St. Vincent & the Grenadines National Insurance Services

ANNUAL REPORT 2019

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

Mission

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

Vision

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

"Protecting you in uncertain times."

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Introduction

On behalf of the Board, I would like to thank the Management and the staff of the National Insurance Services (NIS) for their efforts in the continued transformation and improvement of our system so fittingly reflected in your theme:

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

As we look back at 2019, the Board can say with absolute certainty that the NIS delivered on the performance objectives as indicated in the 2019 work plan. This excellence is attributable to the monitoring of performance against targets, measuring and rewarding high performance to maintain the strategic direction of the organisation.

Investments

Investment is one of the NIS' core functions as stipulated in the NIS Act and guided by the Investment Policy. The NIS ensures that the funds collected are invested prudently. In executing this role, the Investment Committee consistently adhered to the universal principles of investment of National insurance/social security funds, namely, Safety, Yield, Liquidity, and Socio-economic utility. The Investment Portfolio was managed efficaciously. As a result of the investment activities, the investment portfolio grew as of December 31, 2019 compared to previous year. This speaks well of the Board's intentional efforts to manage the people's money profitably and responsibly for the benefit of the members and country at large.

Overall Financial Performance

This brings me to general financial performance, and I am delighted to state that in keeping with our tagline "...to enhance sustainability and dynamism of the social security system' we recorded a surplus of EC$11.7 million as compared to EC$2.8 million in 2018. Our total asset base grew from EC$482.6 million in 2018 to EC$494.3 million in 2019. The growth in the surplus results from the increased collection of members' contributions, prudent investment, operational efficiency, and consistent improvements in Information Technology.

Corporate Governance

Together with Management, the Board has embedded a culture of transparency and accountability at the NIS. In keeping with our fiduciary responsibility, we are committed to the highest standards of corporate governance and business ethics. In this regard, and in keeping with our efforts to enhance business performance, the Board of Trustees seeks to discharge their duties and responsibilities in the best interest of the fund, its customers, business partners and the wider community.

"Our business objectives are always focused on transforming and accelerating growth in value for the benefit of all our stakeholders."

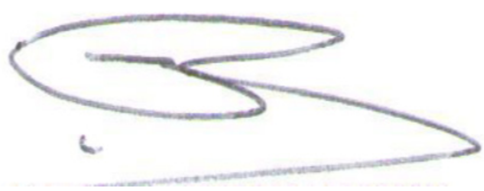
The Board of Trustees held meetings regularly while special meetings of the Investment Committee, Human Resources Committee, Procurement Committee and Audit and Risk Committee were called when deemed necessary. These Committees meet under well-defined Terms of Reference set up by the Full Board. This is intended to achieve efficient decision making by the Board of Trustees in discharging its duties and responsibilities.

Staff Performance

It would be remiss of me if I did not emphasize that the NIS has witnessed considerable growth and stability under this Board's tenure. We cannot take all the credit because we were ably assisted by a competent and experienced management team who has delivered impressive results over the year. Our emphasis on supporting and rewarding excellent performance has permeated the NIS. In 2019, we were impressed by consistently good performance, as evidenced by the presentations made by management staff at the monthly Board meetings. I particularly wish to mention that there has been an improved performance by the Compliance Division during the period under review.

Conclusion

I wish to express my sincere appreciation for my fellow Board members, the Management, and staff of NIS for their commitment to hard work, the Government through the Minister with responsibility for National Insurance, our customers for their continued support and finally to all our Business partners and other stakeholders including the International Social Security Association (ISSA) and the Inter-American Conference on Social Security (CISS) who have collaborated with us throughout this journey. As we move ahead, let us endeavor to keep the St. Vincent and the Grenadines National Insurance Services a beacon of hope to the people we serve.



Lennox A. Bowman
Chairman

MINISTER'S MESSAGE

Future Outlook •
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Introduction

It gives me great pleasure again as Minister with responsibility for the National Insurance Services to address your theme:

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

It is gratifying to note that despite global and regional challenges and increases in pensioners accessing retirement pensions, the NIS Saint Vincent and the Grenadines (SVG) is still on an upward trajectory. For yet another year in succession, the Fund has shown its ability in attaining its goals by increasing membership size, contribution collections and improvement in the quantity and quality of benefits administered.

Meeting the members' needs is a crucial priority as mandated by the NIS Act to provide social security services to all insured members of the Vincentian Society. The Statutory Rules and Orders also make provisions to extend coverage to citizens in the Diaspora through the provision of voluntary insurance, and progressively the NIS is working diligently to extend coverage to all self-employed persons and persons within the Informal Sector. This paradigm caters for coverage to all categories of workers. Suppose I may extend membership to include employers, who are required by law to contribute 5.5% of each employee's monthly or weekly salary / wages towards their benefits. In that case, I can safely say that indeed the NIS is poised to enhance its sustainability and secure its various publics' confidence.

Notwithstanding that most of the formally employed are covered, the magnitude of the benefits still leaves much of the poor in the labour force inadequately protected. I am aware that it will remain difficult to plug all holes in the social safety net. However, I am appealing to employers with domestic workers, gardeners, and other labourers to make good on their contributions. It is noteworthy that some of these workers access the Government's social assistance programme, but that does not absolve you from your obligation to pay your contribution on their behalf. Your contribution will go a long way in enhancing the sustainability of the NIS and, by extension, helping reduce poverty among those working, but who are not covered.

Outlook for the Future

As I look towards the future, I am confident that the NIS Act can be amended based on specific actuarial advice to make the NIS Fund more relevant by adjusting some of the parameters to, among other things, make the Funeral Grant more attractive, and to ensure that every contributor is a recipient of that coveted benefit, which incidentally is designed to offer each registered membered a decent burial. I think that the time has come, too, for the NIS to consider some aspect of a National Health Insurance. It will incur additional costs for both employer and employee. However, it will have a more significant impact on health care services in St. Vincent and the Grenadines, on the lives of its members by providing support to them to bear the high costs associated with the health services and on the economy at large. It is my desire that this could become a reality by 2022.

Investment

Investment of the NIS funds is also crucial to sustainability. While the NIS should continue to invest diligently in SVG and the region, it should continue to tap into investment opportunities available internationally. Of course, no efforts should be spared to conduct your due diligence and seek opportunities for liquidity, safety, and yield.

The Government of St. Vincent and the Grenadines as the guarantor of the Fund is committed to ensuring that utmost prudence and care is demonstrated in this regard. In addition,

"The Government is mindful of its collaborative role in ensuring that any investment initiative that falls within its purview is underpinned by the principles of accountability, fairness, transparency, and good leadership.."

as it continues to assist you in your quest to build public confidence in your operations.

Conclusion

As the Minister, I extend my appreciation to the Government to provide a conducive operating environment that enabled the Fund to record excellent performance. It is my sincere hope that such a right working environment will prevail in the coming period to empower the Fund to achieve its corporate targets for the betterment of its members and the nation as a whole.

I will continue to take the necessary steps to strategically strengthen and position the Fund to drive sustainable growth and value for you, our members, and ensure that we are a trusted and respected partner to all our stakeholders.

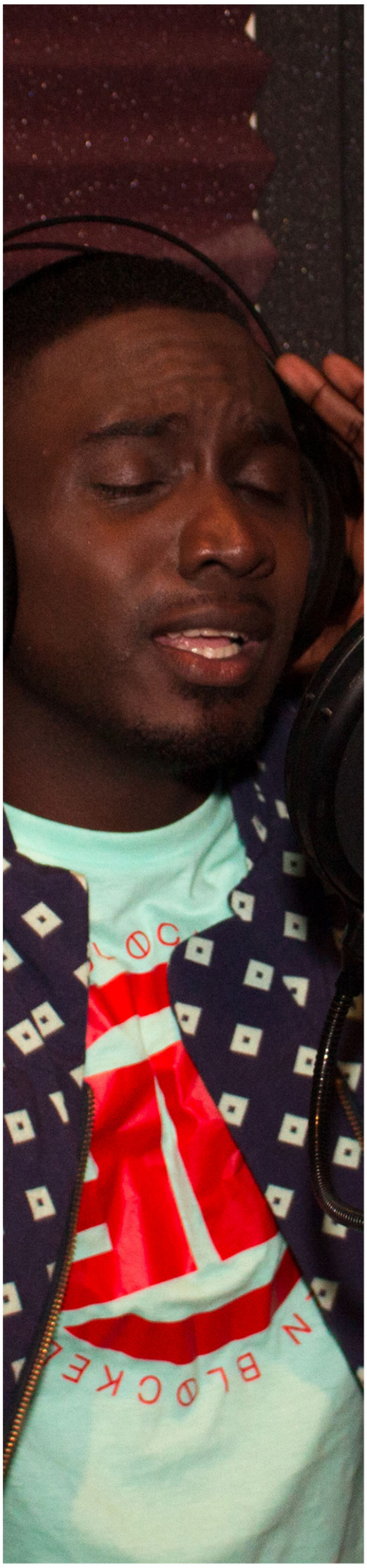
I encourage the NIS SVG to continue to leverage its strength and continue championing our people's socio-economic welfare to deliver sustainable performance and contribute to the nation's economic and social development agenda.

Gratitude

I hereby express my thanks and appreciation to the Board of Directors, the Director, Management, and Staff for their guidance, co-operation, and assistance throughout the period under review. The support that we, as a Government, have received from the NIS throughout the year is highly appreciated.

I would also like to take this opportunity to thank our compliant employers and esteemed members for their understanding and continued endorsement for the efforts of the NIS to remain sustainable, dynamic and to gain your confidence as it seeks to remain the leading mobilizer of funds in St. Vincent and the Grenadines.

Hon.Camillo M. Gonsalves
Minister with responsibility for National Insurance



ST. VINCENT & THE GRENADINES
QUALITY SERVICE AND FINANCIAL SOUNDNESS
SVG
NIS
"SERVING BECAUSE WE CARE"
NATIONAL INSURANCE SERVICES

"The NIS is working diligently to extend coverage to all self-employed persons"

DIRECTOR'S REPORT

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1.0 Preamble

It is a profound pleasure to give an account of our stewardship to the Government and People of St. Vincent and the Grenadines (SVG) for the administration of Social Security Trust Funds for the 32nd year of operations, which was marked on the 5th January 2019. We take this responsibility very seriously as we believe in building trust and lasting partnerships with all stakeholders. Our actions are testament of our adherence to the governance principles of transparency and accountability as well as our people-centric approach to the management of social security. These principles and practices are enshrined in our ethos; they represent our organization's operating fabric and are incorporated into our day-to-day administration of social security. They define what the National Insurance Services of Saint Vincent and the Grenadines is. We are a people-centric organization, and we are committed to performing our fiduciary duties with distinction and honor through putting people first.

In 2019, our stakeholders witnessed another year where the National Insurance Services (NIS) demonstrated its important impact on individuals and households across SVG. We were there for individuals, families and households who lost income as a result of specific contingencies. We provided meaningful protection to members and their families against the hazards of disability, sickness, maternity, old age, death, and other contingencies resulting in loss of income or financial burden. We complemented this protection mandate by our investment in employment and empowerment of our people and the many donations to communities. Importantly, we were there for our employees as they sharpened their capabilities to deliver to our customers. Again, our visibility is illuminated as a crucial part of the economic and the social fabric of SVG. We do not take this for granted.

Our progress and gains in 2019 were because of our second year of pursuit on the strategic journey under the theme:

"Transforming minds to build a dynamic and sustainable social security and build public confidence."

We were laser focused on improving sustainability and creating value to stakeholders through operational efficiency, governance strengthening and building international and regional coordination and solidarity. To this end, we scaled-up investments in building capabilities of our Human Resources (mindset, behavior, and skillset) and strengthening Information and Communication Technology through digital transformation. Our organic investments maybe less visible, but they are indispensable tools to improve the sustainability of our system and create value to stakeholders.

2.0 Strengthening Strategic Enablers

In the second year of the roll-out of our strategic program, we focus on building the strategic enablers of human capital, ICT, and partnerships. The interventions relating to harnessing our strategic enablers are presented below:

2.1 Building Human Resources Capabilities

In keeping with our belief that our most valuable asset is our human capital, we invested in bridging the human capital capabilities and bringing visibility to our human skills and proficiencies in the administration of social security services. Accordingly, we were purposeful in the following interventions to build human capabilities:

- **Shaping a people-centric and growth mindset** - We conducted targeted training and coaching sessions to connect our employees to our noble purpose of touching and transforming the lives of Vincentians through the provision of adequate and affordable social protection. Further, our reward and recognition programs were crafted to promote and encourage people-centric, agile, creative, and critical mindsets. Additionally, the Executive Management practiced an open-door policy to receive and implement ideas and suggestions from all levels of staff to foster a corporate culture that shape positive mindsets grounded in increasing human productivity, putting people first and improving the institution's performance. Lastly, our team continue to epitomize our vision and mission in their day-to-day activities which translated in better experiences for our customers.

