Financial Services Authority
St.Vincent and the Grenadines

ANNUAL REPORT

2018

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FINANCIAL SERVICES AUTHORITY SVG

OUR MISSION

"To regulate and supervise the financial sector in accordance with best practices so as to promote the safety, soundness and integrity of the sector, thereby enhancing the reputation of St. Vincent and the Grenadines as a secure and competitive financial centre."

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BOARD OF DIRECTORS

Left to Right Standing: Hubert DaSilva - Director
Stewart Haynes - Director
Leon Snagg - Chairman
Edmond Jackson - Director

Left to Right Seated: Alma Betty Dougan - Deputy Chair
Carla James - Executive Director
Elritha Miguel - Director

Absent: Karen Duncan - Director

BOARD OF DIRECTORS

LEON SNAGG, was appointed as Chairman of the Financial Services Authority ('FSA') in November 2012 at the commencement of its operations. Mr. Snagg brings a wealth of experience to the Board having served in various capacities in the public service for over thirty years. His early work experience spans service in the Magistrate's Court, the National Insurance and the Audit offices.

Over the period 2004-2010, Mr. Snagg held the position of Permanent Secretary in the Ministry of Transport, Works and Housing and more recently as the Director of Audit, with responsibility for the audit of the public accounts of the Government of St. Vincent and the Grenadines. He has successfully completed the Association of Accounting Technician (AAT) membership examination in 1998.

As its inaugural Chairman, Mr. Snagg leads the Financial Services Authority at an important time of development of the jurisdiction's regulatory framework for its international and domestic financial services sectors.

ALMA BETTY DOUGAN, is the Deputy Chair of the FSA. Mrs. Dougan holds valuable experience in the public service having been employed in the Inland Revenue Department of the Government of St. Vincent and the Grenadines in various capacities including as Comptroller of Inland Revenue and Consultant Manager for the Value Added Tax (VAT) and Property Tax projects. She currently serves as Chairperson of the Customs Appeal Tribunal; and is Chairperson of the Audit Committee and a member of the Human Resources Committee of the FSA.

In the year 2000, Mrs. Dougan was awarded the Queen's Honour for her distinguished public service.

Mrs. Dougan holds a degree in Economics and Accounting and is a certified accountant with the FCCA designation. She has also served as President of the Caribbean Organization of Tax Administrators (COTA). Her continued active involvement in community affairs involves volunteer service as a member of the St. Paul's Anglican Church Council and as alternate representative on the Island Church Council.

HUBERT DA SILVA, is a native Vincentian with a diverse background in the public service, banking and accounting. Mr. Da Silva was instrumental in the establishment of the St. Vincent National Commercial Bank in 1976 and served as the institution's Accountant/Assistant Manager. Prior to that period, he held a senior management position with the Royal Bank of Canada in St. Vincent and also acted Manager of the St. Vincent Marketing Corporation.

Mr. Da Silva is a Director of the Guadalupe Home for Girls and a member of the Roman Catholic Diocesan Finance Committee. He currently owns and operates a small business.

STEWART HAYNES, is a Chartered Financial Analyst (CFA) and a Fellow of the Faculty and Institute of Actuaries (FIA). Mr. Haynes holds a Master's Degree in Actuarial Management from the Cass Business School-City University, London and a BSC in Actuarial Science from the London School of Economics and Political Science. He has served on the Board of Directors of the International Financial Services Authority prior to the establishment of its successor, the Financial Services Authority, for several years.

Mr. Haynes currently holds the post of Executive Director of the National Insurance Services. He is a current Director on the Board of Directors of Eastern Caribbean Financial Holdings, St. Lucia.

BOARD OF DIRECTORS

ELRITHA MIGUEL, has been employed with the Eastern Caribbean Central Bank, ECCB, for the past 28 years. She is currently the Resident Representative of the ECCB in St. Vincent and the Grenadines.

Prior to joining the ECCB, Mrs. Miguel worked with the Government of St. Vincent and the Grenadines and also worked as Office Manager for the Law Firm of Colamarino & Sons, New York, New York, USA.

Mrs. Miguel holds a Bachelor of Business Administrative Degree from the Lubin School of Business, Pace University, New York, USA and certificates from the University of the West Indies and State University of New York (SUNY) Farmingdale in Business Administration. Mrs. Miguel has also completed the Kellogg's Foundation Fellowship in International Development and a course of study in Secretarial Studies from the London Chamber of Industry and Commerce.

She is a Past President of the Lions Club of Kingstown SVG and Past President of Partners of the Americas.

EDMOND A. JACKSON holds a BSc in Economics and Management from the University of the West Indies and a MSc. in Financial Economics from the University of London. He currently holds the post of Director General in the Ministry of Finance and Planning.

Mr. Jackson's professional experience spans both the public and private sectors having served in several capacities within the Credit Union sector and within the banking industry. He has wide-ranging experience and training in the areas of financial sector regulation, policy development and public finance. He has been at the forefront of civil service reform with a career extending over twenty-five years within the public service.

KAREN DUNCAN, is the Senior Crown Counsel in the Attorney General's Chambers, Ministry of Legal Affairs. She holds a BSc. in Management Studies from the University of the West Indies (U.W.I), Mona; a LLB from U.W.I, Cave Hill; a MSc. in Global Affairs from New York University; and a LLM in Legislative Drafting from U.W.I., Cave Hill.

Ms. Duncan was an Attorney in the Litigation Department at DunnCox, Attorneys-at-Law in Jamaica; Legal Officer at the Jamaica Fair Trading Commission focusing on competition/anti-trust law; and Case Manager at Scholars at Risk, an international network of institutions protecting academic freedom, based at New York University.

DEIDRE ADAMS, serves as Secretary to the Board of Directors of the FSA. Since 2010, Ms. Adams has held the position of Budget Officer II in the Financial Management Unit of the Ministry of Finance. Prior to this period she held several other positions within the public service including Budget Officer in the Treasury Division.

Ms. Adams holds a BSc Degree in Accounting and is also actively involved as a Youth Leader and mentor to young persons in her church community.

EXECUTIVE MANAGEMENT

CARLA JAMES joined the FSA, St. Vincent and the Grenadines as Executive Director in September 2018. Ms. James is a barrister at law and solicitor and holds a LLB from U.W.I Cave Hill and a L.E.C from Hugh Wooding Law School.

As Executive Director, she also holds the posts of Registrar of IBCs, International Trusts, Mutual Funds and Credit Unions and Commissioner of International Insurance. She is also a statutory member of the National Anti-Money Laundering Committee.

Ms. James has worked in the field of financial services since 2003, specifically the detection and combating of financial crimes, firstly as the Legal officer of the Financial Intelligence Unit, known as one of the leading FIUs in the Caribbean region, and then as its Director from 2016-2018. She has also served as Magistrate at the Kingstown Magistrates' Court for a period of one and a half years where she adjudicated on all aspects of the law.

Feb. 2017 - Apr. 2018

MR. AUGUSTIN POWERS, prior to appointment as Deputy Executive Director of the Financial Services Authority of St Vincent and the Grenadines worked as Senior and then Chief Analyst, at the Cayman Islands Monetary Authority, from 2007 to 2016. Prior to this, he served as Senior Compliance Officer in the Regulatory and Supervision Division of the Ministry of Finance and Planning, St. Vincent and the Grenadines, from 2003 to 2007. Mr. Powers also held various positions of responsibility at the said Ministry and other Government departments in St. Vincent and the Grenadines, prior to his aforementioned position of Senior Compliance Officer.

Mr. Powers holds a Masters degree in Economic Policies and Reforms for Development and a Bachelor of Science degree in Accounting and Finance. He is a seasoned financial services regulator with more than nineteen (19) years of increasingly responsible employment.

MANAGEMENT AND LEGAL TEAM

KEISHA BYNOE is currently the acting Manager Finance & Administration of the Financial Services Authority. She holds a BSc. in Accounting from the University of the West Indies, Cavehill, Barbados and is ACCA qualified.

Mrs. Bynoe has gained experience in auditing and accounting from working with the auditing firm of KPMG (Eastern Caribbean) for over seven (7) years. Prior to that period, she worked with the Inland Revenue department of the Government of St. Vincent as a Junior Tax Officer.

KAREN JACKSON, Manager of International Financial Services, continues with the FSA having been an integral part of the former International Financial Services Authority. Prior to joining IFSA, Ms Jackson worked in the fields of accounting, auditing and bank supervision with the SVG Port Authority, the audit firm of Coopers and Lybrand and the Eastern Caribbean Central Bank

Ms. Jackson is a Fellow of the Chartered Certified Accountants (FCCA) of the UK. She holds an MS Degree in Finance graduating from Rochester Institute of Technology, NY under the Fullbright Scholars Program and a BSc honors degree in Accounting from the University of the West Indies, Jamaica.

MINTRUE ROSE-PROVIDENCE worked with the Ministry of Finance & Economic Planning for ten years prior to being appointed to the position of Manager, Insurance and Pensions with the FSA. During her tenure in the public service, she served as an officer of the Economic Research and Policy Unit and Director of the Supervisory and Regulatory Division with responsibility for domestic non-bank financial institutions.

Mrs. Rose-Providence has wide range of experience and training in the areas of financial sector supervision and regulation, financial programming and policies, monetary and financial statistics. She also received training from the Small Countries Financial Management Centre in the Isle of Man and training in Negotiations at the Said International School of Business, Oxford University. Over the period 2010-2014 Mrs. Rose-Providence has served as Secretary of the Caribbean Association of Insurance Regulators (CAIR).

Mrs. Rose Providence holds an MSc in Economics, Finance and Management from the University of Bristol, United Kingdom, a BSc in Economics from University of the West Indies, Cave Hill, Barbados and a Diploma in Trade Policy from the World Trade Organisation.

MANAGEMENT AND LEGAL TEAM

NYASHA BROWNE joined the Financial Services Authority in August 2015. She serves as the Manager, Credit Unions, Building Societies, Friendly Societies and Money Services Business. Her expertise in this area is founded on her previous managerial experiences and her forte in the field of Accounting- she is ACCA qualified and holds a BSc in Accounting from Oxford Brookes University U.K. Additionally, Mrs. Browne is a certified FATF 4th round assessor.

At present, her skills are being further honed through the pursuit of ACAMS certification.

GESHELL PETERS, serves as the Legal Officer and Deputy Registrar of International Business Companies. Prior to joining the FSA, Ms. Peters worked in various departments of the public service.

Ms. Peters holds a Bachelor of Laws (LLB) (Hons) Degree from the University of the West Indies, Cave Hill campus, Barbados, a Legal Education Certificate with Merit (LEC) from the Hugh Wooding Law School,Trinidad and Tobago and an ACAMS accreditation in AML/CFT. In 2013, Ms. Peters was one of St Vincent's representatives at the Small Countries Financial Management Programme, University of Oxford, IOM Business School.

Ms. Peters duties include legal research, advice and legal representation of the Authority, supervision of the Registry department and assisting the Registrar of IBCs in the exercise of her powers, duties and functions under the International Business Companies Act.

Our Staff

Standing from Left to Right: Keisha Bynoe, Nyasha Browne, Vasilca Morgan, Yolande Balcombe, Landar Wallace (SET Staff), Debon Moses, Leslieanna Joseph, Farique Daniel, Jimmy Black, Daphne Scott, Suzette Lewis, Shanika Layne, Alicia Browne, Nerissa Burton-Hunte, Neva Cordice, Jabari Guy.
Seated from the left to Right: Karen Jackson, MIntrue Rose-Providence, Carla James, Ival Jack, Geshell Peters
Absent: Augustin Powers & Roxanne Durham.

The FSA- Who we are and what we do:

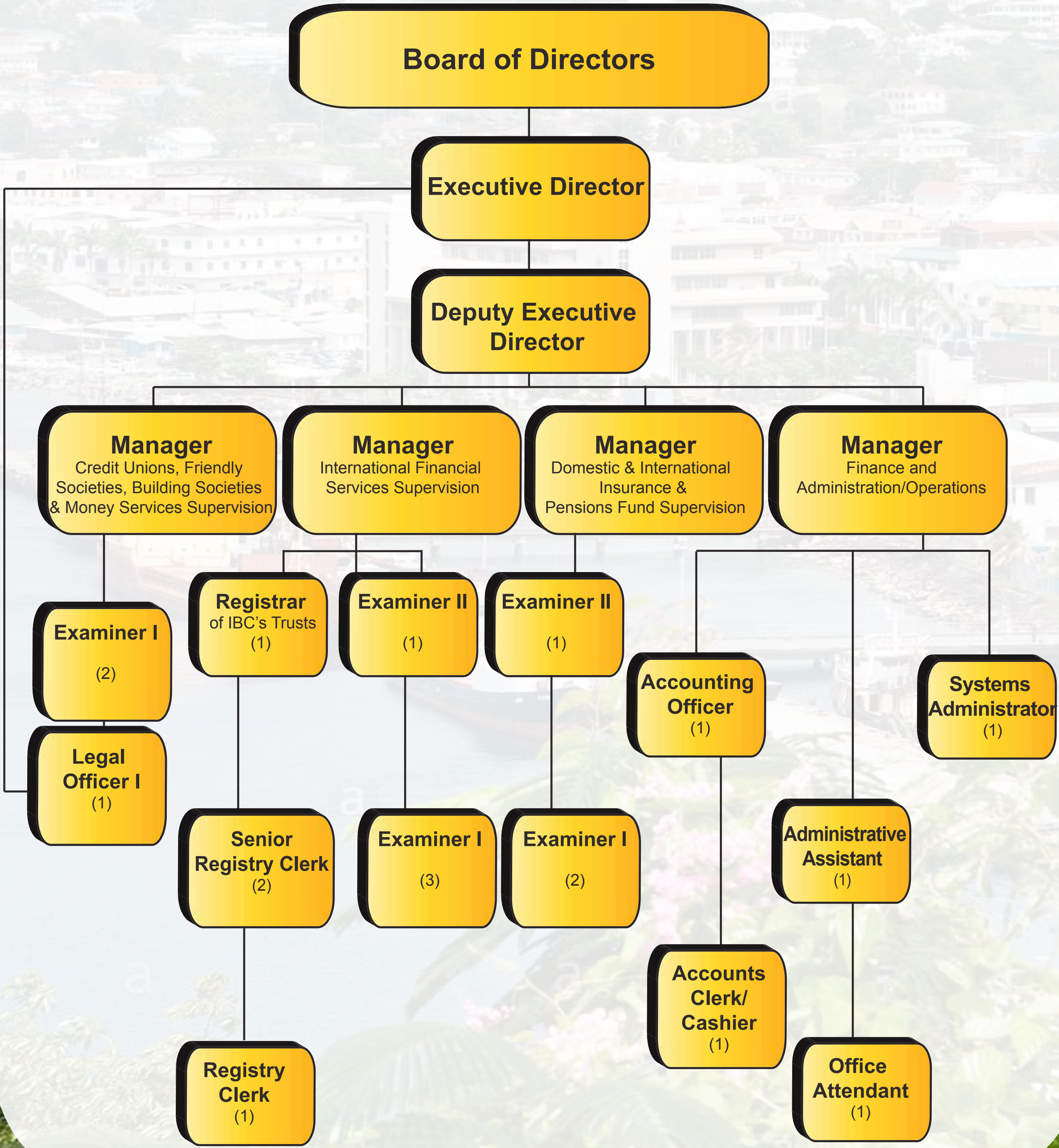
The Financial Services Authority (the "FSA"/ "Authority") was established on November 12, 2012 under the Financial Services Authority Act, No. 33 of 2011 and is responsible for the regulation and supervision of the non-bank and international financial services sector in St. Vincent and the Grenadines.
The FSA is responsible for registering/regulating/supervising the following entities:

- International Business Companies (IBCs);
- Limited Liability Companies (LLCs)
- Mutual Funds;
- International Banks;
- International Trusts;
- International Insurance Companies;
- Domestic Insurance Companies
- Insurance Intermediaries;
- Pension Fund Plans;
- Credit Unions;
- Building Societies;
- Friendly Societies; and
- Money Service Businesses.

