ANNUAL REPORT 2012

VISION STATEMENT

Anguilla Social Security Board has improved the quality of life for all Anguillians by providing universal social security coverage. It is a sustainable social, economic and financial services organization with excellent service delivery by a customer-focused, knowledge-based and motivated staff; forging strategic alliances and engaging a well-informed public.

MISSION STATEMENT

Anguilla Social Security Board exists to improve the quality of life in Anguilla by providing meaningful social security to workers and beneficiaries, financial services to stakeholder institutions and socio-economic development for our community.

We will achieve this by being customer-oriented, strategy-focused and technology-driven; with competent and committed staff, high standards of corporate governance, and prudent financial management.

CORE VALUES

Accountability

Customer-focus

Teamwork

Integrity

Visionary-leadership

Excellence

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PREFACE

This report provides a review of the operations of the Board for the financial year 2012. It includes the audited consolidated Financial Statements, statistical analyses and tables with details on the overall performance of the Social Security System.

2012 PERFORMANCE HIGHLIGHTS

- Contribution income decreased by 7.45% totaling $24.21M compared to $26.02M in 2011.
- Investment Income totaled $12.99M; an increase of 11.89% when compared to $11.44% in 2011.
- Net income totaled $12.53M; decreasing by 44.38%, compared to $18.10M in 2011.
- Total Income decreased slightly by 1.38%, from $39.69M in 2011 to $39.15M.
- Impairment loss – net recovery increased significantly by 175.49% to $7.61M from $2.8M in 2011.
- Social Security Development Fund expenditure increased significantly by 51.86% and totaled $1,423,626 compared to $738,256 in 2011.
- Reserves increased marginally by 7.2% and stood at $267.8M.
- Total Income decreased slightly by 1.38%, from $39.69M in 2011 to $39.15M.
- Reserves of the Long-Term Benefits Branch grew, increasing by 5.22% to $254.78M compared to $241.49 in 2011.

2011 RECAP AT A GLANCE

- Contribution income decreased by 3.8% totaling $26.01M compared to $27.04M in 2010.
- No Investment losses were registered.
- Net income increased significantly to $18.1M from $8.5M in 2010.
- Impairment loss – net recovery decreased significantly by 87.3% to $2.8M from $21.8M in 2010.

- Social Security Development Fund expenditure increased by 20.1% and totaled $738,256 compared to $614,861 in 2010.

- Reserves increased by 7.2% and stood at $254.8M.

- Reserves of the Long-Term Benefits Branch grew, increasing by 8.1% to $241.49M compared to $223.41M in 2010.

BOARD MEMBERSHIP

Members of the Board of Directors were:

Mr. Thomas Astaphan	- Government Representative/Chairman
Mr. Alkins Rogers	- Employees' Representative/Deputy Chairman
Mrs. Jacqueline Bryan-Niles	- Government Representative
Pastor Victor Hugo Brooks	- Employees' Representative
Mr. Roosevelt Harris	- Employers' Representative
Mr. Evans Lake	- Employers' Representative
Mr. Timothy Hodge	- Director of Social Security

Mrs. Maglan Richardson, Deputy Director, served as Board Secretary.

INVESTMENT COMMITTEE MEMBERSHIP

Membership of the Social Security Fund Investment Committee were:

Mrs. Gele Bryan, Independent Member/Chairman
Mr. Patrick Hanley, Independent Member
Dr. Aidan Harrigan, Director of Finance/Member
Mr. Timothy Hodge, Director of Social Security/Member
Mr. Thomas Astaphan, Chairman of Social Security Board/Member

Mrs. Maglan Richardson, Deputy Director, served as Secretary to the Investment Committee.

ECONOMIC ENVIRONMENT

The Social Security System's performance is closely linked to the overall economic performance of the island. Accordingly, an overview of the economic environment in which the System operated during 2012 is presented below. The information was extracted from the country report for Anguilla in the Eastern Caribbean Central Bank's Annual Economic and Financial Review for the Financial Year ended 31st March 2013. Anguilla is a member territory of the Eastern Caribbean Central Bank.

Economic Activity in Anguilla is estimated to have contracted in 2012, at an accelerated pace compared with the performance in the previous year. Preliminary estimates indicate that real GDP growth fell by 2.9 percent compared with one of 1.8 percent in 2011. The contraction in economic activity reflected a broad based decline in all of the major sectors of the economy including construction, hotels and restaurants, wholesale and retail trade, financial intermediation and real estate, renting and business activities. Consumer prices rose by 3.6 percent during 2012, a slower pace relative to the increase in 2011. The central government recorded a smaller overall surplus on its fiscal operations, attributable to a reduction in the current account position. The total outstanding debt of the public sector increased during the period under review. Developments in the banking system were characterized by contractions in all the major monetary aggregates; monetary liabilities, domestic credit and net foreign assets. Liquidity conditions in the banking system were mixed during the review period and the weighted average interest rate spread between loans and deposits narrowed. An overall surplus was recorded on the balance of payments attributable to a larger surplus on the capital and financial account combined with a reduction in the deficit on the current account.

A recovery in real output is expected in 2013, based on a projected turnaround in key sectors. Developments will largely depend on an anticipated increase in activity in hotels and restaurants with knock-out effects on the wholesale and retail, financial intermediation and the real estate and renting sectors. Recent initiatives to increase Anguilla's profile in the tourism market should be reflected in improved performances in stay-overs arrivals and a further strengthening in the number of excursionists. Value added in construction is projected to be marginally lower; nonetheless activity in the construction sector will likely be based on the conclusion of a number of agreements between the Government of Anguilla and investors to make significant investments in the tourism plant. The central government is expected to record an improvement in its fiscal operations largely based on increases in tax receipts, in line with projections of higher economic growth. Notwithstanding the potential for a recovery in economic performance, risks to the projections include major economic headwinds in the form of lower than anticipated growth in the USA arising from political gridlock, negative growth in the Eurozone and the adverse impact of consolidation in the airline industry which could result in reducing air access into Anguilla.

HUMAN RESOURCES

The staff complement at year-end 2012 was 31 permanent employees.

Local and Overseas Training - Seminars/Conferences/Workshops

- Five members of staff attended the KPMG LLC IFRS Training held 17th 21st & 28th February, locally.
- The Investment Manager attend the UBS Executive Courses on Investment of Social Security Funds in Puerto Rico, held 12th – 17th September.
- Two members of the Compliance Department attended a Compliance Workshop in Dominica, held 21st – 26th October 2012.

STATISTICAL REVIEW

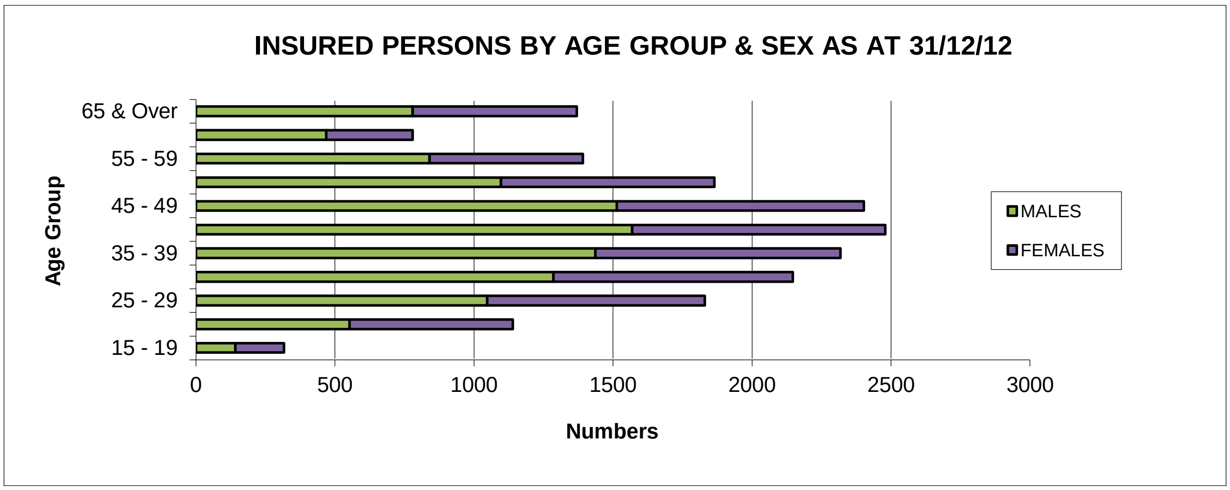
REGISTRATIONS

Employees

New employee registrations in 2012 continued its decline for the fifth consecutive year, totaling 383, a decrease of 13.8% when compared to 436 in 2011. Accumulated total of all insured persons on register in 2012, increased to 18,038 (this include active, inactive, residents, non-residents and deceased persons), a slight increase of 1.0% from 17,863 in 2011. In 2012, the tables turned and for a change, males dominated registrations, accounting for 50.4% (193) of the new registrants, while females accounted for 49.6% (190). The highest number of new registrants continued to be among the age group 15 – 19 years.

Chart 1

Chart 2



Employers & The Self-Employed

New employer registrations totaled 97 in 2012, a decrease of 7.2% when compared to a total of 104 in 2011. Likewise, new self-employed registrations declined, totaling 31, a significant decrease of 74.2% when compared to 54 in 2011. The combined and accumulated total of employers on register declined slightly by 1.0% to 3287 from 3319 the previous year. Active employers declined slightly by 0.8% to 896 from 903 in 2011.

BENEFITS

The two benefit branches of Social Security are the Long-Term Benefits Branch and the Short-Term Benefits Branch. The Long-Term Benefits Branch comprises: Age, Disability and Survivors Pensions and Grants and the Non-Contributory Old Age Pension (NCOAP). The Short-Term Benefits Branch comprises Sickness Benefit, Maternity Benefit and Funeral Grant.

A total of 3,380 benefit claims were received in 2012, this represented a decrease of 3.65% when compared to 3,512 in 2011. Of the total claims received 3,122 were paid, 429 were rejected and 140 were pending. Short-term benefit claims totaled 3,280 accounting for 97.04% of total claims, while long-term benefit claims totaled 100, accounting for 2.96% of total claims.

Full statistical data on benefit claims can be found in Tables 7, 8, and 9 of the Statistical Digest, herein.

Chart 3

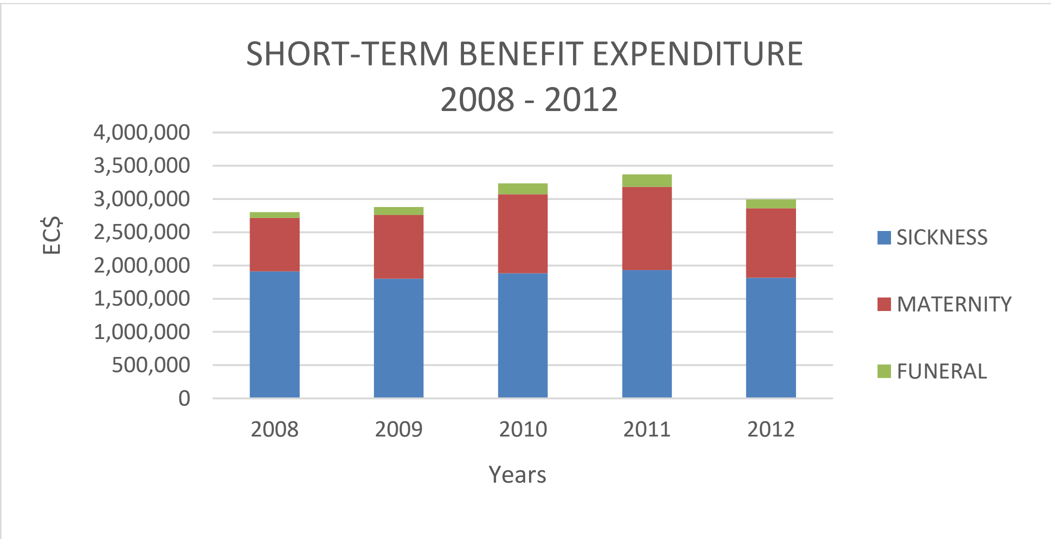
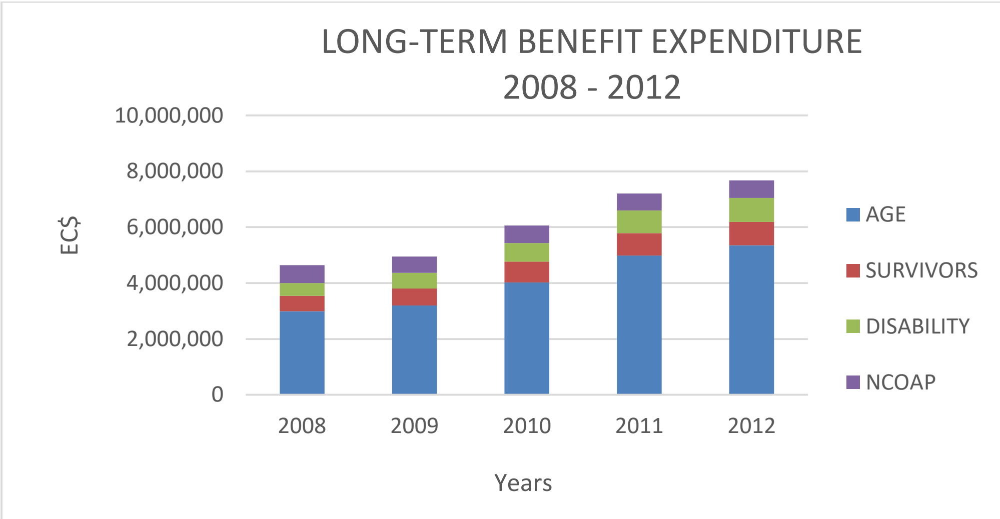


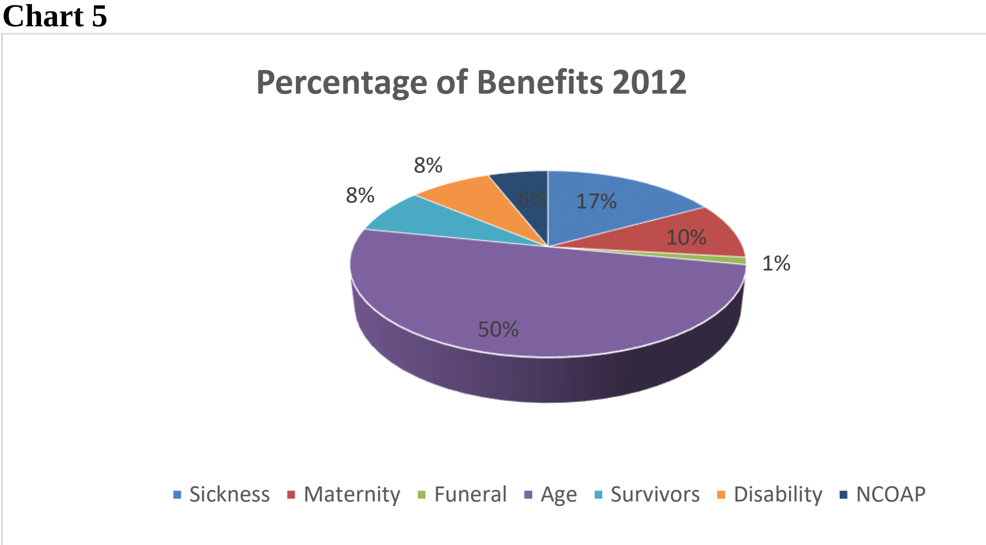
Chart 4



PENSIONS IN PAYMENT

The total number of pensioners on record in 2012 was 801, an increase of 8.49% when compared to 733 in 2011. Total pensioners consisted of 462 Age Pensions, 77 Disability Pensions, 131 Non-Contributory Old Age Pensions and 131 Survivor's Pensions. All long-term benefits are payable for the remainder of the lives of the beneficiaries, with the exception of payments to dependent children, which are payable until age 15 or 18 if the beneficiaries are still in school, and up to age 21 if they are enrolled in tertiary education.

Chart 5



FINANCIAL OPERATIONS

CONTRIBUTION INCOME

At year-end 2012, Contribution Income registered its fourth consecutive year of marginal decline by 7.45%, totaling $24.21M compared to $26.02M in 2011. This decline in contributions can be attributed to the continued contraction of the local economy due to the global recession. Despite the decline in Employer/Employee contributions, Self-Employed contributions increased marginally by 5.12% to total $229,967, compared to $218,201 in 2011. There were no voluntary contributions received during the period under review.

INVESTMENT INCOME

Investment Income in 2012 totaled $12.99M, increasing by 11.89% when compared to $11.44M in 2011. This increase of investment income, indicates that the Investments portfolio performed relatively well. No investment losses were registered in the Expense Statement. Impairment Loss (net of recovery) totaled $7.61M a significant increase of 175.49%, when compared to $2.8M in 2011.

At year-end 2012, Net Rental Income from commercial units continued to decrease by 8.60% totaling $185,522 when compared to $201,474 in 2011.

TOTAL INCOME AND NET INCOME

Total Income in 2012 decreased slightly by 1.38% to $39.15M compared to $39.69M in 2011. Meanwhile, Total Expenditure increased marginally by 18.87% to $26.62M compared to $21.60M in 2011. Net Income decreased significantly by 44.38%, totaling $12.53M compared to $18.10M in 2011.