- **Strengthening skills set** - In this area of capacity building, we rallied and inspired our team around the guidance of Alvin Toffler, who proffered that ***"The illiterate of the 21st Century will not be those who cannot read and write but those who cannot learn, unlearn and relearn."*** Consequently, we embarked on a series of capacity building programs in areas such as investments and financial management, risk management, internal auditing, ICT, customer service and accounting. The modalities of programs included online and face-to-face using internal and external facilitators. We also invested in degree programs for some staff and rolled out two scholarships for staff in areas of ICT and Accounting.

- **Influencing Professional Behavior** - We are fully cognizant of the old saying that "thinking drives behavior". For that reason, we selected our theme which included "transforming minds to build a dynamic and sustainable social security and build public confidence". Our approach to influencing behaviors involved the alignment to our mission, vision and strategic goals started with getting employees' buy-in and ownership of our values I-CARE which represents Integrity, Commitment, Accountability, Respect and Empathy. With great admiration, I noted my team was a trail-blazer in translating these strong values into day-to-day work activities. As a result, we demonstrated behaviors that were congruent with our values, mission, and vision. The principal beneficiaries of these transformation were our contributors, beneficiaries, and other stakeholders. The findings of our customer satisfaction survey showed customer satisfaction with our social security services. This is a journey for our team and we would strive to continue to meet and surpass our stakeholders' expectations.

2.2 Upscaling the application of Information and Communication Technology

We identified that the integration of information and communication technology (ICT) in the administration and delivery of social security services is critical to the sustainability of the system and improvement in public confidence. We used ICT as a strategic enabler and to positively influence outcomes such as customer experience, workforce productivity, cost savings and revenue growth. Accordingly, we scaled-up investments and awareness of ICT. For instance, we contracted an independent ICT expert to perform a diagnostic assessment of the NIS' ICT functions which includes assessing the NIS' ICT risk posture and skills gaps of ICT personnel. The diagnostic report revealed the following:

- The NIS' ICT Governance structure required moderate improvement.
- The NIS' ICT risk management framework and processes required significant improvement.
- The NIS' internal IT staff is adequate but needs re-skilling and upskilling to better add value to the business processes and services.

Consequently, we rolled-out targeted training for ICT staff in the areas of data analytics, cyber security risks, project management and business integration with ICT.As part of the strategic thrust of employees' buy-in to digital journey, we embarked on a series of ICT and ICT risk awareness training and evaluation. Further, we commenced the journey of developing a suite of ICT policies ranging from NIS Users' Acceptance Policy, through NIS IT Risk management Policy to NIS ICT Governance and Management plan to strengthen the ICT governance framework. The focus on strengthening ICT governance is ongoing.

We have also advanced the process of enhancing our current management information system. To this end, we continued dialogue with three potential providers with the view of crafting the request for proposal and developing the selection criteria process.

2.3 Leveraging on Regional and International Partnerships and Solidarity

The NIS considered the deepening and strengthening of our regional and international solidarities were essential to strengthening the administration of the social security system. To this end, the NIS actively participated in the 2019 Meeting of the Heads of CARICOM Social Security Systems and the quarterly meeting with Eastern Caribbean Central Bank. We benefited from the knowledge and experiences gained and shared in these networking and ideas exchanges forums.

On the international front, we strengthened our relationship with International Social Security Association (ISSA)through the increased utilization of ISSA's products and services. For instance, we applied the ISSA Good Governance Guidelines and other guidelines in strengthening our governance and operational frameworks and processes. Further, three staff were exposed to training in the ISSA Investment guidelines, ISSA Service Quality guidelines and ISSA Contribution collections and Compliance guidelines. Also, other staff attended meetings and other network activities facilitated by ISSA. Of importance is the appointment of Mr. Stewart Haynes, the Director, to the bureau of ISSA to represent the English-speaking Caribbean countries for the last year in the triennium 2017-2019 and for the triennium 2020-2022.

3.0 Environmental Trends likely to impact NIS' Finances

In addition to strengthening its strategic enablers (human and technologies), the NIS took guidance from the ISSA's publication of the top 10- challenges facing social security systems to understand and respond to the changing environmental trends. We leveraged our strengths and shored-up our weaknesses to capitalize on opportunities and mitigate risks emanating from threats.

The NIS tactically capitalized on the following exogenous developments in the review period:

3.1 Economic Developments

The current and future financial sustainability of the National Insurance Fund are inextricably linked to the local economy, which is characterized as small, open and resource challenged. These structural features of our economy means that local economic activity is largely influenced by global economic developments mainly in source markets such as the United States, United Kingdom and Canada.

In 2019, the international Monetary Fund estimated that the global economy, the advanced economies, and the emerging markets and developing economies grew sluggishly by 2.9%, 1.7% and 3.7% respectively. The global growth in 2019 was recorded as the slowest growth since the global financial crisis.

In the period under review, the local economy experienced similar lackluster growth as the global economy. Following a moderate growth of 2.2% in 2018, the SVG economy sluggishly advanced by 1%. The 1% growth was underpinned by increased activities within the tourism and construction sectors. However, the noticeable slowdown in manufacturing and wholesale and retail sectors tempered the overall economic momentum. The NIS capitalized on the uptick in the construction and tourism sectors by allocating and tilting compliance and legal resources to those sectors, which redound in increase contribution collections. Inflation in the local economy remained relatively stable at 0.9% compared to 1.2%. Therefore, the real value of pensions paid to our pensioners were not materially eroded by inflation. Consequently, our pensioners and beneficiaries purchasing power remained relatively stable.

The Government's fiscal health deteriorated as revenue collection plummeted and expenditures increased. As a result, the overall deficit widened, and the primary and current balances shifted from surplus to deficits. In addition, the Government maintained an elevated debt level, the 2019 debt/GDP ratio was estimated at 75.6%, well-above the target level of 60%. The Government continued to play an outsized role in local employment creation and is the largest contributor to the National Insurance Fund.

3.2 Labour Market Developments

By and large the local labor market data remained somewhat anecdotal because of the absence of structured and annual labor market survey. However, the NIS provides proxy data to the Central Statistical Office to aide in the estimation of labor market activities.

The NIS is financed principally by contribution income which is influenced by the employment and wage levels in the local labor market. As such, the developments in the labor market is of critical importance to our survivability.

Within the review period, there were upticks in employment activities in the informal and self-employed sectors occasioned by the increased in economic activities within the tourism, construction, and agriculture sectors. These categories of workers are typically hard-to-cover for social protection because of their tendencies to avoid and evade social security coverage, the transient nature of their employment and their low marginal propensity to save. To this end, the NIS forged relationships with cooperatives, associations and other agencies to extend coverage to these vulnerable group of workers.

The national wage levels augmented in 2019 largely because the Central Government and other formal employers implemented salary increases for their employees. For example, the Government increased civil servants' salary by some 2.5% complemented by new hiring. These wage increases are positive for the financial health of the NIS.

3.3 Financial Market Developments

The NIS adopts a partially funded mechanism to finance its social security services. Therefore, funds that are not required to pay benefits and administrative expenses are invested locally, regionally, and internationally. Consequently, the financial sustainability of the Fund hinges on the developments of the financial markets that house the NIS' investment portfolio.

A significant proportion of the NIS' Fund was invested in the local financial markets in the form of loans, equities, bonds, and fixed deposits. In the review period, the local financial sector remained stable, and the banking system was adequately capitalized. However, the low interest rate environment tempered the rate of return on fixed deposits and loans.

On the international front, the NIS deliberately allocated an increasing proportion of its investment portfolio into the international financial equity and bond markets with predominant exposures to the US financial markets. This was in keeping with its investment strategy of de-risking the investment portfolio through international diversification.

2019 was dubbed as a stellar year for investors as stocks, bonds, gold, and crude oil all returned double digit gains in the year. In the case of the stocks, the global stock markets have recorded their best year since the aftermath of the financial crisis a decade ago. The MSG World Index, which track stocks across the developed world, advanced by almost 24% during 2019. In the US equity markets, where most of NIS' international investment portfolios are housed, the major indices such as Dow Jones, S&P 500 and Nasdaq all posted healthy double-digit growth of 22%, 29% and 35% respectively. The NIS' sub-investment portfolio of US stocks generated positive returns.

The pivot by the Federal Reserve from the 2018 four-times rate hike through a pause in early 2019 to a trio-rate cuts in late 2019 created the needed momentum for the bond market after a challenging 2018. According to Morningstar, "every bond fund Morningstar category had positive returns in 2019, ranging from 3.1% to 19.3%. Similarly, the Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for typical U.S. bond exposure, returned 8.7%, its best since the financial crisis in 2009. Also, the average long-term bond fund returned 19.3% in 2019, the best year in the last decade. Again, the NIS' holdings in US bonds benefited from the rally in the bond market.

3.4 Technological developments

During the period under review, we have witnessed the pervasive applications and use of digital technologies across economies, governments, businesses, households, and individuals. However, the scalability, flexibility and adaptability have been uneven across countries with the more developed economies being the digital leaders and trendsetters. We are approaching a phase where digital technologies are permeating all aspect of human activities and we should capitalize on the opportunities to improve lives and livelihoods.

In the social security arena, many social security systems have utilized digital technologies to improve service quality, bolster the integrity of business processes, optimize cost structure, enhance contribution collection and compliance and exchanges of data. The ISSA brings together the global social security administrators to network, share best practices, exchange ideas and information. Consequently, we are utilizing these platforms to fashion our digital transformation journey. For instance, the ISSA has included many good practices awards in its knowledge tool kits for its members' benefit to improve administration in social security services.

Additionally, digital technologies are reshaping the labour market by changing the traditional forms of work and fragmenting the labor force. For example, there are increasing trends of employment creation within the gig economy as platform workers are on the rise. These categories of workers are difficult to track and cover by the traditional social security systems.

On the other hand, the NIS strengthened its risk posture to cope with the following developments;

3.5 Demographic Developments

The sustainability and intergeneration equity of the Fund is significantly influenced by the size and age distribution of the general population. The increasing phenomena of population ageing in Latin America and the Caribbean including SVG has material impact on the size and age distribution of a country's population.

In the case of SVG, the population ageing, which is occasioned by increasing longevity, declining fertility and higher rates of emigration among persons of working age, has caused population to remained relatively stable in the short term but showed signs of decline in the medium and longer terms. Further, the ratio of older persons (persons over age 65) to younger persons (national dependency ratio) is rising which will in turn increase the long-term cost of our social security system. In this context, we continue to broaden coverage among all sectors of workers, continue the gradual increase in the retirement age and encourage persons in the diaspora to become voluntary contributors to the National Insurance Fund.

3.6 Cybersecurity Developments

Whilst noting the potential benefits of the adaption of digital technologies, we are also cognizant of the attendant risks associated with digital applications. Cybersecurity risk continues to impact social security institutions and other business around the globe and the threats are not only increasing in velocity and volume but in their degrees of complexities.

As digital technologies permeate all aspects of human activities, we are noticing increasing vectors for cyber-attacks. For instance, businesses continue to fight against the issues of attacks, breaches, and other compromises. These incidences cause disruption to operations, misappropriation of confidential information, reputational damage, among other serious issues. To this end, we have embarked on contracting an ICT expert to assess the ICT risk vulnerabilities of the NIS and we have fashioned a 2-year risk treatment plan to enhance our ICT risk posture.

3.7 Environmental development

We operate in a geographical region that is susceptible to natural disasters such as hurricane, flood, volcanic eruption, earthquakes, and drought. The presence of climate change has intensified the magnitude, severity and uncertainties relating to the occurrences of these natural disasters.

The Caribbean has been particularly hard-hit by devastating hurricanes since 2014 with the 2017 experience being historic both in terms of storm strength and damage. In 2017, almost 11 countries were ravaged by category 4 and 5 hurricanes. As small island developing states, we typically have limited economic and institutional resources to prepare and response to extreme weather events.

With this backdrop, we have strengthen our enterprise risk management framework through the building of our Business Continuity Plan with a crisis management component. In addition, we had comprehensive discussions with our Insurance Brokers and put in place appropriate insurance policies to mitigate risks associated with weather-related events.

4.0 National Insurance Performance Indicators

During the period under review, we had made material progress in the provision of adequate and affordable income protection to the people of SVG. Again, we continue to improve the lives and livelihoods of many Vincentians, home and abroad. The value created by the NIS for its stakeholders is presented below.