In addition, the FSA monitors compliance of all registered and financial entities with the Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) Legislation.
The main functions of the FSA include, but are not limited to, the following:

- **Reduction of Risk** - the FSA seeks to reduce the risk of financial loss to the public due to dishonesty, incompetence or malpractice by or through the imprudence of persons providing financial services in or from within St. Vincent and the Grenadines;
- **Risk Based Supervision** - the FSA directs greater supervisory effort to entities that are classified as high risk and place more emphasis on dealing with regulatory issues that may significantly affect the entire financial system;
- **Protection and enhancement of the Reputation and Integrity** of St. Vincent and the Grenadines in financial matters;
- **Counter Financial Crimes** in St. Vincent and the Grenadines and elsewhere;
- **Financial stability and security** of the financial services sector;
- **Transparency, equity and cost efficiencies in decisions, processes and actions** – the FSA carries out its functions in accordance with existing legislation and best practices;
- **Collaboration** - the FSA works together closely with financial entities as well as other financial services regulators regionally and internationally to ensure the stability of the financial sector of St.Vincent and the Grenadines;
- **Professionalism** - the FSA exhibits a positive, courteous, conscientious and businesslike approach in its interactions; and
- **International competitiveness and innovativeness in the financial services sector** – the FSA ensures that its products and services can compete on the international market by continuous focus on updating and improving relevant legislation and keeping apprised of all international developments and best practices.

FINANCIAL SERVICES AUTHORITY
Organisational Chart



Chairman's Message 2018

In accordance with Section 51 (3) of the Financial Services Authority Act No. 33 of 2011 ("FSA Act), I am pleased to present, on behalf of the Board of Directors, the 2018 Annual Report of the Financial Services Authority ("FSA"/ "the Authority"). This report covers work undertaken for the financial year ended December 31, 2018 and includes the financial performance for that period.

The period under review, though challenging, was rich with developments as the FSA sought to strengthen and enhance the current regulatory framework aimed at safeguarding the reputation of St. Vincent and the Grenadines, the stability of the financial services sector and protecting the public from financial loss.

Today, the FSA faces rapid waves of change which envelope opportunities and threats to its relevance and sustainability. It is a truism that the world of finance is characterized by rapid innovation – sometimes that innovation is driven by the desire to enhance efficiency, sometimes in response to regulatory changes (a process that tends to create its own circular dynamic) or sometimes to boost corporate profits. We are at a point where our jurisdiction is required to grapple with major regional and international initiatives which directly impact our future. However, the FSA approaches these changes with determination and foresight to develop a robust and dynamic regulatory regime that yields financial safety and soundness within the domestic financial space. Our prudent and responsible strategies and actions are geared towards promoting and protecting the economic interest of St. Vincent and the Grenadines.

Management

The year 2018 also ushered in a change in management of the FSA. The inaugural Executive Director demitted office at the end of January 2018 and the Authority was plunged into a recruitment drive for her replacement. This saw the FSA being headed by two (2) interim Executive Directors during the year, namely; Ms. Karen Duncan and Ms. Karen Jackson. A new Executive Director; Ms. Carla James was subsequently appointed on September 3, 2018. Coupled with this, was the departure of the Deputy Executive Director in April 2018. Despite these significant changes in executive management of the Authority, the staff remained dedicated and delivered well on advancing the FSA's objectives as outlined in our FSA's workplan. I deeply appreciate the effort of the staff in this regard.

CHALLENGES

Over the period under review, the FSA has had to respond to international requirements as it relates to the combatting of money laundering and terrorist financing and tax transparency matters. One such requirement was with respect to the demands of the European Union Code of Conduct Group (Business Taxation) (EU COCG).

In 2018, the FSA was integrally involved in ensuring that St. Vincent and the Grenadines was not listed by the EU COCG as a "non-cooperative" jurisdiction by advising the policy makers and coordinating the expediting of the requisite legislative amendments by the December 31, 2018 deadline.

On December 27, 2018, St. Vincent and the Grenadines amended its International Business Companies and International Trusts legislation to meet its commitments to the EU COCG under its Tax Governance Initiative and at the same time to the Organisation for Economic Cooperative Development of Economic (OECD), Base Erosion and Profit Shifting (BEPS) Inclusive Framework. The main significant effect of these amendments means an opening up of the international financial services (IFS) sector to Vincentians and removing tax exemptions on income earned by international business companies and international trusts. Additional amendments were made to upgrade and strengthen the legislation in keeping with purposes connected to meeting the EU and the OECD BEPS criteria.

The Authority was also involved in coordinating St. Vincent and the Grenadines' membership in the OECD BEPS Inclusive Framework. SVG was accepted as a member of the BEPS Inclusive Framework in October 2018.

The Authority will continue to work closely with the EU COCG and the OECD to ensure that St. Vincent and the Grenadines remains in good standing with these organizations.

Non-Performing Loans (NPL) & Credit Bureaus

The issue of asset quality and more specifically, non-performing loans continues to be of concern within the credit union and building society sectors. The deterioration in asset quality within these sectors reflected the need to strengthen the financial infrastructure and related ability to manage credit risk within the ECCU. The recognition of the need to improve asset quality while strengthening the financial infrastructure, led to the enactment of the ECCU Harmonised Credit Reporting Act in St. Vincent and the Grenadines in 2017. The Act provides for the establishment of a credit bureau for the ECCU. The goal of the establishment of the ECCU credit bureau is to address information asymmetries in the lending process, by improving the quality and availability of data for creditors to make informed decisions.

The credit bureau is expected to provide financial institutions with a better means of assessing credit risk, thereby enhancing the credit underwriting process which should lead to an improvement in the quality of loans.

IFRS 9

The implementation of new reporting standards; International Financial Reporting Standards Nine (IFRS 9) from January 1, 2018 heralds a major change in the accounting procedures and regulatory reporting requirements for financial institutions. More specifically, IFRS 9 sets out how an entity should classify and measure financial assets and financial liabilities.

The change materially influences a financial institution's financial statements, with impairment calculations being mostly affected. Specifically, the new standard requires entities to account for expected credit losses from the moment when financial instruments are first identified. IFRS 9 acknowledges the full lifetime expected losses on a more timely basis. As a result, provisioning levels are expected to substantially increase under this new standard.

The anticipated negative effect on the capital of credit unions and building societies as a consequence of the implementation of this accounting standard is yet to be fully assessed and verified.

Deposit Insurance

In keeping with the FSA's core guiding principle of the reduction of risk to the public of financial loss and the strategic objective of establishing standards for financial institution strengthening, risk management and protection of customers, creditors and the public, the FSA will continue to advocate for the establishment of a deposit insurance mechanism for financial institutions within the ECCU.

The need for deposit insurance is made even more critical when we consider the potential contagion risks due to the inter-connectedness of the sectors. As the financial system deepens, risk exposure and the possibility of contagion increases; as was evident in the CLICO/BAICO debacle. The current framework is not adequate in terms of dealing with systemic crises. A compulsory deposit insurance scheme will complement and augment the regulatory and supervisory function of the FSA and the ECCU as a whole. In 2015, the Monetary Council of the ECCB announced that deposit insurance legislation would be drafted by May 2015. We anxiously await the manifestation of this noble initiative.

Strengthening the Financial System

There has been a continuing evolution in the work of the FSA and the way in which we deliver our regulatory objectives. Consistent with the FSA's core principles, as outlined in Section 7 of the FSA Act, the FSA continued to strengthen the supervision of the bank and non-bank financial sector. We have also sharpened our supervisory approach to focus more heavily on risks identification and mitigation, crisis management and financial stability. I am very pleased to report that progress has been made in this regard and these processes are now imbedded in our new three-year strategic plan.

On the supervisory front, the pace and rhythm of supervisory oversight in 2018 was for the most part largely unchanged from previous years. A comprehensive on-site inspection programme was maintained, complemented by a range of off-site analytical and intelligence-based activities across all regulated sectors.

Risk Based Supervisory Framework

During the period under review, the FSA continued to develop its Risk Based Supervisory ("RBS") Framework. The RBS framework is designed to work as a structured process that identifies the most critical risks faced by an institution and systemic risks in the financial system. The RBS process also covers assessment of an institution's management of those risks along with its financial vulnerability to potential adverse experiences. These factors taken together are then compiled into a resultant residual risk of the entity's activities.

The RBS process is forward looking, with a focus on evaluating both present and future risks, identifying incipient problems and facilitating prompt intervention/early corrective action. Effective implementation of risk-based supervision allows the FSA to ensure that a greater share of resources is being deployed to the most vulnerable entities. Licensees rated as high-risk can expect increased monitoring from the FSA.

This framework is in keeping with international best practices and provides an effective approach to assess the safety and soundness of licensed financial institutions *against current and emerging risks.*

Development of a Crisis Management Plan for the Non-Bank Financial Sector and Financial Sector Stability

Consistent with its strategic activities (2016-2018) for the development of a Crisis Management Plan for the non-bank financial sector, the FSA continued its efforts during this period to research and design an appropriate Crisis Management Plan. Though still embryonic, it is anticipated that such a plan will focus primarily on the credit union, building society and cross border insurance sectors, which will ultimately be part of the Crisis Management Plan at the Eastern Caribbean Currency Union ("ECCU") level, to be developed by the Eastern Caribbean Central Bank (ECCB).

Concurrent with these efforts, the FSA continued to work with the ECCB in the area of financial sector stability. It is anticipated that in the coming year, greater focus will be placed on developing and finalizing a well calibrated framework for the identification and monitoring of systemically important financial institutions aimed at reducing the systemic impact of future financial crises.

Together, these initiatives are expected to enhance the FSA's regulatory capabilities and confidence in the financial system.

National Risk Assessment

During the second quarter of the year, St. Vincent and the Grenadines commenced a National Risk Assessment as part of requirements to maintain compliance with the Financial Action Task Force/ Caribbean Financial Action Task Force (FATF/CFTAF) obligations.

This assessment which is necessary to ensure that the FATF's 40+9 recommendations are fully and effectively implemented, was launched through a Sensitization Workshop on April 4-5, 2018.

The NRA exercise which is coordinated by the National Anti-Money Laundering Committee (NAMLC), of which the FSA is a member, seeks to guide St. Vincent and the Grenadines in assessing its money laundering and terrorist financing risk, with a view to assisting the jurisdiction to design a more effective and risk-based anti-money laundering and combatting terrorist financing regime.

Concluding Remarks

The journey has not been without critical challenges. We encountered setbacks and made adjustments. As the cost of compliance mounts across all International Financial Centres, we continue to take strategic initiatives to ensure that we remain relevant to the exigencies of the present-day investor. This must of course, all be done within the parameters of the international standards that we endorse and actively implement.

In closing I, along with my fellow directors, thank the management and staff of the FSA for their loyalty, dedication and the tremendous work done over the years in helping to strengthen the regulatory capacity of the Authority. I also extend my sincere gratitude to both the public and private sectors who supported our work and partnered with us on various initiatives throughout the period.

Last but by not means least, I extend a hearty thank you to the former Executive Director, Mrs. Sharda Bollers for her stellar contribution to the FSA.

Executive Director's Report 2018

It is my profound pleasure to report on the work of the FSA over the period January 01- December 31, 2018.

2018 was a year of transition for the FSA. In January 2018, the inaugural Director, Mrs. Sharda Bollers, demitted office after giving yeoman service to the organization and the country for many years. The organization flourished from a fledgling institution into a burgeoning and robust Regulatory Unit which has withstood the test of time, and averted major crises, under her leadership. Mr. Augustin Powers, Deputy Executive Director, also demitted office in 2018 after serving the organization for approximately two years. During the period February to August 2018, the FSA was ably led by Ms. Karen Duncan, member of the Board of Directors and Ms. Karen Jackson, Manager of International Financial Services, both experienced and knowledgeable women in their respective fields. We thank them all for their service.

Background

The Financial Services Authority ('FSA') was established on November 12th 2012 and thus in 2018 celebrated its 6th anniversary. The FSA marked the occasion with a period of self-reflection as, after emerging from a period of early development, it moves towards the advanced stages of regulatory capacity and maturity.

The FSA is an autonomous statutory body established pursuant to the Financial Services Authority Act, No. 33 of 2011 ('the FSA Act'), for the purpose of regulating the international *(offshore)* financial and non-bank financial sectors, the latter comprising Credit Unions, Insurances and Pensions, Building Societies, Friendly Societies and Money Remitters. The FSA's role, functions and powers are outlined in the FSA Act, and its regulatory objectives are enshrined in the FSA's core guiding principles, also outlined therein. These include, in sum, the protection and fair treatment of consumers, the enhancement of market integrity and financial stability, and the promotion of fair competition.

The establishment of the FSA in 2012 was a regulatory development of historic significance to St. Vincent and the Grenadines, as such an amalgam of different regulatory entities into a single regulatory body was unprecedented. Such constitution has yielded substantial benefits by consolidating resources and optimizing efficiencies. Over the past years, the FSA has evolved into a professional and specialized organization, engaged in the responsible execution of its legal mandate. It has utilized its wide ranging regulatory powers to undertake various regulatory and empowerment actions to foster compliance with governing legislation and to promote stability in the operations of financial entities.

The FSA has worked tirelessly over the past 6 years to address the various challenges and problematic issues which have been identified, and our engagement with the industry and all relevant entities, including stakeholders, strategic partners, customers of financial entities and members of the public, will continue.

Regulatory Approach

The FSA adopted and implemented a formalized **Risk Based Supervision (RBS)** and consolidated supervision framework in keeping with best international practice for regulators. Supervision is undertaken by means of offsite monitoring and onsite examinations and the FSA consistently applies internationally accepted prudential standards to assess the condition and financial soundness of institutions which it supervises (CAMELS, PEARLS-M, ICPs, CARAMELS, IFRS, Basel I and some aspects of Basel II) in conjunction with the application of RBS.

The Key benefits of the RBS Framework include, inter alia, closer integration of macro and micro prudential supervision, with focus on early identification of emerging risks to facilitate timely interventions; cost effective utilization of resources through prioritization of supervision based on risks; flexibility for supervisors to utilize professional judgement within a structured approach; reducing regulatory burden on well managed institutions; and encouraging a strong risk management culture in institutions.

Following a review conducted by the Caribbean Regional Technical Assistance Center (CARTAC) of the RBS practices by banks and non-bank supervisors in the Region, preliminary findings suggest inconsistent application of the framework. It was therefore recommended that further training of these supervisors was required to ensure clear understanding and correct implementation, the objective being to reap the benefits of RBS. The FSA therefore looks forward to receiving further training and guidance from CARTAC in 2019 on the framework, the desired outcome being an improvement in the application of the RBS practices including proper utilization of the RBS documents and practices.

Regulatory Capacity

Capacity building is an ongoing priority of the FSA in order to enhance high performance standards. In 2018, staff continued to be exposed to regional regulatory workshops and conferences held annually by CARTAC, which provide excellent opportunities for training and awareness raising on current topics and issues impacting the regulated sector, the regulator and the public at large. These annual workshops are jointly hosted by a regulatory counterpart in the region and provide valuable networking opportunities.

In addition to these annual sector specific workshops on Insurance, Pensions and Credit Unions attended by FSA Managers and Examiners, the FSA also participated in the College of Regulators on Sagicor which was chaired by the St. Lucia Financial Services Regulatory Authority ('FSRA') (home Regulator for Sagicor Life EC) and included representatives from all ECCU territories, with the exception of Dominica. The key decisions arising included harmonization of an ECCU Regulatory Approach to Sagicor (both Offsite Reviews and Onsite Examination) and includes engaging in coordinated onsite examinations and agreeing on a common risk rating system for the companies.

Industry Overview

The number of financial entities (banks, mutual funds, mutual fund managers and administrators, registered agents, credit unions, building societies, friendly societies, Money Service Businesses (MSBs), insurance companies, insurance intermediaries, pension plans) as at December 2018 was 336 and the number of registered entities (International Business Companies (IBCs), Continued IBCs (CTDs), Limited Liability Companies (LLCs), International Trusts) was 5,679, altogether amounting to a total of 6,015 (2017:6,373) licensed and registered entities operating in or from within SVG. The total number of entities was reduced by 5.6% since 2017.