Chart 6

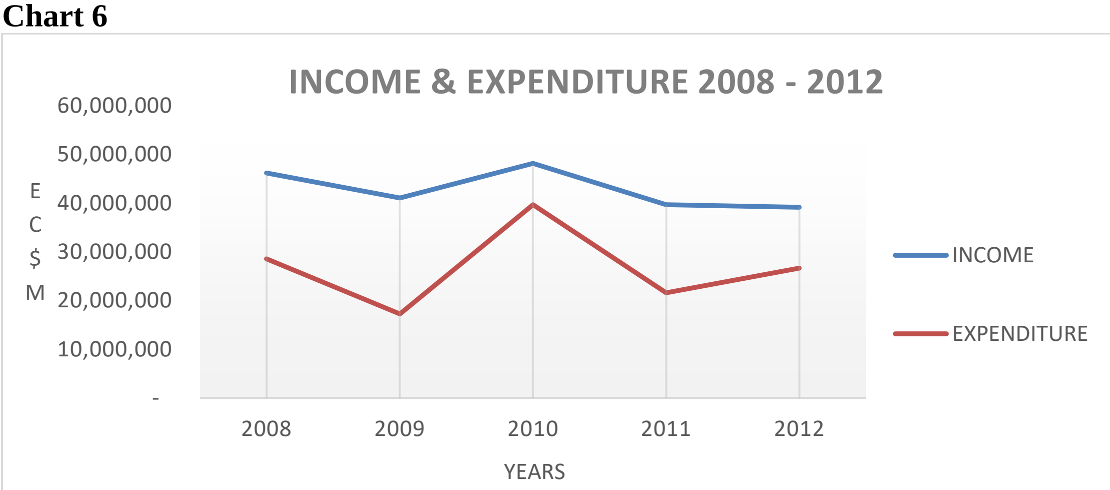
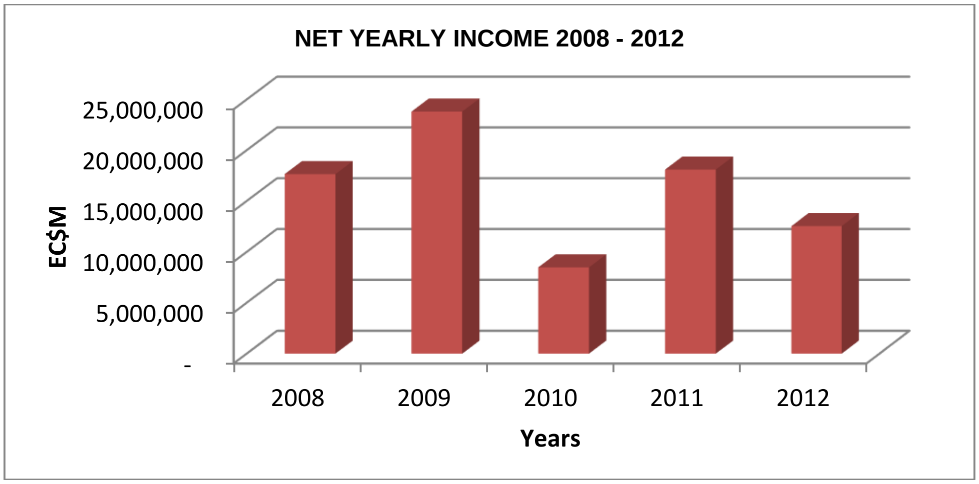


Chart 7



BENEFIT EXPENDITURE

Benefit Expenditure comprises both long-term and short-term benefits payments, with the long-term benefits accounting for the majority of the benefit expenditure. Contribution Income is distributed among the branches according to agreed percentages established by the Actuary. These allocations are 81.25% to the Long-Term Branch, 15.00% to the Short-Term Branch and 3.75% to the Social Security Development Fund.

Benefit Expenditure in 2012 remained relatively stable, totaling $10.67M, a slight increase of 0.77% when compared to $10.58M the previous year. As is customary, long-term benefits accounted for the larger share amounting to $7.67M (71.93%), while short-term benefits amounted to $2.99M (28.07%).

At year-end 2012, benefit expenditure accounted for 40.07% of total expenditure and 44.05% of contribution income; this compares with 40.68% and 49.01% respectively in 2011.

Chart 8

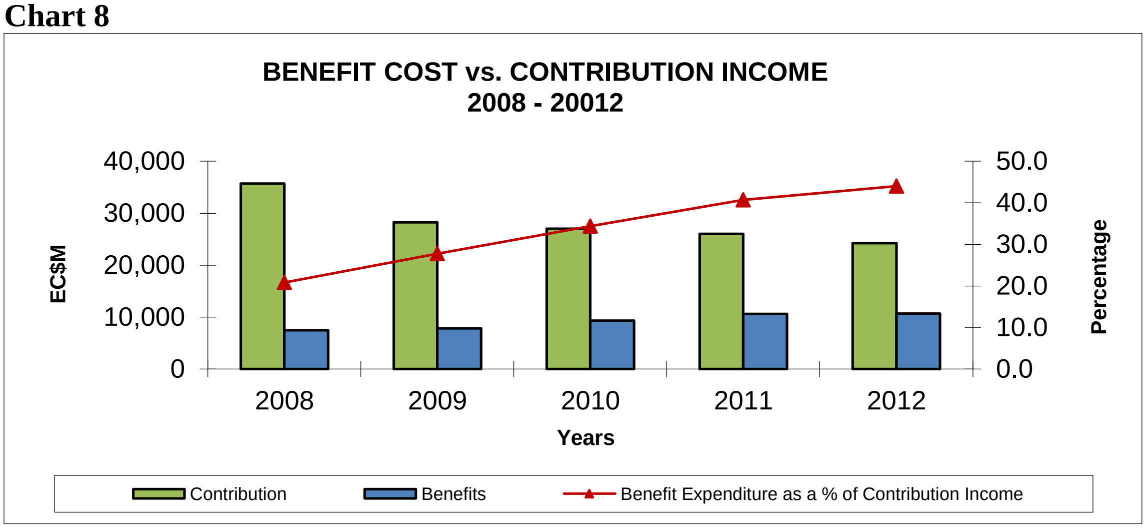
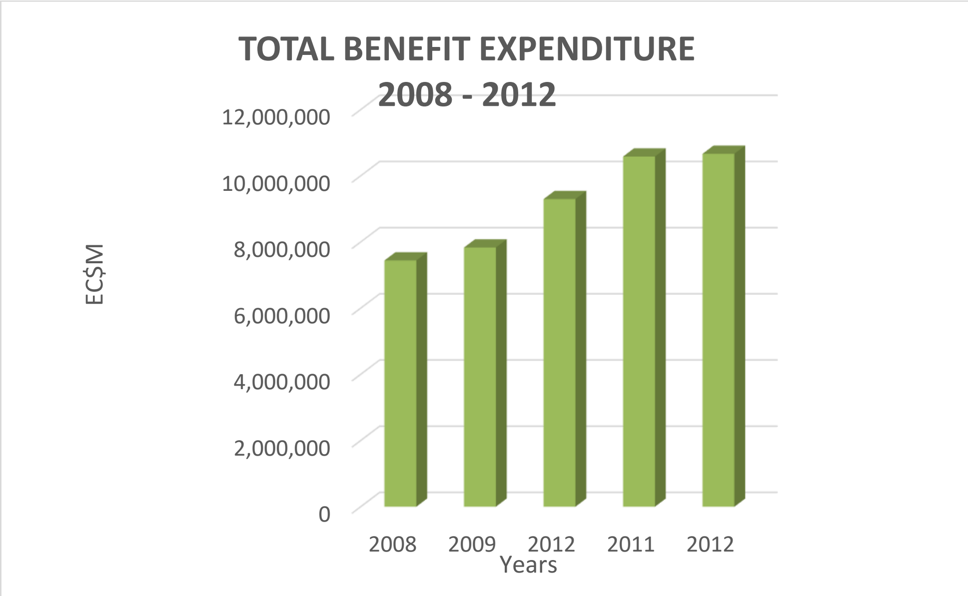


Chart 9



ADMINISTRATIVE EXPENDITURE

At year-end 2012, Administrative Expenditure continued its decline, totaling $6.01M, a decrease of 7.83%, when compared to $6.48M in 2011. Administrative Cost was equivalent to 22.57% of Total Expenditure, 24.81% of Contributions and 17.22% of Contributions plus Benefit Expenditure in 2012; this compares to 30.00%, 24.90% and 17.70% respectively in 2011.

Chart 10

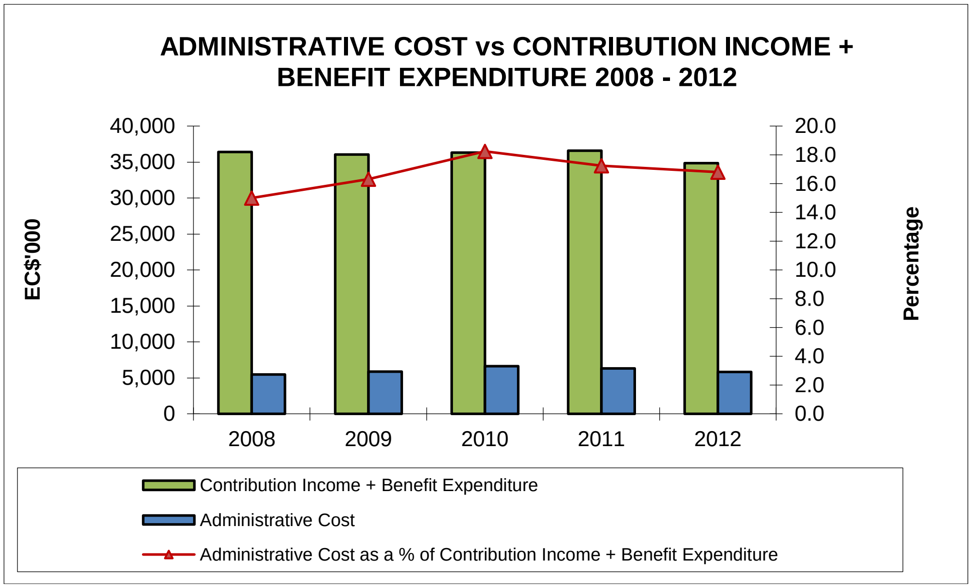
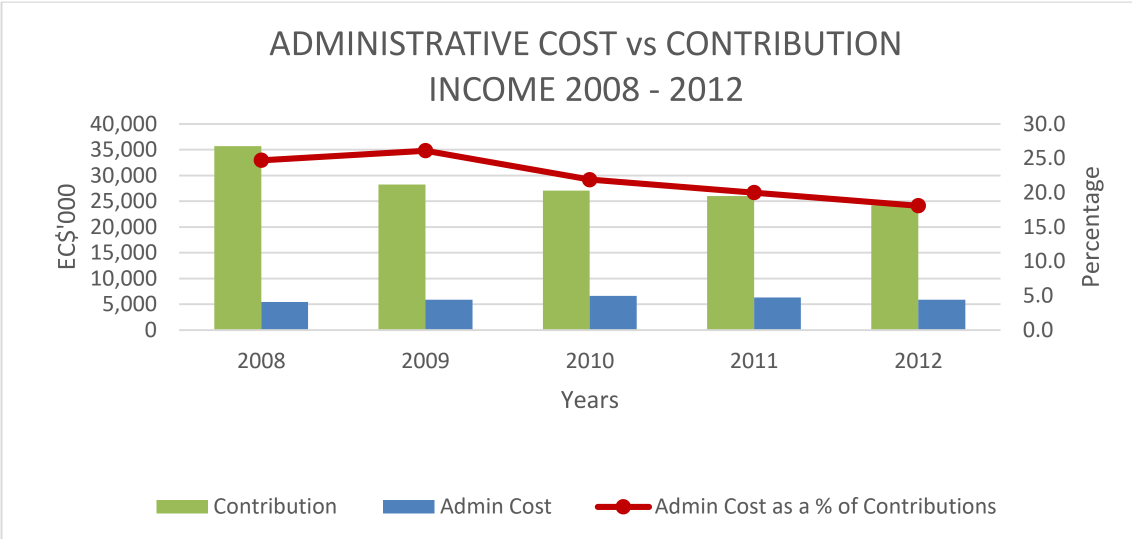


Chart 11



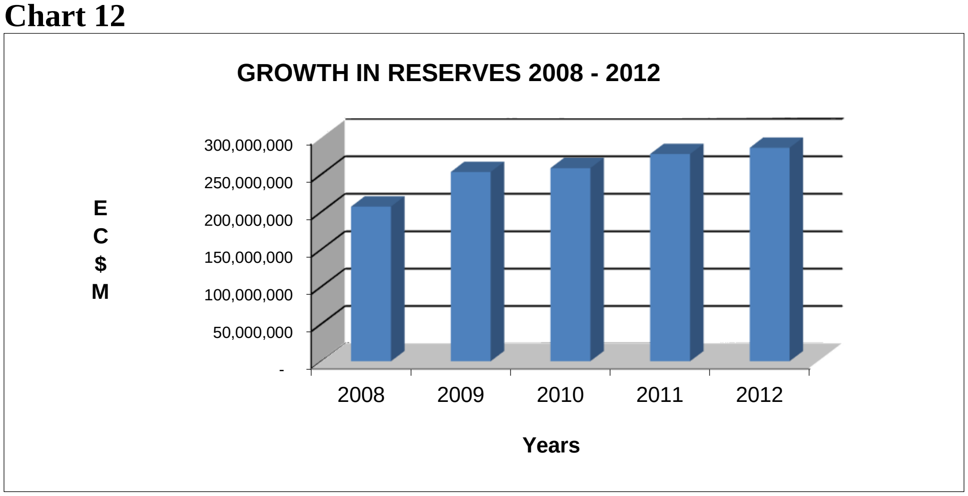
GROWTH IN RESERVES

The Social Security Fund's growth is critical to ensuring its sustainability. The Board has a fiduciary responsibility to manage the Fund in a prudent and effective manner to enable the institution to meet its mandate of paying long-term benefits well into the future.

Total Reserves stood at $267.89M at year end 2012, increasing by 4.85% when compared to $254.81M in 2011, despite the continued poor economic climate. Total Liabilities, Reserves and Development Fund stood at $285.41M, an increase of 2.92% when compared to 277.07% in 2011.

The Long-Term Benefits Branch Reserves showed steady growth in 2012, registering an increase of 5.22% and totaling $254.78M compared to $241.49M in 2011. Meanwhile, the Short-Term Benefits Branch Reserves continued to decrease by 3.72% to total $5.27M compared to $5.47M in 2011. However, the Social Security Development Fund Reserves increased by 11.11% to $2.25M from $2.00M in 2011.

Chart 12



SOCIAL SECURITY DEVELOPMENT FUND (SSDF)

In keeping with its motto "Improving the Quality of Life for All", the Anguilla Social Security Board continues to fulfill its social responsibility by providing funding for community developmental programmes, activities and initiatives in the fields of education, health, sports and culture through the Social Security Development Fund (SSDF). The SSDF was established in 1986 for the purpose of funding such social projects as the Board may select, subject to the prior approval of the Minister responsible for Social Security. It is funded by 3.75% of contribution income and a percentage of investment income based on the balance in the Development Fund at the end of the preceding year. In 2012 a total of $1,423,626 was spent on projects, increasing significantly by 51.86% when compared to $738,256 in 2011. An itemized listing of expenditure can be found at Notes #22 to the Financial Statement.

STATISTICAL DIGEST

Table 1
Annual Registration of Employees by Sex - 2012

AGE GROUPS	MALES	%	FEMALES	%	TOTAL	%
15 - 19	55	14.4	68	17.8	123	32.1
20 - 24	29	7.6	28	7.3	57	14.9
25 - 29	30	7.8	27	7.0	57	14.9
30 - 34	26	6.8	21	5.5	47	12.3
35 - 39	17	4.4	13	3.4	30	7.8
40 - 44	10	2.6	12	3.1	22	5.7
45 - 49	16	4.2	7	1.8	23	6.0
50 - 54	6	1.6	5	1.3	11	2.9
55 - 59	3	0.8	5	1.3	8	2.1
60 - 64	1	0.3	4	1.0	5	1.3
TOTALS	**193**	**50.4**	**190**	**49.6**	**383**	**100.0**

Table 2
Tabulation of All Insured Persons by Sex as at 31st December 2012

AGE GROUPS	MALES	%	FEMALES	%	TOTAL	%
15 - 19	142	0.8	175	1.0	317	1.8
20 - 24	552	3.1	587	3.3	1139	6.3
25 - 29	1048	5.8	782	4.3	1830	10.1
30 - 34	1286	7.1	861	4.8	2147	11.9
35 - 39	1437	8.0	881	4.9	2318	12.9
40 - 44	1569	8.7	910	5.0	2479	13.7
45 - 49	1514	8.4	888	4.9	2402	13.3
50 - 54	1097	6.1	768	4.3	1865	10.3
55 - 59	840	4.7	552	3.1	1392	7.7
60 - 64	469	2.6	310	1.7	779	4.3
65 & Over	779	4.3	591	3.3	1370	7.6
TOTALS	**10733**	**59.5**	**7305**	**40.5**	**18038**	**100.0**

Table 3
Registration of Employees by Gender 2008 – 2012

YEAR	MALE	%	FEMALE	%	TOTAL AT YEAR-END	TOTAL ON REGISTER*	TOTAL** ACTIVE
2008	1,001	75.3	337	24.7	1,338	16,974	9,449
2009	374	62.3	227	37.7	601	17,574	8,259
2012	210	46.2	245	53.8	455	17,408	6,939
2011	217	49.8	219	50.2	436	17,863	6,947
2012	193	50.4	190	49.6	383	18,038	6,684

*Figures revised
**Includes all persons who have ever registered with the System – active, inactive, deceased, pensioners, resident and overseas

Table 4
New Registration of Employers by Industry - 2012

ILO CODE	INDUSTRY	No.	%
50	Construction	6	6.2
62	Retail Trade	4	4.1
63	Hotels & Guest Houses	3	3.1
64	Restaurant & Bars	10	10.3
71	Transport & Storage	6	6.2
72	Communication	2	2.1
81	Financial Institutions	1	1.0
83	Real Estate & Business Services	5	5.2
91	Public Administration & Defense	1	1.0
93	Social & Related Community Services	10	10.3
94	Recreational & Cultural Services	1	1.0
95	Personal & Household Services	47	48.5
Uncoded	Activities Not Adequately Defined	1	1.0
TOTAL		**97**	**100.0**

Table 5
Registration of Employers 2008 – 2012

YEAR	NEWLY REGISTERED EMPLOYERS	EMPLOYERS REGISTERED AT YEAR-END	ACTIVE EMPLOYERS AT YEAR-END
2008	113	2,746	984
2009	126	2,874	916
2010	109	2,983	839
2011	104	3,319	752
2012	97	3,287	896

Table 6
New Self-Employed Registrations by Industry - 2012

ILO CODE	INDUSTRY	No.	%
12	Forestry & Logging	1	3.2
13	Fishing	1	3.2
33	Mft of Wood & Wood Prod./Furn.	2	6.5
50	Construction	5	16.1
62	Retail Trade	4	12.9
64	Restaurant & Bars	2	6.5
71	Transport & Storage	2	6.5
81	Financial Institutions	1	3.2
92	Sanitary and Similar Services	1	3.2
83	Real Estate & Business Services	1	3.2
41	Electricity, Gas & Steam	1	3.2
95	Personal & Household Services	8	25.8
Uncoded	Activities Not Adequately Defined	2	6.5
TOTAL		**31**	**100.0**