4.1 Financial outcomes

In 2019, the NIS generated favorable financial outcomes through improving governance and enhancing operational efficiency. The financial performance indicators are presented in matrix 1 below:

Matrix 1 - Financial highlights for 2019 and 2018

Financial Performance Indicators	2019 (XCD Million)	2018 (XCD Million)	Comments
Contribution Income	67.8	67.0	Marginal improvement in contribution collections due to higher insured population, rise in average wages and improved compliance efforts.
Benefit Expenses	68.0	65.5	Increase is attributable to maturing plan with growing number of pensioners.
National Provident Funds	2.0	2.2	Payouts have been relatively flat over the years.
Administrative Expenses	11.7	11.1	Slight increase but reflective of prudent management of resources
Investment Income	23.6	12.1	Strong performance in international sub-equity and bond portfolios
Net Income	6.5	4.4	Driven by solid returns on investments
Comprehensive Income	11.7	2.8	Largely due to robust growth in prices of international bonds and equities.
Asset base	494.3	482.6	The 2% growth was predicated on the higher comprehensive income.
Reserves	488.5	476.7	The advancement was driven by net income due to higher unrealized gains on equities and bonds sub-portfolios

As can be seen by table 1, the financial situation of the NIS improved in 2019 compared to 2018 as represented by a high net income. The net income represents the amount by which the benefit reserves increase on a year-on-year basis. A larger reserve is indicative of better financial soundness.

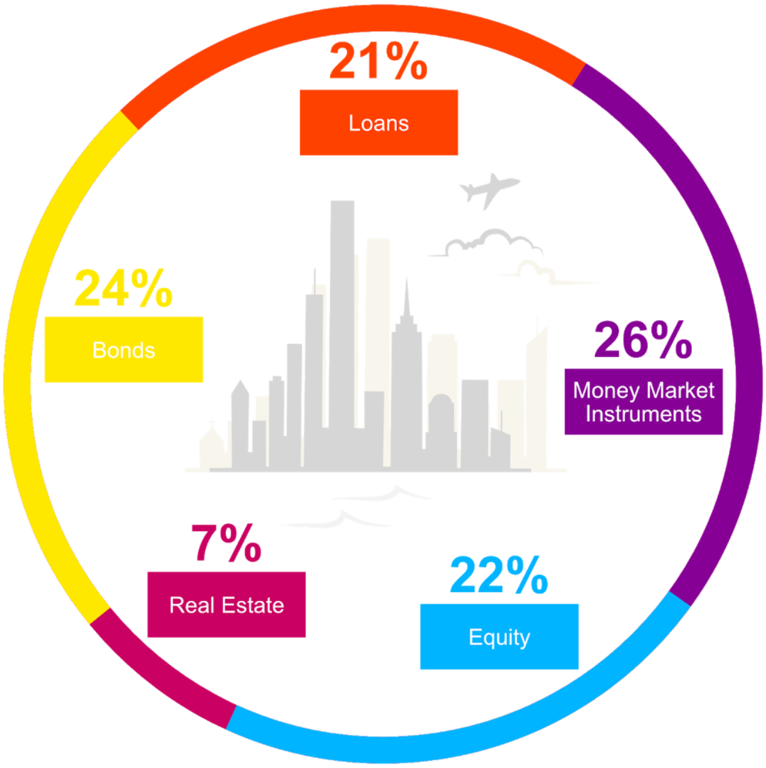
4.2 Investment Outcomes

As the plan matures, investments play a more pivotal role in the sustainability of the social security system. In the case of SVG, where total expenditure exceeded contribution income, investment income is used to fund recurrent operations as well as contribute to the growth of the reserves. Therefore, the investment management function is germane to the financial and actuarial health of our plan.

In 2019, the investment management functions were guided by the investment objectives of capital preservation and income generation. Consequently, the investment strategies focused on de-risking of the investment portfolio through further diversification across geographical regions, economic sectors, asset classes and issuers and heightened risk management procedures.

The investment portfolio generated a rate of return of 6.3%, which outperformed the actuarial hurdle rate of 4.5% and the 2018 return of 3.1%. With annual inflation at 0.5%, the portfolio generated a positive real yield of 6.0%. The higher returns were attributable to strong performance of the international sub-portfolios of equities and bonds. The return was tempered by the low interest rate environment which caused significant reinvestment risks in fixed-income securities. Additionally, the gross investment portfolio advanced from $469.2 million in 2018 to $484.3 million in 2019, which represent a 3.2% growth. This annual growth was underpinned by uptick in market factors such as equity prices and low interest rates that drove the prices of equities and bonds upwards. Of note, is that the non-tradable and illiquid investment instruments coupled with the utilization of investment income to fund benefits restricted the pace of growth of the overall investment portfolio. The following schematic presentations outline some key features of the investment portfolio:

Figure 1 | Investment Portfolio Asset Classes



Data presented is as of 31st December 2019.

Figure 2 | Investment Portfolio Geographic Locations

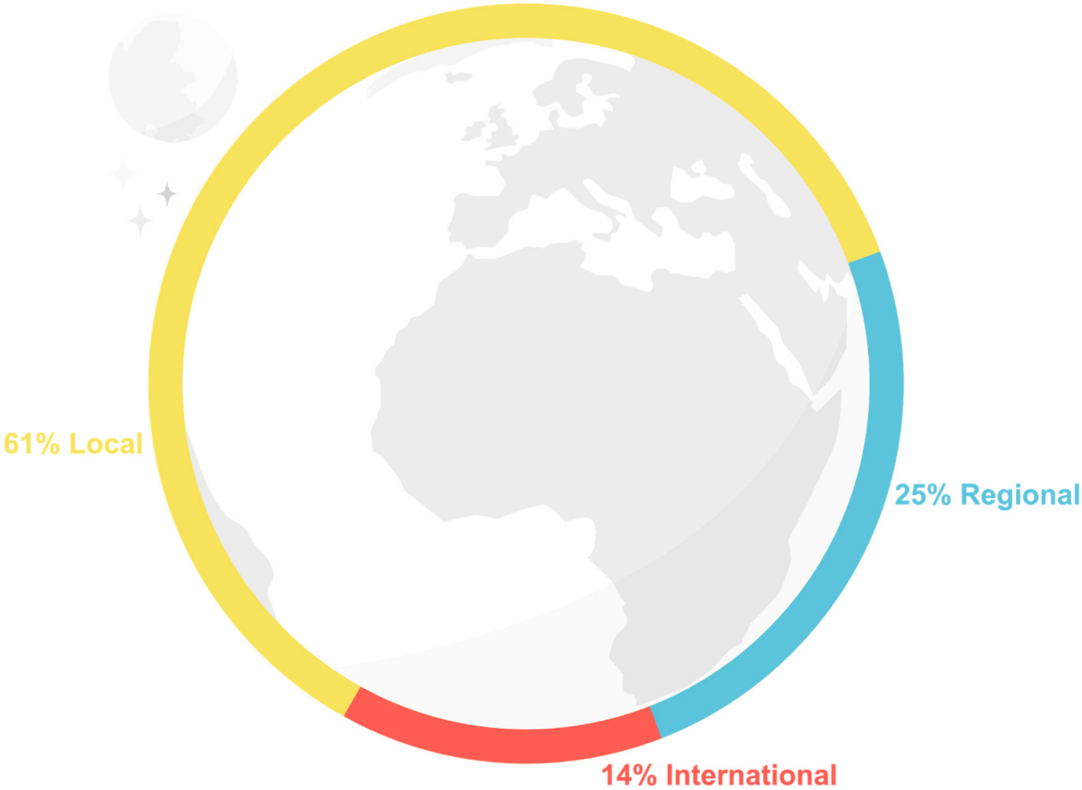


Figure 3 | Investment Portfolio Maturity Profile

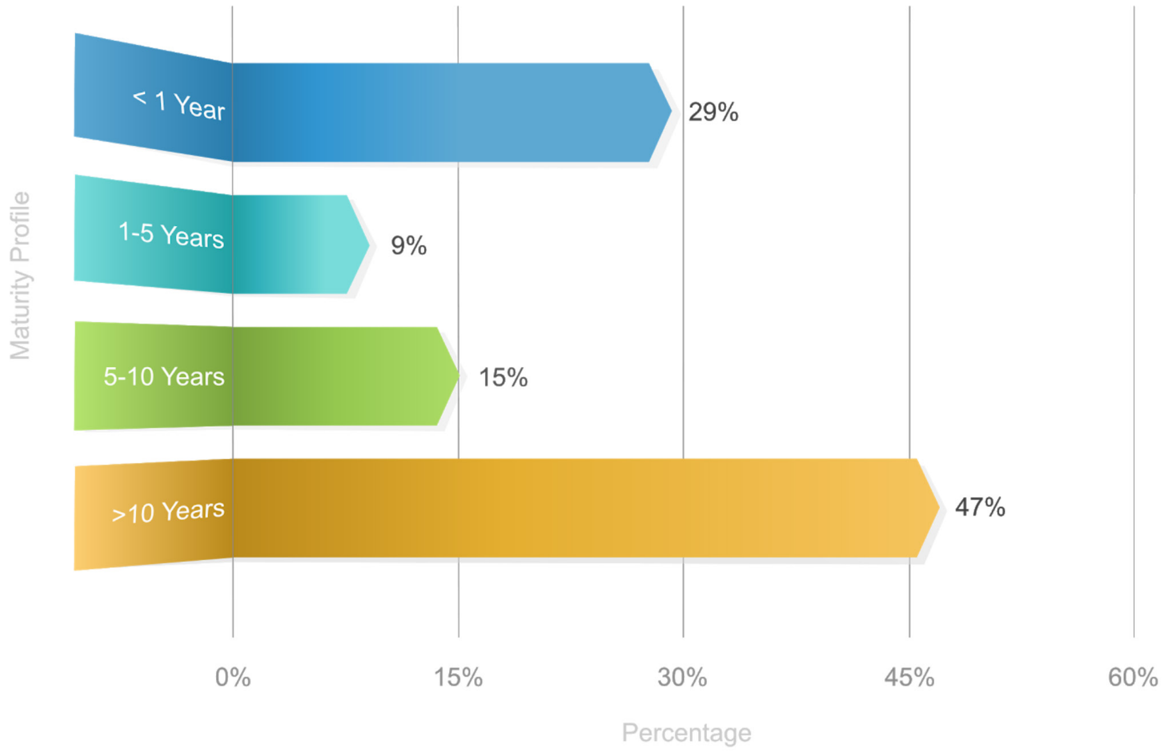
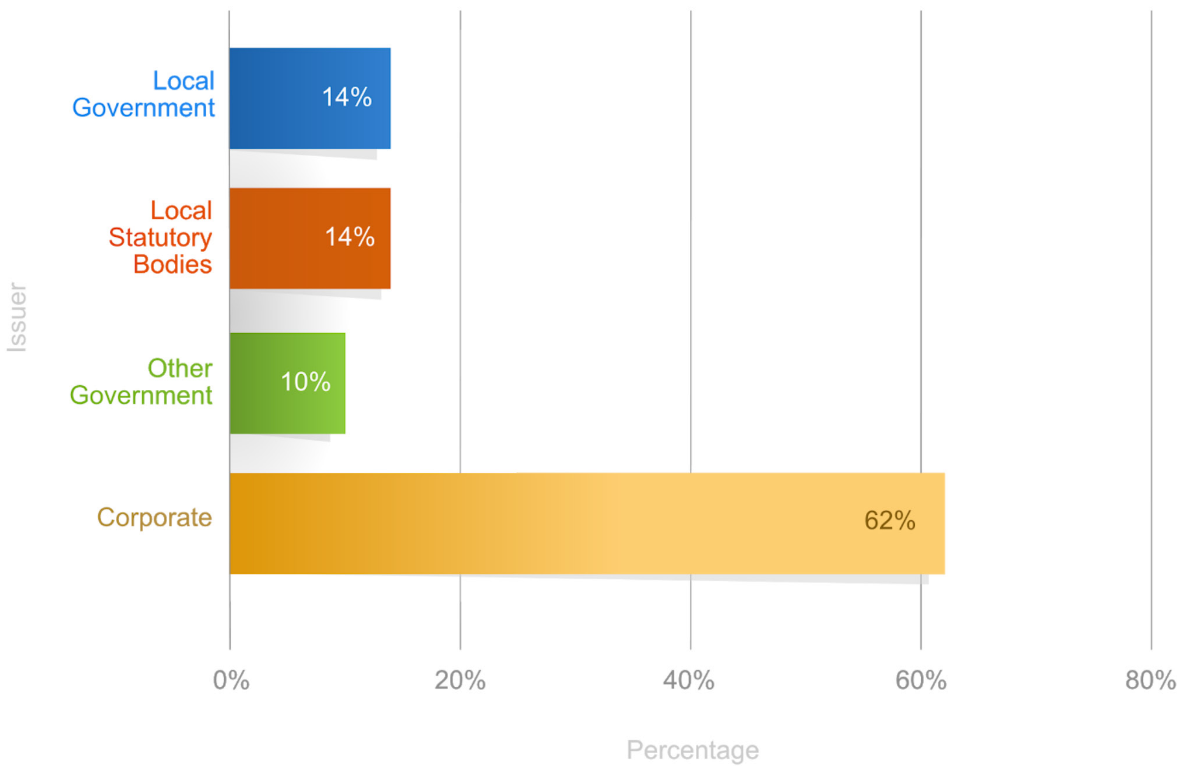


Figure 4 | Investment Portfolio Issuer



The schematic presentations revealed that the NIS' investment portfolio is well diversified across maturity ladder and asset classes. However, there are room for improvements in diversification into international markets and in reducing exposures to some issuers including Bank of St. Vincent and the Grenadines. In addition, we continue to work on improving the credit risk profile of the investment portfolio (by investment in more investment grade credits) and enhancing the marketability and liquidity of the portfolio (through investing in instruments that are traded/listed on recognized exchanges.