The number of international banks decreased to four (4) as compared to 5 in 2017, as well as the number of Registered Agents and Trustee Companies or Service Providers reduced from sixteen (16) in 2017 to thirteen (13). The reduction in the banking sector was due to the closure (by way of compulsory liquidation) of the oldest and largest international bank in St. Vincent and the Grenadines, Loyal Bank Limited. After more than twenty (20) years of operations in the jurisdiction, the Bank's license was formally revoked in August 2018 and liquidation proceedings are ongoing. In addition, its Service Provider, Loyal Agency and Trust Corporation's license as a Registered Agent was subsequently cancelled, thereby contributing to the reduction of that sector.

Two (2) new international public mutual funds were registered, giving a total of 90 active entities in good standing at year end, and 10 new international trusts were registered, totaling 82 at year end. Eight hundred and twenty-one (821) new IBCs were incorporated, while 6 new LLCs were formed. The respective totals of IBCs, CTDs and LLCs in good standing at year end were 5,202, 348 and 47. At 31st December, 2018 there were 90 active mutual fund entities, (including mutual funds registered as segregated cell companies along with their respective segregated cells) registered/licensed under the Mutual Funds Act compared to 89 active entities which existed in 2017.

The number of international insurance entities remained unchanged in 2018 at four (4). There was one new entrant to the domestic insurance market, making a total of twenty-four (24) insurance companies operating domestically. The number of insurance brokers (8) remained unchanged; however 1 insurance agent left the market, resulting in a total of 16 insurance agents operating in SVG at year end. The number of insurance sales representatives increased from 119 in 2017 to 127 at the end of December 31, 2018, while the number of Occupational Pension Plans registered with the FSA increased from 25 in 2017 to 27 2018.

The credit union sector comprised of 5 entities for 2018, as COMFI remains in voluntarily liquidation. This process was instituted and endorsed by the FSA in 2017. The Building Societies sector and MSBs remained consistent at 1 and 2 respectively. There were two (2) new Friendly Societies registered in 2018. That is, the Employees' Benevolent Association Friendly Society and Chateaubelair Methodist Friendly Society, making a total number of 18 such societies registered with the FSA at year end.

Notwithstanding the aforementioned new entrants to the market, there was a decline in most areas in the international financial services (IBCs (aggregate of IBCs, LLCs & CTDs), and Trust entities) from the previous year, while Friendly Societies increased by 5.5%.

Separate reports on the insurance, credit union, money service business, building society and IFS sectors are provided as part of this Annual Report. The said reports outline greater details of the industry status and highlights of activities undertaken in each sector under the FSA's supervision. An analysis of the FSA's financial results over the period also forms part of this Annual Report.

Local Collaboration

The FSA collaborates locally with key stakeholders including, but not limited to, the Financial Intelligence Unit, the Inland Revenue Department, the Ministry of Finance and the Attorney General's Chambers on initiatives relating to the work of the FSA and other matters of national interest. Work with the Attorney General's Chambers has included revising various pieces of legislation to either modernize those and/or bring those in line with certain international initiatives.

The FSA continues to be involved in policy making and oversight of the country's AML-CFT regime via its membership on the National Anti-Money Laundering Committee (NAMLC), the Executive Director and the Chairman of the FSA being statutory members, and the Legal Officer most recently being appointed as Secretary.

The FSA was also deeply involved in the National Risk Assessment (NRA) of the Anti-Money Laundering and Counter Financing of Terrorism (AML-CFT) Regime, with key members of staff participating in and working tirelessly at the Working Group level.

In 2018 the FSA continued to directly engage industry players via prudential and other meetings and onsite examinations. Such engagements form an important part of the FSA's collaborative approach to its work and the industry's cooperation and feedback continue to add value to the FSA's works and efforts.

Key Results 2018

The FSA's work programme or 'Action Plan 2018' closely guided the activities and priorities for the year against the FSA's Strategic Plan 2016- 2018.

As 2018 was the sixth year of the FSA's operations, a main focus was on strengthening the regulatory, supervisory and administrative structure already in place, addressing risks which continue to exist, as well as any emerging risks in the financial system of SVG. Core regulatory work was advanced in accordance with the overall strategic direction of enhancing financial sector regulation, supervision and financial stability.

Ensuring an Appropriate Enhanced Legislative Framework

Under the threat of 'blacklisting' as an uncooperative tax jurisdiction, SVG made commitments to the EU to undertake a review of its legislative framework for the international financial services sector with a view to addressing, by amendment or abolition, practices which were considered harmful under the EU tax criteria for Fair Taxation and to take the necessary steps to join the OECD's (BEPS) Inclusive Framework and commit to adhering to its minimum standards. Consequently, SVG enacted legislative amendments in December 2018 to its International Business Companies (Amendment) Act and the International Trusts Act, to accord with the requirements of the EU Criteria.

The main significant effect of these amendments means an opening up of the International Financial Services (IFS) sector to Vincentians and removing tax exemptions on income, even though exemptions on estate and succession taxes and certain duties, such as stamp and custom duties, have been retained. Additional amendments were made to upgrade and strengthen the legislation in keeping with purposes connected to meeting the EU and the OECD BEPS criteria.

SVG made the afore-stated legislative changes in order to demonstrate its continued willingness to cooperate at the international level as an open, transparent and responsible tax jurisdiction, on the important global issue of tax avoidance. Indeed, such action is consistent with the direction more formally embarked upon as early as 2009, when SVG became a member of the OECD and has since been an active, accountable and cooperative member of that forum. SVG has amended its laws over the past several years and enacted new legislation to keep current with international initiatives and has cooperated fully, not only with the OECD, in implementing that body's requirements for Exchange of Information, Automatic Exchange of Information and Common Reporting Standards, but also under the US Foreign Transactions and Tax Compliance Act (FATCA).

It is anticipated that, as a result of the afore-stated legislative changes, SVG will not be among the countries blacklisted for failing to meet or make a high-level commitment to comply with the EU's tax governance standards.

The FSA maintains its opinion that the EU COCG's process is unnecessarily duplicitous to the OECD's work in large respects, as well as overly burdensome and even precarious to the stability of small developing economies and countries such as ours.

Established Standards for Institutional Strengthening

Industry Guidelines continue to be issued by the FSA to bolster the regulatory legislated framework and promote compliance with legal requirements and best practice and have been found to be particularly useful where there are legislative lacunas or archaic legislation *(e.g. Pension Guidelines and Friendly Societies Guidelines).* The Guidelines issued by the FSA have thus far been effective in operation but nonetheless require periodic review to ensure that they are current and remain effective.

In 2018, Guidelines were issued pursuant to Regulation 12 of the Automatic Exchange of Financial Account Information (Common Reporting Standard) Regulations 2016, the purpose being to provide guidance on aspects of the CRS that are particular to Saint Vincent and the Grenadines.

Development of IT Infrastructure and Management Information Systems

In 2015 the FSA was a beneficiary of technical assistance through a Caribbean Development Bank/FSA IT Technical Assistance Project, which provided for the institutional strengthening of the FSA, through the acquisition of more sophisticated hardware to support a software systems upgrade obtained with the assistance of the Gibraltar Financial Services Commission.

This is a significant project with the anticipated positive results having materialized to enhance the IT capabilities of the FSA's registry, regulatory and administrative systems. All relevant staff have been trained in the use of the system and a sixteen (16) week parallel run exercise officially commenced in 2018. The FSA is grateful to the afore-mentioned entities for bringing the project to fruition and near completion, with immense gratitude in particular to the Head of IT Gibraltar FSC and the FSA's in-house IT technician for their continued diligent work on the project.

The project also encapsulated Training and Marketing Development, which the FSA intends to utilize in enhancing its capacities in 2019.

A newly developed FSA website was officially launched in 2018 and has proven to be more modern, updated and user friendly than the original.

Conclusion and Strategic Direction

2018 marks the expiration of the FSA's second Strategic Plan, and after six years in existence, against this backdrop, it bears underscoring that the FSA cannot fail to have a strong appreciation of its own role, responsibilities and accountability. Such awareness invariably tends to become even more intensified when adverse situations arise or desired results are not attained, even though it is commonly recognized that even the best of regulatory efforts cannot always prevent failed institutions or fraud.

Thus, in awareness of the myriad of challenges which frequently arise, the FSA's strategy and approach will be reviewed on an ongoing basis, in order to continuously improve our results.

No doubt the overriding focus of the organization as it develops its 2019-2021 Strategic Plan, will be borne out of the FSA's results and experiences under the 2016-2018 plan and are anticipated to include on-going institutional capacity building and operational efficiency, establishing standards for institutional strengthening for the management of risk in the financial services sector for the protection of stakeholders, development of Early Warning System Indicators through compilation of financial soundness indicators and financial stability reports. The plan also focuses on monitoring the ever-dynamic regulatory environment for changes and developments and actioning appropriate responses where deemed necessary.

The progress and results of the FSA over the past six years would not have been accomplished without the sound stewardship and guidance of the FSA's Board of Directors and the dedication of its employees. Neither could they be achieved without the valuable support and cooperation of stakeholders such as the Minister of Finance, as well as the Attorney General. I herein express my deepest appreciation and thanks to the industry and stakeholders for the cooperation and support received throughout the past few years, without which, the FSA would not be able to effectively discharge its mandate.

Challenges imposed by International Organizations

EU Code of Conduct Group (Business Taxation)/ EU COCG

In 2018, the Financial Services Authority ("the FSA")was integrally involved in ensuring that St. Vincent and the Grenadines (SVG) was not listed by the European Union (EU) Code of Conduct Group (Business Taxation) – (COCG) as a "non-cooperative" jurisdiction by advising the relevant policy makers and expediting the requisite legislation by the December 31st, 2018 deadline. The FSA has been responsible for coordinating this process and providing the requisite responses on behalf of St. Vincent and the Grenadines.

The criteria set by the EU COCG comprise three elements, only one of which SVG could readily meet. These criteria go beyond the generally accepted international tax standards that have been advanced by the Organization for Economic Development and Cooperation (OECD) to date. The Criteria are as follows:

- Criterion 1- Tax Transparency
- Criterion 2 - Fair Taxation
- Criterion 3 – Base Erosion and Profit Shifting (BEPS) Inclusive Framework.

SVG was only able to satisfy Criterion 1 as it is deemed largely compliant by the OECD on this issue. With respect to Criterion 2, since international business companies (IBCs) and international trusts registered in SVG are not subject to taxation, SVG was deemed to have a preferential tax regime. IBCs in SVG are offered significant tax advantages over domestic companies and either pay no taxes or may opt to pay 1%. IBCs are restricted from doing business with locals and are not subjected to the same filings and other company law requirements as in the domestic regime. This position qualifies SVG as being deficient in relation to the EU Tax Criterion 2.1 and is therefore deemed as having a harmful tax regime.

In relation to Criterion 3, SVG had to become a member of the OECD BEPS Inclusive Framework *(an initiative of the OECD aimed at resolving the issue of multinational enterprises taking advantage of tax laws in offshore jurisdictions and engaging in profit shifting).*

To satisfy the outstanding criterion and under the threat of "blacklisting", on December 27th, 2018, SVG amended its International Business Companies and International Trusts legislation. The main significant effect of these amendments is the removal of the tax exemptions on income offered to IBCs and International Trusts, even though exemptions on estate and succession taxes and certain duties, such as stamp and custom duties have been retained, and an opening up of the International Financial Services (IFS) sector to Vincentians. Additional amendments were made to upgrade and strengthen the legislation in keeping with purposes connected to meeting the EU and the OECD BEPS criteria.

The new amendments also include grandfathering provisions which would allow IBCs and international trusts registered under the previous IBC and International Trust legislation, to continue to operate under the old regime until June 30th, 2021.

The removal of the tax exemption on income equates to the application of 30% taxes on income for both local and global income, which may likely lead to potential loss of new business or flight of existing companies. However, if the process is carefully handled, this risk may be mitigated, particularly under an impending company law reform in 2019.

The overall positive implication of the legislative changes will undoubtedly result in an avoidance of black or grey listing by the EU, hence the preservation of the country's financial stability at the macro level, notwithstanding a disruption at the micro IFS level. Any public/international negative sanctioning in today's financial world, tends to have grave perennial adverse effects, particularly on a small developing State. Such effects include, but are not restricted to, the impairment of international correspondent banking relations required for international transactions by compliance, business and AML/CFT purposes.

OECD BEPS Inclusive Framework

The FSA was also involved in coordinating SVG's membership in the OECD BEPS Inclusive Framework. SVG was accepted as a member of the BEPS Inclusive Framework in October 2018 in keeping with SVG's commitment to the EU COCG. Becoming a member of the BEPS Inclusive Framework required that SVG implement four minimum standards, namely, *Action 5- Countering harmful tax practices more effectively, taking into account transparency and substance, Action 6- Prevention of Treaty Abuse, Action 13- Re-examination of transfer pricing documentation, Action 14- Making dispute resolution mechanisms more effective.*

Action 5 was partially implemented by the amendments to the IBC and International Trust Acts in December 2018, removing the tax exemptions therein. Effective implementation of the remaining minimum standards, requires further legislative amendment to relevant laws.

The rationale for the introduction of the BEPS Inclusive Framework is that globalization has resulted in Multi-National Enterprises (MNEs) representing a large proportion of the global GDP, which are employing sophisticated and aggressive tax planning in an effort to exploit the legal boundaries of acceptable tax planning. The OECD and the G20 are of the view that MNEs are taking advantage of the tax rules in certain jurisdictions to reduce their tax burden by shifting their income away from the jurisdiction where the income producing activity is taking place.

The FSA, together with other relevant stakeholders, will continue to work closely with the EU COCG and the OECD to ensure that SVG remains in good standing with these organizations.

Credit Union, Building Societies and Money Service Business Sector Report

1.0 Credit Unions and Building Societies

The Cooperative Societies Act (CSA) No. 12 of 2012 is the governing legislation for Co-operatives in St. Vincent and the Grenadines and defines credit unions as financial cooperative societies that are organized and managed by a group of people with common membership to provide financial services to their members, such as saving and lending. Six (6) credit unions were registered and operated in St. Vincent and the Grenadines as at December 31, 2018 as follows:

- General Co-operative Credit Union Limited (GECCU);
- Kingstown Co-operative Credit Union Limited (KCCU);
- SVG Police Co-operative Credit Union Limited (PCCU);
- SVG Teachers Co-operative Credit Union Limited (TCCU);
- SVG Co-operative League Limited (CUL); and
- SVG Small Business and Microfinance Co-operative Limited (COMFI) (currently in the final stages of liquidation.)

The St. Vincent Building and Loan Association (BVLA or the Association) is the sole registered building society in St. Vincent and the Grenadines and remains under enhanced monitoring. The Association achieved important milestones during 2018 including the complete transition to the new accounting software, Emortelle. This allowed the Association to improve its operational efficiency and enhance the services it provides to its members. Additionally, it honored all demands for fixed deposits that matured during the year. These payouts were in excess of EC$9.0m as at December 31, 2018.

A synopsis of the financial position of the sector as at December 31, 2018 is illustrated in the following table with key financial indicators and comparative data from prior years. The sector recorded growth in all of the major areas when compared to the prior year, (2017) as follows:

- Total assets increased by EC$36.9m or 5.9% between 2017 and 2018;
- Loans portfolio grew by 5.3% or EC$21.7m in 2018 after it declined in 2017 when loan migration increased significantly. Two major loans products were launched and executed during the year which yielded significant patronage;
- Members' deposits also improved materially by 6.7% or EC$31.7m;
- Total regulatory capital within the sector remained above the prudential rate at 15.0% although it decreased slightly when compared with 2017, where the rate was 15.9%; and
- Credit union membership also grew by 4,925 while the number of employees increased by seven (7).

Table 1

Categories	December 2018	December 2017	December 2016
Total Assets	EC$657,416,810	EC$620,459,261	EC$605,406,465
Total Loans	EC$428,769,331	EC$407,081,288	EC$417,154,983
Total Deposits	EC$510,873,431	EC$478,907,732	EC$462,283,369
Total Regulatory Capital	15.0%	15.9%	15.3%
Total Membership	70,820	65,895	64,149
Total Staff	157	150	135

1.1 Regulation and Supervision

As part of its robust corporate governance enhancement agenda the FSA continue to utilize its corporate governance and investment guidelines as strategic regulatory tools. The utilization of the nomination guidelines by the sector has improved the process of electing members to serve on management committees.