Table 7
Benefit Claims Received, Rejected, Pending, Paid – 2012

BENEFIT TYPE	RECEIVED	REJECTED	PENDING	PAID
Sickness	2986	478	55	2453
Maternity Grant	206	2	23	181
Maternity Benefit	175	3	9	163
Funeral	40	1		39
Total Short-Term	**3407**	**484**	**87**	**2836**
Age Pension	36		4	32
Age Grant	25	3	1	21
Survivors Pension	12			12
Survivors Grant	5			5
Disability Pension	10		1	9
Disability Grant	2			2
NCOAP	15	1	1	13
Total Long-Term	**105**	**4**	**7**	**94**
TOTAL CLAIMS	**3512**	**488**	**94**	**2930**

*Non-Contributory Old Age Pension

Table 8
Number of Benefit Claims Received by Type 2008 – 2012

BENEFIT TYPE	2008	2009	2010	2011	2012
SICKNESS	3,113	2,895	2,863	2986	2911
MATERNITY BENEFIT	151	155	160	175	187
MATERNITY GRANTS	154	175	186	206	154
FUNERAL	26	42	38	40	28
TOTAL SHORT-TERM	**3,444**	**3,267**	**3,247**	**3,407**	**3280**
AGE PENSION	34	34	46	38	57
AGE GRANT	7	1	12	25	8
SURVIVORS PENSION	8	16	9	11	8
SURVIVORS GRANT	0	3	1	5	2
DISABILITY PENSION	15	11	13	10	10
DISABILITY GRANT	12	0	2	2	1
NCOAP*		6	9	15	14
TOTAL LONG-TERM	**76**	**71**	**92**	**106**	**100**
TOTAL CLAIMS RECEIVED	**3,520**	**3,338**	**3,339**	**3,513**	**3380**
% CHANGE	**5.9**	**14.3**	**-5.2**	**5.0**	**-3.9**

*Non-Contributory Old Age Pension

Table 9
Benefit Expenditure (EC$) by Type 2008 – 2012

BENEFIT TYPE	2008	2009	2010	2011	2012
SICKNESS	1,910,933	1,788,600	1,883,772	1,930,578	1,815,320
MATERNITY	803,384	966,102	1,187,123	1,251,377	1,045,223
FUNERAL	87,000	119,937	165,000	189,000	133,000
TOTAL SHORT-TERM	**2,801,317**	**2,874,639**	**3,235,895**	**3,370,955**	**2,993,543**
AGE	2,997,213	3,201,294	4,028,168	4,979,849	5,351,909
SURVIVORS	544,264	609,689	737,479	802,688	840,346
DISABILITY	456,057	561,289	627,330	814,474	851,960
NCOAP*	644,811	588,658	669,845	616,314	628,631
TOTAL LONG-TERM	**4,642,345**	**4,960,930**	**6,062,822**	**7,213,325**	**7,672,846**
TOTAL BENEFIT EXPENSE	**7,443,662**	**7,835,569**	**9,298,717**	**10,584,280**	**10,666,389**
% CHANGE	**16.7**	**5.3**	**18.7**	**13.8**	**0.8**

*Non-Contributory Old Age Pension

Table 10
Consolidated Income & Expenditure Account, 5-Year Comparative Analysis 2008 – 2012

INCOME	2008	2009	2010	2011	2012
CONTRIBUTION	35,695,290	28,244,524	27,038,338	26,018,719	24,214,272
INVESTMENT	9,894,984	12,027,772	12,223,661	11,443,500	12,988,096
OTHER (FINES & MISC.)	438,842	560,956	312408	586,731	457,088
LEASE INCOME (NET)	144,745	194,936	8547266	1,642,012	1,492,870
TOTAL	**46,173,861**	**41,028,188**	**48,121,673**	**39,690,962**	**39,152,326**
EXPENSES					
ADMINISTRATIVE	5,467,143	5,885,354	6,629,674	6,317,800	5,862,026
BENEFITS	7,443,662	7,835,569	9,298,717	10,584,280	10,666,389
BORROWING COST		1,367,548	1,139,338	1,031,635	911,508
INVESTMENT LOSSES	10,810,248	48,058	35,025		
IMPAIRMENT LOSS - NET	4,166,490	1,018,022	21,762,244	2,761,866	7,608,535
SSDF*	541,920	924,469	614,860	738,256	1,423,626
OTHER	90,582	139,173	161,747	161,598	146,618
TOTAL	**28,520,045**	**17,218,193**	**39,641,605**	**21,595,435**	**26,618,702**
NET YEARLY INCOME	**17,653,816**	**23,809,995**	**8,480,068**	**18,095,527**	**12,533,624**
% CHANGE	**-25.9**	**34.9**	**-64.4**	**114.4**	**-30.7**
RESERVES & LIABILITIES	**207,075,923**	**253,138,208**	**258,334,264**	**277,071,072**	**290,071,330**
FUND RATIO	**12.0**	**6.4**	**12.0**	**12.6**	**12.8**

ANGUILLA SOCIAL SECURITY BOARD

Consolidated Financial Statements

December 31, 2012

(Expressed in Eastern Caribbean Dollars)

Anguilla Social Security Board and Anguilla Social Security Investment and Development Corporation

Financial Statements for the period ended 31 December 2012

Certificate of Audit and Report of the Chief Auditor

Section 59(2) of the Financial Administration and Audit Act (Revised Statutes of Anguilla Chapter F27, revised as at 15 December 2010) (the Act) permits me, as Chief Auditor, to accept the audit of the accounts and financial statements of a government agency by an independent auditor of the government agency if the appointment of the auditor has been approved by me, and the audit of the government agency has been performed in accordance with my directions.

After I accept the audit of the accounts and financial statements of a government agency by an independent auditor, Sections 59(6) and (7) of the Act require me to issue a certificate of audit and prepare a report that evidence the acceptance of the audit of the independent auditor, and to send that certificate of audit and report to the government agency, to the Minister responsible for the government agency and to the Minister of Finance.

The appointment of BDO LLC as the independent auditor of the Anguilla Social Security Board and Anguilla Social Security Investment and Development Corporation (the Group) was approved by me. BDO were directed to undertake these audits in accordance with appropriate auditing standards. I accept their audit of the financial statements of the Group for the period ended 31 December 2012.

The Group is required to submit an annual report, including my certificate and report, to the Minister responsible for the Fund, the Permanent Secretary and the Minister of Finance. The Minister responsible for the Fund is required to lay the annual report before the House of Assembly.

As recorded in their Auditors' Report, BDO have audited the statement of financial position of the Group as at 31 December 2012, and the related separate statements of income, comprehensive income, (loss)/income and changes in reserves and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements are the responsibility of the Group's management. BDO's responsibility is to express an opinion on the financial statements based on their audit.

BDO conducted their audit in accordance with International Standards on Auditing. Those standards require that BDO comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. BDO believe that the audit evidence they have obtained is sufficient and appropriate to provide a basis for their opinion.

In BDO’s opinion, the financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012 and its financial performance for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying their opinion, BDO draw attention to the fact that the corresponding figures presented are based on the consolidated financial statements of the Group as at and for the year ended 31 December 2011, which were audited by other auditors who expressed an unqualified opinion on these statements on 7 May 2013.

They also draw attention to the following notes to the consolidated financial statements:

Note 25 of the consolidated financial statements shows that as at 31 December 2012, the Group had $87,060,125 and $66,845,008 worth of financial assets with National Bank of Anguilla Limited and Caribbean Commercial Bank (Anguilla) Limited, respectively, in the form of savings, demand and fixed deposits, equity investment and other receivables.

- On 12 August 2013, the National Bank Anguilla of Limited (NBA) and Caribbean Commercial Bank (Anguilla) Limited (CCB) were placed in Conservatorship and as mentioned in Note 29, the Conservatorship ended on 22 April 2016. The conclusion of the Conservatorship is a consequential effect of the passing of the Bank Resolution Obligations Act 2016 (the Act) by the Government of Anguilla on 30 March 2016.
- As stated in Note 29, the passing of the Act resulted in the transfer of the Group’s financial assets to the Government of Anguilla and to the newly established bridge bank: The National Commercial Bank of Anguilla Ltd (NCBA). The passing of the Act will also result in an impairment loss estimated at $35,547,224 on the Group’s financial asset as at and for the year ended 31December 2016.
- The estimated impairment loss as indicated above will have a significant impact on the Group’s Net Accumulated Obligation to its members as disclosed in Note 14 to the consolidated financial statements. This might also have a significant impact on the financial condition of the Fund, the adequacy of the contributions to support benefits and the fund period of equilibrium.
- Aside from the estimated impairment loss as indicated above, the Group might face significant uncertainty in the collection of the financial assets assumed by the Government of Anguilla as a result of the country’s current and future economic and financial condition.

Note 1 which shows that ASSIDCO, the Group's wholly-owned subsidiary, incurred a net loss of $5,710,457 for the year ended 31 December 2012 (2011: $1,208,594) and as of that date, the ASSIDCO's accumulated deficit and shareholders' deficit amounted to $14,948,701 (2011: $9,238,244) and $2,509,070 (2011: $3,891,687), respectively. During the year, the Anguilla Social Security Board (the Board) made an additional capital infusion of $7,093,073 in order to provide ASSIDCO with enough funds to pay off ASSIDCO's debt obligations and operating expenses. The Board's total investment in ASSIDCO as at 31 December 2012 was $12,439,631, of which $7,093,073 was provided for with provision for credit losses in ASSIDCO's separate statement of operations and the remaining $5,346,557 was provided for in the previous years, due to continued deficits incurred by ASSIDCO. Claims against the Government of Anguilla for lease rentals since the inception until 30 September 2016 amounting to EC$24,300,000 remains unpaid.

- In April 2014, the Board, by way of additional capital contribution to ASSIDCO, paid off the latter’s borrowings with Scotiabank Anguilla Limited as disclosed in Note 29. This remediated ASSIDCO’s accumulated deficit as at that date. Despite this, ASSIDCO continues to explore ways to bring the Cinnamon Reef property into a profitable venture either by sale or development. As a definite course of action is yet to be determined, they are of the opinion that this matter remains a significant uncertainty which has direct impact on the current financial position of ASSIDCO and of the Group.

Note 25 which shows that as at 31 December 2012 the gross total financial instruments of the Group amounting to $312,843,892 (2011 $295,722,385) represented 97% (2011 96%) of its total gross assets; 94% (2011 93%) of these financial instruments were invested in Anguilla. In view of this, the Group is exposed to significant geographical credit concentration which could materially impact the Group's liquidity, financial position and performance should Anguilla continue to encounter financial difficulties.

I have no further observations to make on these financial statements.

John Herniman
Chief Auditor
27 February 2017

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CORPORATE INFORMATION

PHYSICAL ADDRESS
James Ronald Webster Building
The Valley
Anguilla, B.W.I.

BOARD OF DIRECTORS
Russel Reid, Chairman
Selwyn Horsford, Deputy Chairman
Lanston Connor, Member
Sheila Richardson-Hodge, Member
Sean Richards, Member
Lena Sasso, Member
Mesha Webster-Irish, Alternate
Marva Smith, Alternate
Anthea Ipinson, Alternate

DIRECTOR
Timothy Hodge

SECRETARY
Dorice Fleming

BANKERS
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Caribbean Commercial Bank (Anguilla) Limited
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Anguilla, B.W.I.

SOLICITOR
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Chartered Accountants
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Anguilla Social Security Board and Anguilla Social Security Investment & Development Corporation

We have audited the accompanying consolidated financial statements of Anguilla Social Security Board and its subsidiary (collectively called the "Group"), which comprise the consolidated statement of financial position as at December 31, 2012, and the related consolidated statement of income, consolidated statement of comprehensive income, consolidated statements of (loss)/income and changes in reserves and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Unqualified Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

INDEPENDENT AUDITORS' REPORT *(continued)*

To the Board of Directors of Anguilla Social Security Board and Anguilla Social Security Investment & Development Corporation *(continued)*

Emphasis of Matters

Without qualifying our opinion, we draw attention to the fact that the corresponding figures presented are based on the consolidated financial statements of the Group as at and for the year ended December 31, 2011, which were audited by other auditors who expressed an unqualified opinion on these statements on May 7, 2013.

We also draw attention to the following notes to the consolidated financial statements:

- Note 25 of the consolidated financial statements shows that as at December 31, 2012, the Group had $87,060,125 and $66,845,008 worth of financial assets with National Bank of Anguilla Limited and Caribbean Commercial Bank (Anguilla) Limited, respectively, in the form of savings, demand and fixed deposits, equity investment and other receivables.

  On August 12, 2013, the National Bank Anguilla of Limited (NBA) and Caribbean Commercial Bank (Anguilla) Limited (CCB) were placed in Conservatorship and as mentioned in Note 29, the Conservatorship ended on April 22, 2016. The conclusion of the Conservatorship is a consequential effect of the passing of the Bank Resolution Obligations Act, 2016 (the "Act") by the Government of Anguilla on March 30, 2016.

  As stated in Note 29, the passing of the Act resulted in the transfer of the Group's financial assets to the Government of Anguilla and to the newly established bridge bank: The National Commercial Bank of Anguilla Ltd ("NCBA"). The passing of the Act will also result in an impairment loss estimated at $35,547,224 on the Group's financial asset as at and for the year ended December 31, 2016.

  The estimated impairment loss as indicated above will have a significant impact on the Group's Net Accumulated Obligation to its members as disclosed in Note 14 to the consolidated financial statements. This might also have a significant impact on the financial condition of the fund, the adequacy of the contributions to support benefits and the fund period of equilibrium.

  Aside from the estimated impairment loss as indicated above, the Group might face significant uncertainty in the collection of the financial assets assumed by the Government of Anguilla as a result of the country's current and future economic and financial condition.

INDEPENDENT AUDITORS' REPORT *(continued)*

To the Board of Directors of Anguilla Social Security Board and Anguilla Social Security Investment & Development Corporation *(continued)*

Emphasis of Matters (continued)

We also draw attention to the following notes to the consolidated financial statements: *(continued)*

- Note 1 which shows that Anguilla Social Security Investment & Development Corporation (ASSIDCO), the wholly-owned subsidiary of the Group, incurred a net loss of $5,710,457 for the year ended December 31, 2012 (2011: $1,208,594) and as of that date, the ASSIDCO's accumulated deficit and shareholders' deficit amounted to $14,948,701 (2011: $9,238,244) and $2,509,070 (2011: $3,891,687), respectively. During the year, the Anguilla Social Security Board (the "Board") made an additional capital infusion of $7,093,073 in order to provide ASSIDCO with enough funds to pay off ASSIDCO's debt obligations and operating expenses. The Board's total investment in ASSIDCO as at December 31, 2012 was $12,439,631, of which $7,093,073 was provided for with provision for credit losses in ASSIDCO's separate statement of losses and the remaining $5,346,557 were provided for in the previous years, due to continued deficits incurred by ASSIDCO. Claims against the Government of Anguilla for lease rentals since the inception until September 30, 2016 amounting to EC$24,300,000 remains unpaid.

  In April 2014, the Board, by way of additional capital contribution to ASSIDCO, paid off the latter's borrowings with Scotiabank Anguilla Limited as disclosed in note 29. This remediated ASSIDCO's accumulated deficit as at that date. Despite this, ASSIDCO continues to explore ways to bring the Cinnamon Reef property into a profitable venture either by sale or development. As a definite course of action is yet to be determined, we are of the opinion that this matter remains a significant uncertainty which has direct impact on the current financial position of ASSIDCO and of the Group.

- Note 25 which shows that as at December 31, 2012, the total financial instruments of the Group amounting to $312,143,892 (2011: 295,722,385) represent ninety-seven percent (97%) (2011: 96%) of its total gross assets. Ninety-three percent (93%) (2011: 93%) of these financial instruments were invested in Anguilla. In view of this, the Group is exposed to significant geographical credit concentration which could materially impact the Group's liquidity, financial position and performance should Anguilla continues to encounter financial difficulties.

BDO LLC

Chartered Accountants
18th of October 2016
The Valley
Anguilla, B.W.I.

ANGUILLA SOCIAL SECURITY BOARD
Consolidated Statement of Financial Position
As at December 31, 2012

[Expressed in Eastern Caribbean Dollars (EC$)]

	Notes	2012	2011
Assets			
Cash and cash equivalents	7	40,050,830	109,806,771
Investment securities - net	8	172,598,699	83,117,032
Contributions, loans and other receivables - net	9	60,347,283	71,707,516
Property and equipment - net	11	9,226,018	9,244,411
Intangible assets - net	12	256,401	336,715
Other assets	13	2,926,056	2,858,627
Total Assets		285,405,287	277,071,072
Liabilities, Reserves and Development Fund			
Liabilities			
Bank overdraft	7	-	2,779,851
Accounts payable and accrued expenses		397,868	351,934
Pension fund obligation	14	3,122,579	3,010,771
Borrowings	15	14,098,322	16,123,322
Total Liabilities		17,618,769	22,265,878
Reserves and Development Fund			
Short-term benefits branch reserve		5,271,643	5,467,864
Long-term benefits branch reserve		254,784,717	241,492,858
Social Security Development Fund		949,467	1,623,952
Social Security Development Fund Reserve	16	2,250,000	2,000,000
Unrealized gain/(loss) on available-for-sale investment securities	8.2	269,831	(177,868)
Premises revaluation surplus	11	4,260,860	4,398,388
Total Reserves and Development Fund		267,786,518	254,805,194
Total Liabilities, Reserves and Development Fund		285,405,287	277,071,072

These consolidated financial statements from pages 5 to 66 were approved and authorized for issue by the Board of Directors of the Group on 18th of October 2016 and were signed on their behalf by:

Russel Reid
Chairman

Timothy Hodge, BA, MBA
Director

The notes on pages 13 to 66 are integral part of these consolidated financial statements.