4.3 Actuarial Outcomes

We have opted to finance the social security program through a scaled-premium approach. With this approach, contribution rate is set for a fixed period (say 10 or 15 years), called the equilibrium period, where contribution income and investment income exceed total expenditure. When approaching the end of the equilibrium period, where total expenditure is almost equaling total income, the Fund must reduce benefits and/or increase contribution rates to avoid selling assets. Therefore, it is important that administrators of social security systems monitor their actuarial developments to assess whether the Fund is providing sustainable and equitable social protection. Accordingly, we took account of the movements of key actuarial indicators, which is presented in the matrix below:

Matrix 2: Actuarial Indicators for period 2017-2019

Actuarial Indicators	2017	2018	2019	Comments
Contribution Rate	10%	10%	10%	There is need to increase contribution rate to improve the financial health of the plan.
Total Expenditure rate	11.28%	11.43%	11.75%	This is reflective as rising pension payments owing to a maturing plan.
Administrative efficiency ratio (administrative expenses/ Contribution income)	17.1	16.6	17.2	Typically flat showing consistent prudence and enterprise in the managing of resources.
General average premium as per last actuarial review	18%-22%	18%-22%	18%-22%	This value is greater than contribution rate. This represents a funding imbalance. Reform measures are necessary.
Fund ratio- (reserves /expenditure)	6.77	6.05	6.09	It is expected to decline due to funding pressures caused by rapid growth in benefits
Dependency ratio- (# contributors per pensioner)	5.7	5.4	5.4	The increase reflects the higher cost of social security to fund the program
Financial ratio- Avg. pensions as % of Avg. wages	30%	31%	34%	This is increasing as the growth in average wages is lower than the growth in average pensions.

The actuarial indicators confirm that our social security system is maturing owing to, among other things, population ageing and low and slow economic growth. Therefore, one can reasonably expect further parametric reforms of the National Insurance Fund in the near future in order to preserve sustainability and intergenerational equity. The next actuarial valuation would be conducted in fiscal year 2020 for valuation date of 31st December 2019.

4.5 Coverage Outcomes

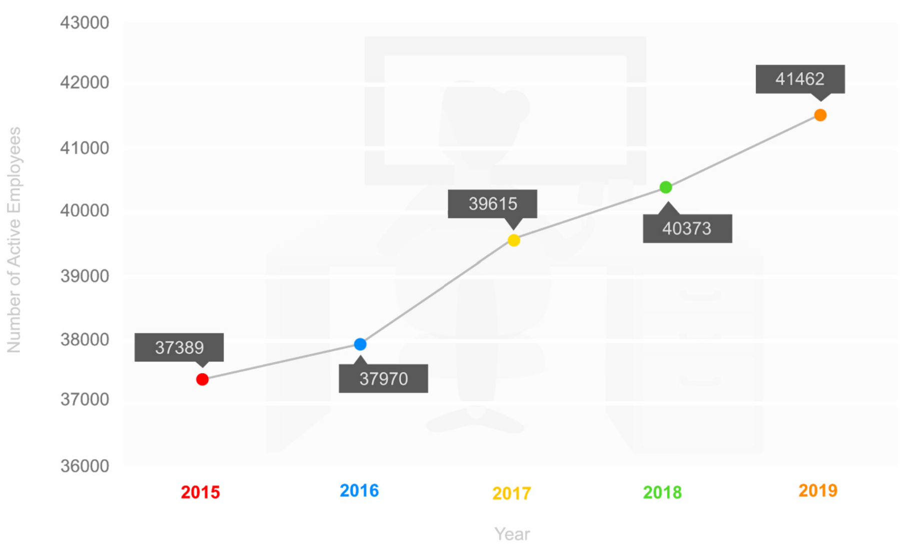
One of the key priorities of our system is to bridge coverage gap among all categories of workers with laser focus on the self-employed and informal sector workers. Our current coverage of the formal sector is good but significant improvement is required to extend coverage to the self-employed and informal sector workers.

In 2019, we strengthened our advocacy of the importance of social security coverage to safeguard lives and livelihoods. We had several social dialogues to reinforce the importance of social security services to individuals, families, and communities. For instance, we partnered with the Ministry of Education to roll-out a series of social security educational programs to teachers at schools across the countries. Also, we had public relation programs to private sector businesses. Further, we penetrated the self-employed and informal sectors workers by way of outreach activities, survey and targeted promotions through Adult Literacy Organisation, Taxi Association, and other agencies.

We will continue our dialogue with the Government to explore the possibility of mandatory coverage for self-employed workers. In our consultations with stakeholders, there was a consensus on the importance of social security in providing reliable and dependable income protection for workers in event of contingencies such as sickness, invalidity, death, and retirement. We all view our social security as the principal safety net for workers.

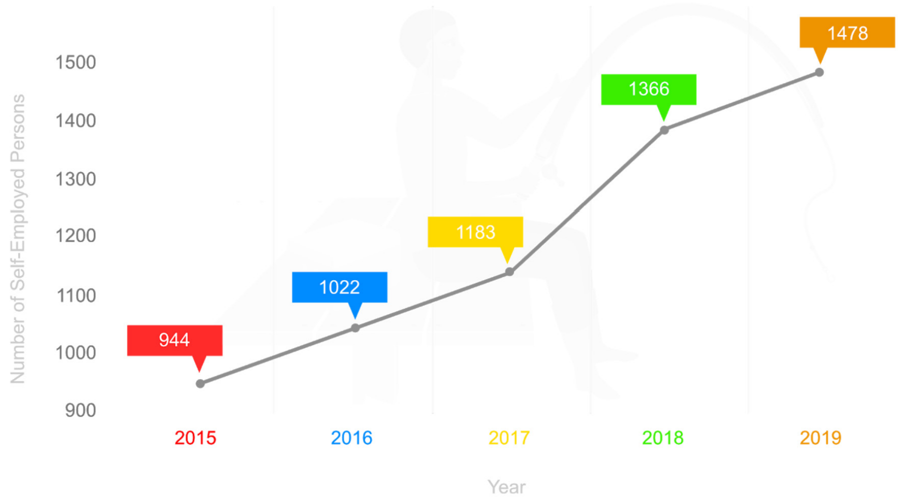
For the review period, the coverage among the formal sector increased from 40,373 in 2018 to 41,462 in 2019. The graph below shows the movements of the insured population (excluding self-employed and voluntary workers) for the last five years:

Figure 5 | Active Employees



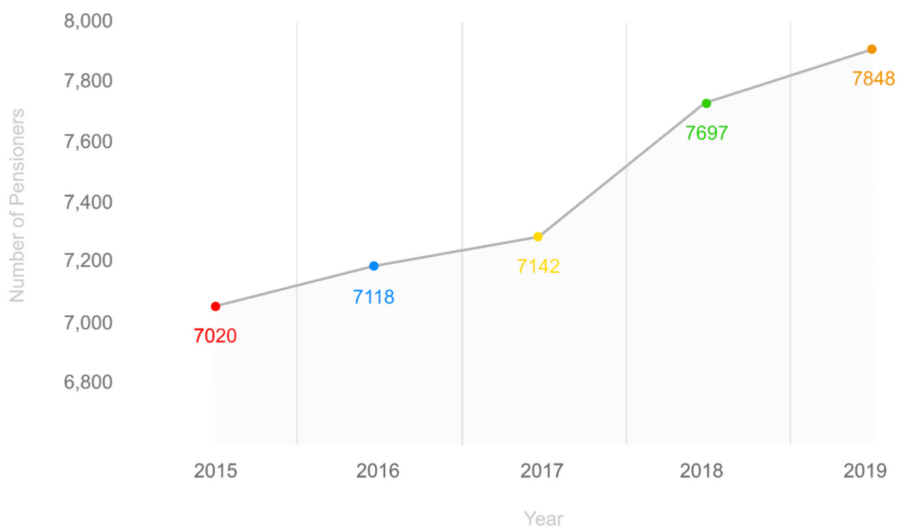
With regards to the coverage of self-employed workers, the number of self-employed with social security coverage moved from 1,366 to 1,478 in 2019.

Figure 6 | Self-Employed Persons



We also monitor the social protection coverage of the older population (persons 60+) who receive an old-age pension (contributory and non-contributory pensioners) from the NIS. The movements of the old-age pensioners are presented in the table below:

Figure 7 | Pensioners Population



4.6 Administrative Outcomes

In the context of social security system, administrative efficiency focuses on how efficacious the administrators deliver social security services. This covers the key functions of contribution collections, adjudication and payments of benefits, investment of surplus, design and implementation of internal controls, accounting for social security finance and other administrative functions.

We used the administrative efficiency ratio, which is the ratio of administrative expenses to contribution income, to measure how well we administer the system. The graph below illustrates the administrative efficiency index for the last five years.

Figure 8 | Administrative Efficiency Ratio

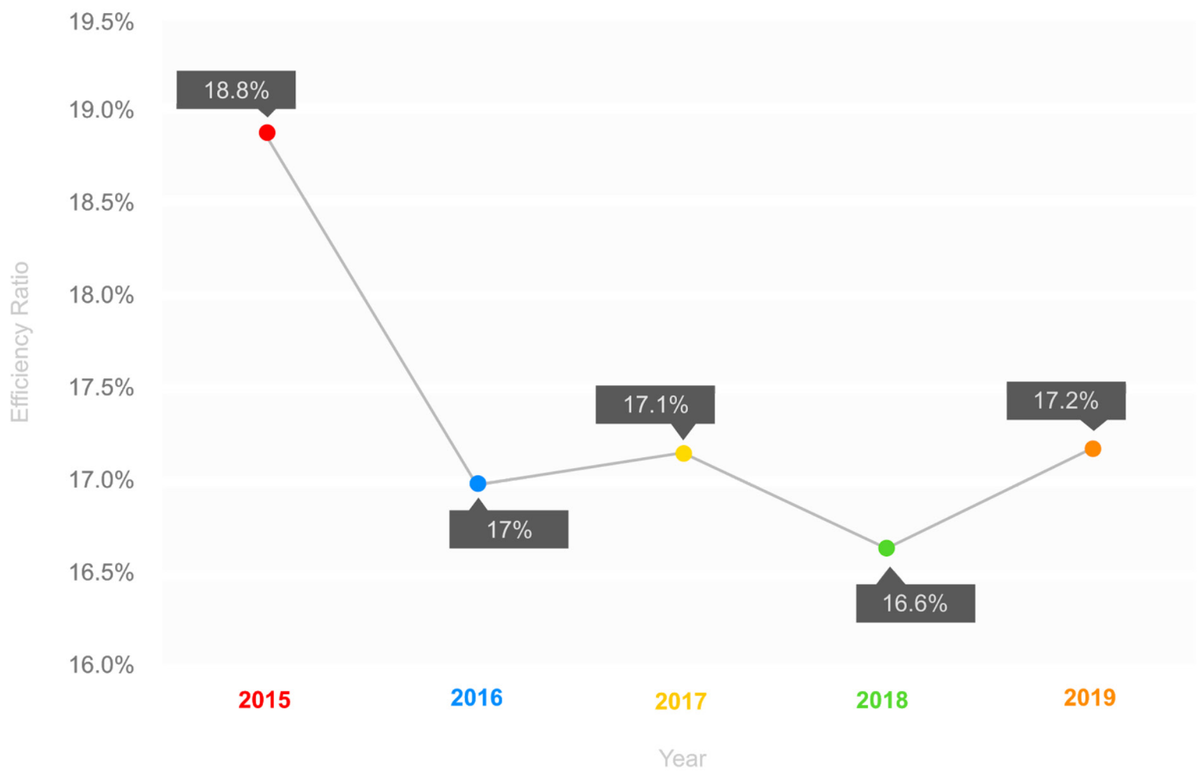


Figure 8 showed that administrative efficiency remain relatively consistent from year to year. This is reflective of Management's prudence and enterprise in the management of the financial and human resources of the trust funds. We continue to promote a cost containment culture and strengthen our procurement processes and practices for purchases.