The main focus of supervisory oversight was to provide external guidance where weaknesses were observed/ detected in internal controls and management. To this end, onsite and offsite monitoring were key components of the Authority's supervisory program for 2018 and this was commensurate with the level of risks at the respective credit unions. The authority's strategic approach provided a principles-based problem resolution by providing guidance and recommendations for institutions that possessed varying degrees of deficiencies. Hence several initiatives were adopted to address these regulatory and supervisory deficiencies.

During the year onsite examinations were conducted in two (2) Credit unions where they were assessed in regards to compliance with applicable laws/guidelines and international best practices to confirm that deficiencies identified during previous examinations were addressed and to ensure ongoing compliance.

The department was involved in various capacity building initiatives that were coordinated and sponsored by the Caribbean Regional Technical Assistance Centre (CARTAC-IMF) and the Caribbean Association of Credit Union Supervision (CACS).

2.0 Money Services Businesses

There were two (2) active Money Services Businesses in SVG as at December 31st, 2018. A review of remittance activities over the last three (3) years revealed a steady increase in the volume and value of inbound activities whereas outbound activities have declined in both volume and value. During 2018 the value of inbound activities increased by EC$11.7m or 9.7%, while outbound activities decreased by EC$3.3m or 11.5%.

Table 2 outlines the net flow as at December 31, 2018.

Table 2: Inflow and Outflow Statistics 2016-2018

Inbound Trends				**Outbound Trends**			
Year	**Dec. 2018**	**Dec. 2017**	**Dec. 2016**	**Year**	**Dec. 2018**	**Dec. 2017**	**Dec. 2016**
Value (EC$)	$131.8m	$120.1m	$112.8m	**Value**	$25.5m	$28.8m	$25.8m
# of Trans.	203,275	195,454	185,226	# of Trans.	29,521	33,371	31,749

A further comparison over a six-year period also confirmed the positive movement of inflows to SVG between 2013 and 2018. This movement indicates an improvement in the disposable income for remitters during the period of review. The data composition constitutes mostly small and frequent remittances instead of large few ones. While the general trend between 2013 and 2017 was increased outflows, there was a sudden fall in outflows in 2018. The chart below illustrates the inflows and outflows scenarios between 2013 and 2018.

Chart 1

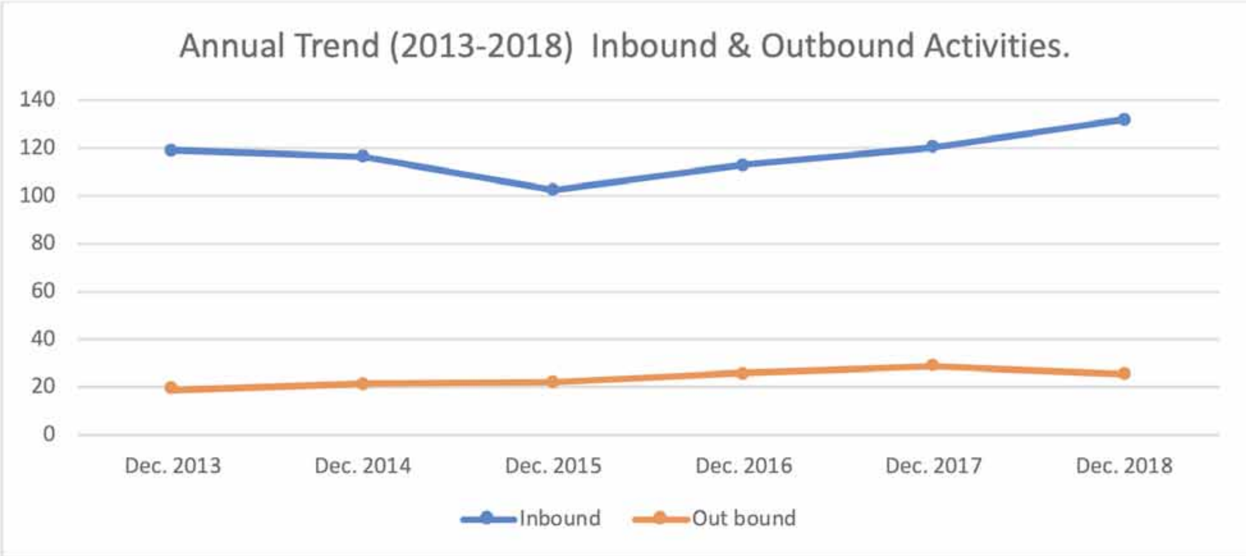


Chart 1 figures are expressed in EC$m

2.1 Regulation and Supervision

Onsite examinations were conducted during the year along with monthly offsite prudential reviews. The sector remained largely compliant with the governing legislation and regulations.

3.0 Friendly Societies

As at December 31st 2018, there were eighteen (18) registered Friendly Societies with a combined asset of EC$10.8m. These assets constituted mainly cash and cash equivalents and property. New legislation to govern the friendly societies is currently in draft form and with the Attorney General's Chambers for review. The current Friendly Societies Act is archaic and does not reflect the modern business environment nor does it address the current financial needs of that sector.

The Authority's engagement with the sector in 2018 consisted of prudential meetings and desk-based review of financials as well as continued corporate structure stability actions. This sector continues to be an accessible product to a small segment of the population providing community/group-based thrift and bereavement funding. These businesses are largely community-based and encourage weekly savings of minimal funds generally deemed too small for commercial banks and credit unions.

INSURANCE SECTOR REPORT

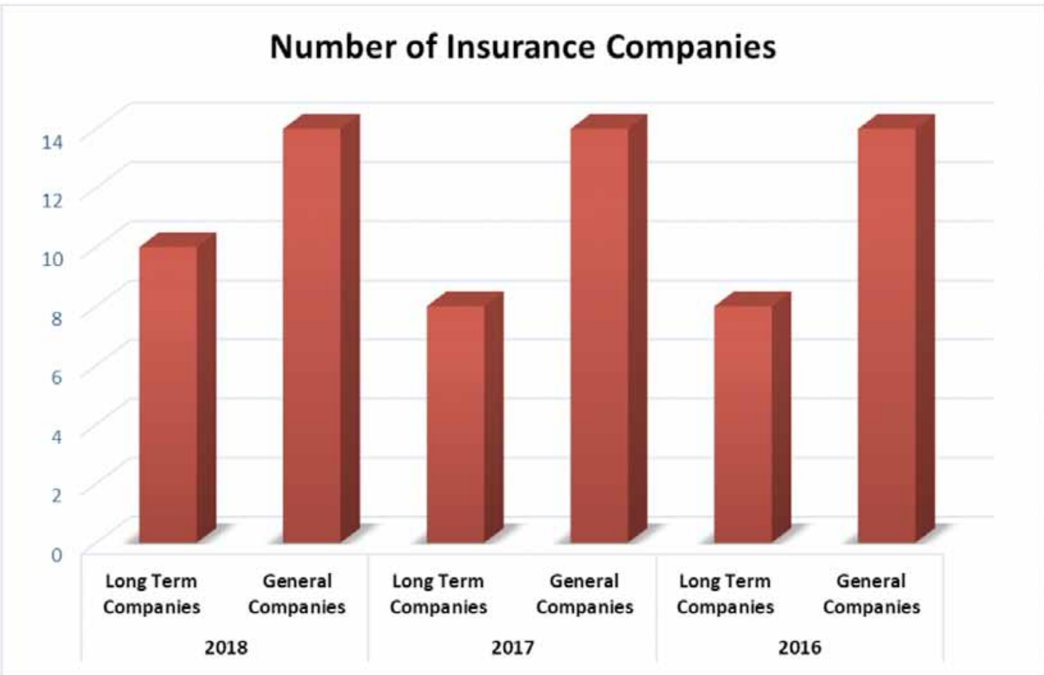
The insurance industry in St Vincent and the Grenadines has two distinct sectors; the domestic insurance segment, which provides insurance of local risks, and the international insurance segment, which provides insurance of foreign risk by insurers from within St. Vincent and the Grenadines. The Financial Services Authority ("FSA" or the "Authority") through its Insurance and Pensions Department, regulates and supervises all insurance entities operating in and from within St. Vincent and the Grenadines.

Domestic Insurance Sector

The domestic insurance sector continues to be a significant component of the insurance industry and the non-bank financial sector in St. Vincent and the Grenadines, comprising insurance companies and intermediaries and pension fund plans. Companies conducting business are either indigenous or domestically incorporated companies or incorporated in CARICOM countries and operating through local agencies or branches. Insurance business is written directly with the companies or through brokers and agents.

As at December 31, 2018, there were twenty-four (24) companies registered under Section 8 of the Insurance Act, Cap 306 of the Laws of St. Vincent & the Grenadines, Revised Edition 2009, to conduct domestic insurance business in St. Vincent and the Grenadines. Fourteen (14) companies were registered to conduct short-term (also referred to as property and casualty) insurance business, while ten (10) companies were registered to undertake long-term insurance business. One (1) new insurance company was registered in 2018.

Figure 1. Number of Insurance Companies 2016-2018



Source: FSA Records

Intermediaries

As at December 31, 2018, there were two (2) Adjusters, one (1) Association of Underwriters, sixteen (16) Insurance Agents, eight (8) Insurance Brokers and one hundred and twenty-seven (127) Insurance Sales Representatives. One (1) new insurance adjuster entered the market in 2018.

Table 1 below summarizes the composition of the domestic insurance and pension sector.

Table 1. Number of Registrants in the Insurance & Pensions Industry as at December 31, 2018

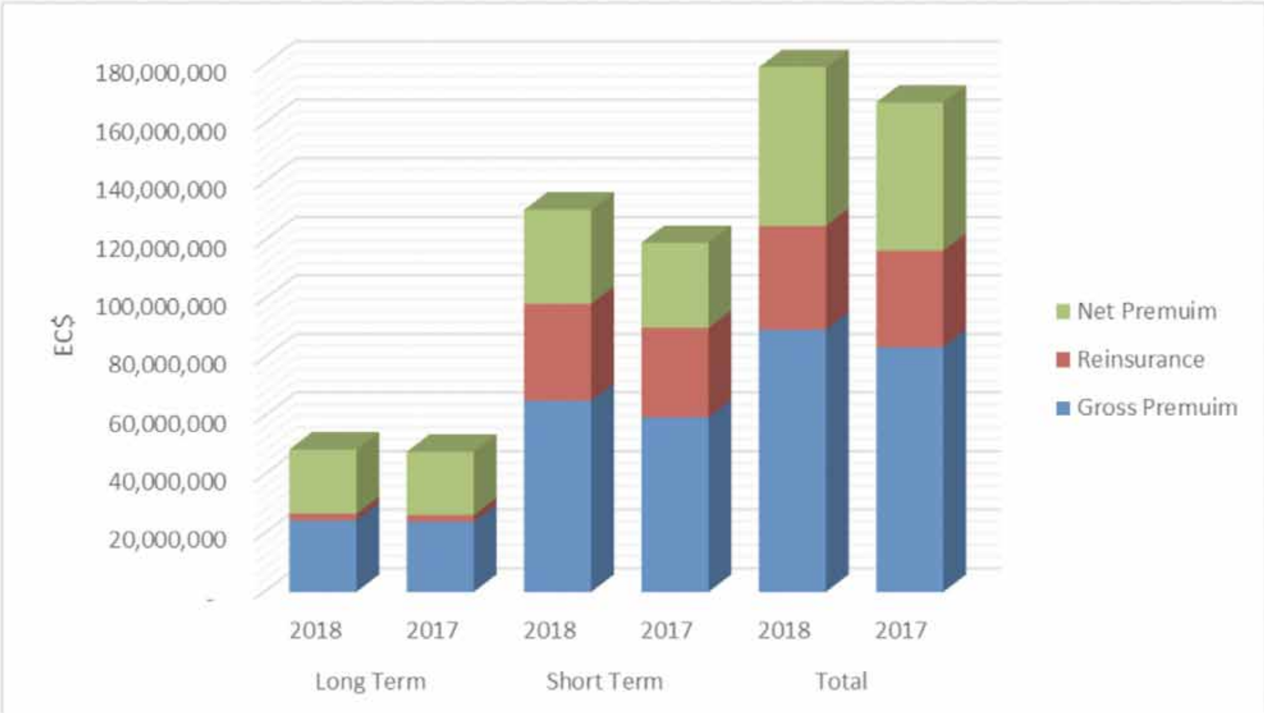
	2018	2017	2016
Insurance companies	24	23	22
Brokers	8	8	7
Agents	16	17	16
Sales Representatives	127	119	96
Association of Underwriters	1	1	1
Insurance adjusters	2	1	0
Total Insurance Licences	**178**	**169**	**142**
Pension Fund Plans	28	25	25

Gross Premium Analysis

In 2018, Gross Premium income in the insurance industry totaled $89.6m[1] . This represented approximately 4.1% of Gross Domestic Product[2] at market prices and an increase of 7.2% over the gross premium income of $83.6m in 2017. At the end of 2018, long-term insurance premiums were approximately EC$24.3m; reflecting an increase of EC$0.4m or 1.6% when compared with the previous year. The leading long-term insurer held approximately 66.3% of total premiums written.

Gross premium income for the short-term segment of the market totaled EC$65.3m in 2018; an increase of 9.4% when compared with the 2017 figure of EC$59.7m.

Figure 3. Gross Premium Income for 2017-2018



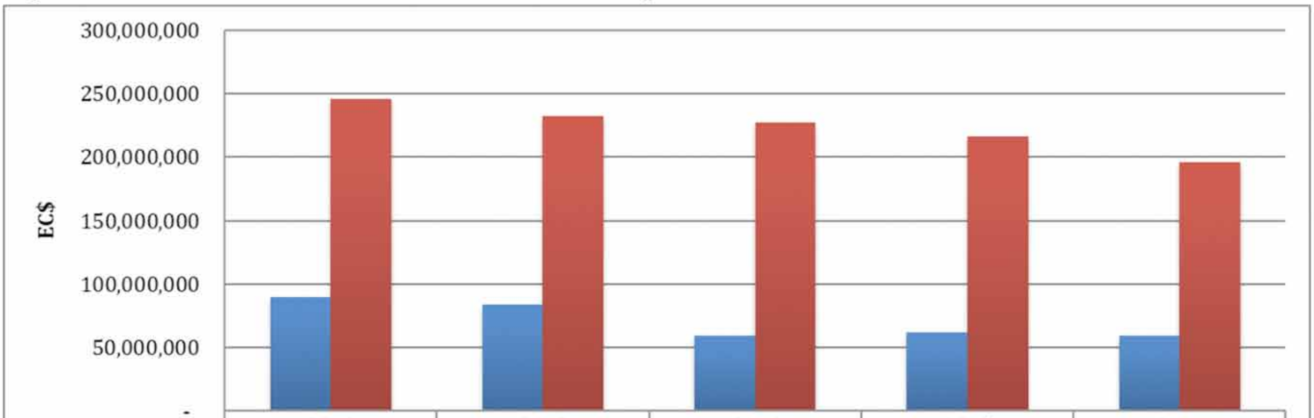
Source: FSA Records

Asset Base

Total assets for the domestic insurance sector stood at EC$245.9m as at December 31, 2018.Government securities of 33.9%, and cash and deposits of 25.6%, represented the largest proportion of the industry's assets.

1 All figures for 2018 are preliminary, while the 2017 figures are based on the Audited Annual Returns for that year.
2 GDP at market price for SVG for 2018 stood at EC$2,190.58.

Figure 4. Total Premiums & Assets of Insurance Companies 2014-2018



	2018	2017	2016	2015	2014
Total Premuims	89,617,974	83,620,826	59,046,477	61,982,488	59,486,506
Total Assets	245,899,405	232,131,094	227,017,352	216,205,211	196,229,816

Source: FSA Records

Short-term/General Insurance Companies

The number of active companies registered to conduct short-term insurance business remained at fourteen (14) as at December 31, 2018. Four (4) of these companies were locally incorporated while the other ten (10) were incorporated outside of St. Vincent and the Grenadines and operated through a branch or agency arrangement.