ANGUILLA SOCIAL SECURITY BOARD
Consolidated Statement of Income
For the Year Ended December 31, 2012

[Expressed in Eastern Caribbean Dollars (EC$)]

	Notes	2012	2011
Income			
Contributions	*17*	**24,214,272**	26,018,719
Investment income	*18*	**12,988,096**	11,443,500
Lease income – net	*19*	**1,492,870**	1,642,012
Fines and miscellaneous	*20*	**457,088**	586,731
		39,152,326	39,690,962
Expenses			
Benefits			
Short-term	*21*	**2,993,543**	3,370,955
Long-term	*21*	**7,672,846**	7,213,325
		10,666,389	10,584,280
Administrative and other expenses	*23*	**6,008,644**	6,479,398
Impairment loss - net of recovery	*8*	**7,608,535**	2,761,866
Social Security Development Fund	*22*	**1,423,626**	738,256
Borrowing costs	*15*	**911,508**	1,031,635
		26,618,702	21,595,435
Net income		**12,533,624**	18,095,527

The notes on pages 13 to 66 are integral part of these consolidated financial statements.

ANGUILLA SOCIAL SECURITY BOARD
Consolidated Statement of Comprehensive Income
For the Year Ended December 31, 2012

[Expressed in Eastern Caribbean Dollars (EC$)]

	Notes	2012	2011
Net income		**12,533,624**	18,095,527
Other comprehensive income/(loss)			
Net change in fair value of property and equipment	*11*	**-**	(493,133)
Net change in fair value of available-for-sale investment securities	*8*	**447,699**	(518,779)
		447,699	(1,011,912)
Total comprehensive income		**12,981,323**	17,083,615
Attributable to the owner of the Group		**12,981,323**	17,083,615

The notes on pages 13 to 66 are integral part of these consolidated financial statements.

ANGUILLA SOCIAL SECURITY BOARD
Consolidated Statement of Loss and Changes in Reserve
Short-term Benefits Branch
For the Year Ended December 31, 2012

[Expressed in Eastern Caribbean Dollars (EC$)]

	Notes	2012	2011
Income			
Contributions	*17*	**3,632,141**	3,902,808
Investment income	*18*	**288,891**	287,279
Lease income – net	*19*	**33,206**	41,221
Fines and miscellaneous	*20*	**228,544**	293,366
		4,182,782	4,524,674
Expenses			
Benefits	*21*	**2,993,543**	3,370,955
Administrative and other expenses	*23*	**1,216,580**	1,370,658
Impairment loss - net of recovery	*8*	**169,235**	69,334
Borrowing costs	*15*	**20,274**	25,898
		4,399,632	4,836,845
Net loss		**(216,850)**	(312,171)

Short-term benefits branch reserve

	Note	2012	2011
Balance at beginning of the year		**5,467,864**	5,772,126
Net loss		**(216,850)**	(312,171)
Depreciation transfer from premises revaluation surplus	*11*	**20,629**	7,909
Balance at end of the year		**5,271,643**	5,467,864

The notes on pages 13 to 66 are integral part of these consolidated financial statements.

ANGUILLA SOCIAL SECURITY BOARD
Consolidated Statement of Income and Changes in Reserve
Long-term Benefits Branch
For the Year Ended December 31, 2012

[Expressed in Eastern Caribbean Dollars (EC$)]

	Notes	2012	2011
Income			
Contributions	*17*	**19,674,096**	21,140,209
Investment income	*18*	**12,511,934**	10,996,311
Lease income – net	*19*	**1,438,138**	1,577,846
Fines and miscellaneous	*20*	**228,544**	293,365
		33,852,712	34,007,731
Expenses			
Benefits	*21*	**7,672,846**	7,213,325
Administrative and other expenses	*23*	**4,792,064**	5,108,740
Impairment loss - net of recovery	*8*	**7,329,595**	2,653,938
Borrowing costs	*15*	**878,091**	991,321
		20,672,596	15,967,324
Net income		**13,180,116**	18,040,407

Long-term benefits branch reserve

	Note	2012	2011
Balance at beginning of the year		**241,492,858**	223,409,610
Net income		**13,180,116**	18,040,407
Depreciation transfer from premises revaluation surplus	*11*	**111,743**	42,841
Balance at end of the year		**254,784,717**	241,492,858

The notes on pages 13 to 66 are integral part of these consolidated financial statements.

ANGUILLA SOCIAL SECURITY BOARD
Consolidated Statement of (Loss)/Income and Changes in Reserve
Social Security Development Fund and Development Fund Reserve
For the Year Ended December 31, 2012

[Expressed in Eastern Caribbean Dollars (EC$)]

	Notes	2012	2011
Income			
Contributions	*17*	**908,035**	975,702
Investment income	*18*	**187,271**	159,910
Lease income – net	*19*	**21,526**	22,945
		1,116,832	1,158,557
Expenses			
Social projects funded	*22*	**1,423,626**	738,256
Impairment loss – net of recovery	*8*	**109,705**	38,594
Borrowing costs	*15*	**13,143**	14,416
		1,546,474	791,266
Net (loss)/income		**(429,642)**	367,291

Social Security Development Fund

	Notes	2012	2011
Balance at beginning of the year		**1,623,952**	1,504,684
Net (loss)/income		**(429,642)**	367,291
Depreciation transfer from premises revaluation surplus	*11*	**5,157**	1,977
Transfer to Development Fund Reserve	*16*	**(250,000)**	(250,000)
Balance at end of the year		**949,467**	1,623,952

Social Security Development Fund Reserve

	Note	2012	2011
Balance at beginning of the year		2,000,000	1,750,000
Transfer from Development Fund Reserve	*16*	250,000	250,000
Balance at end of the year		2,250,000	2,000,000

The notes on pages 13 to 66 are integral part of these consolidated financial statements.

ANGUILLA SOCIAL SECURITY BOARD
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2012

[Expressed in Eastern Caribbean Dollars (EC$)]

	Notes	2012	2011
Cash flows from operating activities			
Net income		**12,533,624**	18,095,527
Adjustments for:			
Interest income	*18*	**(12,742,249)**	(11,162,994)
Impairment loss - net of recovery	*8*	**7,608,535**	2,761,866
Accounts written off	*8*	**(2,281,785)**	-
Finance lease earned income	*19*	**(1,307,348)**	(1,440,538)
Interest expense	*15*	**911,508**	1,031,635
Depreciation and amortization	*11, 12*	**418,176**	417,683
Dividend income	*18*	**(231,260)**	(267,260)
Net realized gain from available-for-sale investment securities	*8, 18*	**(14,587)**	(13,246)
		4,894,614	9,422,673
Decrease (increase) in:			
Contributions and other receivables	*9*	**938,894**	(371,736)
Other assets	*13*	**(67,429)**	(202,387)
Increase/(decrease) in:			
Accounts payable and accrued expenses		**50,493**	75,698
Pension fund obligation	*14*	**111,808**	733,225
Net cash provided by operating activities		**5,928,380**	9,657,473
Cash flows from investing activities			
Interest received		**11,702,112**	11,383,221
(Acquisition)/withdrawal of held-to-maturity investment securities	*8.1*	**(87,314,812)**	48,851,451
Acquisition of property and equipment	*11*	**(319,578)**	(660,123)
Dividends received	*18*	**231,260**	267,260
Loan collection	*9*	**5,766,917**	228,451
Acquisition of intangible assets	*12*	**(29,301)**	(24,093)
Net cash (used in)/ provided by investing activities		**(69,963,402)**	60,046,167

Forward

The notes on pages 13 to 66 are integral part of these consolidated financial statements.

ANGUILLA SOCIAL SECURITY BOARD
Consolidated Statement of Cash Flows *(continued)*
For the Year Ended December 31, 2012

[Expressed in Eastern Caribbean Dollars (EC$)]

	Notes	2012	2011
Cash flows from financing activities			
Payment of borrowings	*15*	**(2,025,000)**	(1,932,928)
Interest paid		**(916,068)**	(1,034,288)
Net cash used in financing activities		**(2,941,068)**	(2,967,216)
Net increase in cash and cash equivalents		**(66,976,090)**	66,736,424
Cash and cash equivalents at beginning of year		**107,026,920**	40,290,496
Cash and cash equivalents at end of year	*7*	**40,050,830**	107,026,920

Represented by:

	Notes	2012	2011
Cash and cash equivalents	*7*	**40,050,830**	109,806,771
Bank overdraft	*7*	**-**	(2,779,851)
		40,050,830	107,026,920

The notes on pages 13 to 66 are integral part of these consolidated financial statements

1. Reporting entity

The parent company
The Anguilla Social Security Board (the "Board") is a statutory body established by the Social Security Act (the "Act"), Revised Statutes of Anguilla Chapter S45 (R.S.A.c.S45) to administer the Social Security Fund (the "Fund") with the objectives of providing various insurance and retirement benefits to persons insured as described in the Act. The Board's registered office and principal place of business address is at the James Ronald Webster Building, The Valley, Anguilla, British West Indies.

The subsidiary company
On March 24, 2009, the Board established the Anguilla Social Security Investment & Development Corporation (the “Company or “ASSIDCO”) as its wholly-owned subsidiary, for the purpose of investment and development, in accordance with Section 13A of the Social Security Act, R.S.A.c.S45, as amended by the Social Security (Amendment) Act (No. 4) 2009 which became effective on March 9, 2009. The Company’s registered office and principal place of business is at the James Ronald Webster Building, The Valley, Anguilla, British West Indies.

The Board and the Company are collectively called the “Group” in these consolidated financial statements.

Status of operations of the subsidiary company
On January 19, 2010, ASSIDCO and the Government of Anguilla entered into a lease and purchase agreement relating to the Cinnamon Reef Property which was purchased by ASSIDCO in 2009 through a loan from a local bank. This loan was guaranteed by the Board. The lease and purchase agreement provides that the Government of Anguilla leases the property from ASSIDCO for a period of 10 years for a monthly rent of EC$300,000. Within the said period, the latter committed to purchase the said property at an agreed price of EC$20,250,000.

As at December 31, 2012, the outstanding rental receivables from the Government of Anguilla amounting to EC$10,800,000 since the inception of the lease remain unpaid. Further, the Government of Anguilla advised ASSIDCO on May 20, 2011 that the former is no longer interested in the acquisition of the Cinnamon Reef and desirous of bringing closure to the lease and purchase agreement. This issue had put a strain in ASSIDCO’s cash flows and financial performance.

The doubtful recoverability of the ASSIDCO’s receivables from the Government of Anguilla resulted in significant credit losses to ASSIDCO’s profit or loss resulting in a net loss of EC$5,710,457 for the year ended December 31, 2012 (2011: $1,208,594). As of that date, the ASSIDCO’s accumulated deficit and shareholders’ deficit amounted to $14,948,701 (2011: $9,238,244) and $2,509,070 (2011: $3,891,687), respectively.

The Board continued to guarantee ASSIDCO’s loan from a bank in Anguilla until it was fully repaid by the Board on April 29, 2014 (see note 29). With the protracted sale of the Cinnamon Reef property and non-collection of rentals owed by the Government of Anguilla pursuant to a Sale and Purchase Agreement entered between the latter and ASSIDCO, the Board committed to infuse additional financial support to ASSIDCO to support its operations and payment of obligations as disclosed in note 29.

1. Reporting entity *(continued)*

The subsidiary company *(continued)*

Status of operations of the subsidiary company (continued)
As at report date, the Company is currently considering a proposal for a joint venture arrangement with a property developer with the aim of developing the Cinnamon Reef Property into a high-end hotel. The Company believes that the favourable outcome of this will alter its current financial position and will in turn result in favourable result to the Company's financial position and results.

2. Basis of preparation

a. Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and the provisions of Social Security (Financial and Accounting) Regulations R.R.A.S45-4.

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for available-for sale investment securities and land and building which are measured at their fair market values.

c. Functional and presentation currency

These consolidated financial statements have been prepared in Eastern Caribbean Dollars (EC Dollars), which is the Group's functional and presentation currency. Except as otherwise indicated, financial information presented in EC Dollars has been rounded to the nearest dollar.

d. Use of estimates and judgments

The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

2. Basis of preparation *(continued)*

d. Use of estimates and judgments *(continued)*

In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in note 6.

e. Actuarial review of pension liabilities to members

An actuarial review was conducted as at December 31, 2010 by an independent actuary, Mr. Hernando Perez Montas. The actuarial report is being updated every three years. The actuarial projections provide a quantification of the emerging level of reserves of the long-term branch and from an actuarial standpoint, the investment return assumes an average 6% nominal return or a 3% real return net of inflation, an assumption that lies within accepted benchmarks of national pension systems. A summary of key parameters and the present value of pensions are disclosed in note 14.

The Group applies IAS 26 which requires the actuarial present value of promised retirement benefits to be recognized on the statement of financial position, in the notes to the financial statements or in an accompanying actuarial report. The Group has chosen to disclose the actuarial present value of promised retirement benefits in the notes to these financial statements.

f. Change in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except that the Group has adopted the following new and amended IFRS and IFRIC (International Financial Reporting Interpretations Committee) interpretations as of January 1, 2012:

- *Amendments to IAS 1, Presentation of Items of Other Comprehensive Income (OCI)*
- *Disclosures - Transfers of Financial Assets (Amendments to IFRS 7)*
- *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments to IFRS 1)*
- *Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)*

Adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group except for presentation purposes.

3. Significant accounting policies

The accounting policies set out below have been applied consistently by the Group to all periods presented in these consolidated financial statements.

(a) Basis of consolidation

i. *Subsidiaries*

Subsidiaries are entities controlled by the Board. Control exists when the Board has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

ii. *Transactions eliminated on consolidation*
Intra-group balances and transactions are eliminated in preparing the consolidated financial statements.

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the Group's functional currency at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the Group's functional currency at the exchange rate ruling at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in the foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the Group's functional currency at the exchange rate at the date the fair value was determined.

Foreign currency differences arising from retranslation are recognized in the consolidated statement of income except for differences arising on retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognized in the consolidated statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(c) Contribution income

Contribution income is recognized in the consolidated statement of income on the date that the employers' and employees' obligations to contribute become due and the Group's right to receive payment is established.

3. Significant accounting policies *(continued)*

(d) Investment income

Investment income comprises interest income on available-for-sale and held-to-maturity investment securities, loans and receivables and cash in bank, dividend income and gain on disposal of available-for-sale investment securities. Interest income is recognized as it accrues in the consolidated statement of income using the effective interest rate method. Dividend income is recognized in the consolidated statement of income on the date that the Group's right to receive payment is established.

(e) Lease

Leases in terms of which the Group transfers substantially all the risks and rewards of ownership are classified as finance lease. Upon initial recognition, the Group recognizes assets under a finance lease in the consolidated statement of financial position as a receivable at an amount equal to the net investment in the lease. Net investment is comprised of the present value of the minimum lease payments and any unguaranteed residual value accruing to the Group. The present value is calculated by discounting the minimum lease payments due and any unguaranteed residual value, at the interest rate implicit in the lease. Initial direct costs are included in the calculation of the finance lease receivable, because the interest rate implicit in the lease, used for discounting the minimum lease payments, takes initial direct costs incurred into consideration.

The Group derecognises the leased asset and recognises the difference between the carrying amount of the leased asset and the finance lease receivable in the consolidated statement of income when recording the finance lease receivable. This gain or loss is presented in the consolidated statement of income in the same line item in which the lessor presents gains or losses from sales of similar assets.

Over the lease term the Group accrues interest income on the net investment. The receipts under the lease are allocated between reducing the net investment and recognising finance income, so as to produce a constant rate of return on the net investment.

Lease income from leased property accounted for as operating lease is recognized in the consolidated statement of income on a straight line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rent income over the term of the lease.

(f) Fines and miscellaneous income

Fines and miscellaneous income are recognized in the consolidated statement of income on the date cash is received.

3. Significant accounting policies *(continued)*

(g) Distribution of income

Based on Section 18(1a) of the Financial and Accounting Regulations of the Social Security Act (R.S.A.c. S45), the income from employer and employee contributions is ascribed to the various branches in the following proportions:

Short-term benefits branch	15.00%
Long-term benefits branch	81.25%
Social Security Development Fund	3.75%

On the other hand, investment income and rent income are distributed to each branch in proportion to the amount of reserves in each branch at the end of the preceding year, based on Section 18(1b) of the Financial and Accounting Regulations of the Social Security Act (R.S.A.c. S45). The allocations are as follows:

	2012	2011
Short-term benefits branch	**2.22%**	2.51%
Long-term benefits branch	**96.34%**	96.09%
Social Security Development Fund	**1.44%**	1.40%

Other income is distributed equally between the two benefit branches.

(h) Distribution of expenditure

Benefit expenditures grouped under a specific branch are ascribed to that branch based on Section 2(b) of the Financial and Accounting Regulations of the Social Security Act (R.S.A.c S45).

The benefits are grouped as follows:

Short-term benefits branch	- sickness benefit, maternity benefit, funeral grant
Long-term benefits branch	- age benefit, invalidity benefit, survivor's benefit, non-contributory old age pension

Administrative expenses are distributed among the benefit branches in proportion of the sum of contribution income and benefit expenditure of each branch to the total sum of contribution income and benefit expenditure of the two benefit branches, based on Section 19(2) of the Financial and Accounting Regulations of the Social Security Act (R.S.A.c. S45). In 2012 and 2011, the allocations are as follows:

	2012	2011
Short-term benefits branch	**19.50%**	**20.42%**
Long-term benefits branch	**80.50%**	**79.58%**

All other expenditure which is not attributable to any specific branch shall be distributed among the two benefit branches in equal proportion.

3. Significant accounting policies *(continued)*

(i) Financial assets

i. ***Recognition***
The Group initially recognizes financial assets on the date that they are originated.

ii. ***Classification***
The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity, loans and receivables and available-for-sale.

iii. ***Derecognition***
The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a consolidated asset or liability.

iv. ***Offsetting***
Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

v. ***Amortized cost measurement***
The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

vi. ***Fair value measurement***
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

IFRS 7 fair value measurement hierarchy
IFRS 7 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following levels:

3. Significant accounting policies *(continued)*

(i) Financial assets *(continued)*

vi. *Fair value measurement* *(continued)*

a. Quoted prices (unadjusted) in active markets for identical assets and liabilities (Level 1);
b. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
c. Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirely into only one of the three levels.

vii. *Identification and measurement of impairment*

At each reporting date, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortized cost) with similar risk characteristics.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other 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 correlate with defaults in the group.