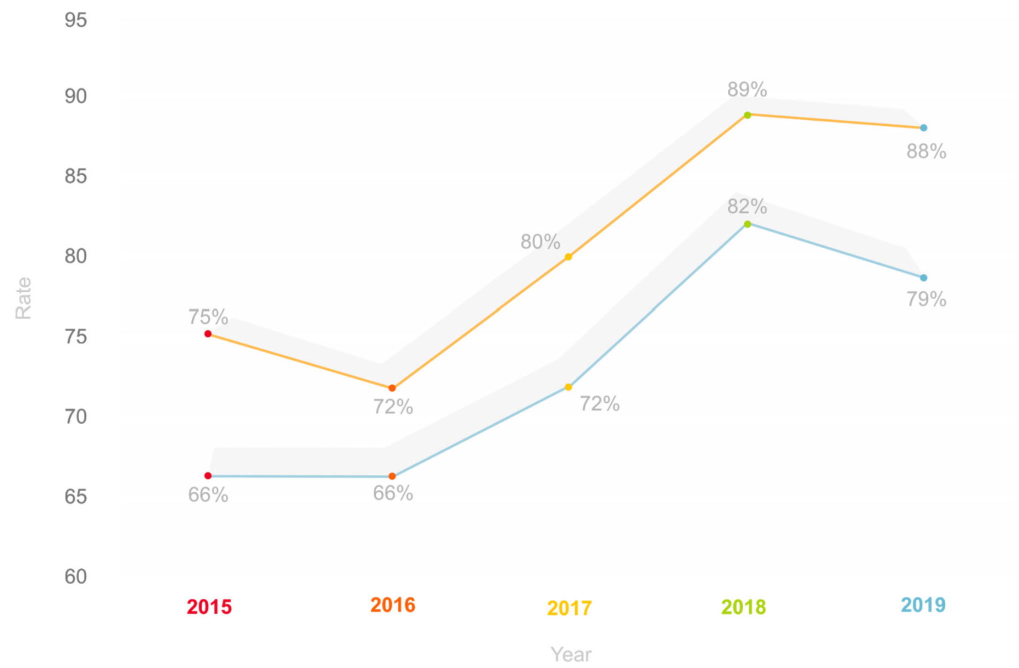
The core components of the administrative functions of the NIS are presented below:

4.6.1 Adjudication and Payments of Benefits

This function is principally carried out by the Benefits Division that adjudicates benefits through three different branches, namely, long-term benefits (mainly pensions), short-term benefits (sickness and maternity benefits) and employment injury benefits (employment injury related claims).

The key benefit activities undertaken in the review period with comparatives of the previous five years are highlighted in the graphs below:

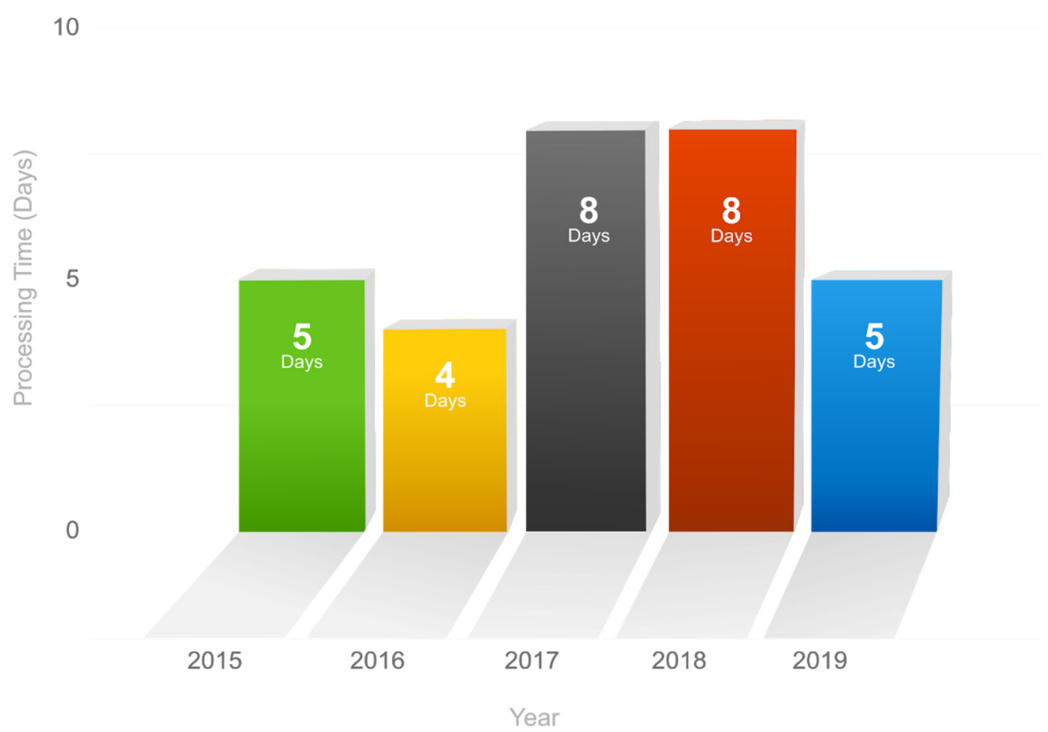
Figure 9 | Processing and Approval Rates of Long Term Benefit Claims



The processing rate oscillated in the review period largely due to inconsistency and untimely submission of claim-related documents (on part of claimant) to the NIS. In particular, we have experienced challenges with employers' untimely submission of contribution records to compute the benefits. We continue to encourage employers and employees to provide timely documentation to support the claim adjudication process. Similarly, the approval rate showed slight degree volatility in the review period. The approval rate is principally impacted by the claimants not meeting the qualifying conditions for entitlement.

The processing time is depicted below:

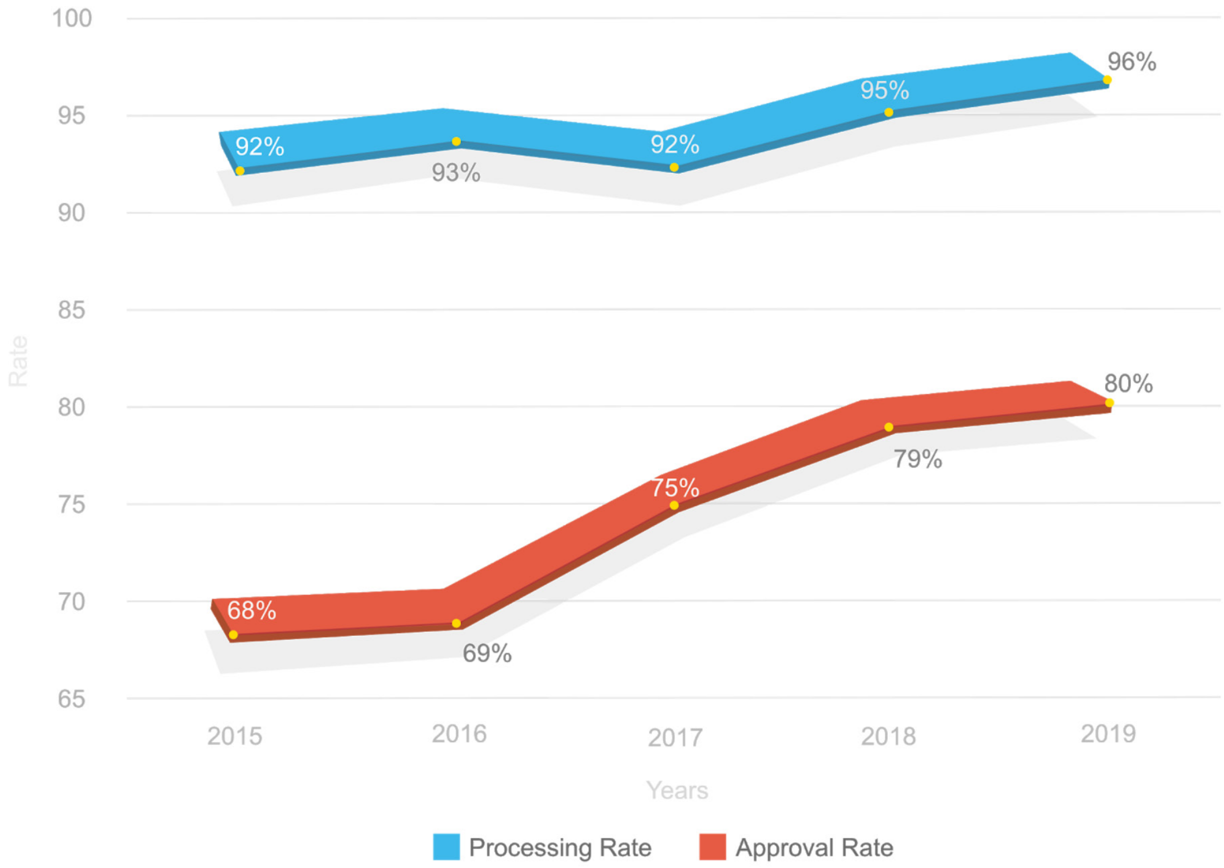
Figure 10 | Long Term Benefit Claim Processing Time



In 2019, the time it took to process a pension was 5 days, which is in line with institutional standards. We are focusing on improving our services to our customers by reducing the waiting time for claims. We can achieve this if employees submit claims on a timely basis.

The activities and outcomes for adjudicating short-term benefits are presented in table 11 and table 12 below:

Figure 11 | Processing and Approval Rates of Short Term Benefit Claims

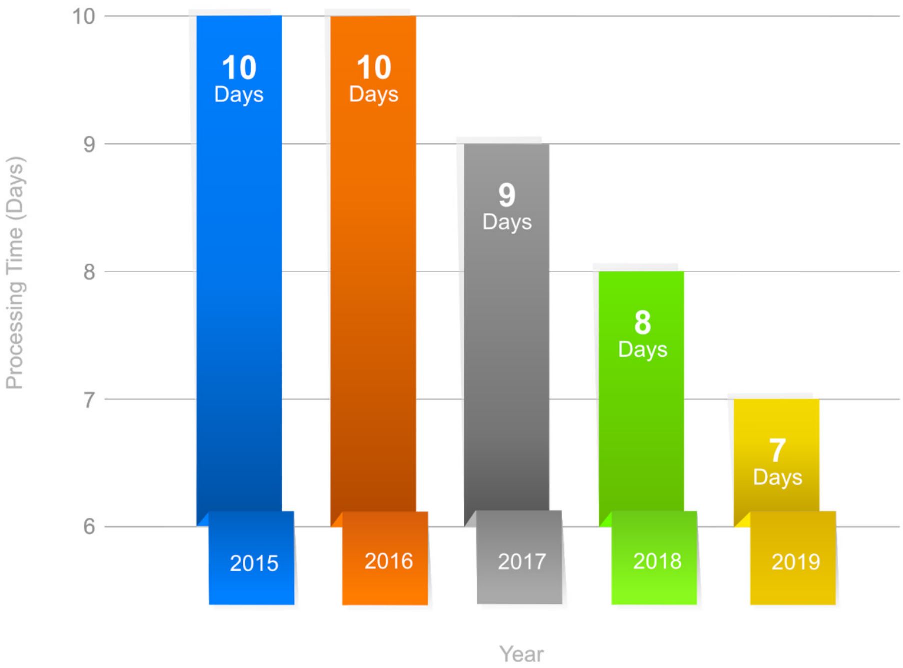


The processing rate remained above the acceptable target of 90%. However, the approval rate is increasing but still below the internal target of 90%. The approval rate was tempered by untimely submission of claims records by the employers. In particular, we experienced challenges in receiving salary and wages information from employers in a timely manner.

The waiting time of customers is also important to us. We strive to surpass customers' expectations on the time to receive benefits through regular reviews of outstanding claims and strengthening relationships with employers.. Accordingly, we carefully monitor the processing time of claims.