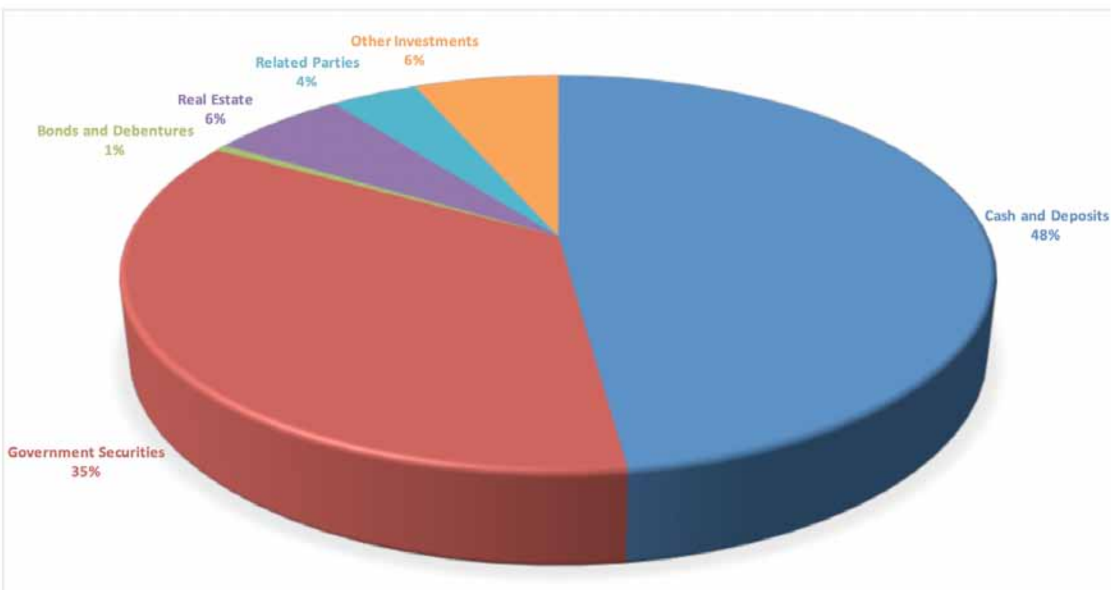
During 2018, gross premiums written by the general/short-term insurance segment of the market amounted to approximately EC$65.3m, an increase of 9.4% when compared with the previous year. Premium income in this segment of the market is driven by the property and motor lines of business, which together accounted for approximately 73.0% of premiums written.

The sector retained 49.3% of the insurance premiums underwritten, while the majority was reinsured with highly rated international reinsurers.

Claims have historically been the largest component of insurance expenditure. In 2018, short-term insurance companies paid claims totaling $16.8m, an increase of 7.7% when compared with the 2017 figure of $15.6m. This represented 69.5% of total underwriting expenditure for 2018 compared with 65.4% in 2017.

Total assets for the short-term segment of the market totaled EC$106.4m. Investment assets represented 63.0% of total assets. As depicted in Figure 5, cash and deposits and government securities accounted for the majority of investment assets.

Figure 5. General Insurance Investment Assets Composition 2018



Long-term/Life Insurance Companies

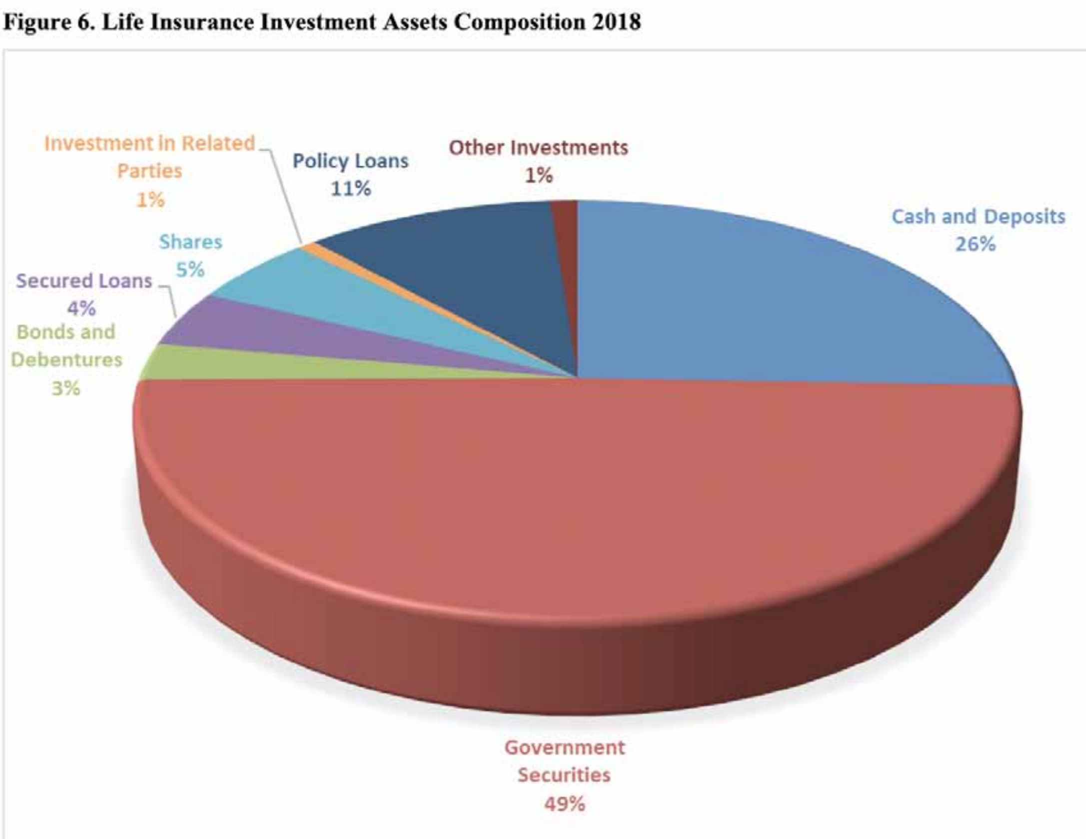
There were ten (10) companies registered to write long-term insurance business as at December 31, 2018. Two (2) companies were registered to write life insurance business only, while the others were composite companies i.e. companies that conduct/write both long-term and short-term insurance business. CUNA Caribbean Insurance Society Ltd. was registered during the year to operate as an ordinary life insurer and will be conducting insurance business solely through the credit unions and their members. In addition, British American Insurance Company and CLICO International Life remained under judicial management.

In this segment, premium income generated amounted to EC$24.3m in 2018, reflecting an increase of $0.4m or 1.6%, when compared with the previous year. Of this amount, premiums for individual life represented approximately 70.5% while annuities and group life were estimated at 13.5% and 8.0% respectively.

Total expenditure in 2018 in this segment of the market amounted to EC$25.3m; an increase of 3.0% compared with EC$24.6m the previous year. A major expense item for life insurers is policyholders' benefits, which accounted for 51.1% of total expenditure, followed by management expenses and commission expenses with 29.7% and 15.1% respectively in 2018.

As at December 31, 2018, the total assets, including statutory deposits for companies registered to conduct long-term insurance business, stood at EC$139.5m up from $127.3m at the end of 2017 or an increase of 9.6%. As depicted in Figure 6 below, Government securities accounted for 49.3% of total cash and investments while cash accounted for 25.5%.

Figure 6. Life Insurance Investment Assets Composition 2018



International Insurance Sector

As at December 31, 2018, there were two (2) international insurance companies, one (1) insurance manager and two (2) insurance brokers registered under the International Insurance Act, Chapter 307 of the Revised Laws of St. Vincent and the Grenadines. The insurance companies consisted of a Class II insurer that is registered to conduct life and capital assurance business, while the other is a Class IV, which conducts liability insurance business.

The numbers of international insurance operators have been more or less constant since 2007, however, the FSA continues to monitor this sector to ensure effective supervision and compliance with applicable legislation and guidelines.

Pension Fund Plans

The legislative authority governing the regulation and supervision of pension funds in St. Vincent and the Grenadines is Part VIII of the Insurance Act. These provisions provide for a registration process of private pensions and regulatory submissions of annual accounts and triennial actuarial valuations. As at December 31 2018, there were twenty-six (26) pension fund plans registered with the FSA.

The regulation and supervision of pension fund plans continue to be an important part of building public confidence in a funded-pension system. In a continued effort to strengthen the supervision of the pension sector, follow-ups on the areas of concerns and deficiencies identified during prudential meetings held with each individual pension plan, were conducted during the year. Additionally, the FSA continues to implore upon the trustees, the importance of the timely submission of the audited financial statements in order to enhance the supervisory methodology for the registered plans.

Regulation and Supervision

The FSA's supervisory activities include off-site monitoring and onsite examinations. Both activities were conducted through a risk-based supervisory methodology which focused on corporate governance, risk management and financial/ internal controls as well as solvency and statutory fund requirements.

During 2018, the Insurance Department fully implemented the Risk-Based Supervision ("RBS") framework with the preparation of Annual Risk Assessment reports and risk matrices to evaluate the risk profile of insurers. As part of the RBS approach, the risk assessment report requires the identification of the significant activities of a financial institution, the inherent risk associated with each of these activities and the impact of the risk on the institution's capital, earnings and liquidity. In addition, the effectiveness and oversight of each key inherent risk is considered separately then compiled into an assessment of the residual risk for the activity.

Insurers that are rated as high-risk can expect increased monitoring from the FSA, while insurers which are assessed as low risk companies receive fewer visits and regulatory oversight is assessed through prudential meetings in lieu of full scope or focused onsite examinations.

In light of the above, insurance companies were subject to annual off-site risk assessments based on the annual returns and audited financial statements for the year end. As at the end of December 2018, eleven (11) risk assessment reports and risk matrices were prepared which formed the basis of the onsite examinations and prudential meetings carried out.

In fulfillment of its responsibility to ensure a safe, sound and efficient financial system, the FSA continues to conduct onsite examinations. During the year, four (4) insurance companies were assessed in regards to compliance with applicable laws, guidelines, international best practices, to confirm that prudential requirements arising out of the previous examinations were addressed/implemented and to ensure ongoing regulatory compliance. Six (6) insurance companies were assessed through prudential meetings.

As at December 31, 2018, all companies had complied with the minimum capital requirement and had satisfied the Statutory Deposit and Insurance Fund obligations. By the end of 2018, approximately EC$107.5m was held in Insurance Funds in support of policyholders' liabilities. The Insurance Fund provides access to assets in the event of a company's demise and is used as regulatory capital to provide a buffer for insurance liabilities and to support the overall quality of assets on the insurers' balance sheet. These funds are monitored on a regular basis and where shortfalls exist, companies are required to satisfy the deficiency within the shortest possible time.

The FSA's insurance department continued with the implementation of the Financial Health and Stability Indicators (FHSIs) which began in 2017. The FHSIs facilitate the assessment of the financial soundness and stress testing of the insurers. This tool examines the potential effects of simulated shocks of varying severities on the various components of the Balance Sheet and Income Statement of the insurer using the CARAMELS[3] framework.

The FSA continues to provide guidance to the insurance sector through issued guidelines to promote and maintain high standards of conduct and management in the provision of insurance services. Additionally, although the FSA does not regulate commercial banks, the rise of bancassurance in the sector has required the Authority to also enhance its functions to protect and promote the fair treatment of customers, through public awareness. In this regard, advisories in relation to Bancassurance and Coercive Tied-Selling were issued to the financial services sector and the general public, advising customers of their right to select any insurance carrier of choice and the institutions of their requirement to properly inform their customers of such rights.

The FSA will continue to enhance its supervisory and regulatory regime by identifying and responding to new and emerging risks through a macro-prudential approach to regulation in conjunction with the current risk-based supervisory approach. The FSA will also continue to work with all insurance companies to strengthen their corporate governance and risk management practices, capital adequacy and internal controls and compliance with regulatory requirements.

3 CARAMELS framework is a group of performance and soundness indicators used to assess insurance companies. The framework covers Capital Adequacy, Asset Quality, Reinsurance, Actuarial Calculations and Technical Reserves, Management, Earnings, Liquidity and Sensitivity to Market Risks; hence the acronym.

INTERNATIONAL FINANCIAL SERVICES SECTOR REPORT

The International Financial Services (IFS) sector maintained its composition of six (6) financial products, namely, ***international banks, mutual funds and mutual fund entities, international trusts, international business companies (IBCs), limited liability companies (LLCs) and also international insurance***[1] entities in 2018. These IFS product offerings are on par with those available at the major international financial centres.

Service Providers (Registered Agents) are also registered with the Financial Services Authority (FSA or the Authority) and are also an integral part of the IFS operations. The Registered Agents continued to be important as they are key players in bringing sound business to the Jurisdiction and ensuring compliance with the laws and regulations. They are, in essence, the "gatekeepers" of the IFS industry and provide registered agent, trustee and fiduciary services.

International Financial Services Sector: Registered Entities 2012 -2018

The total number of active entities for all IFS products has generally been downwards since year 2012, Ref: TABLE I below provides information on the number of active IFS entities licensed/registered from year 2012 up to December, 2018.

Of note also is that the trend in renewals and new registrations of all IFS sector products was generally downwards with a marked decline in the IBC entities. This was not positive for the dominant income earner in the IFS industry, however income generated from this product remained the highest over the period. Although there was a decline in active LLCs in year 2018, there were generally increases in active entities, renewals and new registrations observed in LLCs in the 2012-2017 period, which was positive. On average the LLC remained a relatively small growing product. However, there is potential for LLCs to be an increasingly important growth area. There has been a general decline in total income generated from IFS products over the period, albeit at a slower rate over the 2017/2018 period.

TABLE I

INTERNATIONAL FINANCIAL SECTOR

NUMBER OF ACTIVE ENTITIES

YEARS 2012 – 2018

TYPE OF INTERNATIONAL FINANCIAL SERVICES PRODUCT	2012	2013	2014	2015	2016	2017	2018
International Business Companies	8,279	8,103	7,174	6,674	6,258	5,946	5,674
Limited Liability Companies	18	44	48	43	53	55	47
International Trusts	126	104	131	118	121	91	82
International Banks	5	4	5	5	5	5	4
Mutual Funds	125	117	114	109	102	89	90
Registered Agents	17	16	16	16	16	16	13

Despite the harsh international environment, the IFS sector remained relatively competitive and the marketing efforts of a few RAs continued to impact positively on the industry.

1 A report on International Insurance activity is included with the "Insurance Sector."

International Banks

This sector is licensed and regulated by the Authority under a regime set out by the International Banks Act and its Regulations and the FSA Act. This sector not only continued to be relatively small but declined further as one (1) of the international licensed banks proceeded into compulsory liquidation and wound up its operations during 2018. Thus, four (4) active international banks remained. *Ref TABLE II* below indicates the composition of the international banking sector at review date.

TABLE II

INTERNATIONAL FINANCIAL SECTOR

NAME AND CLASS OF INTERNATIONAL BANKS

YEAR 2018

NAME OF BANKS	CLASS[2]
European Commerce Bank Ltd.	A
Investex Bank Ltd *formerly B2B Bank Limited*	A
RBC Royal Bank Holdings (EC) Limited	B
MPB Bank Limited	B

Over the review period, the Authority conducted an extensive assessment of its risk-based supervision practices which were implemented to assess its licensed international banks. It is expected that more training in the use of the methodology will be afforded to the Authority in 2019, the objective being to achieve a more proactive and dynamic supervision process.

Mutual Funds, Mutual Fund Managers and Mutual Fund Administrators

Mutual Fund entities are registered in accordance with the Mutual Fund (Amendment) Act and its Regulations, Chapter 154 of the Revised Laws of St. Vincent and the Grenadines, 2009 ('the Mutual Fund Act'). At 31st December, 2018 there were 90 active mutual fund entities, (including mutual funds registered as segregated cell companies along with their respective segregated cells) registered/licensed under the Mutual Funds Act compared to 89 active entities which existed in 2017. The various mutual fund entities which can be registered, recognized or licensed pursuant to the Mutual Fund legislation are:

- Public Mutual Funds;
- Private /Accredited Mutual Funds;
- Mutual Fund Managers[3] ;
- Mutual Fund Administrators; and
- Mutual Fund Managers/Administrators.

