11,190,713	82,540,684	54,906,917	148,638,314
Other governments	1,253,469	-	54,157,862	55,411,331
Corporate	939,804	18,230,336	140,399,932	159,570,072
Employees	16,742	5,075,942	-	5,092,414
Carrying amount	13,400,728	105,846,962	249,464,711	368,712,131

26. Financial risk review (cont'd)

(b) Credit risk (cont'd)

Gross contribution receivable exposure to credit risk by sector

	2018 $	2017 $
Government	23,478	-
Agriculture	72,524	23,189
Construction	5,826,147	4,991,603
Accommodation	2,205,514	1,074,419
Wholesale	1,370,436	697,902
Manufacturing	1,051,806	848,112
Transport	676,902	328,778
Other	3,568,112	6,819,816
Total	14,794,919	14,783,819

26. Financial risk review (cont'd)

(c) Liquidity risk

Liquidity risk is the risk that the Service will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Service's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Service's reputation.

The following were the contractual maturities of financial liabilities at the reporting date:

	Carrying amount $	Contractual cash flows $	Under 1 year $	1-5 years $	6-10 years $	Over 10 years $
December 31, 2018						
Non-derivative financial assets						
Cash and cash equivalents	48,116,371	48,116,371	48,116,371	-	-	-
Loans and advances	93,779,803	130,788,567	-	8,378,637	34,889,358	87,520,572
Interest receivable on investment securities	3,027,015	3,027,015	3,027,015	-	-	-
Interest receivable on loans	7,758,372	7,758,372	7,758,372	-	-	-
Investment securities and deposits	238,024,166	270,637,958	88,231,237	51,940,244	59,692,155	70,774,332
Contributions receivable	4,965,032	4,965,032	-	4,965,032	-	-
Other assets	3,908,394	3,908,394	396,906	2,988,938	413,765	108,785
	399,579,153	469,201,709	147,529,901	68,272,851	94,995,278	158,403,689
Non-derivative financial liabilities						
Benefits payable	(3,929,473)	(3,929,473)	(3,929,473)	-	-	-
Accounts payable and accrued liabilities	(1,881,127)	(1,881,127)	(1,881,127)	-	-	-
Deferred income	(33,250)	(33,250)	(9,210)	(24,040)	-	-
	(5,843,850)	(5,843,850)	(5,819,810)	(24,040)	-	-
Net liquidity gap	393,735,303	463,357,859	141,710,091	68,248,811	94,995,278	158,403,689

26. Financial risk review (cont'd)

(c) Liquidity risk

	Carrying amount $	Contractual cash flows $	Under 1 year $	1-5 years $	6-10 years $	Over 10 years $
December 31, 2017						
Non-derivative financial assets						
Cash and cash equivalents	40,871,472	40,871,472	40,871,472	-	-	-
Loans and advances	105,846,962	138,237,243	130,735	6,884,743	38,753,303	92,468,462
Interest receivable on investment securities	3,203,245	3,203,245	3,203,245	-	-	-
Interest receivable on loans	10,197,483	10,197,483	10,197,483	-	-	-
Investment securities and deposits	249,464,711	284,582,563	80,564,029	50,666,277	67,765,763	85,586,494
Contributions receivable	8,648,989	8,648,989	-	8,648,989	-	-
Other assets	3,805,709	3,926,227	415,315	2,364,251	1,034,925	111,736
	422,038,571	489,667,222	135,382,279	68,564,260	107,553,991	178,166,692
Non-derivative financial liabilities						
Benefits payable	(3,081,218)	(3,081,218)	(3,081,218)	-	-	-
Accounts payable and accrued liabilities	(2,123,143)	(2,123,143)	(2,123,143)	-	-	-
Deferred income	(42,460)	(42,460)	(9,210)	(33,250)	-	-
	(5,246,821)	(5,246,821)	(5,213,571)	(33,250)	-	-
Net liquidity gap	416,791,750	484,420,401	130,168,708	68,531,010	107,553,991	178,166,692

Exposure to liquidity risk

The key measure used by the Service for managing liquidity risk is the ratio of budgeted contributions income to benefits payable to contributors.