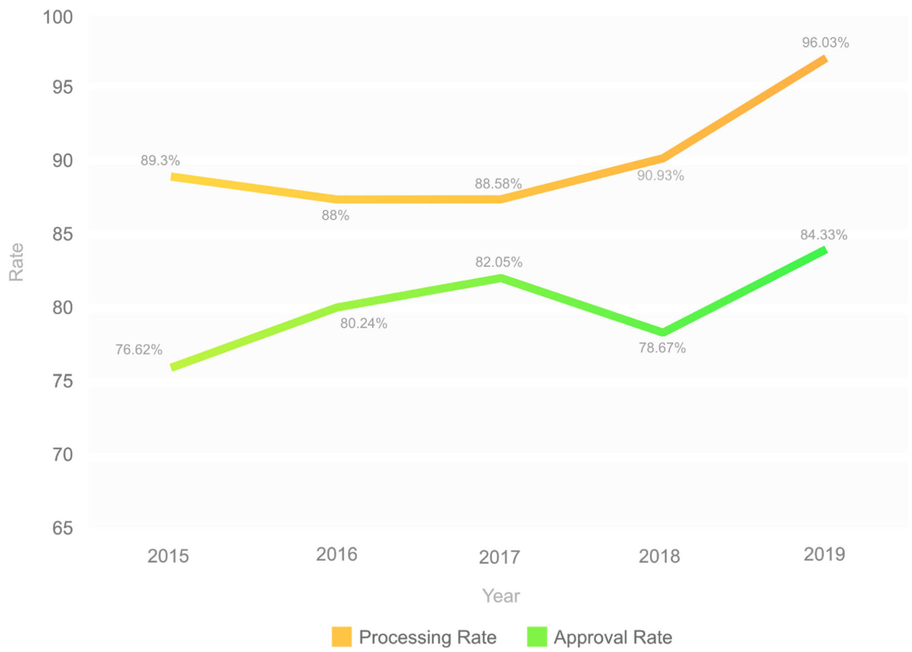
The figure below shows the processing time for the 5-year period.

Figure 12 | Short Term Benefit Processing Time



As can be seen from table 12, we have demonstrated progress in delivering the benefits to our short-term customers largely due to commitment and dedication of the Benefit staff. For the Employment Injury benefits, the claims processed and approved are presented in figure 13 below:

Figure 13 | Processing and Approval Rates of Employment Injury Benefits



As can be seen from figure 13, the processing rate improved from 89% in 2015 to 96% in 2019, which was attributed to improve efficiency in coordination with the in-house employment injury adjudication committee.
The processing time for an employment injury benefit claim is depicted in figure 14 below:

Figure 14 | Processing Time for Employment Injury Benefit

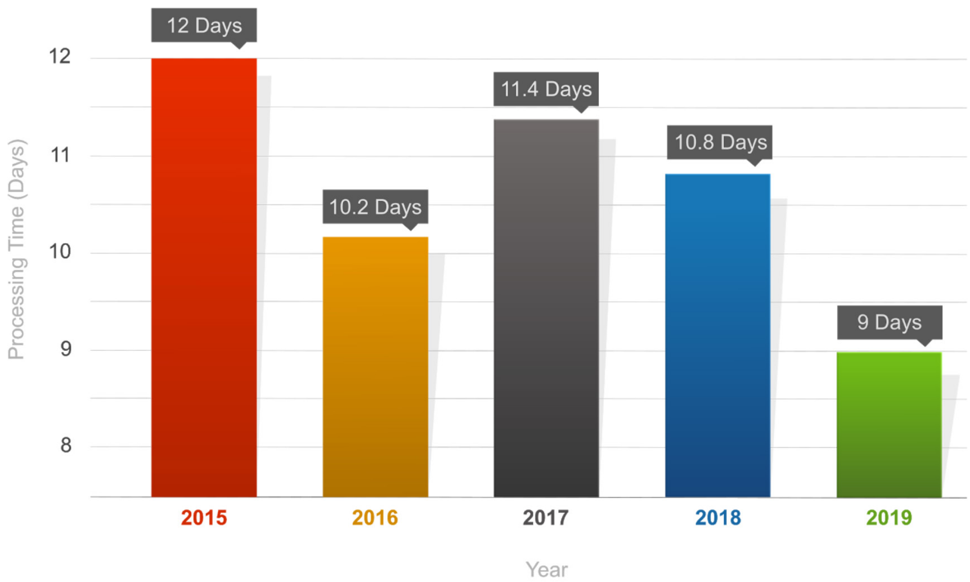
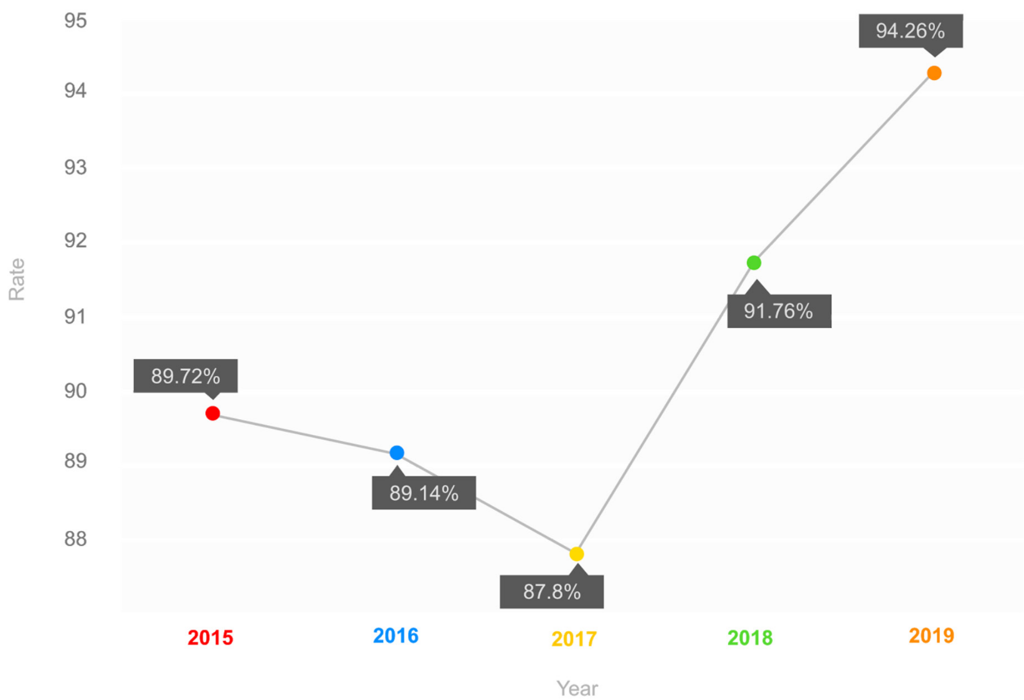


Figure 14 shows that there have been improvements in serving customers for employment injury benefits. However, we did not meet the internal target of 5 days and would strive to meet in the upcoming fiscal year.

4.6.2 Processing Contribution Records

The Data Processing Unit executes the tasks of the processing of contribution records of the NIS. In the review period, the Division produced the following critical results

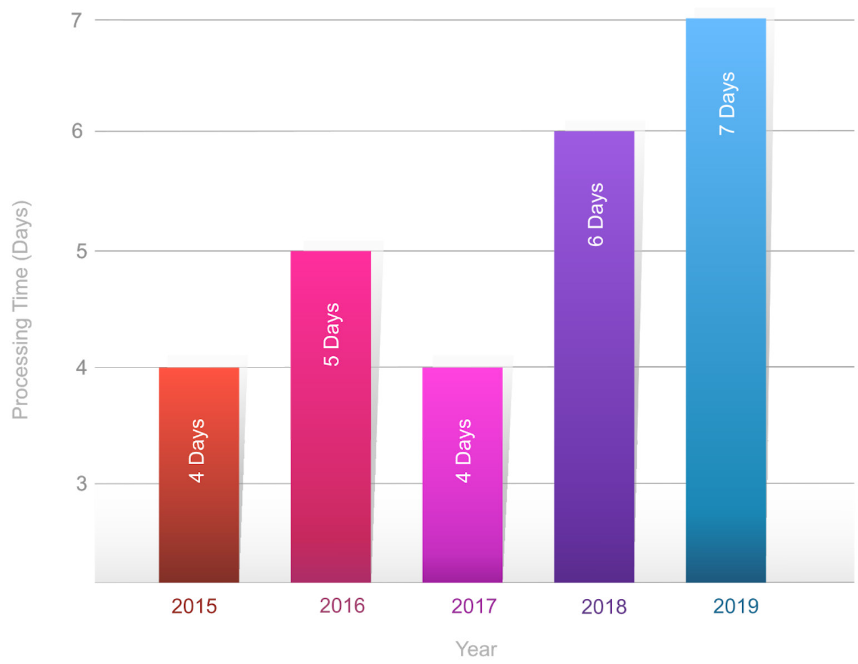
Figure 15 | Processing Rate of Contribution Records



The rate of processing contribution records improved in the review period owing to greater utilization of e-submit software. Of note, is that employers are encouraged to submit better quality records to the NIS to facilitate greater efficiency in processing employees' contributions.

The processing time of contribution records is displayed in figure 16 below:

Figure 16 | Processing Time for Contribution Records

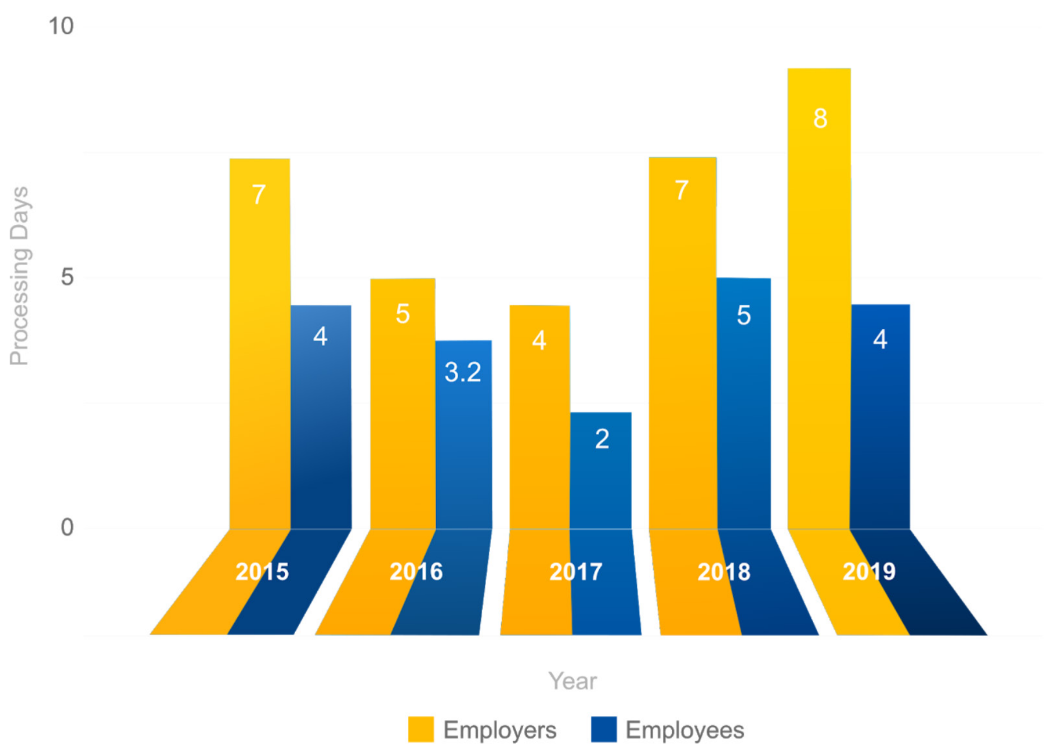


We failed to meet our internal target of 5-days for processing contribution records largely because of poor quality records submitted on part of employers. Noteworthy, is the timely and accurate processing of contribution records ensures efficient and accurate processing of benefit claims. Therefore, it is important that employers submit contribution records on a timely basis to ensure their employees receive the benefits that they were duly entitled to, based on their work histories and insurable wages. We continued to experience untimely and inaccurate submission of contribution records, which caused delay in processing benefits for our customers. Our team undertakes to work closely with stakeholders in the form of education and training sessions to improve quality of records submission.

4.6.3 Registration of employers, employees and self-employed persons

The Customer Service Unit manages the registration process for all employees, employers and self-employed persons. In the review period, the processing time for registration has improved. The graph below shows the schematic performance:

Figure 17 | Registration Processing Time for Employers and Employees



With an internal target of 5-days to process registration of employers and employees, the results in the review period were unsatisfactory. We continued to experience challenges in the registration process regarding the adequacy of information supplied by employers and employees. Over the years, we noted application forms are submitted without supporting documents. Accordingly, we embarked on a series of education programs to assist employers in understanding the requirements for registration at the NIS. We would continue to expand and consolidate our advocacy efforts on the benefits and services of the NIS.