Establishment of a Single Regional Regulator for Mutual Fund Entities

The Authority continues to work with the Eastern Caribbean Securities Regulatory Commission (ECSRC) to create a single regulatory authority for both the domestic and international securities market of the Eastern Caribbean Currency Union ('the ECCU'). The Investment Bill to guide the industry has been circulated for comments and the consultation period is scheduled to end by early March, 2019. The Bill will be submitted to the Monetary Council's meeting in July 2019 for approval. Thereafter, it will be submitted to the Ministers of Finance in the ECCU for presentation to their respective Cabinets / Executive Councils and subsequent enactment by Parliament / legislative Council. The ECSRC anticipates that the full enactment process may be completed in early 2020.

2 The FSA issues two categories of international banking licenses, namely Class A or B, the differences are (i) in the nature of international banking business that can be conducted, general or restricted respectively, reference section 9 of the International Banks Act Chapter 99 of the Revised Laws of St. Vincent and the Grenadines, 2009 ('the Banks Act') ; and (ii) their capital requirements, reference section 10 of the said Banks Act.

3 Fund Managers also include entities licensed in a recognized jurisdiction

International Trusts

At 31st December, 2018 there were 82 active International Trusts compared to 91 at 31st December, 2017. Generally, the international trust sector has been declining. The year 2014 remains the best performance for International Trusts, when 131 active international trusts were recorded. Of note is that the International Trust Act was amended on 31st December, 2018. The most significant change brought about by this amendment was that all international requirements which differentiated this product were removed, as well as the tax exemption provisions.

International Business Companies

IBCs continued to dominate the IFS sector products with respect to the number of registered entities, new registrations and renewals although the trend continued to show a decline since 2012 and up to the current reporting period, as mentioned previously. New registrations for the year 2018 amounted to 821 IBCs as compared to the year 2017 when there were 666. At reporting date, the total number of renewals amounted to 4,545, 6.3% below the 4,853 renewals reported at December 2017.

As part of an European Union (EU) initiative by the EU Code of Conduct Group (COCG) on Business Taxation, a commitment was made by the Government of SVG to remove the preferential 0% tax treatment afforded to IBCs. Therefore, a revised IBC Act was enacted on 31st December, 2018 to reflect changes to the tax regime in SVG. These amendments led to an increase of taxes to 30%, equivalent to the local company tax rate, which will undoubtedly have a negative effect on the IBC sector; although effectively 2021 for existing registered IBCs. The decline in the sector, which commenced before, is expected to continue because of this amendment and despite the three (3) year grandfathering period for existing registered IBCs before the change takes full effect. The IBC sector is being closely monitored owing to these factors.

Limited Liability Companies

As at December 31, 2018 a total of 98 LLCs were formed, 47 of which were active. There were 6 new formations in the year compared to 12 in 2017 (50% less). Renewals further declined to 15 during the year 2018 in comparison to the 20 in 2017.

The performance of the LLC product continued to demonstrate relative stability, notwithstanding very marginal increases in formations, minimal cancellations and declining renewals.

Registered Agents

Registered Agents, Trustees and Financial Fiduciaries ('RAs') play a vital role in ensuring the suitability of international business channeled into the jurisdiction. It is therefore critical that all RAs, which are licensed to operate from within the state, execute their functions with utmost proficiency. The Authority continued to ensure that all RAs comply with the provisions of the Registered Agents and Trustee Licensing Act and its Regulations (Chapter 105), the FSA Act and other governing legislation.

The total number of duly licensed and active RAs at year end 2018 was 13, a decline of 18.75% after 3 of the Authority's RAs were cancelled during the review period.

FINANCIAL PERFORMANCE
For the Year Ended December 31, 2018

The Financial Services Authority ("The FSA's"/ "The Authority's") realized a profit of EC$785,751; up by 31% (2017: EC$601,363) for the reasons highlighted below in the discussion of revenue and expenses.

Revenue earned is remitted to the Accountant General. As a result the FSA's operations are funded by the Government of St. Vincent and the Grenadines through subvention.

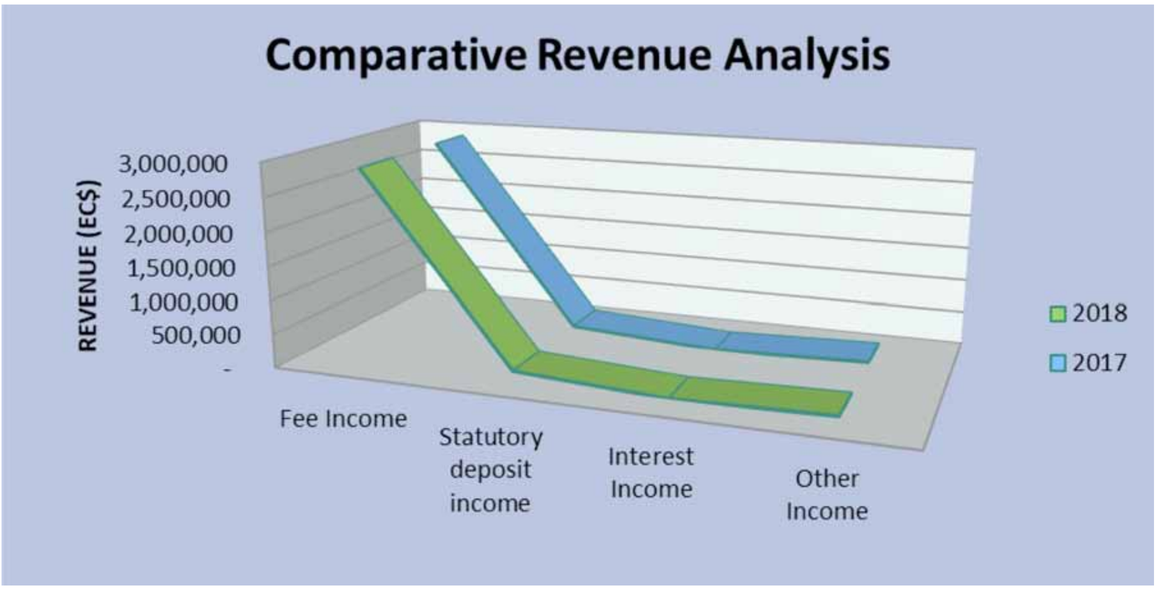
The Fee Income remitted to the Consolidated Fund for 2018 was EC$2,898,221 when compared to EC$2,778,917 for 2017, an increase of EC$119,304 or 4.3%.

1. Revenue

In 2018, the Authority's revenue decreased by 1.2% to EC$3,055,472 (2017: EC$3,093,549). This downward trend in 2018 resulted mainly due to a decline in renewals of a majority of the International Financial Services (IFS) sector products, statutory deposit income and other fee income. Overall renewals for active International Business Companies (IBCs), fell by 7.7% when compared to prior year, while new registrations increased by 23.3%. Additionally, the total renewed entities fell by 5.9%, while the number of new entities grew by 20.5%. This decline in renewals may possibly be attributed to the new regulatory legislative requirements by the (EU/ OECD) that were enacted in December 2018. Given IBCs are the primary income generator of the IFS products, its overall decline has impacted the total revenue earned for the period.

A decrease was also recorded in statutory deposit income and other income when compared to the prior year. This reduction in statutory deposit income was as result of a repayment of a statutory deposit to an International Bank which re-domiciled its operations during the period. Other income decreased mainly because of a one-off reimbursement incurred in the prior period. This reimbursement related to an onsite examination that was performed in Liechtenstein and Hungary.

Chart 1: Comparative Revenue Analysis (EC$)

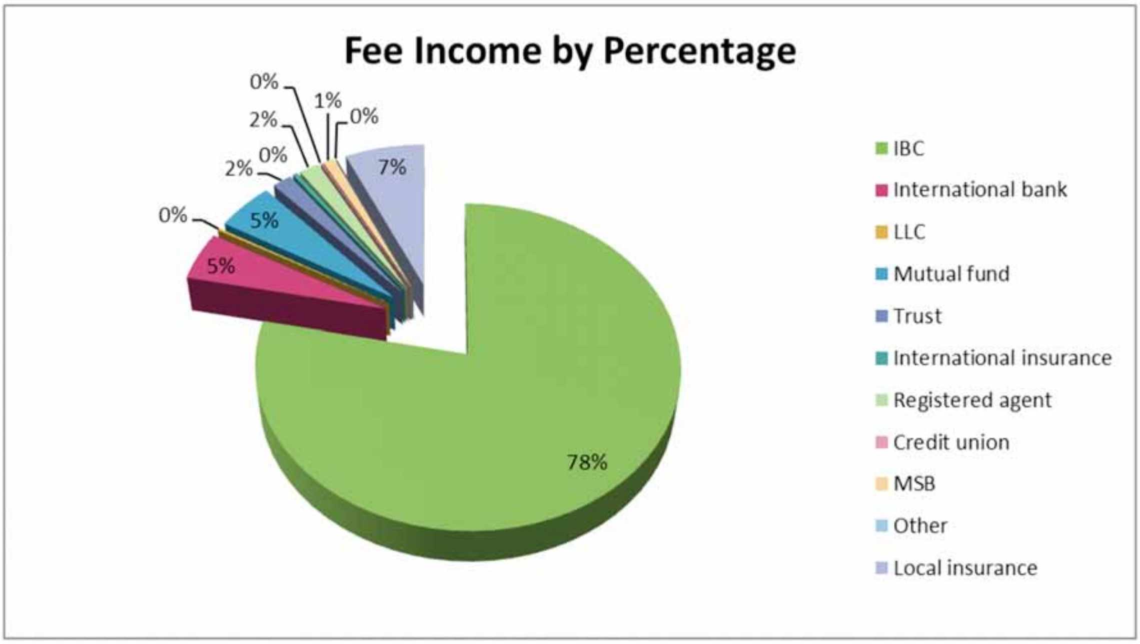


(Source: Audited financial statements for 2018)

The IFS sector continued to be the dominant revenue generator for 2018 contributing EC$2,649,099 or 92.1% to fee income while the other sectors represented EC$226,054 or 7.9%.

The Authority's IBCs contributed 78.0% to fee income while the other sector products account for 22.0%. Although, there has been a decline in fee income generated from the majority of IFS and other sector products there was a small growth in income from the Trust and Mutual Fund sector products for the period.

Chart 2: Fee Income by Percentage



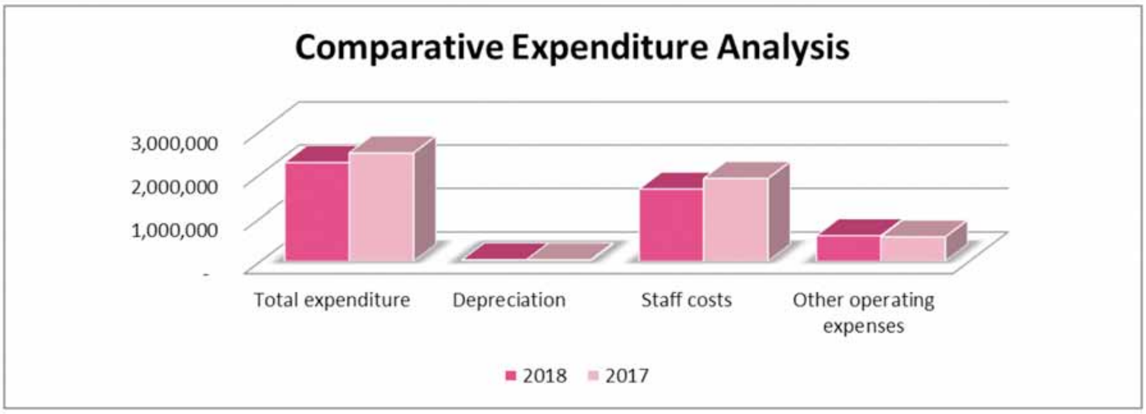
(Source: Audited financial statements for 2018)

2. Expenditure

Operational expenses for 2018 amounted to EC$2,269,721 when compared with EC$2,492,186 for 2017. This represents a decrease of EC$222,465 or 8.9%. This was mainly as a consequence of a reduction in staff costs spurred by the resignation of two (2) executive management staff during the year. One (1) position was filled later in the year while the other remained vacant. Overall staff costs represented approximately 72.8% (2017:76.2%) of the Authority's total expenses for the reporting period, and thus have a significant impact on the total expenses reported.

Other operating expenses increased slightly by EC$26,430 or 4.7%. The percentage of operating expenses to income was 74.3% (2017:80.6%). This decrease occurred despite the reduction in total operational expenses and total income; expense reduction outweighed income reduction.

Chart 3: Comparative expenditure analysis (EC$)



(Source: Audited financial statements for 2018)

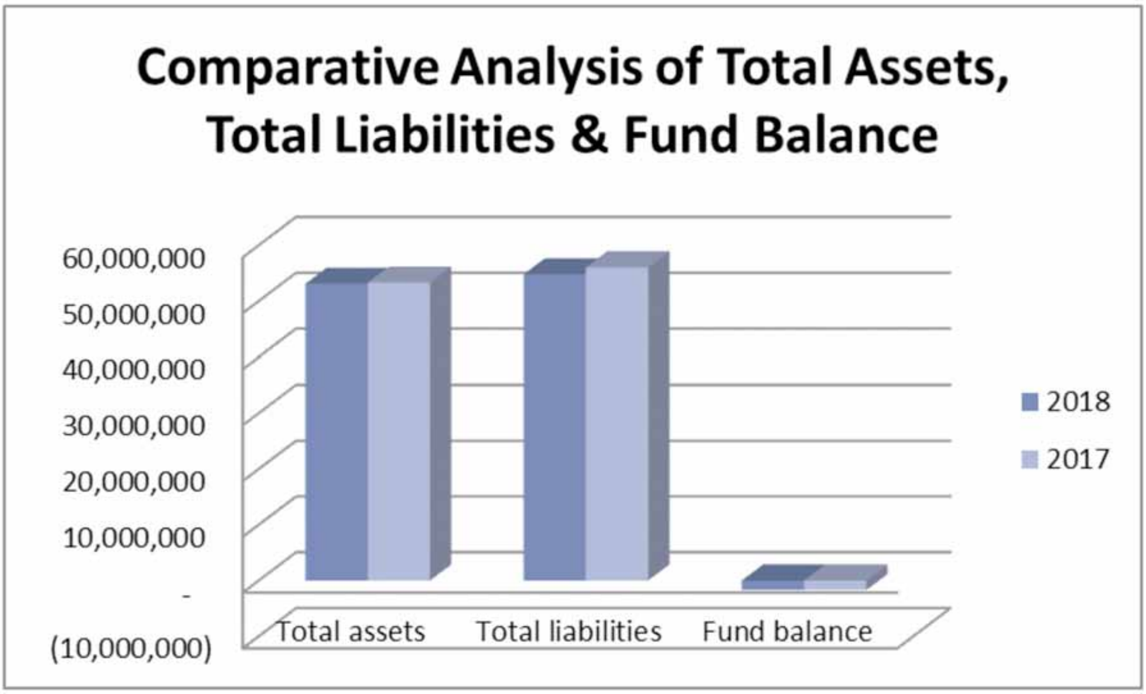
3. Assets, Liabilities and Fund Balance

Total assets as at December 31, 2018, were EC$53,109,904 when compared to EC$53,304,979 for 2017. This represents a decline of EC$195,075 or 0.4%. This decline primarily reflects the impact of several asset balances declining over the year, with the exception of Property, plant and equipment. The held to maturity securities declined by 4.8%, due to the repayment of amortizing bonds held during the year.

Other asset balances also decreased as follows: Cash and cash equivalent by 1.5%, trade & other receivables by 12.8% and prepayments by 17.8% while plant and equipment increased by 12% as a result of net-off between fixed assets additions and depreciation during the year.

Total liabilities decreased by EC$1,228,917 or 2.2% in comparison to 2017 which showed an increase of EC$1,416,720; 96.7% of these liabilities are long-term while 3.3% are short term. The Authority's fund balance moved favorably by EC$33,842 as a result of an increase in profit for the year of EC$184,388, increase in income ceded to the Authority of EC$53,812, with both figures being netted off against the decrease in net distribution to government consolidated fund.

Chart 4: Comparative analysis of Total Assets, Total Liabilities & Fund Balance



Source: Audited financial statements for 2018)

3.1. Receivables

Receivable balances are comprised mainly of annual fees from the IFS sector products namely; IBCs, Mutual Funds, Trusts, International Banks and Insurance companies. Income for local insurance companies, Credit Unions, and MSBs are recognized when due.