26. Financial risk review (cont'd)

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Service's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The table below sets out the allocation of financial assets and financial liabilities subject to market risk between trading and non-trading portfolios.

	Market risk measure		
	Carrying amount $	Trading portfolios $	Non-trading portfolios $
December 31, 2018			
Assets subject to market risk			
Cash and cash equivalents	48,116,371	-	48,116,371
Loans and advances	93,779,803	-	93,779,803
Investment securities and deposits	238,024,166	25,415,159	212,609,007
Total	379,920,340	25,415,159	354,505,181

	Market risk measure		
	Carrying amount $	Trading portfolios $	Non-trading portfolios $
December 31, 2017			
Assets subject to market risk			
Cash and cash equivalents	40,871,472	-	40,871,472
Loans and advances	105,846,962	-	105,846,962
Investment securities and deposits	249,464,711	19,653,529	229,811,182
Total	396,183,145	19,653,529	376,529,616

26. Financial risk review (cont'd)

(d) Market risk

Currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The NIS is exposed to foreign currency risk on transactions that are denominated in a currency other than the functional currency, the EC Dollar. There is no exposure to foreign currency risk in respect of the United States Dollar because the EC Dollar is pegged at EC$2.70 for US$1. However, there is exposure to foreign currency risk affecting the Service's statement of profit or loss resulting from the fluctuations of other currencies like the Australian Dollar (AUD), Canadian Dollar (CAD), and the Republic of Trinidad and Tobago Dollar (TTD). The NIS also has foreign currency exposure affecting its equity.

The Service's exposure to currency risk was as follows, based on notional amounts:

	December 31, 2018			
	CAD	**AUD**	**TTD**	**Other**
Interest receivable	4,802	-	49,775	12,815
Investment securities and deposits	1,783,232	-	4,620,622	1,627,532
Total exposure	1,788,034	-	4,670,397	1,640,347

	December 31, 2017			
	CAD	**AUD**	**TTD**	**Other**
Interest receivable	5,234	3,703	55,216	11,643
Investment securities and deposits	1,947,955	642,774	7,574,877	1,636,035
Total exposure	1,953,189	646,477	7,630,093	1,647,678

The following significant exchange rates have been applied during the year:

	2018 EC$	**2017 EC$**
1 TTD:	0.3868	0.3819
1 CAD:	1.9702	2.1473
1 AUD:	1.8941	2.1008

26. Financial risk review (cont'd)

(d) Market risk

Currency risk (cont'd)

A reasonably possible strengthening (weakening) of the Eastern Caribbean dollar against all other relevant currencies at December 31 would have affected the measurement of financial instruments denominated in a foreign currency and affected reserves and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2018 EC$		2017 EC$	
	Strengthening	**Weakening**	**Strengthening**	**Weakening**
TTD (10% movement)	467,040	(467,040)	762,658	(762,658)
CAD (10% movement)	178,803	(178,803)	195,319	(195,319)
AUD (10% movement)	-	-	64,648	(64,648)

Interest rate risk

The Service adopts a policy of ensuring that 55% of its exposure to changes in interest rates is on a fixed-rate basis, taking into account assets with exposure to changes in interest rates. The Service does not enter into any interest rate swaps as hedges of the variability in cash flows attributable to interest rate risks.