4.6.4 Contribution Collection and Compliance

Contribution income is critical to the sustainability and legitimacy of our pay-as-you-go social security system. Therefore, we are relentless in ensuring that employers comply with the NIS' Act and regulations. Our Compliance and Legal Unit continue their drive to ensure employers comply with their statutory obligations to:

- Register their business operations
- Report their workers for coverage
- Remit contribution payments on a timely manner
- Produce employment records when required by NIS

The Compliance Unit, the first line of defense, adopted largely the moral suasion measures to encourage the employers to submit records and remit payment in a timely manner. The Compliance Officers interventions include but are not limited to telephone calls, visits to employers' establishments, inspection of employers' records, meetings and serving of 7-day and 14-day letters requiring employers to meet their statutory obligations.

The Compliance Unit is supported by the Legal Unit in the pursuit of contribution collections and compliance functions. The Legal Department worked with the Compliance Unit to boost employers' compliance and delinquent collection. As such, a partnership approach is taken for the issuing of demand notices and crafting of various settlement options for employers to choose from based on their validated financial position. If employers fail to meet their obligations under this joint-approach arrangement, the Legal Department adopts the following remedies without prejudice:

- **Collection via Court Actions** - In 2019, the Legal Department took legal actions against several employers who failed to meet their statutory obligations to the NIS. The NIS utilized both the High Courts and Magistrate Courts in the judicial process of filing and prosecuting cases among delinquent employers. These measures would be sharpened against employers who blatantly violate the NIS' Act and Regulations.

- **Seizure of Properties** - Another measure adopted by the NIS to augment collection from delinquent employers is the lien on properties. The distraint of personal properties, lien on real properties and garnishment of bank accounts and source of funds have proven successful in the collection of contribution arrears.

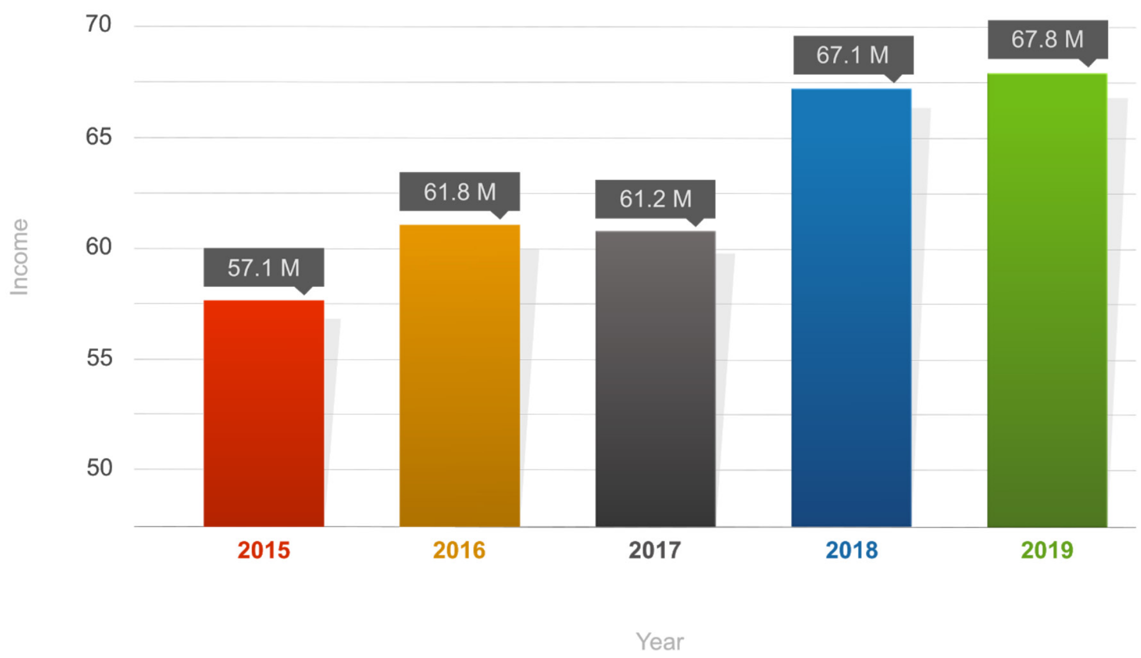
- **Garnishes** - One of the most effective legal measures adopted by the Legal Department to ensure collection of contribution arrears is a garnish. The legislation gives the NIS the power to garnish money from several sources including contracts, leases and bank accounts. The Legal Department, with the assistance of the Compliance Department and external stakeholders, gather information in relation to employers' activities which may generate income. The Department garnishes part of that income to assist employers to pay outstanding amounts to the NIS. The NIS, bearing in mind the need for businesses to continue their operations, does not garnish full amounts from employers.

- **Debt Proposals** - The Legal Department enters into debt proposals with employers who are willing to settle their debt. Debt proposals are initiated by delinquent employers and can occur at any stage before committal summons are pursued. Debt proposals aid in enforcement of debts, especially debts of large amounts. Employers are encouraged to pay a large lump sum up front and monthly payments toward the entire debt.

We adopt these measures not only to enhance contribution collections but also to enhance the legitimacy of the social security system by restoring the rights of employees to their due benefits. We want our businesses to be healthy, current and committed in their submission of records and remmitances of the social security contributions.

During the period under review, the combination of strategies and remedies resulted in positive outcomes, as measured by growth in contribution collections. The diagram below shows the contribution income for the period 2015-2019.

Figure 18 | Contribution Income



As can be seen from the diagram, the collections in 2019 exceeded that of 2018 owing largely to enhanced-compliance and contribution collection functions. Additionally, the positive movements in the number of contributors and higher insurable wages supported the 2019 growth in contribution income. The 5-year movements of these variables are presented in the charts below:

Figure 19 | Number of Insured Persons

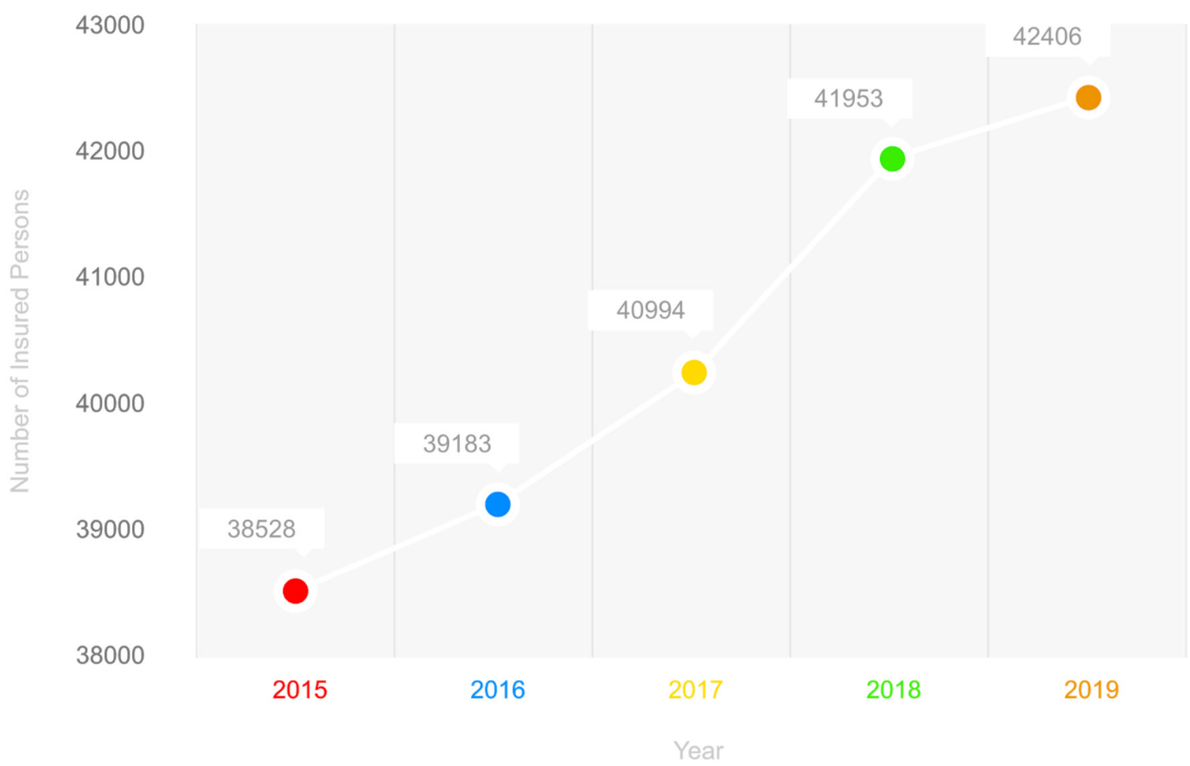
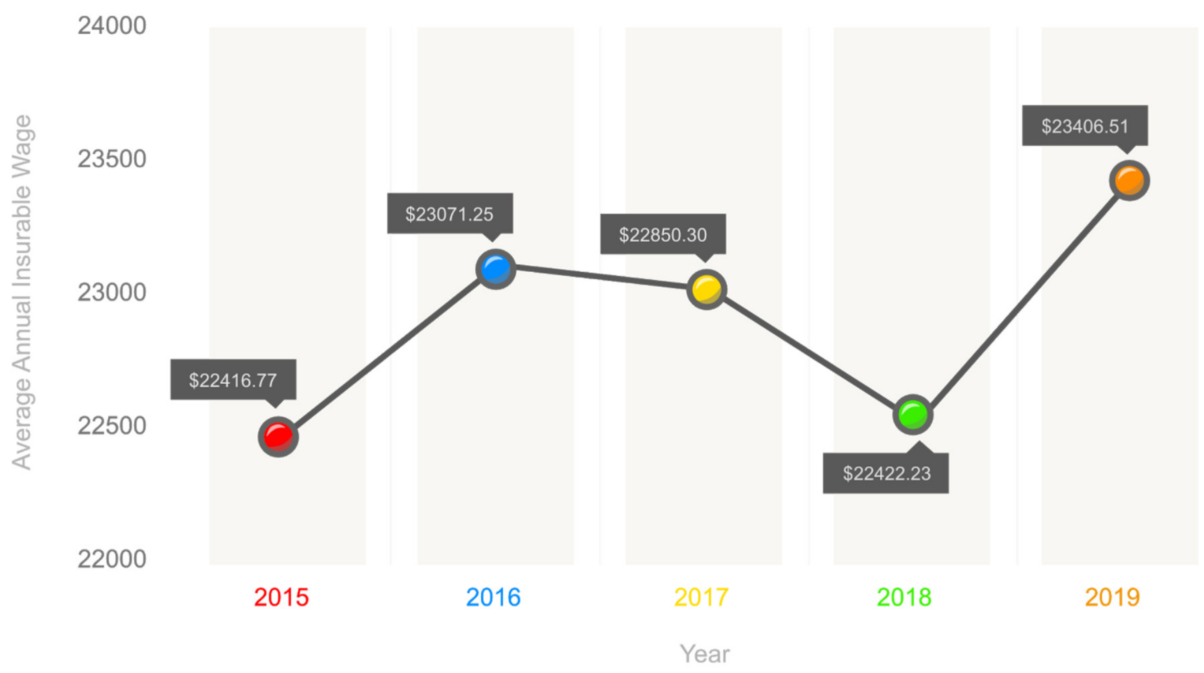


Figure 20 | Average Annual Insurable Wages



4.6.5 ICT-Digital Transformation

In 2019, the NIS made progress in the pursuit of its digital transformation journey through strengthening digital literacy, improving digitization, and enhancing digitalization. In the case of strengthening digital literacy, the IT team conducted several training sessions around the use, application and availability of ICT tools and programs as well as cybersecurity. This digital literacy campaign would continue in the coming years.

Additionally, we increased the digitization rate by increasing the variety of records processed through the Document Management Unit. This unit digitized records relating to contributions, registration, and benefits. Consequently, the storage, security, and access of important records have materially improved. Also, this process reduced the research time for processing of pensions.

Further, we monitored the gains in digitalization and automation. The IT team continue to refine the e-submit software to enhance users' experience. For instance, we received less complaints from employers regarding the use of this facility. Also, we noted a small increase in the number of employers that use e-submit for contribution records in 2019 when compared to 2018. The Data Processing Unit in collaboration with the ICT Department would continue their advocacy role in promoting the use of e-submit to file NIS' contribution records.

4.6.6 Corporate Governance

Our Board, Management and Staff believe that good corporate governance is essential to drive effective performance, responsible stewardship, and ethical behaviors. In this regard, we continue to strengthen governance in the administration of our social security to realize the benefits of efficacious performance, responsible stewardship, and ethical practices. For instance, the governance mechanisms were fortified through targeted training for

Board and Committee members in auditing, risk management, ICT, and corporate governance. Additionally, some critical policies and charters were reviewed and amended to ensure alignment with best practices and good governance principles.