Trade receivables are recognized at fair value only to the extent that the amount is recoverable within three (3) months of the end of the financial year.

3.2. Cash and cash equivalent

As at December 31, 2018, the FSA's net cash and cash equivalent position was EC$12,901,694. This is as a result of net decrease in cash of EC$236,899, which is as result of a cash inflow generated from operating activities of EC$566,135, an outflow of EC$51,125 from investing activities and an outflow of EC$751,909 from financing activities.

4. Staffing

The FSA employed twenty two (22) full-time staff as at December 31, 2018.











FINANCIAL SERVICES AUTHORITY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

FINANCIAL SERVICES AUTHORITY
CORPORATE INFORMATION

REGISTERED OFFICE

Reigate Building
Granby Street
Kingstown
St. Vincent and the Grenadines

NON-EXECUTIVE DIRECTORS

Present	From
Mr. Leon Snagg - Chairman	September 2012 - Present
Mrs. Alma Dougan - Deputy Chair	September 2012 - Present
Mr. Stewart Haynes - Director	September 2012 - Present
Mr. Hubert Da Silva - Director	September 2012 - Present
Ms. Elritha Miguel - Director	January 2013 - Present
Ms. Karen Duncan - Director	April 2015 - Present
Mr. Edmond Jackson - Director	September 2017 - Present

EXECUTIVE DIRECTOR

Ms. Carla A. James

SECRETARY TO THE BOARD

Ms. Deirdre Adams

BANKERS

Bank of St. Vincent and the Grenadines Ltd.

AUDITORS

Alexander & Co. Squared
Chartered Accountants
Sergeant-Jack Drive
Arnos Vale
St. Vincent and the Grenadines

FINANCIAL SERVICES AUTHORITY

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Alexander & Co. Squared
Chartered Accountants

P O Box 1452
Sergeant-Jack Drive
Arnos Vale
St. Vincent and the Grenadines

INDEPENDENT AUDITOR'S REPORT

To the Governor General of St. Vincent and the Grenadines

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Financial Services Authority ("the Authority"), which comprise the statement of financial position as at December 31, 2018, and the statement of changes in fund balance, statement of comprehensive income and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Alexander & Co

June 21, 2019

Alexander & Co. Squared
Chartered Accountants
Arnos Vale
St. Vincent and the Grenadines

FINANCIAL SERVICES AUTHORITY
Statement of Financial Position
As At December 31, 2018
(Expressed in Eastern Caribbean Dollars)

	Notes	2018 $	2017 $
ASSETS			
Cash and cash equivalents	5	**12,939,407**	13,139,957
Trade and other receivables	6	**180,801**	207,244
Prepayments		**8,841**	10,751
Due from Government of St. Vincent and the Grenadines	7	**22,945,157**	22,945,157
Held-to-maturity securities	8	**16,838,803**	17,826,074
Property, plant and equipment	9	**196,895**	175,796
Total Assets		**53,109,904**	54,304,979
LIABILITIES AND FUND BALANCE			
Liabilities			
Borrowings	10	**37,713**	1,364
Trade and other payables	11	**1,784,444**	1,816,433
Deferred revenue	12	**413,189**	420,303
Due to Government of St. Vincent and the Grenadines	13	**140,468**	175,406
Due to statutory depositors	14	**52,429,431**	53,620,656
Total Liabilities		**54,805,245**	56,034,162
Fund Deficit		**(1,695,341)**	(1,729,183)
Total Liabilities and Fund Balance		**53,109,904**	54,304,979

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

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS

Leon Snagg
Chairman

FINANCIAL SERVICES AUTHORITY
Statement of Changes in Fund Balance
For the Year Ended December 31, 2018
(Expressed in Eastern Caribbean Dollars)

	Notes	General Fund $	Total $
Balance as at December 31, 2016		(2,331,629)	(2,331,629)
Profit for Year		601,363	601,363
Net receipt from the Government's consolidated fund	18	1,083	1,083
Balance as at December 31, 2017		(1,729,183)	(1,729,183)
Profit for Year		785,751	785,751
Income of predecessor body ceded to Authority		53,812	53,812
Net distribution to the Government's consolidated fund	18	(805,721)	(805,721)
Balance as at December 31, 2018		**(1,695,341)**	**(1,695,341)**

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

FINANCIAL SERVICES AUTHORITY
Statement of Comprehensive Income
For The Year Ended December 31, 2018
(Expressed in Eastern Caribbean Dollars)

	Notes	2018 $	2017 $
Income			
Fee income	15	**2,875,153**	2,890,985
Statutory deposit income		**129,699**	135,385
Interest income		**803**	570
Other income		**49,817**	66,609
Total Income		**3,055,472**	3,093,549
Operating Expenses			
Depreciation	9	**30,026**	30,963
Staff costs	16	**1,651,838**	1,899,796
Other operating expenses	17	**587,857**	561,427
Total Expenses		**2,269,721**	2,492,186
Profit for Year		**785,751**	601,363

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

FINANCIAL SERVICES AUTHORITY
Statement of Cash Flows
For The Year Ended December 31, 2018
(Expressed in Eastern Caribbean Dollars)

	Note	2018 $	2017 $
Cash Flows From Operating Activities			
Profit for Year		**785,751**	601,363
Adjustments for :			
Depreciation		**30,026**	30,963
Interest earned		**(803)**	(570)
Earnings From Operations before Working Capital changes		**814,974**	631,756
Change in trade and other receivables		**26,443**	(4,555)
Change in prepayments		**1,910**	(4,839)
Change in due to Government of St. Vincent and the Grenadines		**(34,938)**	—
Change in trade and other payables		**(31,989)**	(792,059)
Change in deferred revenue		**(7,114)**	(56,710)
Change in held-to-maturity securities		**987,271**	(2,755,150)
Change in due to statutory depositors		**(1,191,225)**	2,447,022
Cash Generated From (Used In) Operations		**565,332**	(534,535)
Interest received		**803**	570
Net Cash Generated From (Used In) Operating Activities		**566,135**	(533,965)
Cash Flows From Investing Activity			
Additions to property, plant and equipment		**(51,125)**	(53,286)
Net Cash Used In Investing Activity		**(51,125)**	(53,286)
Cash Flows From Financing Activities			
Transfers to fund		**53,812**	—
Net (distribution to) receipts from the Government's consolidated fund		**(805,721)**	1,083
Net Cash (Used In) Generated From Financing Activities		**(751,909)**	1,083
Net Decrease in cash and cash equivalents		**(236,899)**	(586,168)
Net cash and cash equivalents - beginning of year		**13,138,593**	13,724,761
Net cash and cash equivalents - end of year	5	**12,901,694**	13,138,593

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

FINANCIAL SERVICES AUTHORITY

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1. Formation and Principal Activities

The Authority is a statutory body of the Government of St. Vincent and the Grenadines (the Government). It was established by the Financial Services Authority Act, No. 33 of 2011.

The Authority has responsibility for regulating, supervising and developing the international financial services and non-bank financial services sectors in St. Vincent and the Grenadines.

2. Date of Authorisation for Issue

These financial statements were authorized for issue in accordance with a resolution of the Directors on June 21, 2019.

3. Significant Accounting Policies

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

a. Basis of Preparation

The financial statements of the Authority have been prepared in accordance with International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs). They have been prepared under the historical cost convention.

The preparation of financial statements in conformity with the IFRS for SMEs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Authority's accounting policies. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimations are significant to the financial statements are disclosed in Note 4.

b. Cash and Cash Equivalents

Cash and cash equivalents include cash-on-hand and demand deposits as well as highly liquid investments with insignificant interest rate risk and original maturities of ninety days or less at the date of purchase. Bank overdrafts, where applicable, are shown within borrowings on the statement of financial position.

c. Trade Receivables

Trade receivables are recognised at fair value. In respect of non-licensed entities, receivables are recognised only to the extent that the amounts are recoverable within three (3) months of the end of the financial year. Fees for licensed entities are recognised when due.

Recoveries of amounts relating to the financial year other than in which the fees relate are taken in the statement of comprehensive income in the year recovered.

3. Significant Accounting Policies (continued)

d. Property, Plant and Equipment, and Depreciation

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

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.

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

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the statement of comprehensive income.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Authority and its cost can be measured reliably. Ongoing repairs and maintenance are expensed as incurred.

(ii) Depreciation

Depreciation has been provided on all assets on the reducing balance basis at the following annual rates:

Computer hardware and software	20%
Furniture and fittings	15%
Motor vehicle	25%
Furniture and equipment	20%
Books	20%

e. Borrowings

Borrowings are recognized initially at the transaction price (that is, the present value of cash payable to the lenders, including transaction cost). Borrowings are subsequently stated at amortized cost. Interest expense is recognized on the basis of the effective interest method and is included in finance costs.

3. Significant Accounting Policies (continued)

f. Foreign Currencies

These financial statements are expressed in Eastern Caribbean dollars, which is the entity's functional currency. Transactions involving currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items are converted to the functional currency at the spot rate at the reporting date. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at year-end of monetary assets and liabilities are recognized in the statement of comprehensive income. Non-monetary items, which are measured at their historical cost in a foreign currency, are converted at their historical exchange rate at year-end. Non-monetary items which are measured at fair value in a foreign currency are converted at the exchange rate at the date when the fair value is determined. Exchange gains or losses on non-monetary items, which are measured at fair value, are recognized in the statement of comprehensive income.

g. Revenue Recognition

Annual Fees

i) Annual fees relating to services provided in the current financial year are recorded as revenue in that financial year. If the service provided during the year is in respect of non-licensed entities and received up to three months in the subsequent financial year, the annual fee is recorded in the current financial year. Fees received in advance of the period to which the service is rendered is recognized in the year to which the service relates.

Registration and Application Fees

ii) Registration and application fees are recognized in revenue in the year in which the transaction is approved by the Authority.

Late Fees

iii) Late fees are recognized in revenue in the year received.

Grants

iv) Government grants are recognised at fair value. A grant that imposes specified future performance conditions is recognised in income when those conditions are met. Grant receipts in advance of satisfying the performance conditions are treated as deferred revenue in the statement of financial position.

3. **Significant Accounting Policies (continued)**

g. Revenue Recognition (continued)

Grants (continued)

Government grants that affect revenue consist of two types:

(a) Capital grants, which are presented as deferred revenue on the statement of financial position. The assets purchased from these grants are capitalized as property, plant and equipment. Each year, an amount equal to the depreciation charge for the assets, is transferred from deferred revenue to the statement of comprehensive income as income.

(b) Income grants, which are taken to income in the year in which the performance conditions are met.

Statutory Deposit Income

v) The Authority receives as income a component of the interest generated on statutory deposits that are placed as certificates of deposit at its bank. Income from statutory deposits is recognised on an accruals basis.

h. Deferred Revenue

Receipts relating to annual fees for future periods are shown within accounts payable and taken to revenue in the period to which they relate. Receipts relating to grants of a capital nature are shown within deferred revenue in the statement of financial position.

i. Impairment of Non-Financial Assets

Assets that are subject to depreciation or amortization are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset is tested for impairment. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

If any impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the statement of comprehensive income.

j. Financial Assets

The Authority classifies its financial assets into one of the categories shown below, depending on the purpose for which the asset was acquired. The Authority has not classified any of its financial assets as available-for-sale.

3. **Significant Accounting Policies (continued)**

Fair value through profit or loss

i) This category comprises investments held long-term and financial contracts in an asset. When used they are carried in the statement of financial position at fair value with changes in fair value recognised in the statement of comprehensive income within "Net changes in fair value on financial assets at fair value through comprehensive income".

Loans and receivables

ii) These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence that the Authority will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable.

The Authority's loans and receivables comprise cash and cash equivalents, trade and other receivables and due from Government. Cash and cash equivalents include cash-on-hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

Held-to-maturity investments

iii) Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities where the Authority has the intention and the ability to hold in the long-term or until maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest method.

k. Financial Liabilities

Financial liabilities include bank borrowings, trade and other payables, deferred revenue, due to Government and due to statutory depositors.

Financial liabilities are recognised when the Authority becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as an expense in the statement of comprehensive income.

Trade and other payables and other short-term monetary liabilities are recognised initially at their fair values and subsequently measured at amortized cost less settlement payments.

3. Significant Accounting Policies (continued)

k. Financial Liabilities (continued)

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognised in the statement of comprehensive income.

l. Fair Value Measurement

Fair value is the price that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Authority has access at that date. The fair value of a liability reflects its non-performance risk. When available, the Authority measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The Authority measures instruments quoted in an active market at a mid-price. If there is no quoted price in an active market, then the Authority uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

m. Fair Value Hierarchy

IFRS 7 requires certain disclosures which require the classification of financial assets and financial liabilities at fair value through profit or loss to use 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:

i) Quoted prices (unadjusted) in active markets for identical financial assets and financial liabilities (Level 1);

ii) Inputs other than quoted prices included within Level 1 that are observable for the financial assets and the financial liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2);

iii) Inputs for the assets or liabilities 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 the financial liability is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets are classified in their entirety into only one of the three levels.

4. Critical Accounting Estimates and Judgments

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Authority makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the financial year are discussed below.

(a) Estimated Impairment of Assets

The Authority tests annually whether assets have suffered any impairment in accordance with the accounting policy stated in Note 3 "significant accounting policies". The recoverable amounts of some assets have been determined based on value-in-use calculations. These calculations require the use of estimates.

(b) Trade Accounts Receivable

The Authority determines its trade accounts receivable balance at each year-end by conducting a review of receipts in the three months after year-end which are applicable to fee income of the current year. Changing the assumption selected by management, in particular the period after year-end for which the review is undertaken, could significantly affect the Authority's evaluation of its income and trade accounts receivable and hence it's reported assets and profit or losses.

5. Cash and Cash Equivalents

	2018 $	2017 $
Cash on hand and at bank	41,094	48,847
Interest bearing deposits	12,898,313	13,091,110
	12,939,407	**13,139,957**

Cash and cash equivalents include the following for the purpose of the statement of cash flows:-

	2018 $	2017 $
Cash on hand and at bank	41,094	48,847
Interest bearing deposits	12,898,313	13,091,110
Borrowings (Note 10)	(37,713)	(1,364)
	12,901,694	**13,138,593**

Cash and cash equivalents are denominated in Eastern Caribbean dollars.

6. Trade and Other Receivables

Trade receivables

		2018 $	2017 $
Annual fees	—International Business Companies	3,764	22,044
	—Trusts	—	403
	—Limited Liability Companies	—	269
	—Mutual Funds	2,957	—
		6,721	22,716
Allowance for impairment		—	—
Total trade receivables		6,721	22,716
Other receivables		174,080	184,528
Total other receivables		174,080	184,528
Total Trade and Other Receivables		**180,801**	**207,244**

As at the year-end date, the Authority had no impaired trade receivables.

The ageing of trade receivables is as follows:

	2018 $	2017 $
0-60 days	6,721	22,716
	6,721	**22,716**

Trade and other receivables are denominated as follows:-

	2018 $	2017 $
United States dollars	6,721	30,685
Eastern Caribbean dollars	174,080	176,559
	180,801	**207,244**

7. Due from Government of St. Vincent and the Grenadines

The amount of $22,945,157 (2017: $22,945,157) represents statutory deposits of regulated entities held in the Government's consolidated fund on behalf of the Authority.

The amount due from the Government is denominated in Eastern Caribbean dollars.

8. Held-to-Maturity Securities

Held-to-maturity securities have varying maturity dates, are denominated in Eastern Caribbean dollars and consist of the following:

	2018 $	2017 $
Treasury bills, at amortised cost	3,200,000	3,406,000
Bonds and notes, at amortised cost	13,638,803	14,420,074
	16,838,803	**17,826,074**

The maturity distribution of held-to-maturity securities is as follows:

	2018 $	2017 $
Under 1 year	5,665,841	6,656,000
1 – 5 years	6,918,562	7,366,464
Over 5 years	4,254,400	3,803,600
	16,838,803	**17,826,074**

The interest rate on these securities range from 6 to 7.5% (2017: 6 to 7.5% per annum).