In assessing collective impairment, the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by the historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

3. Significant accounting policies *(continued)*

(i) Financial assets *(continued)*

vii.*Identification and measurement of impairment* *(continued)*

Impairment loss on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognized in the consolidated statement of income and reflected in an allowance account against loans and receivable.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated statement of income.

(j) Non-derivative financial instruments

Non-derivative financial instruments comprise of cash and cash equivalents, investments in debt and equity securities, contributions, loans and other receivable, finance lease receivables, accounts payable and accrued expenses and borrowings. Non-derivative financial instruments are recognized initially at fair value. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Cash and cash equivalents
Cash and cash equivalents include cash balances on hand, balances with local banking institutions and highly liquid financial assets with maturities of less than three months, which are subject to insignificant risk of changes in their fair value.

Bank overdraft
Bank overdraft is measured at amortized cost using the effective interest method.

Held-to-maturity investment securities
Held-to-maturity investment securities are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale.

Held-to-maturity investment securities are measured at amortized cost using the effective interest method, less any impairment losses.

Available-for-sale investment securities
The Group's investments in equity securities and certain debt securities are classified as available-for-sale investment securities. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items, are recognized directly in the consolidated statement of comprehensive income. When an investment is derecognised, the cumulative gain or loss in the consolidated statement of comprehensive income is transferred to the consolidated statement of comprehensive income and presented within equity in the fair value reserve.

3. Significant accounting policies *(continued)*

(j) Non-derivative financial instruments *(continued)*

Loans, contributions and other receivables
Loans, contributions and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

Loans, contributions and other receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method except when the Group chooses to carry the loans, contributions and other receivables at fair value through profit or loss.

Finance lease receivables
Finance lease receivables are measured at the present value of the minimum lease payments and any unguaranteed residual value accruing to the Group less any impairment losses. The present value is calculated by discounting the minimum lease payments due and any unguaranteed residual value, at the interest rate implicit in the lease.

Accounts payable
Accounts payable are non-derivative financial liabilities with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. Subsequent to initial recognition, accounts payable are measured at amortized cost using the effective interest method.

Borrowings
Borrowings are measured at amortized cost using the effective interest method.

(k) Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both. It is derecognized when it has either been disposed of or are permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses from derecognition of investment property is recognized in the consolidated statement of comprehensive income in the year of derecognition.

The Group's investment property is comprised of land that is held for capital appreciation and for rental. It is carried at its original purchase cost which comprises its purchase price and any directly attributable expenditure.

(l) Property and equipment

i. ***Recognition and measurement***
Except for land and building which are measured at fair market value, all other items of property and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

3. Significant accounting policies *(continued)*

(l) Property and equipment *(continued)*

i. *Recognition and measurement* *(continued)*
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.

ii. *Subsequent costs*
The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of day-to-day servicing of property and equipment are recognized in the consolidated statement of income as incurred.

iii. *Depreciation*
Depreciation is charged to the consolidated statement of income on the straight line basis over the estimated useful lives of each part of an item of property and equipment. Leasehold improvements are amortized over the shorter of the lease term and their estimated useful lives. The estimated useful lives for the current and comparative years are as follows:

Building	40 years
Long-term improvements	17 years
Short-term improvements	2 years
Furniture, fittings and equipment	5 to 10 years
Computer equipment	5 to 8 years
Vehicles	5 years
Generator	5 years

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

iv. *Revaluation of land and building*
Following initial recognition at cost, land and building are carried at the revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on building and subsequent accumulated impairment losses, if any. Valuations are performed every three years by an independent and qualified property valuation expert to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any revaluation surplus is credited to the premises revaluation reserve included in the reserves section of the consolidated statement of financial position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated statement of income, in which case the increase is recognised in the consolidated statement of income.

3. Significant accounting policies *(continued)*

(l) Property and equipment *(continued)*

(iv) ***Revaluation of land and building*** *(continued)*
An annual transfer from the asset revaluation reserve to branch reserves and development fund reserve is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the assets and the net amount is restated to the revalued amount of the assets. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to branch reserves and development fund reserve.

(m) Intangible asset

Intangibles acquired by the Group are stated at cost less accumulated amortization and accumulated impairment losses. Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization is recognised in the consolidated statement of income on a straight-line basis over the estimated useful life of the intangibles, from the date that it is available for use. The estimated useful life of intangible asset is eight years.

(n) Borrowing costs

Borrowing costs are recognized as expenses as incurred.

(o) Impairment of non-financial assets

The carrying amounts of the Group’s non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

Any impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in the consolidated statement of income. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3. Significant accounting policies *(continued)*

(p) Employee benefits

i. *Defined benefit plan*

The Group sponsors a defined benefit pension plan for its employees. Operations commenced on January 1, 2001, under the temporary supervision of the Board, until a Trust Deed was formally sanctioned on March 4, 2005. The Anguilla Social Security Staff Pension Fund (the Staff Pension Fund) is contributory (funded on a bipartite basis by the Group and the present employees and those employees entering the service of the Group after commencement of said scheme and hold confirmed positions in the Group's employment). The plan assets are managed by the Staff Pension Fund.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value. Any unrecognized past service costs and the fair value of plan assets are deducted. The calculation is performed every three years by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized asset is limited to the net total of any unrecognized past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in the consolidated statement of income on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in the consolidated statement of income.

In respect of actuarial gains and losses that arise in calculating the Group's obligation in respect of a plan, to the extent that any cumulative unrecognized actuarial gain or loss exceeds ten (10) percent of the greater of the present value of defined benefit obligation and the fair value of plan assets, that portion is recognized in the consolidated statement of income over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognized. When the calculation results in a benefit to the Group, the recognized asset is limited to the net total of any unrecognized actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

ii. *Short-term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

3. Significant accounting policies *(continued)*

(q) Provision

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

When it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability unless the probability of outflow of economic benefits is remote.

(r) Related party transactions

Parties are considered related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties.

(s) Subsequent events

Post year-end events that provide additional information about the Group's consolidated financial position as at reporting date (adjusting events) are reflected in the consolidated financial statements when material. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

(t) New standards, amendments to standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations that have been issued but are not yet effective as at December 31, 2012 or not relevant to the Group’s operations. These are as follows:

- *Government Loans (Amendments to IFRS 1)* effective January 1, 2013
- *Disclosures: Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)* effective January 1, 2013
- *IFRS 13 Fair Value Measurement* effective January 1, 2013
- *IAS 19 Employee Benefits (amended 2011)* effective January 1, 2013
- *IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities (2011)* effective January 1, 2013
- *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11, and IFRS 12)* effective January 1, 2013
- *IAS 27 Consolidated Financial Statements (2011)* effective January 1, 2013
- *IAS 28 Investments in Associates and Joint Ventures (2011)* effective January 1, 2013
- *Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)* effective January 1, 2014

3. Significant accounting policies *(continued)*

(t) New standards, amendments to standards and interpretations not yet adopted *(continued)*

- *Investment Entities (Amendments to IFRS 10, IFRS 12, and IAS 27 (2011)*, effective January 1, 2014
- *IFRS 9, Financial Instruments* effective January 1, 2015

The Group is currently assessing the potential impact of IFRS 13, IAS 19 and IFRSs 10, 11 and 12 in its 2013 consolidated financial statements.

(u) Comparatives

When necessary, comparative figures have been adjusted to conform to changes in the presentation in the current year.

4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Cash and cash equivalents
The carrying values of these financial assets approximate their fair values due to the short-term nature of these placements as at year-end.

(b) Held-to-maturity and available-for-sale investment securities
The fair value of available-for-sale investment securities is determined by reference to their quoted market price at the reporting date. The fair value of held-to-maturity investment securities is equivalent to the present value of the estimated future cash flows, discounted at the market interest rate as at the reporting date.

(c) Loans, contributions and other receivables
The fair value of loans, contributions and other receivables is estimated at the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(d) Other non-derivative financial assets
The carrying values of other non-derivative financial assets approximate their fair values due to the short-term nature of the related transactions.

4. Determination of fair values *(continued)*

(e) Property and equipment
The fair values of land and building are recognized based on market values. The market value of the property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

(f) Investment property
The fair value of investment property is recognized based on market values. The market value of the property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

(g) Borrowings
The carrying value of borrowings is equivalent or approximate their fair value due to the nature of the borrowings which is payable at a fixed date and have rates that reflect market conditions.

5. Financial risk management

(a) Introduction and overview

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

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has established the Investment Committee, which is responsible for developing and monitoring the Group's risk management policies in their specified areas. The committee has both executive and non-executive members and report regularly to the Board of Directors on their activities.

5. Financial risk management *(continued)*

(a) Introduction and overview *(continued)*

The Group's risk management policies are established to identify and analyse the risks faced by the Group, 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, products and services offered. The Group, 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 Board of Directors is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a counterparty or third party to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and receivables and investment securities.

The risk that counterparties to the Group’s financial assets might default on their obligations is monitored on an ongoing basis. In monitoring credit risk exposure, consideration is given to available-for-sale investment securities with a positive fair value and to the volatility of the fair value instruments. To manage the level of credit risk, the Group deals with counterparties of good credit standing.

It is the Group's policy to limit its credit risk by restricting the amount of assets placed with any one investee or related group of investees.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group’s income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risk
Overall authority for management of market risk is vested in the Board of Directors, which is responsible for the development of detailed risk management policies and for the day-to-day review of their implementation. The Group exposure to market risk arises from its borrowings, held-to-maturity investment securities and available-for-sale investment securities.

5. Financial risk management *(continued)*

(c) Market risk *(continued)*

Foreign exchange risk
Substantially all the Group's transactions and assets and liabilities are denominated in Eastern Caribbean dollars or United States dollars. The exchange rate of the Eastern Caribbean dollar to the United States dollar has been formally pegged at EC$2.70 to US$1.00 since 19 July 1976. Therefore, the Group's exposure to foreign exchange risk is not considered significant.

Cash flow and fair value interest rate risk
Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Interest rate risk is affected where there is a mismatch between interest-earning assets and interest-bearing liabilities, which are subject to interest rate adjustments within a specified period.

The Group's interest rate risk arises from its long term borrowings and held-to-maturity investment securities. Borrowings and held-to-maturity investment securities issued at variable rates expose the Group to cash flow interest rate risk. Borrowings and held-to-maturity investment securities issued at fixed rates expose the Group to fair value interest rate risk. The Group is exposed to cash flow and fair value interest rate risk as a result of its bank loan (see note 15) and various held-to-maturity investment securities (see note 8).

(d) Liquidity risk

Liquidity risk is the risk arising from the potential inability to meet all payment obligations when they become due. The Board of Directors and key officers safeguard the ability of the Group to meet all payment obligations when they become due. To limit this risk, management arranges for diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis.

The Board of Directors is responsible for the management of liquidity risk. The Group's liquidity risk management framework is designed to identify measure and manage the liquidity risk position. The underlying policies are reviewed on a regular basis by the key officers of the Group and finally approved by the members of the Board of Directors.

(e) Capital management

Regulatory reserves
The Financial and Accounting Regulations of the Social Security Act sets the capital requirements of the Group as a whole.

In implementing current capital requirements, the regulation requires that the Group transfer the excess of income over expenditure for each branch to a consolidated reserve at the end of the year.

5. Financial risk management *(continued)*

(e) Capital management *(continued)*

Regulatory reserves *(continued)*

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

- Short-term Benefit Reserve;
- Long-term Benefit Reserve; and
- Social Security Development Fund Reserve.

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

6. Critical accounting estimates and judgments

The Group makes certain estimates and assumptions regarding the future. Estimates and judgments are continually evaluated based on historical experiences and other facts, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Allowance for impairment losses

Assets accounted for at amortised cost are evaluated for impairment on the basis described in accounting policy note 3 (i) (vii).

The specific counterparty component of the total allowance for impairment applies to receivables evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about counterparty's financial situation. Each impaired asset is assessed on its merit, and the workout strategy and estimate of cash flows considered recoverable.

The carrying value of investment securities and contributions, loans and other receivables are disclosed in notes 8 and 9, respectively.

6. Critical accounting estimates and judgments *(continued)*

(b) Pension benefits assumptions

The costs, assets and liabilities of the defined benefit scheme operated by the Group are determined using methods relying on actuarial estimates and assumptions. Details of the key assumptions are set out in note 14. The Group takes advice from an independent actuary relating to the appropriateness of the assumptions. Changes in the assumptions may have a significant effect on the consolidated statement of comprehensive income and the consolidated statement of financial position.

(c) Determination of fair values

The Group determines the fair value of financial instruments that are not quoted, using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realized immediately.

The methods and assumptions applied, and the valuation techniques used, as disclosed in notes 4 and 25.

7. Cash and cash equivalents

	2012	2011
Cash on hand	**931,776**	956,668
Cash in bank		
Savings and demand deposits	**23,121,972**	3,854,789
Short-term fixed deposits	**15,997,082**	104,995,314
	40,050,830	109,806,771
Bank overdraft	**-**	(2,779,851)
	40,050,830	107,026,920

The cash in bank represents deposits with the indigenous banks in Anguilla which earned interest at the rate of 1.0% per annum for savings and 4% - 7% for short-term fixed deposits. The fixed deposits mature in 1-3 months.

Bank overdraft in 2011 pertained to the Group’s checking account overdraft facility with National Bank Anguilla Limited obtained on October 28, 2009. Significant provisions of the overdraft facility were as follows:

i. The maximum amount at any time shall not exceed EC$3,500,000. However, National Bank of Anguilla can, from time to time and without prior notice, advise the Group that advances will be limited to less than the stated amount.

7. Cash and cash equivalents *(continued)*

ii. Interest was calculated in respect of the amount for the time being overdrawn under the overdraft facility on the basis of the number of days elapsed. Interest charged to the Group checking account was computed monthly in arrears and was computed at the rate of interest of 7% per annum.

iii. On demand, the Group should pay the lender any and all sums outstanding from time to time which may have been advanced in accordance with this facility.

iv. This agreement was terminated on October 30, 2011 and the facility was not extended beyond that date.

Total bank charges for the year ended December 31, 2012 amounted to EC$61,989 (2011: EC$82,334)

On August 31, 2012, the Group agreed to close its bank accounts with National Bank of Anguilla. The bank accounts including the bank overdraft were closed on September 12, 2012.

8. Investment securities - net

	Notes	**2012**	2011
Held-to-maturity investments	*8.1*	**161,424,682**	71,971,920
Available-for-sale investments	*8.2*	**11,174,017**	11,145,112
		172,598,699	83,117,032

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

8.1 Held-to-maturity investment securities

The following shows the breakdown of held-to-maturity investments consisting of fixed deposits and investment in bonds by contractual maturity dates:

	Due within one year	Due over one year	**2012**	2011
Fixed deposits				
National Bank of Anguilla Limited	22,797,758	59,280,730	**82,078,488**	19,018,312
Caribbean Commercial Bank Limited	26,282,228	34,866,500	**61,148,728**	36,379,656
British American Insurance Company	10,635,462	-	**10,635,462**	10,635,462
First Caribbean International Bank	4,120,658	-	**4,120,658**	4,000,000
	63,836,106	94,147,230	**157,983,336**	70,033,430

Forward

8. Investment securities – net *(continued)*

8.1 Held-to-maturity investment securities (continued)

	Note	Due within one year	Due over one year	**2012**	2011
Investments in bonds					
Eastern Caribbean Home Mortgage Bank (ECHMB)		-	3,000,000	**3,000,000**	2,500,000
Government of St. Kitts and Nevis		147,722	1,644,341	**1,792,063**	3,896,630
Government of St. Lucia		-	8,322,515	**8,322,515**	6,978,515
Government of Antigua and Barbuda		153,614	-	**153,614**	307,225
Government of St. Vincent and Grenadines		220,969	723,392	**944,361**	1,165,330
		522,305	13,690,248	**14,212,553**	14,847,700
Total held-to-maturity investments		64,358,411	107,837,478	**172,195,889**	84,881,130
Less allowance for impairment	*8.3*	(10,771,207)	-	**(10,771,207)**	(12,909,210)
		53,587,204	107,837,478	**161,424,682**	71,971,920

The fixed deposits carry interest rates ranging from 3% to 9.75% (2011: 3% to 9.75% per annum) while investments in bonds carry interest rates ranging from 4% to 9% (2011: 5.5% to 8.25% per annum).