At the reporting date the interest rate profile of the Service's interest bearing financial instruments was:

	Carrying amount	
	2018	**2017**
Fixed rate instruments	**$**	**$**
Interest-earning financial assets	263,001,428	277,030,666

Fair value sensitivity analysis for fixed rate instruments

The Service does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

27. Fair value of financial instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the NIS determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

When measuring the fair value of an asset or a liability, the NIS uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The NIS recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The NIS measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

27. Fair value of financial instruments (cont'd)

(a) Financial assets measured at fair value

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Investment securities				
Government bonds	-	2,618,973	-	2,618,973
Corporate bonds	-	3,746,285	-	3,746,285
Equities	61,476,435	9,402,752	-	70,879,187
	61,476,435	15,768,010	77,244,445	77,244,445

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Investment securities				
Government bonds	-	9,160,058	-	9,160,058
Corporate bonds	-	8,103,739	-	8,103,739
Equities	19,653,529	58,095,176	-	77,748,705
	19,653,529	75,358,973	-	95,012,502

(b) Financial assets not measured at fair value

For other financial instruments which include cash and cash equivalents, loans and advances, investment securities at amortised cost, interest receivable on loans and investment securities, contributions receivable and benefits payable, the carrying amount is a reasonable approximation of the fair value.

28. Regulatory reserves

The National Insurance (Financial and Accounting) Regulations 1996 sets the capital requirements for the Service as a whole.

In implementing current reserve requirements the regulation requires that the Service transfer the excess of income over expenses for each branch to a separate reserve at the end of the year.

The Service's regulatory reserves are analysed into three categories:

- short-term benefit reserve;
- pension reserve; and
- employment injury benefit reserve.

The Service's policy is to maintain a strong reserve base so as to sustain future development of the Service and finance approved benefits. The Service recognises the need to maintain a balance between the higher benefit payments that might be possible and the advantages and security afforded by a sound reserve position.

There was no material change in the Service's management of reserves during the period.

29. Related parties

(a) *Identification of related party*

A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

(i) A person or a close member of that person's family is related to a reporting entity if that person:

- has control or joint control of the reporting entity;
- has significant influence over the reporting entity; or
- is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(ii) An entity is related to a reporting entity if any of the following conditions applies:

- The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- Both entities are joint ventures of the same third party.
- One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- The entity is controlled or jointly controlled by a person identified in (a).
- A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- that person's children and spouse or domestic partner;
- children of that person's spouse or domestic partner; and
- dependents of that person or that person's spouse or domestic partner.

29. Related parties (cont'd)

(b) Related Party transactions and balances

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

(c) Transactions with key management personnel

- short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;
- post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;
- other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation;
- termination benefits.

The Service is controlled by the Government of St. Vincent and the Grenadines.

Government refers to government, government agencies and similar bodies whether local, national or international.

A government-related entity is an entity that is controlled, jointly controlled or significantly influenced by a government.

29. Related parties (cont'd)

Significant transactions with related parties during the year were as follows:

	Net transaction values for the year ended December 31		Balance outstanding as at December 31	
	2018 $	2017 $	2018 $	2017 $
Loans and advances				
National Lotteries Authority	(543,858)	(509,898)	4,968,184	5,512,043
Bank of St. Vincent and the Grenadines	(1,297,253)	(1,282,895)	16,933,083	18,230,336
Government of St. Vincent and the Grenadines	(3,100,054)	(11,775,053)	8,533,578	11,633,632
National Student Loan Company	-	1,247,408	20,955,860	20,955,860
National Properties Limited	(1,669,516)	-	42,769,635	44,439,150
Staff	(343,486)	(1,413,770)	5,075,942	4,736,456
Investments				
Government of St. Vincent and the Grenadines	992,576	3,164,429	54,906,917	53,914,341
Campden Park Container Port	-	(243,000)	27,000	27,000
Rent				
Government of St. Vincent and the Grenadines	5,856	(314,673)	281,459	275,603
Cost of living allowance				
Government of St. Vincent and the Grenadines	309,203	335,160	3,256,083	2,946,880
Contribution income				
Government of St. Vincent and the Grenadines	(851,149)	24,752	21,652,125	22,503,274
Interest receivable				
National Lotteries Authority	(1,473)	(1,381)	13,456	14,928
Bank of St. Vincent and the Grenadines	(5,520)	(39,348)	26,175	31,695
Government of St. Vincent and the Grenadines	(993,398)	(121,249)	122,415	1,115,813
National Student Loan Company	114,341	527,092	2,033,740	1,919,399
National Properties Limited	(1,921,685)	2,816,952	6,218,888	8,140,574
Staff	2,514	16,742	19,256	16,742
Investment in associate				
Bank of St. Vincent and the Grenadines	2,680,604	(311,798)	23,535,138	20,854,534