Held-to-maturity securities are held in the name of the statutory depositor but control over them is assigned to the Authority. Interest on these securities is paid directly to the depositor.

9. Property, Plant and Equipment

	Furniture & Fittings $	Motor Vehicle $	Computer Hardware & Software $	Furniture & Equipment $	Books $	Total $
As at December 31, 2016						
Cost	134,472	76,975	91,394	40,729	7,629	351,199
Accumulated Depreciation	(56,516)	(76,974)	(29,274)	(27,334)	(7,628)	(197,726)
Net book amount	77,956	1	62,120	13,395	1	153,473
Year Ended December 31, 2017						
Opening net book amount	77,956	1	62,120	13,395	1	153,473
Additions	31,280	—	18,268	3,738	—	53,286
Depreciation charge	(16,556)	—	(11,045)	(3,362)	—	(30,963)
Closing net book amount	92,680	1	69,343	13,771	1	175,796
As at December 31, 2017						
Cost	165,752	76,975	109,662	44,467	7,629	404,485
Accumulated Depreciation	(73,072)	(76,974)	(40,319)	(30,696)	(7,628)	(228,689)
Net book amount	92,680	1	69,343	13,771	1	175,796
Year Ended December 31, 2018						
Opening net book amount	92,680	1	69,343	13,771	1	175,796
Additions	—	—	48,055	3,070	—	51,125
Depreciation charge	(18,253)	—	(4,727)	(7,046)	—	(30,026)
Closing net book amount	74,427	1	112,671	9,795	1	196,895
As at December 31, 2018						
Cost	165,752	76,975	157,717	47,537	7,629	455,610
Accumulated Depreciation	(91,325)	(76,974)	(45,046)	(37,742)	(7,628)	(258,715)
Net book amount	**74,427**	**1**	**112,671**	**9,795**	**1**	**196,895**

10. Borrowings

	2018 $	2017 $
Bank Overdraft		
Bank of St. Vincent and the Grenadines Ltd. (Note 5)	**37,713**	**1,364**

The bank overdraft is unsecured.

The effective interest rate on borrowings at the reporting date was 11% (2017: 11%) per annum.

Borrowings are denominated in Eastern Caribbean dollars.

11. Trade and Other Payables

	2018 $	2017 $
Trade and other payables	991,816	893,182
Payroll related liabilities	26,374	217,303
Pension contributions payable to the consolidated fund	588,332	484,275
Other payroll related liabilities	—	34,282
Other payables	177,922	187,391
	1,784,444	**1,816,433**

Trade and other payables are denominated as follows:

	2018 $	2017 $
Pound sterling	3,281	7,193
United States dollars	6,264	2,717
Eastern Caribbean dollars	1,774,899	1,806,523
	1,784,444	**1,816,433**

12. Deferred Revenue

	2018 $	2017 $
Fees in advance		
Annual fees	285,084	277,745
Due diligence fees	16,175	17,000
	301,259	**294,745**
Grant Income		
Beginning of the year	125,558	69,145
Receipts in year	—	85,632
Transfer to income for the year	(13,628)	(29,219)
	111,930	**125,558**
	413,189	**420,303**

Deferred revenue is denominated as follows:

	2018 $	2017 $
United States dollars	301,259	294,745
Eastern Caribbean dollars	111,930	125,558
	413,189	**420,303**

13. Due to Government of St. Vincent and the Grenadines

The amount due to the Government is unsecured, non-interest bearing, and has no fixed terms of repayment.

The amount due to the Government is denominated in Eastern Caribbean dollars.

14. Due to Statutory Depositors

The amounts due to statutory depositors consist of mandatory deposit obligations made by statutory depositors and voluntary deposits in excess of mandatory deposits.

	2018 $	2017 $
Obligations under statutory deposits	50,928,304	52,051,984
Interest payable to statutory depositors	1,501,127	1,568,672
	52,429,431	**53,620,656**

Statutory deposits are denominated as follows:-

	2018 $	2017 $
United States dollars	7,342,256	9,166,186
Eastern Caribbean dollars	45,087,175	44,454,470
	52,429,431	**53,620,656**

15. Fee Income

		2018 $	2017 $
Registration and Application Fees			
International Business Companies		395,056	306,771
Trusts		7,258	7,259
Mutual Funds		1,344	5,377
Limited Liability Companies		1,971	6,654
Banks		—	2,689
Registered Agents		1,344	1,345
		406,973	330,095
Annual and License Fees			
International Business Companies		1,207,728	1,316,190
Trusts		33,737	29,571
Mutual Funds		122,985	115,055
Limited Liability Companies		3,575	5,377
Banks		107,528	120,969
Registered Agents		45,162	50,270
Insurance Companies	— International	12,097	28,780
	— Local	193,826	154,100
Money Service Businesses		20,000	20,000
Credit Unions		1,850	—
		1,748,488	1,840,312
Other Fee Income			
Due diligence		267	—
Filing, certification and late fees			
— International Business Companies		647,655	653,406
— Trusts		6,575	2,353
— Mutual Funds		17,073	31,618
— Limited Liability Companies		1,317	485
— Banks		33,603	29,167
— Registered Agents		3,091	2,420
— Insurance Companies		—	404
— Money Service Businesses		9,500	—
— Credit Unions		611	725
		719,692	720,578
		2,875,153	**2,890,985**

16. Staff Costs

	2018 $	2017 $
Gratuity-over provision	—	(3,906)
National Insurance Services contributions	50,733	56,873
Pension contributions	104,058	104,058
Salaries, allowances and bonuses	1,493,344	1,741,898
Training	2,569	—
Staff appreciation	1,134	873
	1,651,838	**1,899,796**

As of the reporting date, the number of employees amounted to 22 (2017: 22).

17. Other Operating Expenses

		2018 $	2017 $
Advertising and promotion		5,703	8,056
Audit fees		15,370	15,870
Bad debt — advances written off		3,221	—
Bank charges		2,683	5,850
Board meeting expenses		8,777	7,589
Cash shortage		1	21
Consultancy fees		4,373	55,484
Customs & brokerage		462	1,024
Directors' fees		85,960	93,000
Donations		968	232
Electricity		68,940	68,116
Entertainment		—	570
Foreign exchange loss		156	27
Insurance		10,060	10,047
Interest and fines — late payments		23,577	—
Meetings and interviews		49	293
Miscellaneous		2,080	685
Office supplies		3,224	12,220
On-site inspection		208	22,527
Overdraft interest		5,564	11,422
Postage and delivery		369	748
Professional fees		4,220	—
Recruitment fee		11,253	—
Rent		149,280	149,280
Repairs and maintenance	— Equipment	16,048	15,355
	— Plant	432	432
	— Vehicle	6,853	5,483
	— Other	23,548	15,691
Seminars and conferences		6,546	4,000
Stationery and printing		45,612	21,877
Subscription and dues		7,226	9,609
Technical support		54,801	6,464
Telephone and fax		20,293	19,455
		587,857	**561,427**

18. Related Party Transactions

The following transactions were carried out with related parties: -

a. Key Management Compensation

Key management includes the Board of Directors (executive and non-executive), all members of the management team and the Authority's secretary. The compensation of key management for employee services is shown below:

	2018 $	2017 $
Chairman and non-executive directors' emoluments	85,960	93,000
Key management salaries and allowances	323,688	496,386
Gratuity over provision	—	(3,905)
	409,648	**585,481**

b. Net Distribution to the Government

	2018 $	2017 $
Distribution to consolidated fund	2,898,221	2,778,917
Due to the Government assigned to Authority	108,509	458,910
Subvention from the Government	(2,201,009)	(3,238,910)
Net distributions to (receipts from) consolidated fund	**805,721**	**(1,083)**

19. Taxation

In accordance with the Financial Services Authority Act, No. 33 of 2011, the Authority is exempt from stamp duties, import duties and all other taxes or other charges, on its income or profits or on assets which it acquires for its own use in carrying out its functions.

The Authority's income is also exempt in accordance with section 25 (r) of the Income Tax Act, Chapter 435 of the Revised Laws of St. Vincent and the Grenadines, as it is a statutory authority of the Government.

20. Pension Obligations

The Authority has an obligation to make pension contributions to the consolidated fund on behalf of pensionable public servants who have been seconded to the Authority from the Government Public Service. The contribution rate is 25% of employees' basic salaries. Pension contributions of $104,058 (2017: $104,058) have been charged against profit for the year.

21. Financial Risk Management

Financial risk factors

The Authority's activities expose it to a variety of financial risks; market risk (foreign exchange risk, interest rate risk), credit risk and liquidity risk. The Authority's overall risk management programme seeks to minimise potential adverse effects on the Authority's financial performance.

Risk management is carried out by management under policies approved by the Board of Directors. Management identifies, evaluates and hedges financial risks in accordance with those policies.

Financial assets of the Authority include cash and cash equivalents, trade and other receivables, held-to-maturity securities and due from Government. Financial liabilities include borrowings, trade and other payables, deferred revenue, due to the Government and statutory deposits of licensed entities.

a. 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 Authority's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Market risk arises from the Authority's use of interest bearing and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (foreign currency risk) or other market factors (other price risk).

21. Financial Risk Management (continued)

Foreign currency risk

i) Foreign currency risk is the risk that the value of a financial instrument or revenue will fluctuate due to changes in foreign exchange rates. In the normal course of business, the Authority enters into transactions denominated in foreign currencies. As a result, the Authority is subject to transaction and translation exposure from fluctuations in foreign exchange rates.

The Authority is exposed to foreign currency risk arising from the denomination of financial instruments, statutory deposit liabilities and certain trade payables in foreign currencies.

The Authority has statutory deposits denominated in United States dollars, which are pegged to the Eastern Caribbean dollar, and are payable in United States dollars.

The Authority denominates all its offshore revenues in United States dollars. Furthermore, the Authority customarily receives revenues for subsequent financial years in its current financial year and treats these as deferred revenue, as a component of liabilities in its statement of financial position. The Authority's income, other than that insignificant amounts are denominated in Eastern Caribbean dollars, and its deferred income, are denominated in United States dollars.

Interest rate risk

ii) Interest rate risk is the risk that the value of future cash flows of a financial instrument or financial liabilities will fluctuate due to changes in market interest rates. Floating rate instruments expose the Authority to cash flow interest rate risk whereas fixed rate instruments expose the Authority to fair value interest rate risk.

The Authority has bank deposits with fluctuating interest rates. These deposits originate from statutory deposits made by regulated entities on which the Authority pays interest. The Authority changes the interest rate that it pays to depositors when the interest rate it receives on these deposits is changed by the bank, however the interest rate spread is not fixed.

The Authority's bank borrowing is negotiated with a fixed interest rate.

Fair value interest rate risk

The Authority is exposed to fair value interest rate risk on its held-to-maturity investments, which are classified as regional public and private sector securities, however these financial instruments are traditionally held to term. These investments bear fixed yields and their value is inversely affected by movements in market interest rates. The Authority does not hedge itself against fair value interest rate risk, however, as these financial assets are held to term and for the benefit of and sometimes in the name of the regulated depositors, any losses are borne by the depositor.

21. Financial Risk Management (continued)

b. Credit risk

Credit risk is the risk of financial loss to the Authority if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Authority's cash and cash equivalents, trade receivables, due from the Government, and held-to-maturity securities.

Cash and cash equivalents are held with reputable financial institutions. Trade receivables and the related revenue are recorded only when the debtor is assured of paying the amount due and the Authority evidences payment a reasonable period after year-end. Held-to-maturity securities are Government bonds with investment grade and are held in the name of regulated entities.

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

c. Liquidity risk

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

The Authority is exposed to liquidity risk from its financial liabilities which include bank borrowings, trade and other payables, deferred revenue, and statutory deposits payable to licensed entities.

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents to meet current operating requirements. The Authority is not exposed to significant liquidity risk as it maintains sufficient cash and cash equivalents to meet its current and foreseeable future obligations. Furthermore, its most significant liabilities are statutory deposits payable to depositors. These deposits were placed with the Authority by regulated entities as either held-to-maturity securities or deposits with the Government of St. Vincent and the Grenadines. In instances where statutory deposits originally placed as held-to-maturity securities are redeemed the original security is returned to the depositor.

The Authority also has significant liabilities to Government's statutory bodies, as a component of trade and other liabilities that are available for underwriting by the Government.

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

21. Financial Risk Management (continued)

Liquidity risk (continued)

The Authority's aging of its contractual repayment period of its financial assets and liabilities as of December 31, 2018, is as follows:

	Within 6 months $	After 6 months $	After one year $	Total $
Assets				
Cash and cash equivalents	1,542,281	—	11,397,26	12,939,407
Trade and other receivables	54,324	—	126,477	180,801
Prepayments	2,287	2,263	4,291	8,841
Due from Government	100,000	—	22,845,17	22,945,157
Held-to-maturity securities	3,200,000	—	13,638,83	16,838,803
Total	**4,898,892**	**2,263**	**48,011,85**	**52,913,09**
Liabilities				
Borrowings	—	37,713	—	37,713
Trade and other payables	1,090,316	—	694,128	1,784,444
Deferred revenue	283,711	10,522	118,956	413,189
Due to Government	—	—	140,468	140,468
Due to statutory depositors	4,701,128	—	47,728,303	52,429,431
Total	**6,075,155**	**48,235**	**48,681,855**	**54,805,245**
Net	**(1,176,263)**	**(45,972)**	**(670,001)**	**(1,892,236)**

The Authority's aging of its contractual repayment period of its financial assets and liabilities as of December 31, 2017, is as follows:

	Within 6 months $	After 6 months $	After one year $	Total $
Assets				
Cash and cash equivalents	1,683,257	—	11,456,700	13,139,957
Trade and other receivables	85,050	—	122,194	207,244
Prepayments	3,752	1,646	5,353	10,751
Due from Government	100,000	—	22,845,157	22,945,157
Held-to-maturity securities	5,600,000	—	12,226,074	17,826,074
Total	**7,472,059**	**1,646**	**46,655,48**	**54,129,13**

21. Financial Risk Management (continued)

Liquidity risk (continued)

	Within 6 months $	After 6 months $	After one year $	Total $
Liabilities				
Borrowings	—	1,364	—	1,364
Trade and other payables	1,175,682	—	640,751	1,816,433
Deferred revenue	303,744	9,000	107,559	420,303
Due to Government	—	—	175,406	175,406
Due to statutory depositors	7,234,410	—	46,386,246	53,620,656
Total	**8,713,836**	**10,364**	**47,309,92**	**56,034,12**
Net	**(1,241,777)**	**(8,718)**	**(654,484)**	**(1,904,979)**

22. Lease Commitment

The Authority is committed to annual minimum payments of $149,280, under an operating lease for rental of its office space. The Authority's lease expires in the next financial year, and in this respect it has a commitment of $49,760.

The Authority's lease, which is for a period of three years, commenced on May 01, 2016 and ends on April 30, 2019. The lease makes provision for an extension on terms to be agreed upon by the lessee and lessor.

23. Excess of Subvention over Expenses

	2018 $	2017 $
Income		
Government's subvention	**2,201,009**	3,238,910
Statutory deposit income	**129,699**	135,385
Interest income	**803**	570
Other income	**49,817**	66,609
Total Income	**2,381,328**	3,441,474
Operating Expenses		
Staff costs	**1,651,838**	1,899,796
Other operating expenses	**587,871**	561,427
Total Expenses	**2,239,709**	2,461,223
Excess of subvention over expenses	**141,619**	980,251

NOTES

NOTES

FINANCIAL SERVICES
AUTHORITY SVG

OUR LOGO

Our logo symbolizes and connotes the following:

- Its pyramid is symbolic of ancient civilization, the beginning of time and the ingenuity which went into establishing such a strong and perfect structure.
- The pyramid's triangular shape is symbolic of power and stability and is associated with the mountainous terrain of St. Vincent and the Grenadines.
- The arch represents a welcoming symbol, welcoming persons into the local financial industry.
- The arch within the pyramid is symbolic of Kingstown, which is also known as the City of Arches.
- The circle is symbolic of the sun, a symbol of infinite stability and continuity.
- The wave behind is congruent with the changing nature of water (and the financial environment) and its dynamism.
- The wave is also reflective of the fact that we are an island surrounded by water.
- The Gold symbolizes the potential for success of the industry.