8.2 Available-for-sale investment securities

The Group's available-for-sale investment securities comprise of:

	Note	**2012**	2011
Equity securities – International			
Smith Barney		**1,898,112**	1,736,848
Merrill Lynch		**322,921**	309,846
Anguilla European Masters Fund (AEMF)		**262,838**	262,838
		2,483,871	2,309,532
Equity securities – Local and regional			
National Bank of Anguilla		**1,500,000**	1,500,000
Anguilla Electric Company Limited (ANGLEC)		**4,587,750**	4,587,750
Eastern Caribbean Financial Holding Company (ECFHC)		**3,000,000**	2,712,000
Eastern Caribbean Home Mortgage Bank (ECHMB)		**331,400**	331,400
Eastern Caribbean Securities Exchange Limited		**125,000**	125,000
		9,544,150	9,256,150
Total available-for-sale investment securities		**12,028,021**	11,565,682
Less allowance for impairment losses	*8.3*	**(854,004)**	(420,570)
		11,174,017	11,145,112

8. Investment securities - net *(continued)*

8.2 Available-for-sale investment securities (continued)

The movements in the fair value of available-for-sale investment securities follow:

	Note	2012	2011
Beginning balance		**11,565,682**	12,071,215
Net realized gain	*17.1*	**14,587**	13,246
Net addition		**53**	-
Should be fair value balance		**11,580,322**	12,084,461
Ending balance		**12,028,021**	11,565,682
Net change in fair value during the year		**447,699**	(518,779)

The movements of the "Unrealized gain on available-for-sale investment securities" account as a result of changes in the fair values of available-for-sale investment securities are as follows:

	2012	2011
Unrealized (loss)/gain, beginning of year	**(177,868)**	340,911
Net change in fair value during the year	**447,699**	(518,779)
Unrealized gain/(loss), end of year	**269,831**	(177,868)

8.3 Allowance for impairment losses

	Notes	2012	2011
Balance at beginning of year			
Held-to-maturity investment securities	*8.1*	**12,909,210**	12,653,432
Available-for-sale investment securities	*8.2*	**420,570**	380,727
Contributions, loans and other receivables	*9*	**18,796,805**	16,330,560
		32,126,585	29,364,719
Impairment loss during the year			
Held-to-maturity investment securities		**-**	255,778
Available-for-sale investment securities		**433,434**	39,843
Contributions, loans and other receivables		**7,542,817**	2,466,245
Property and equipment		**29,410**	-
		8,005,661	2,761,866
Recovery during the year			
Held-to-maturity investment securities		**(397,126)**	-
Written off during the year			
Held-to-maturity investment securities		**(1,740,877)**	-
Contributions, loans and other receivables		**(540,908)**	-
		(2,281,785)	-

Forward

8. Investment securities - net *(continued)*

8.3 Allowance for impairment losses (continued)

	Notes	2012	2011
Balance at end of year			
Held-to-maturity investment securities	*8.1*	**10,771,207**	12,909,210
Available-for-sale investment securities	*8.2*	**854,004**	420,570
Contributions, loans and other receivables	*9*	**25,798,714**	18,796,805
Property and equipment	*11*	**29,410**	-
		37,453,335	32,126,585

The impairment loss relates to the Group's investments, accrued interest receivable, finance lease receivables and property and equipment with the following companies:

2012	*Notes*	Principal	Interest	**Total**
Government of Anguilla	*19*	16,791,447	4,178,767	**20,970,214**
British American Insurance Company		10,635,462	4,823,392	**15,458,854**
Eastern Caribbean Financial Holding Co.		480,000	-	**480,000**
Anguilla European Masters Fund		262,838	-	**262,838**
Caribbean Commercial Bank		135,745	5,108	**140,853**
Smith Barney		67,017	-	**67,017**
Merrill Lynch		44,149	-	**44,149**
Total		28,416,658	9,007,267	**37,423,925**
Property and equipment	*11*	29,410	-	**29,410**
		28,446,068	9,007,267	**37,453,335**

2011	*Note*	Principal	Interest	Total
Government of Anguilla	*19*	12,125,404	2,871,419	14,996,823
British American Insurance Company		10,635,462	3,794,874	14,430,336
Government of St. Kitts and Nevis		2,138,003	-	2,138,003
Anguilla European Masters Fund		262,838	-	262,838
Caribbean Commercial Bank		135,745	5,108	140,853
Smith Barney		119,734	-	119,734
Merrill Lynch		37,998	-	37,998
		25,455,184	6,671,401	32,126,585

Distribution of impairment loss (net of the recovery) follows:

	2012		2011	
	%	**Amount**	%	Amount
Short-term benefits branch	**2.22%**	**169,235**	2.51	69,334
Long-term benefits branch	**96.34%**	**7,329,595**	96.09	2,653,938
Social Security Development Fund	**1.44%**	**109,705**	1.40	38,594
	100.00	**7,608,535**	100.00	2,761,866

9. Contributions, loans and other receivables – net

	Notes	**2012**	2011
Contributions receivable		**2,404,072**	3,357,191
Loans receivable			
Government of Anguilla		**44,444,444**	50,000,000
Anguilla Development Board (ADB)		**900,000**	1,080,000
Staff		**10,197**	41,558
		45,354,641	51,121,558
Finance lease receivable	*19*	**31,335,913**	30,028,565
Other receivables			
Interest on fixed deposits		**6,298,735**	5,096,712
Interest on loans receivable		**343,271**	386,857
Interest on investments in bonds		**262,240**	380,538
Rent receivable		**76,936**	76,684
Other		**70,189**	56,216
		7,051,371	5,997,007
Total contributions, loans and other receivables		**86,145,997**	90,504,321
Less allowance for impairment losses	*8.3*	**(25,798,714)**	(18,796,805)
		60,347,283	71,707,516

Contributions receivable include earned contributions as of year-end that is due from Social Security Board members and were collected subsequently. This amount is estimated by the Group based on actual collections subsequent to year end. This also includes known significant receivables from delinquent employers.

The contribution receivable does not include receivables from other delinquent members' that were not collected subsequently due to unavailability of reliable information. The Group believes that these receivables if recognized will be provided with corresponding allowance for impairment as a result of collections being doubtful, thus, resulting to a nil effect in the consolidated statement of financial position and in the combined consolidated statement of comprehensive income.

Loans receivable from ADB represents total draw-down of EC$2,700,000 which was granted on December 29, 1997. This loan is payable in quarterly instalments after five years from the date of drawdown and carry a six percent (6%) interest per annum. The loan will mature on January 31, 2018.

The current and non-current portion of the loans receivable from ADB follows:

	2012	2011
Current	**180,000**	180,000
Non-current	**720,000**	900,000
	900,000	1,080,000

9. Contributions, loans and other receivables - net *(continued)*

Government of Anguilla loan represents borrowed funds amounting to fifty million Eastern Caribbean Dollars (EC$50 million). This borrowing was approved by the House of Assembly after presentation by the Honourable Minister of Finance on June 28, 2010 pursuant to Section 40 of the Financial Administration and Audit Act, R.S.A.c F27.

On July 29, 2010 and November 11, 2010, the Executive Council of Anguilla approved and authorized the Minister of Finance to sign the related agreements pertaining to the loans as follows:

Disbursement Date	Loan Agreement Date	Security	Interest	Amount
November 19, 2010	December 30, 2010	Unsecured	4.50%	50,000,000

The loan is for a period of ten (10) years which commenced on November 19, 2010 and ending November 19, 2020. The loan is to be repaid in thirty-six (36) equal or approximately equal and consecutive quarterly instalments payable on each payment date commencing after the expiry of one (1) year following the initial drawdown date. The loan can be also prepaid by the borrower without penalty.

The current and non-current portion of the loans receivable from Government of Anguilla follows:

	2012	2011
Current	**5,555,556**	5,555,556
Non-current	**38,888,888**	44,444,444
	44,444,444	50,000,000

Details of finance lease receivable are disclosed in note 19 to the consolidated financial statements.

10. Investment property

Investment property pertains to the acquired Cinnamon Reef property comprising of 10.07 acres of land, with constructed building and improvements located in Little Harbour, Anguilla from NBA Assets Limited, a subsidiary of National Bank of Anguilla Limited, for US$7,500,000 (EC$20,250,000) on March 30, 2009. The purchase price was based on the appraisal conducted by Can Engineering Ltd on July 25, 2006 and such price was agreed by both parties. Fees pertaining to the acquisition of the property through bank borrowings were waived.

In a meeting of the Executive Council of the Government of Anguilla held on March 20, 2009, the Executive Council agreed that the Ministry of Social Development should indicate to the Company its willingness to engage in a lease and purchase agreement with respect to the Cinnamon Reef property. The lease and purchase agreement was signed on January 19, 2010.

On April 1, 2014, the ASSICO's investment property was revalued by an independent and qualified appraiser, Can Engineering Ltd., who used the comparative sales method of valuation (market approach). The revalued amount of the said property ranged from EC$9,704,402 - EC$11,026,996.

11. Property and equipment - net

Movements in this account are as follows:

	Land	Building & improvements	Furniture, fittings and equipment	Computer equipment	Vehicles	Generator	Total
Cost and revalued amount							
December 31, 2010	2,849,492	6,718,622	718,102	422,354	84,686	211,267	11,004,523
Additions	565,922	44,487	26,248	23,465	-	-	660,122
Appraisal adjustment	-	(1,109,824)	-	-	-	-	(1,109,824)
December 31, 2011	3,415,414	5,653,285	744,350	445,819	84,686	211,267	10,554,821
Additions	-	222,709	78,025	564	18,280	-	319,578
December 31, 2012	**3,415,414**	**5,875,994**	**822,375**	**446,383**	**102,966**	**211,267**	**10,874,399**
Accumulated depreciation							
December 31, 2010	-	401,227	582,626	341,153	84,686	205,678	1,615,370
Depreciation for the year	-	215,464	48,622	44,046	-	3,599	311,731
Appraisal adjustment	-	(616,691)	-	-	-	-	(616,691)
December 31, 2011	-	-	631,248	385,199	84,686	209,277	1,310,410
Depreciation for the year	-	195,491	52,732	40,068	18,280	1,990	308,561
December 31, 2012	**-**	**195,491**	**683,980**	**425,267**	**102,966**	**211,267**	**1,618,971**
Allowance for impairment losses							
December 31, 2011	-	-	-	-	-	-	-
Impairment loss for the year	-	29,410	-	-	-	-	29,410
December 31, 2012	**-**	**29,410**	**-**	**-**	**-**	**-**	**29,410**
Carrying amount							
December 31, 2011	3,415,414	5,653,285	113,102	60,620	-	1,990	9,244,411
December 31, 2012	**3,415,414**	**5,651,093**	**138,395**	**21,116**	**-**	**-**	**9,226,018**

The Group's land and building were revalued on December 31, 2011 by an independent and qualified valuator, the Land Development Survey Services of Anguilla. The value was estimated using the investment approach method of valuation.

Annual transfers from the premises revaluation reserve to branch reserves (i.e. Short-term Benefits Branch Reserve and Long-term Benefits Branch Reserve) and Social Security Development Fund accounts are made for the difference between depreciation based on the re-valued carrying amount of the assets and depreciation based on the assets' original cost. Every year, depreciation of $137,529 (2011: $52,727) from Premises Revaluation Surplus account is transferred to branch reserves (allocated to Short-term Benefits Branch Reserve: $20,629 (2011: $7,909); Long-term Benefits Branch Reserve: $111,743 (2011: $42,841) and Social Security Development fund: $5,157 (2011: $1,977).

Movements in the Premises Revaluation Surplus account are as follows:

	2012	2011
Revaluation surplus, beginning of year	**4,398,388**	4,944,248
Change in fair value	**-**	(493,133)
Depreciation for the year	**(137,529)**	(52,727)
Revaluation surplus, end of year	**4,260,859**	4,398,388

12. Intangible asset - net

Movements in this account follow:

	2012	2011
Cost		
Beginning balance	**1,227,035**	1,202,942
Acquisition during the year	**29,301**	24,093
Ending balance	**1,256,336**	1,227,035
Accumulated amortization		
Beginning balance	**890,320**	784,368
Amortization for the year	**109,615**	105,952
Ending balance	**999,935**	890,320
Carrying amount	**256,401**	336,715

13. Other assets

	2012	2011
Contingency reserve investment	**2,654,931**	2,700,000
Prepayments	**206,682**	90,259
Stationery and computer supplies	**64,443**	68,368
	2,926,056	2,858,627

The ‘Contingency reserve investment’ account is a restricted fixed deposit and was established to meet any unforeseen or abnormal expenditure which the current income of the Group may not be sufficient to cover, or to make good any unforeseen or abnormal reduction of income. This contingencies reserve is increased to an amount equivalent to the average expenditure of the Group for the provision of benefits and administration for two (2) months. These contingencies reserves as at December 31, 2012 and 2011 had been invested at NBA and CCB in the form of fixed deposits which bear interest at a rate ranging 3.00% - 6.00% per annum. Accrued interest receivable for these fixed deposits amounted to $25,306 (2011: $1,652).

14. Pension fund obligation

On August 1, 2011, pursuant to the provisions of Section 16(1) of the Social Security Act (Chapter 45), an actuarial review of the operations of the Group, the financial condition of the fund and the adequacy of the contributions to support benefits was carried out as at 31 December 2010 by an independent actuary, Mr. Hernando Perez Montas. This actuarial review which is updated every three (3) years is necessary in assessing the experience of the preceding three years and future cost trends. The present value of the Group's pension fund benefit obligation to its members as at December 31, 2010 follows:

	2010
Retirement pensions	43,679,326
Disablement pensions	9,129,299
Survivor's pensions	9,961,182
Non-contributory pensions	4,085,853
Sub-total (pensions in payment)	66,855,660
Active insured persons	291,363,329
Total Accumulated Benefit Obligations (ABO)	358,218,989
Net assets available for benefits (ASS)	(237,105,461)
Net Accumulated Obligations (ABO-ASS)	121,113,528
Funded Status (ASS/ABO)%	66.19%
Projected Benefit Obligations (PBO)	613,847,205
- Vested	348,835,692
- Non-vested	265,011,513
Unfunded Projected Obligation (PBO-ASS)	376,741,744

The key assumptions and methods used in this calculation were as follows

Mortality table	GAM-83 (USA)
Discount	4% (2% real)
Salary scale	2%
Termination assumption (basically foreign workers)	.07 to .03 (20/50 years)
Loading factor for complementary benefits:	5%

As detailed above, there is a difference of $121,113,528 between the reserves of the Fund and the actuarial present value of actual benefit obligations and a difference of $376,741,744 between the reserves of the Fund and the actuarial present value of projected benefit obligations. These differences will be compensated by future adjustments to the contribution rates by employers and employees, under the scaled-premium system of finance of the long-term branch, pursuant to Section 18(2) of the Social Security Act.

Aside from the Group's pension scheme to its members, the Group also has a defined benefit pension scheme for its regular employees which requires contribution on a bipartite basis by the Group and its employees to be made to administered funds. The plan is administered by the Anguilla Social Security Staff Pension Fund and an actuarial review is conducted every year by Mr. Hernando Perez Montas. The benefits are based on the years of service and the employee's average pensionable compensation prior to retirement.

14. Pension fund obligation *(continued)*

Amendments to the provisions of the Pension Plan
As at December 31, 2012, the Pension Plan was amended by the Anguilla Social Security Board, to align the pension formula and the retirement age to the Government of Anguilla's pension plan for public officers. Key amendments are as follows:

- Contribution rates of 5% for the employer (the "Group") and 4% for staff
- Future service formula from 2% to 1.25%
- Normal retirement age: 65 years or 60 years for members eligible to retire at 55 years under the original provision. However, participants will have the option, before December 31, 2013, to retire at the original normal retirement age of 55 to 60 years, with transition pension paid by the Group until the attainment of the new normal retirement age
- Member has the option to defer the retirement subject to the approval of the Board of Directors by one or two increments of 5 years, as the case might be, subject to the provisions by clause 9 (a) of the Trust Deeds.

The amounts recognized in the consolidated statement of financial position are as follows:

	2012	2011
Present value of obligations	**7,436,069**	8,078,562
Fair value of plan assets	**(2,276,008)**	(2,057,806)
Deficit	**5,160,061**	6,020,756
Unamortized actuarial losses conducive	**(2,037,482)**	(3,009,985)
	3,122,579	3,010,771

The movements in the present value of obligations are as follows:

	2012	2011
Beginning of year	**8,078,562**	7,233,109
Current service cost	**341,611**	291,711
Interest cost	**565,499**	499,002
Past service cost	**58,338**	58,338
Contribution by plan participants	**93,689**	94,331
Benefits paid	**(194,310)**	(209,016)
Impact of curtailment as a result of the amendments to the Plan	**(1,769,527)**	-
Actuarial loss	**262,207**	111,087
End of year	**7,436,069**	8,078,562

14. Pension fund obligation *(continued)*

The movements in the fair value of plan assets are as follows:

	Note	2012	2011
Beginning of year		**2,057,806**	1,880,066
Expected return on assets		**144,046**	83,976
Employer contributions	*23*	**187,377**	188,661
Contribution by plan participants		**93,689**	94,331
Benefits paid		**(194,310)**	(209,016)
Actuarial loss		**(12,600)**	19,788
End of year		**2,276,008**	2,057,806

The plan assets as at reporting date consist of the following:

	2012	2011
Cash receivables	**2%**	6%
Fixed deposits	**52%**	54%
Staff loans	**46%**	40%

Pension expense recognized in the consolidated statement of income is shown below:

	Note	2012	2011
Current service cost		**341,611**	291,711
Interest cost on benefit obligation		**565,499**	499,002
Expected return on plan assets		**(153,885)**	(83,976)
Amortization on transitional obligation		**58,338**	58,338
Effect of curtailment arising from the amendments to the Plan		**(659,187)**	-
Actuarial loss		**146,809**	156,812
	22.1	**299,185**	921,887

The principal assumptions used in determining pensions for the Group's plan are shown below:

	2012	2011
Discount rate	**7%**	7%
Expected rate of return on plan assets	**7%**	7%
Rate of salary increases	**4%**	4%

15. Borrowing

This account pertains to the Group's non-revolving term credit facility with Scotiabank (Anguilla) Limited amounting to EC$20,250,000 obtained on October 20, 2009. Significant provisions of the credit facility are as follows:

a. The borrower may utilize the facility by way of a direct advance(s) evidenced by promissory notes.

b. Interest on the facility shall accrue at a rate per annum during each interest period equal to the sum of cost of funds then applicable to such interest period plus 3%. Present effective interest rate is 6% per annum.

c. The borrower shall repay the facility by 23 equal monthly principal payments of EC$168,750 each for 23 months, commencing one month from the date of the initial advance under the facility and the balance of the loan together with accrued interest and all other amounts outstanding under the facility shall be due and payable in full on or before the 24th month from the date of the initial advance under the facility. The term of the facility is two (2) years amortized over ten (10) years.

Movement in this account follows:

	2012	2011
Beginning balance	**16,123,322**	18,056,250
Payment during the year	**(2,025,000)**	(1,932,928)
Ending balance	**14,098,322**	16,123,322

The current and non-current portions of the borrowings are as follows:

	2012	2011
Current	**2,025,000**	2,025,000
Non-current	**12,073,322**	14,098,322
	14,098,322	16,123,322

Total interest expense and accrued interest payable as of December 31, 2012 amounted EC$911,508 and EC$16,532, respectively (2011: EC$1,031,635 and EC$21,092).

15. Borrowing *(continued)*

Distribution of borrowing costs follows:

	2012		2011	
	%	Amount	%	Amount
Short-term benefits branch	**2.22%**	**20,274**	2.51	25,898
Long-term benefits branch	**96,34%**	**878,091**	96.09	991,321
Social Security Development Fund	**1.44%**	**13,143**	1.40	14,416
	100.00	**911,508**	100.00	1,031,635

16. Social Security Development Fund Reserve

The Social Security Development Fund Reserve was created in 2004. Since its creation, the Group had transferred EC$250,000 each year from the Social Security Development Fund to create a Social Security Development Fund Reserve for future projects should the statutory funding for the Development Fund be eliminated.