29. Related parties (cont'd)

Key management personnel compensation

Key management personnel compensation comprised the following:

	2018 $	2017 $
Key management	655,200	589,242
Directors	141,615	128,189
	796,815	717,431

30. Commitments

(a) Capital commitments

As of the reporting date, the Board of Directors approved capital expenditure amounting to:

	2018 $	2017 $
Capital commitments	179,928	-
	179,928	-

In the normal course of business, various credit commitments are outstanding which are not reflected in the statement of financial position.

These financial instruments are subject to normal credit standards, financial controls and monitoring procedures.

	2018 $	2017 $
Commitment to extend credit	-	1,161,500
Total off-balance sheet credit commitments	-	1,161,500

NATIONAL INSURANCE SERVICES

ADDITIONAL INFORMATION

TO THE

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

KPMG

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ADDITIONAL COMMENTS OF INDEPENDENT AUDITORS

To: The Honourable Minister of Finance
Administrative Building
Kingstown

The accompanying Schedule of Branch Operations is presented as supplementary information only. In this respect, it does not form part of the financial statements of the National Insurance Services for the year ended December 31, 2018 and hence is excluded from the opinion expressed in our report dated June 19, 2019 to the Honourable Minister of Finance on such financial statements.

KPMG

KPMG

Kingstown, St. Vincent and the Grenadines

NATIONAL INSURANCE SERVICES

Schedule of Branch Operations

December 31, 2018

(Expressed in Eastern Caribbean Dollars)

	Short-term Benefit		Long-term Benefit		Employment Injury Benefit		National Provident Fund		Total	Total
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Income										
Contributions	5,529,246	5,050,421	57,269,586	52,310,123	4,222,333	3,856,686	-	-	67,021,165	61,217,230
Net financing income	712,295	1,147,440	9,650,312	16,873,500	1,717,235	2,789,096	-	-	12,079,842	20,810,036
Interest on National Provident Fund	(21,115)	(23,080)	(286,067)	(339,402)	(50,904)	(56,101)	358,086	418,583	-	-
Other	392,287	49,770	4,063,142	515,497	299,565	38,006	-	-	4,754,994	603,273
Total income	6,612,713	6,224,551	70,696,973	69,359,718	6,188,229	6,627,687	358,086	418,583	83,856,001	82,630,539
Expenditure										
Benefits	3,553,271	3,130,691	61,648,890	54,982,979	254,956	468,375	2,158,891	2,388,158	67,616,008	60,970,203
Impairment loss - contributions and rent receivables	(6,905)	33,184	(71,525)	343,706	(5,273)	25,341	-	-	(83,703)	402,231
Impairment loss – investment securities	47,032	35,503	637,192	522,081	113,386	86,296	-	-	797,610	643,880
Administrative expenses	763,873	714,190	10,001,488	9,366,419	376,557	377,567	-	-	11,141,918	10,458,176
Total expenditure	4,357,271	3,913,568	72,216,045	65,215,185	739,626	957,589	2,158,891	2,388,158	79,471,833	72,474,490
Net surplus for the year	2,255,442	2,310,983	(1,519,072)	4,144,533	5,448,603	5,670,108	(1,800,805)	(1,969,575)	4,384,168	10,156,049

St. Vincent & the Grenadines

NATIONAL INSURANCE SERVICES

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