17. Contribution income

	2012	2011
Contribution – employers	**12,015,332**	12,962,538
Contribution – employees	**12,015,332**	12,962,538
	24,030,664	25,925,076
Less refunds	**(46,359)**	(124,558)
	23,984,305	25,800,518
Contributions - self employed	**229,967**	218,201
	24,214,272	26,018,719

Distribution of contribution income follows:

	%	2012	2011
Short-term benefits branch	*15.00*	**3,632,141**	3,902,808
Long-term benefits branch	*81.25*	**19,674,096**	21,140,209
Social Security Development Fund	*3.75*	**908,035**	975,702
	100.00	**24,214,272**	26,018,719

18. Investment income

	Note	**2012**	2011
Interest income			
Fixed deposits (Local banks)		**8,292,715**	6,279,926
Loan – Government of Anguilla		**2,114,469**	2,267,123
Fixed deposits (British American)		**1,028,518**	1,025,707
Bonds - Government of St. Lucia		**526,582**	512,442
Savings and demand deposits		**329,725**	376,548
Bonds - Government of St. Kitts / Nevis		**169,562**	322,289
Bonds – ECHMB		**128,979**	137,981
Bonds - Government of St. Vincent and Grenadines		**73,845**	89,813
Loans – ADB		**58,982**	69,734
Bonds - Government of Antigua		**18,171**	79,274
Loans – Staff		**701**	2,156
		12,742,249	11,162,993
Dividend income			
ANGLEC shares		**183,510**	183,510
ECFH shares		**24,000**	60,000
ECHMB shares		**23,750**	23,750
		231,260	267,260
Total investment income		**12,973,509**	11,430,253
Realized gain from available-for-sale investment securities			
Smith Barney		**15,313**	13,219
Merrill Lynch		**(726)**	28
Total investment losses	*18.1*	**14,587**	13,247
Total investment income – net		**12,988,096**	11,443,500

Related interest and dividend receivables are included in the contributions, loans and other receivables account in the consolidated statement of financial position (see note 9).

18.1 Realized (loss)/gain from available-for-sale investment securities

The following table shows the gains and losses from available-for-sale investment securities which were recognized in the consolidated statement of income:

	Smith Barney	**Merrill Lynch**	**2012**	2011
Dividend and interest income	31,946	14	**31,960**	34,832
Gains on disposals	35,295	-	**35,295**	25,263
Losses on disposals	(27,307)	-	**(27,307)**	(23,160)
Management fee and others	(24,621)	(740)	**(25,361)**	(23,688)
	15,313	(726)	**14,587**	13,247

18. Investment income *(continued)*

Distribution of investment income is as follows:

	2012		2011	
	%	Amount	%	Amount
Short-term benefits branch	**2.22**	**288,891**	2.51	287,279
Long-term benefits branch	**96.34**	**12,511,934**	96.09	10,996,311
Social Security Development Fund	**1.44**	**187,271**	1.40	159,910
	100.00	**12,988,096**	100.00	11,443,500

19. Leases

a) Operating lease

The Group leases a portion of its building to various tenants. The lease income, net of expenses incurred for the upkeep and maintenance of the building, is as follows:

	2012	2011
Rental income	**287,256**	292,300
Less maintenance expenses	**(101,734)**	(90,826)
	185,522	201,474

Related receivables are included in the Contributions, loans and other receivables account in the consolidated statement of financial position (see note 9).

b) Finance lease

	2012	2011
Finance lease receivable	**27,157,146**	27,157,146
Finance lease earned income receivable	**4,178,767**	2,871,419
	31,335,913	30,028,565
Allowance for impairment losses	**(20,970,214)**	(14,996,823)
	10,365,699	15,031,742

On January 19, 2010, the lease and purchase agreement was signed by the Government of Anguilla (lessee) and the Group (lessor). Significant provisions of the agreement are as follows:

i. The lessor leases the property to the lessee for a 10 year term, and the lessee hereby agrees to purchase the property at any time during the term of the lease, both in consideration of the lease payments and upon the terms and conditions of the agreement.

19. Leases *(continued)*

b) Finance lease *(continued)*

ii. The lessee agrees to pay the lessor monthly lease payments of $300,000 commencing on February 1, 2010.

iii. The purchase price of the property amounted EC$20,250,000, less the total sum of any loan payments made by the lessor pursuant to the loan facility.

Considering the above provisions, the Company recognized the lease as a finance lease, recognizing a profit at the inception amounting to EC$6,907,146 and finance lease earned income amounting to EC$2,870,618 for the year ended 2011 and additional finance lease earned income for 2012 amounting to EC$1,307,348.

As at December 31, 2012, the Government was not able to fulfil its obligation to the Company for the rental of the property since the inception of the lease. The total outstanding obligation amounted to EC$10,800,000. Considering the default of the Government, the Company provided allowance for impairment for the whole amount of income related to the lease amounting to EC$11,085,913 and the total amount of decline in the value of the leased property amounting to EC$9,884,301.

The future minimum finance lease receivables are as follows:

	2012		
	Gross Investment	Unearned Income	**Minimum Finance Lease Receivable**
Past due	10,800,000	-	**10,800,000**
Less than one year	3,600,000	1,165,941	**2,434,059**
Between one and five years	18,000,000	3,383,825	**14,616,175**
More than five years	3,600,000	114,321	**3,485,679**
	36,000,000	4,664,087	**31,335,913**

	2011		
	Gross Investment	Unearned Income	Minimum Finance Lease Receivable
Past due	7,200,000	-	7,200,000
Less than one year	3,600,000	1,307,347	2,292,653
Between one and five years	18,000,000	4,232,947	13,767,053
More than five years	7,200,000	431,140	6,768,860
	36,000,000	5,971,434	30,028,566

There are no unguaranteed residual values accruing to the benefit of the lessor and contingent rents recognized as income during the lease period.

19. Leases *(continued)*

Distribution of lease income net of maintenance expenses follows:

	2012		2011	
	%	Amount	%	Amount
Short-term benefits branch	**2.22**	**33,206**	2.51	41,221
Long-term benefits branch	**96.34**	**1,438,138**	96.09	1,577,846
Social Security Development Fund	**1.44**	**21,526**	1.40	22,945
	100.00	**1,492,870**	100.00	1,642,012

20. Fines and miscellaneous income

	2012	2011
Surcharges and additional surcharges	**451,949**	577,096
Other	**5,139**	9,635
	457,088	586,731

Distribution of fines and miscellaneous income follows:

	%	2012	2011
Short-term benefits branch	50.00	**228,544**	293,366
Long-term benefits branch	50.00	**228,544**	293,365
		457,088	586,731

21. Benefit expenses

	2012	2011
Short-term benefits		
Sickness	**1,815,320**	1,930,578
Maternity	**1,045,223**	1,251,377
Funeral	**133,000**	189,000
	2,993,543	3,370,955
Long-term benefits		
Age	**5,351,909**	4,979,849
Invalidity	**851,960**	814,474
Survivors	**840,346**	802,688
Non-contributory old age pension	**628,631**	616,314
	7,672,846	7,213,325
	10,666,389	10,584,280

22. Social Security Development Fund

The Group's Social Security Development Fund was established in 1986 as a vehicle to fund socially desirable projects that would benefit the citizens of Anguilla. The Social Security Development Fund contributes to human well-being and the progress of society through sports development, education, health services, environmental protection, economic development and community revitalization.

The following table shows the projects funded by Social Security Development Fund in 2012.

	2012	2011
30th Anniversary Scholarship Program	**873,665**	-
Upgrade of Technical Vocational Unit at the Albena Lake-Hodge Comprehensive School	**137,173**	-
Educational Development Plan	**91,090**	27,552
Arijah Children's Foundation	**67,205**	68,549
Zenaida Haven Juvenile Center	**42,518**	-
Fisher's Project	**36,869**	73,729
Leeward Islands Debating Competition	**20,000**	-
Hello Tourist Program	**15,000**	-
Camp-Be-Aware	**13,441**	13,441
Foot Care Workshop	**13,441**	-
Anguilla Community Foundation	**13,441**	-
Anguilla Community Needs	**12,097**	-
Anguilla Amateur Cycling Association	**10,000**	4,032
Anguilla Amateur Athletic Association	**9,946**	10,242
Festival Del Mar	**7,608**	-
Cancer Awareness	**6,452**	-
Kool FM Children's Day Event	**6,234**	2,000
Anguilla Tennis Academy	**5,376**	13,441
Welches Village Festival	**5,376**	-
Anguilla National Domino Association	**5,376**	-
Music Summer Camp	**4,032**	-
Youth Escape Summer Arts Program	**4,000**	6,000
Festival D'Noel	**3,000**	3,000
Children's Library Annual Summer Programme	**3,000**	3,000
Sunshine Theatre	**2,957**	-
International Youth Regatta (KATS)	**2,688**	-
Soroptimist Club of Anguilla	**2,688**	-
Anguilla Lit-Fest	**2,419**	-
National Village Competition	**2,300**	-
Welches Polyclinic	**2,234**	-
Basketball Camp 2012	**2,000**	-
Literacy Program	**-**	300,000
Vivian Vanterpool Primary School	**-**	57,560
Orelia Kelly Primary School	**-**	31,058
Anguilla Youth Sports Complex	**-**	26,882
Other previous year expenses	**-**	97,770
	1,423,626	738,256

23. Administrative and other expenses

	Notes	**2012**	2011
Salaries, benefits and allowances to staff	*23.1*	**3,842,318**	4,438,094
Administration expenses	*23.2*	**1,775,737**	1,636,630
Allowances and expenses of the Board and Investment Committee		**243,971**	243,076
		5,862,026	6,317,800
Other expenses		**146,618**	161,598
		6,008,644	6,479,398

Other expense pertains to depreciation of the Group's premises that are being leased out.

Distribution of administrative expenses follows:

	2012		2011	
	%	**Amount**	%	Amount
Short-term benefits branch	**19.50**	**1,143,271**	20.42	1,289,859
Long-term benefits branch	**80.50**	**4,718,755**	79.58	5,027,941
	100.00	**5,862,026**	100.00	6,317,800

Distribution of other expenses follows:

	2012		2011	
	%	**Amount**	%	Amount
Short-term benefits branch	**50.00**	**73,309**	50.00	80,799
Long-term benefits branch	**50.00**	**73,309**	50.00	80,799
	100.00	**146,618**	100.00	161,598

Distribution of administrative and other expenses follows:

	2012	2011
Short-term benefits branch	**1,216,580**	1,370,658
Long-term benefits branch	**4,792,064**	5,108,740
	6,008,644	6,479,398

23. Administrative and other expenses *(continued)*

23.1Details of salaries, benefits and allowances to staff follow:

	Note	**2012**	2011
Salaries and wages		**3,139,528**	3,166,218
Pension contribution	*14*	**299,185**	921,887
Employee insurance		**122,795**	123,707
Social security contribution		**121,276**	119,462
Employee uniform allowance		**65,390**	9,646
Employee travel allowance		**47,675**	51,280
Staff pension		**24,018**	23,664
Staff allowance		**22,451**	22,230
		3,842,318	4,438,094

The breakdown of personnel as at December 31, 2012 and 2011 follows:

	2012	2011
Management	**8**	8
Non-management	**25**	24
	33	32

23.2 Details of administration expenses follow:

	Notes	**2012**	2011
Professional fees		**349,955**	362,556
Utilities		**293,413**	299,062
Depreciation and amortization	*11, 12*	**271,558**	256,084
Social Security Board special events		**258,745**	63,263
Repairs and maintenance		**156,307**	136,079
Bank charge		**61,989**	82,334
Overseas travel and lodging		**61,839**	70,867
Insurance		**26,224**	26,806
Human resource development expense		**14,150**	445
Other expenses		**281,557**	339,134
		1,775,737	1,636,630

24. Related party transactions

a. Identification of related party

A party is related to the Group if:

(i) Directly or indirectly the party:
- Controls, is controlled by, or is under common control with the Group
- Has an interest in the Group that gives it significant influence over the Group or
- Has joint control over the Group;

(ii) The party is a member of the key management personnel of the Group;
(iii) The party is a close member of the family of any individual referred to in (i) or (ii); and
(iv) The party is a post-employment benefit plan for the benefit of employees of the Group or any company that is a related party of the Group.

b. Related party transactions and balances

A number of transactions have been entered into with related parties in the normal course of business as at December 31, 2012 and 2011.

(i) The Group's savings and demand deposits account and fixed deposits were held at Caribbean Commercial Bank (Anguilla) Limited (CCB), a registered employer, since inception. Funds held at CCB as of December 31, 2012 and 2011 are as follows:

	Notes	2012	2011
Savings and demand deposits	*7*	**2,401,595**	1,669,194
Fixed deposits	*7, 8*	**61,920,762**	65,039,292
Contingency reserve investment	*13*	**1,854,931**	2,700,000
Funds held at end of year		**66,177,288**	69,408,486
Funds held at beginning of year		**(69,408,486)**	(59,549,369)
(Decrease)/increase in funds held		**(3,231,198)**	9,859,117

Details of interest income and accrued interest receivable for the above assets follow:

	2012	2011
Interest income	**2,114,016**	2,109,662
Accrued interest receivable	**667,720**	646,158

24. Related party transactions *(continued)*

b. Related party transactions and balances (continued)

(ii) The Group's savings and demand deposits accounts, fixed deposits, investment in shares and an overdraft were also held at National Bank of Anguilla Limited (NBA), a registered employer, since inception. The following funds are held at NBA as of December 31, 2012 and 2011:

	Notes	**2012**	2011
Savings and demand deposits	*7*	**1,963,039**	1,321,117
Bank overdraft	*7*	**-**	(2,779,851)
Fixed deposits	*7, 8*	**82,078,488**	80,578,639
Contingency reserve investment	*13*	**800,000**	-
Investment	*8*	**1,500,000**	1,500,000
Funds held end of year		**86,341,527**	80,619,905
Funds held beginning of year		**(80,619,905)**	(71,166,480)
Increase in funds held		**5,721,622**	9,453,425

Details of interest income, bank charges and accrued interest receivable for the above assets follow:

	2012	2011
Interest income	**4,219,900**	2,394,615
Bank charges	**61,989**	82,334
Accrued interest receivable	**718,598**	568,784

(iii) The Group savings and demand deposits and fixed deposits account were also held at Scotiabank (Anguilla) Limited, a registered employer, since inception. The following funds are held at Scotiabank as of December 31, 2012 and 2011:

	Notes	**2012**	2011
Savings and demand deposits	*7*	**18,757,339**	861,503
Fixed deposits	*7*	**15,225,049**	14,775,351
Funds held end of year		**33,982,388**	15,636,854
Funds held beginning of year		**(15,636,854)**	(19,493,676)
Increase/(decrease) in funds held		**18,345,534**	(3,856,822)

Details of interest income and accrued interest receivable for the above assets follow:

	2012	2011
Interest income	**436,774**	473,812
Accrued interest receivable	**13,158**	12,923

24. Related party transactions *(continued)*

b. Related party transactions and balances (continued)

(iv) The Group also have outstanding receivables from the Government of Anguilla, a registered employer, since inception. The following funds are receivable from the Government as of December 31, 2012 and 2011:

	Notes	2012	2011
Loans receivable	*9*	**44,444,444**	50,000,000
Finance lease receivable	*19*	**31,335,913**	30,028,565
Accrued interest receivable		**334,247**	376,027
Receivables held end of year		**76,114,604**	80,404,592
Receivables held beginning of year		**(80,404,592)**	(79,468,809)
(Decrease)/increase in receivables held		**(4,289,988)**	935,783

Interest income received as at December 31, 2012 amounted to $2,114,469 (2011: $2,267,123).

During the year, the Group waived the penalties and surcharges charged to the Government of Anguilla relating to the delayed payments of contributions amounting to EC$540,908 (2011: EC$782,147).

(v) Pension Fund

The Group does not charge the Pension Fund for the use of its facilities. There is no defined policy for the terms of payment of the Pension Fund liabilities to the Group.

Total contribution by the Group to the Pension Fund for the year amounted to EC$187,377 (2011: 188,661).

(vi) Remuneration to directors and executive staff during 2012 and 2011 are as follows:

	2012	2011
Board and investment committee allowance	**231,544**	240,777
Executive staff salaries and allowances	**1,260,023**	1,131,805
	1,491,567	1,372,582

25. Financial instruments

(a) Credit risk

Exposure to credit risk
The carrying amount of financial assets represents the maximum credit exposure of the Group.

The gross maximum exposure to credit risk as at December 31, 2012 and 2011 were as follows:

	Notes	2012	2011
Cash and cash equivalents	*7*	**39,119,054**	106,071,252
Held-to-maturity investment securities	*8.1*	**172,195,889**	84,881,130
Available-for-sale investment securities	*8.2*	**12,028,021**	11,565,682
Contributions, loans and other receivables	*9*	**86,145,997**	90,504,321
Contingency reserve investment	*13*	**2,654,931**	2,700,000
		312,143,892	295,722,385

Details of the maximum exposure to credit risk for gross financial assets by geographical region follows:

	Percentage	2012	2011
Anguilla	*93%*	**291,991,666**	275,016,215
Caribbean region	*06%*	**17,931,193**	18,396,638
United States of America	*1%*	**2,221,033**	2,309,532
	100%	**312,143,892**	295,722,385

As at December 31, 2012, the total financial instruments of the Group amounting to $312,143,892 represent ninety-seven percent (97%) of its total gross assets. Ninety-three percent (93%) of these financial instruments are invested in Anguilla. In view of this, the Group is exposed to significant credit concentration and counterparty risks which could materially impact the Group's liquidity, financial position and performance should Anguilla encounter financial difficulties.

The movement in the allowance for impairment losses in respect of the Group's investment securities is presented in note 8.3 of the consolidated financial statements.

The impairment loss in respect of the Group's investment securities recognized during the year was due to the market decline in the value of the investment securities held by the Group in the international market and due to the liquidity concerns in the region and locally which affected the recoverability of these investments.

The allowance account in respect of these investment securities are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrevocable and realized by the Group upon withdrawal for available-for-sale investment securities or writing it off against the asset amount for held-to-maturity investment securities.

25. Financial instruments *(continued)*

(a) Credit risk *(continued)*

Exposure to credit risk (continued)

The maximum exposure to credit risk on gross financial assets by type of counterparty follows:

	Percentage	2012	2011
Related parties	*85%*	**264,015,283**	250,080,528
Other	*15%*	**48,128,609**	45,641,857
	100%	**312,143,892**	295,722,385

The details of the maximum gross exposure to credit risk from related parties are as follows:

	% to total financial assets	2012	2011
NBA			
Savings and demand deposits		**1,963,039**	1,321,117
Fixed deposits		**82,078,488**	80,578,639
Equity securities		**1,500,000**	1,500,000
Contingencies reserve		**800,000**	-
Accrued interest receivable		**718,598**	568,784
	28%	**87,060,125**	83,968,540
CCB			
Savings and demand deposits		**2,401,595**	1,672,169
Fixed deposits		**61,920,762**	65,039,292
Contingencies reserve		**1,854,931**	2,700,000
Accrued interest receivable		**667,720**	646,158
	21%	**66,845,008**	70,057,619
Scotiabank			
Savings and demand deposits		**18,757,339**	861,503
Fixed deposits		**15,225,049**	14,775,351
Accrued interest receivable		**13,158**	12,923
	11%	**33,995,546**	15,649,777
Government of Anguilla			
Loans		**44,444,444**	50,000,000
Finance lease receivable		**31,335,913**	30,028,565
Accrued interest receivable		**334,247**	376,027
	24%	**76,114,604**	80,404,592
	85%	**264,015,283**	250,080,528

As at December 31, 2012, the Group has $87,060,125 and $66,845,008 worth of financial assets with National Bank of Anguilla Limited and Caribbean Commercial Bank (Anguilla) Limited respectively, in the form of savings, demand and fixed deposits, equity investment and other receivables. These financial assets represent 48% of the total gross assets of the Group.

25. Financial instruments *(continued)*

(a) Credit risk *(continued)*

Exposure to credit risk (continued)

In August 12, 2013, the National Bank Anguilla Limited and Caribbean Commercial Bank (Anguilla) Limited were placed in Conservatorship. The resolution of this conservatorship is detailed in Note 29.

(b) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Carrying amount	**Contractual cash flows**	**6 months or less**	**more than 6 months**
December 31, 2012				
Borrowing	14,098,322	14,098,322	1,012,500	13,085,822
Accounts payable and accrued expenses	397,867	397,867	397,867	-
Accrued interest payable	16,532	784,687	407,531	377,156
	14,512,721	**15,280,876**	**1,817,898**	**13,462,978**

	Carrying amount	Contractual cash flows	6 months or less	more than 6 months
December 31, 2011				
Borrowings	16,123,322	16,123,322	1,012,500	15,110,822
Bank overdraft	2,779,851	2,779,851	2,779,851	-
Accounts payable and accrued expenses	351,934	351,934	351,934	-
Accrued interest payable	21,092	906,187	468,281	437,906
	19,276,199	20,161,294	4,612,566	15,548,728

The Group also has significant contractual financial liabilities with regards to its benefit obligations to its members and employees. This is disclosed in note 14 of the financial statements.

(c) Market risk

Market risk consists of interest, price and foreign exchange risks.

Interest risk
Interest risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Interest rate risk is affected where there is a mismatch between interest-earning assets and interest-bearing liabilities, which are subject to interest rate adjustments within a specified period.

25. Financial instruments *(continued)*

(c) Market risk *(continued)*

The Group's financial assets exposed to interest rate risk include fixed deposits and loans receivable. Total financial assets and liabilities that are exposed to interest rate risk amounted to EC$236,192,346 (2011: EC$179,078,230).

Sensitivity analysis
A ten percent (10%) strengthening of the interest rate on the Group's financial assets and liabilities subject to interest rate risk as at December 31, 2012 would have increased equity by EC$1,180,962 (2011: EC$1,116,281). This analysis assumes that all other variables remain constant.

A ten percent (10%) weakening of the interest rate on the Group's financial assets and liabilities subject to interest rate risk as at December 31, 2012 would have had the equal but opposite effect on the above financial assets to the amounts shown above, on the basis that all other variables remain constant.

The Group's financial liability that is exposed to interest rate risk pertains to its borrowings with Scotiabank (Anguilla) Limited which is subject to a variable interest rate.

Sensitivity analysis
A ten percent (10%) weakening of the interest rate on the Group's financial liability subject to interest rate risk as at December 31, 2012 would have decreased equity by EC$91,151 (2011: EC$103,164). This analysis assumes that all other variables remain constant.

A ten percent (10%) strengthening of the interest rate on the Group's financial liability subject to interest rate risk as at December 31, 2012 would have had the equal but opposite effect on the above financial liability to the amounts shown above, on the basis that all other variables remain constant.

Price risk
The Group's financial assets are not exposed to price risk because prices are at pre-agreed rates except for available-for-sale investment securities held with trading companies. Total available-for-sale investment securities that are exposed to price risk as at December 31, 2012 amounted to EC$5,221,033 (2011: EC$5,021,540).

Sensitivity analysis
A ten percent (10%) strengthening of the market price on the Group's available-for-sale investment securities at December 31, 2012 would have increased equity by EC$522,103 (2011: EC$502,154). This analysis assumes that all other variables remain constant.

A ten percent (10%) weakening of the market price on the Group's available-for-sale investment securities at December 31, 2012 would have had the equal but opposite effect on the above investment securities to the amounts shown above, on the basis that all other variables remain constant.

25. Financial instruments *(continued)*

(c) Market risk *(continued)*

Foreign exchange risk
The Group is not exposed to any significant foreign exchange risk since most of the Group's transactions are in EC Dollars and United States Dollars (US Dollars). EC Dollar is fixed to US Dollar at the rate of EC$2.6882.

(d) Fair values

As at December 31, 2012 and 2011, the fair values of financial assets and liabilities, together with the carrying amounts shown in the consolidated statement of financial position, are as follows:

	2012		2011	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Cash and cash equivalents	**40,050,830**	**40,050,830**	109,806,771	109,806,771
Investments securities	**172,598,699**	**175,826,651**	83,117,032	84,452,523
Contributions, loans and other receivables	**60,347,283**	**63,658,305**	71,707,516	75,843,385
Borrowings	**(14,098,322)**	**(17,904,869)**	(18,056,250)	(22,931,438)
Bank overdraft	**-**	**-**	(2,779,851)	(2,779,851)
Accounts payable and accrued expenses	**(397,867)**	**(397,867)**	(351,934)	(351,934)
	258,500,623	**261,233,050**	243,443,284	244,039,456

Fair value measurement of available-for-sale investment securities
Details of available-for-sale investment securities measured at fair value are as follows:

	Level 1		**Level 2**		**Level 3**	
	2012	2011	**2012**	2011	**2012**	2011
Quoted equity	**4,629,867**	4,600,962	**-**	-	**-**	-
Unquoted equity	**-**	-	**-**	-	**6,544,150**	6,544,150
	4,629,867	4,600,962	**-**	-	**6,544,150**	6,544,150

There were no movements in the fair value of unquoted available-for-sale investment securities under level 3 as at December 31, 2012 and 2011.

Due to the lack of consistent and reliable sources of market interest rates and risk premiums specific to the unlisted available-for-sale investment securities as at year-end, the Group used the carrying values as the assumed market prices.

26. Commitments and guarantees

The Group does not have any outstanding commitments and guarantees as at December 31, 2012 and 2011.

27. Income taxes

No provision for income tax is made, since Anguilla does not have any form of income tax.

28. Other information

Lease agreement with the Government of Anguilla
On May 20, 2011, the Company received formal communication from the Government of Anguilla regarding the latter's intention not to acquire the Cinnamon Reef Property and to bring the lease and purchase agreement to a close.

Further on July 26, 2012, the Government of Anguilla sent an email communication to the Company that the Executive Council agreed not to sign any amendment to the lease agreement.

On October 11, 2012, after consultation with legal counsel and in agreement with the Anguilla Social Security Board, the Company respond to the Government of Anguilla as follows:

a. The Company and the Anguilla Social Security Board reject any attempt by Government to unilaterally and arbitrarily terminate the lease and purchase agreement.

b. Remind Government of Anguilla that as the present date the said Agreement is validly subsisting and remains in full force and effect.

c. Any termination must be in accordance with the procedures laid down in the Agreement regarding default by the lessee.

Claims against the Government of Anguilla for lease rentals since the inception until September 30, 2016 amounting to EC$24,300,000 remains unpaid.

29. Subsequent events

a. Additional loan security
Pursuant to the guarantee provided by the Anguilla Social Security Board to the loan of ASSIDCO with Scotiabank (Anguilla) Limited, the Anguilla Social Security Board agreed to use its deposits with the said bank amounting to $7,290,000 (US$2,700,000) to compensate for the devaluation of the market value of the Cinnamon Reef Property, the primary collateral for the said loan.

29. Subsequent events *(continued)*

b. *Financial support*

On January 25, 2013, April 4, 2014 and October 18, 2016, the Anguilla Social Security Board, parent company, approved resolutions to provide financial support to the Company sufficient for it to satisfy its obligation as they become due and will satisfy on a timely basis all liabilities and obligations that the Company is unable to satisfy when due so that it may continue as a going concern.

On April 29, 2014, the Board approved the payout of the ASSIDCO's borrowings with Scotiabank Anguilla Limited amounting to EC$11,914,357 and additional funding of EC$131,103 to support ASSIDCO's operations. These were treated by the Board as additional capital contribution to ASSIDCO.

c. *Lease property*

On November 25, 2015, the Group approved the resolution for the submission of the final letter of intent on a proposed joint venture regarding the Cinnamon Reef Property with an interested party. The letter of intent is with the interested party for review and approval.

d. *Amendments to the pension plan*

The Group at its meeting held on August 18th 2015 agreed to make the following amendments to the Social Security Staff Pension Fund's Trust Deed:

i. Reference sections 13 (A) of Trust Deed dated 2005 and 14 (C) of amended trust deed dated July 2008

- Extend the period of eligibility from 3 to 8 years, to account for the increase in the normal retirement age.

- Add a provision stating: "Provided that if an employee dies in service with more than 10 years as a member of the Fund, then, instead of the benefit stated above, the eligible beneficiaries might opt for the payment of the accrual pension amount for the maximum period of five (5) years set forth in Section 13 (a), subject to a minimum benefit of30% of the pensionable salary". The same provision shall be applicable to an ex-employee who has opted for a deferred pension and dies before the commencement date of the pension, with a benefit equal to the amount of the deferred pension.

ii. Early retirement due to illness (Rule 9 (a); (Rule 14.3) - the penalty to be waived, in cases of total and permanent disability,

iii. Pension offset (rule 19) - pension offset to be phased out.

29. Subsequent events *(continued)*

d. Amendments to the pension plan (continued)

iv. Early retirement (gratuity and reduced pension) - item 1 of amendment dated December 31, 2012.

A provision to be amended, to state that the Social Security Board would undertake the payment of the gratuity and / or the transitional payment of the full or reduced pension, as the case may be, where the Board allows members to retire before the attainment of the normal retirement age. Upon the attainment of the normal retirement age, the payment of the pension is to revert to the staff pension plan.

The above amendments are currently being reviewed and finalized by the Group's legal counsel.

e. Resolution of the National Bank of Anguilla Limited (NBA) and the Caribbean Commercial Bank (Anguilla) Limited Conservatorship (CCB)

I. Commitment Letter and Promissory Note

The Director in the March 23, 2016 Board of Directors meeting stated that the Board had met with the Ministry of Finance. At the meeting, the Government of Anguilla had informed the Board that it would be taking the Board's deposits out of CCB and NBA and putting them in an instrument which would be paid down to the Board over 25 years at 3% per annum payable on a quarterly basis. The payment has a grace period of 5 years on the principal and the first interest payment will be on June 30, 2016.

During this meeting, the Group was also informed that the Permanent Secretary of Finance asked that the Board prepare a Promissory note for the Government of Anguilla to sign and commit the Government in repaying the funds of the Group.

In its March 23, 2016 Board of Directors meeting, the Board approved the draft commitment letter and promissory note to be submitted to the Government of Anguilla for review and approval.

The final promissory note and commitment letter were signed by the Government of Anguilla on June 29, 2016 and June 30, 2016, respectively. The Group accepted and signed the promissory on August 17, 2016.

II. Bank Resolution Obligations Act, 2016

On the 30th day of March 2016, The Anguilla House of Assembly passed the Bank Resolution Obligations Act, 2016. This Act was assented by the Governor on the 18th day of April 2016. This Act was passed to allow the Government of Anguilla to make payments to the Social Security Board and Depositor Protection Trusts in support of the resolution of the National Bank of Anguilla Limited and the Caribbean Commercial Bank (Anguilla) Limited conservatorship.

29. Subsequent events *(continued)*

d. Resolution of the National Bank of Anguilla Limited (NBA) and the Caribbean Commercial Bank (Anguilla) Limited Conservatorship (CCB) *(continued)*

II. Bank Resolution Obligations Act, 2016 *(continued)*

Some of the significant provisions of the Act are as follows:

i. **Section 2 Financial Obligation** - the Government of Anguilla shall pay to the Social Security Board and the Depositor Protection Trusts the sums in schedules 1 and 2 on the terms set out therein in support of the resolution of NBA and CCB. Details of schedule 1 and 2 are as follows:

(1) Payment terms for Social Security Board

(a) The Government of Anguilla shall pay the Social Security Board the principal sum of EC$214 million.
(b) The Government of Anguilla shall pay interest on the reducing balance of the principal at the rate of 3% annually.
(c) The payment term is 25 years from 30th June 2016.
(d) Payments shall be made in quarterly installments.
(e) There is a five year grace period on payments in respect of the principal sum with the first payment in respect of the principal sum to be made on 30th June 2021.
(f) The first payment in respect of the interest shall be made on 30th June 2016

(2) Payment terms for Depositor Protection Trusts

(a) The Government of Anguilla shall pay the Depositor Protection Trusts the aggregate principal sum of EC$52 million.
(b) Out of the aggregate principal sum each Depositor Protection Trust is to be paid the proportionate amount to its obligation to the large depositors of NBA and CCB as beneficiaries.
(c) The Government of Anguilla shall pay interest on the reducing balance of the principal at the rate of 2% annually.
(d) The payment term is 10 years from 30th June 2016.
(e) Payments shall be made in quarterly installments.
(f) The first payment is to be made on 30th of June 2016.

ii. **Section 3 Corresponding Claim**

(a) In consideration for the payments referred to in section 2 above, the Government of Anguilla shall have corresponding claims to the same value as the payments in the receivership of NBA and CCB.

(b) The claims referred to in subsection (1) shall be deemed to be and treated as net amounts due to the Government of Anguilla as depositors in NBA and CCB in accordance with section 152(2) and (6) of the Banking Act, 2015.

29. Subsequent events *(continued)*

d. ***Resolution of the National Bank of Anguilla Limited (NBA) and the Caribbean Commercial Bank (Anguilla) Limited Conservatorship (CCB)*** *(continued)*

II. Bank Resolution Obligations Act, 2016 *(continued)*

iii. Section 4 Charge on Consolidation Fund – the payments specified in Section 2 shall be a charge on the Consolidated Fund.

iv. Section 5 Making of Payments –

(a) The Minister of Finance shall –
(1) appropriate out of the Consolidated Fund the sums necessary to make the payments in accordance with section 2; and
(2) ensure that the Accountant General makes the necessary payments on the specified due dates

(b) Notwithstanding subsection (1) a payment shall not be deemed to be outstanding because the –

(1) payment has not been made because the instruction to pay was not given; or
(2) requisite instruction for payment has not been given.

v. Section 6 Review of Schedule –

(a) The Minister of Finance shall review the terms of Schedules 1 and 2 whenever deemed necessary but at least every three years and shall lay a report of his findings and make recommendations to the House of Assembly

(b) For the purposes of the review and recommendation under subsection (1) of the Minister of Finance shall –

(1) assess the stability of public finances to ensure that the Government of Anguilla is acting in accordance with its obligations under the Fiscal Framework;
(2) ensure that the Government of Anguilla is acting in accordance with its obligations under the Fiscal Framework;
(3) monitor the ability of the Social Security and Depositor Protection Trust to satisfy their obligations; and
(4) review comparative regional investments returns.

29. Subsequent events *(continued)*

d. Resolution of the National Bank of Anguilla Limited (NBA) and the Caribbean Commercial Bank (Anguilla) Limited Conservatorship (CCB) *(continued)*

III. NBA and CCB Receivership

On the 22nd of April 2016, the Chief Minister of Anguilla issued the statement on the resolution of the National Bank of Anguilla Limited and the Caribbean Commercial Bank (Anguilla) Limited conservatorship. Extract of the Chief Minister statement follows:

"After careful and comprehensive analyses of the challenges that were affecting the operations of the CCB and the NBA, the Monetary Council and the Government of Anguilla agreed that discontinuing the operations of the banks was the best option for safeguarding the deposits which were held at the banks. The Government of Anguilla and the ECCB supported by the IMF, The World Bank and CDB devised a plan so that domestic deposits will be protected following the resolution. The plan involved:

a. Good assets and matching deposit liabilities up to a threshold of approximately EC$2.8m from both CCB and NBA to be transferred to a bridge bank, the newly established National Commercial Bank of Anguilla (NCBA);

b. Deposit liabilities over the EC$2.8m threshold from both banks to be transferred to a Deposit Protection Trust (DPT).

The Government of Anguilla is of the view that the Deposit Protection Trust is the best alternative method because it fully protects customer deposits. This fits with our principle objective. The alternative to being placed in the DPT is to be placed in the receivership. In the receivership, claim holders are only entitled to proceeds from the liquidation of non-performing loans based on their position in the hierarchy of claims as established by the Banking Act."

As part of the resolution process, the ECCB has appointed Mr. Gary Moving as Receiver for both CCB and NBA. Mr. Moving served in the capacity of consultant to the ECCB during his stint of work at NBA and CCB before his appointment as a Receiver for both institutions.

IV. Effect of the Bank Resolution Obligations Act 2016

The passing of the Bank Resolution Obligations Act 2016 resulted in the transfer of the Group's financial assets to the Government of Anguilla and to the bridge bank, the newly established National Commercial Bank of Anguilla ("NCBA") Ltd. The passing of the Act may also result in an estimated impairment loss amounting to $35,547,224 on the Group's financial asset as at and for the year ended December 31, 2016.

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