The Board and Committee members not only participated in Board's education sessions, but they attended and made valuable contributions to Board and Committees' meetings. For example, the NIS achieved an above 90% attendance rate for all Board and Committee meetings in 2019. The Board and Committee members fulfilled their responsibilities for oversight and stewardship of the National Insurance Fund.

The NIS is still evolving in its enterprise risk management functions. The NIS has a well-established risk governance structure comprising of an energized Board of Directors supported by a committed Risk Management Committee and a dedicated management team. Our risk management framework is predicated on the three-lines-of-defense model. Within this framework, the critical responsibilities, functions, and accountabilities are carried out as follows:

- The First Line of Defense comprise the Business Unit Managers who own the risks generated by their business functions. The owners assist with the design and implementation of risk mitigants and internal controls to manage risks. Further, their functions include the assessment, management, monitoring and reporting of risks in compliance with the relevant risk management policies and guidelines.

- The Second Line of Defense comprise the Risk Management Unit. The level supports the risk owners in the risk management functions. For instance, the Risk Unit ensures that risk owners comply and implement the risk management policies and guidelines. The Chief Risk Officer is responsible for updating the Board of Directors through the Risk Committee on risk management activities within the organization. Importantly, the Chief Risk Officer conducted regular risk awareness training with Management and staff.

- The third Line of Defense comprise the Internal Audit Unit. This line must be independent of the first and second lines of defense. The Internal Auditor must provide reasonable assurance to Executive Management and the Board that the risk owners are effectively managing and controlling risks. The Internal Audit Unit, among other things, measure, monitor and report on risks taken in relations to parameters established in the risk policies and guidelines.

During the fiscal period, the Board re-engaged an external audit firm to assist with the assessment and development of the NIS' internal audit functions. The scope of work included but was not limited to identifications of gaps within the internal audit functions, advice, and recommendation on strengthening internal controls, development of a strategic plan for the Internal Audit Department and provision of training to staff and directors. The Consultant conducted training with management and directors and delivered the revised Charter for the Audit Committee. The Board and Management look forward to the other deliverables within the ensuing financial year.

The Board and Management are committed to deepen its effort to improve and strengthen its corporate governance mechanisms and practices to enhance transparency, independence, and accountability in the administration of Trust Funds.

Conclusion

Our success and progress in 2019 would not be possible without the hard and smart work of our staff. Their relentless efforts and dedication to make a positive difference in the lives and livelihoods of Vincentians have underpinned our achievements. I wish to sincerely thank them for their support and commitment to serve.

Also, I want to salute our Board of Directors for their support and strategic guidance to Management. They have demonstrated confidence in our team. Further, the Chairman continued to show visionary and people-centered leadership. The NIS and by extension, the people of SVG are privileged to have a committed and experienced Board of Directors and our gains are evidence of their unstinting support.

In addition, I wish to recognize our employers, employees, contributors, and beneficiaries for their trust in our team. I value your support and encouragement. I want our delinquent employers to understand that the NIS has no interests in damaging reputations and causing financial ruins to businesses. We want to help you and your employees. We fashioned several options for you to ensure workers' rights are protected through your compliance with the NIS' Act and Regulations.

We are cognizant of the many-sided challenges that confront social security systems including economic and demographic pressures and the resulting adverse impact on the long-term sustainability of the system. However, we remain focused, confident and resolute to broaden and fortify your social safety net.

Stewart K. Haynes
Executive Director

THE **NIS'** VALUES

What is **ICARE**?

Our **ICARE** model is embodied in every aspect of our work. It guides how we serve both internal and external customers and is a reflection of our moral commitment to providing social protection to our stakeholders.

Ms. Donesa McMillan

Integrity

Integrity to me means one's ability to exemplify strong moral values such as honesty, openness, being respectful, helpful, responsible and trustworthy. This is where strong moral values are reflected regardless of your environment.

Mrs. Anndeen Carrington

Commitment

Commitment is an unwavering determination to go beyond what is expected of me, to ensure that our customers are satisfied. Having an obligation to remain truthful, understand what our customers are saying or not saying.

Mr. Collin Trimmingham

Accountability

To me, being accountable means being willing to accept responsibility not just for one's actions, but also for one's inactions. When an individual embraces accountability, the individual is dedicated to producing promising results. Workplace accountability is about holding people to a shared expectation by clearly identifying the mission, values, and goals of the organization

Ms. Sade Bowman

Respect

A positive feeling of admiration and association, shown towards someone or a cause that is displayed through the qualities and capabilities they embody. Respect also means valuing someone's opinion and wishes by not overstepping boundaries to negatively impact the relationship. Treating others as equally as you would want to be treated.

Mr. Duan Cumberbatch

Empathy

When we think about the lives we touch and the stories we encounter daily, we know that what we do helps to make a difference. Our responsibility is not just to provide financial assistance but to ensure that our stakeholders know that we care and we will always be there, each step of the way.

Mrs. Loisha Fitzpatrick

INDEPENDENCE
WEEK OF ACTIVITIES
October 21st - 25th

Saint Vincent and the Grenadines marked 40 years of Independence on October 27th, 2019. To mark the occasion, we held a week of activities where customers were treated to the sweet sounds of pan by Saeed Bowman. The week also saw pensioners being treated to local delicacies and an in-house best local dish and best dressed male and female competition.

SNEAKER DAY
2019

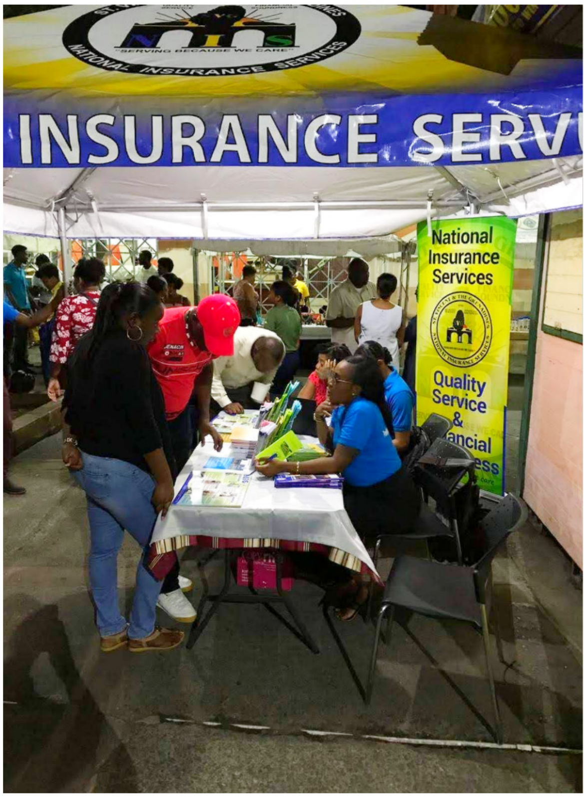
Our first "Sneaker Day" was held on Wednesday December 11th, 2019. This in-house activity was started to encourage our staff to implement healthy dietary practices

and fitness into their everyday lives. Under the theme "Prevention of NCDs is Only a Step Away", we journeyed from our headquarters following a designated route and back to our headquarters. Prizes were given for the first three (3) staff members who completed the walk/race. Following this, a warm down exercise session was conducted by Mr. Lindon James of BeFit Movement.

OUTREACH REVIEW

AIA, Taxi Association, Presentations

One of our responsibilities is ensuring our stakeholders are educated about the NIS. We do this through a series of initiatives - One which yielded great success was our presentations targeting organisation's and associations. In 2019, we executed 56 presentations reaching 1360 persons. We also participated in several fairs and executed an outreach initiative to increase the number of persons under the Voluntary Contribution programme at the Argyle International Airport.


"SERVING BECAUSE WE CARE"
NATIONAL INSURANCE SERVICES
National Insurance Services
Quality Service &


National Insurance Services


National Insurance Services
MISSION STATEMENT
VISION STATEMENT
WELCOMES YOU TO
ST. VINCENT
AND THE GRENADINES
National Insurance Services
Quality Service &

NATIONAL INSURANCE SERVICES

Financial statements

For the year ended December 31, 2019

NATIONAL INSURANCE SERVICES

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NATIONAL INSURANCE SERVICES

<u>REGISTERED OFFICE</u>
Bay Street, Kingstown
St. Vincent

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

<u>DIRECTOR</u>
Mr. Stewart Haynes

<u>SECRETARY</u>
Mr. Stewart Haynes

<u>BANKS AND NON-BANK FINANCIAL INSTITUTIONS</u>
Bank of St. Vincent and the Grenadines
Republic Bank EC Ltd.
RBTT Bank Caribbean Limited
First Citizens Investment Services Ltd
St. Vincent Co-operative Bank Limited
St. Vincent Union of Teachers Co-operative Credit Union
RBC (Royal Bank) Trinidad and Tobago Ltd
National Bank of the British Virgin Islands

<u>SOLICITORS</u>
Baptiste and Company Law Firm Inc.
Duane Daniel Chambers
Saunders and Huggins

<u>AUDITORS</u>
KPMG Barbados and the Eastern Caribbean

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First Floor
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Upper Bay Street
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Telephone: (784) 451-1300
Fax: (784) 451-2329
Email: kpmg@kpmg.vc

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of the National Insurance Services ("the NIS"), which comprise the statement of financial position as at December 31, 2019, the statements of profit or loss and other comprehensive income, changes in reserves and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the NIS as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Eastern Caribbean 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.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Honourable Minister of Finance
National Insurance Services

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Honourable Minister of Finance
National Insurance Services

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the NIS' internal control.

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

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

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

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

KPMG

KPMG
Kingstown, St. Vincent and the Grenadines
August 31, 2020

NATIONAL INSURANCE SERVICES

Statement of Financial Position

As at December 31, 2019

(Expressed in Eastern Caribbean Dollars)

	Notes	2019 $	2018 $
ASSETS			
Cash and cash equivalents		42,700,479	48,116,371
Loans and advances	5	85,255,958	93,779,803
Interest receivable on investment securities	6	2,987,875	3,027,015
Interest receivable on loans	6	10,812,055	7,758,372
Investment securities and deposits	7	259,304,938	238,024,166
Investment in associate	8	25,074,619	23,535,138
Investment properties	9	22,919,137	22,716,487
Inventories	10	9,318,713	9,063,905
Property and equipment	11	26,621,211	27,589,764
Intangible assets	12	221,211	104,889
Contributions receivable	13	5,144,850	4,965,032
Other assets	14	3,957,402	3,908,394
TOTAL ASSETS		494,318,448	482,589,336
LIABILITIES AND RESERVES			
Liabilities			
Benefits payable		3,999,344	3,929,473
Accounts payable and accrued liabilities	15	1,817,360	1,881,127
Deferred income		24,040	33,250
Total liabilities		5,840,744	5,843,850
Reserves			
Short-term benefit	16(a)	30,903,667	28,120,069
Pension	16(a)	350,647,800	351,172,236
Employment injury benefit	16(a)	74,965,670	68,977,356
National provident fund	16(b)	35,891,264	37,600,176
Foreign exchange reserve	16(c)	(78,182)	50,829
Fair value reserve	16(d)	(3,852,515)	(9,175,180)
Total reserves		488,477,704	476,745,486
TOTAL LIABILITIES AND RESERVES		494,318,448	482,589,336

See accompanying notes to the financial statements.

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

Lennox Bowman - Chairman

Stewart Haynes - Secretary

Elroy John - Director

NATIONAL INSURANCE SERVICES

Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2019

(Expressed in Eastern Caribbean Dollars)

	Notes	2019 $	2018 $
INCOME			
Contributions			
Employers' contributions		36,453,851	36,069,723
Employees' contributions		29,832,527	29,522,469
Self-employed persons' contributions		1,170,909	1,105,738
Voluntary contributions		374,062	323,235
		67,831,349	67,021,165
Benefits paid	19(a)	(67,982,246)	(65,457,117)
(DEFICIT)/SURPLUS OF CONTRIBUTIONS OVER BENEFITS		(150,897)	1,564,048
Net finance income	17	23,623,616	12,079,842
Other income, net	18	1,812,109	2,171,984
Surplus before National Provident Fund (NPF) benefits and impairment losses		25,284,828	15,815,874
NPF benefits paid	19(b)	(2,013,406)	(2,158,891)
Impairment (loss)/recovery - contribution and rent receivables	25(b)(ii)	(575,224)	83,703
Impairment loss - investment securities	25(b)(ii)	(7,252,599)	(797,610)
General and administrative expenses	20	(11,723,731)	(11,141,918)
		(21,564,960)	(14,014,716)
Share of profit of associate	8	2,818,696	2,583,010
NET SURPLUS FOR THE YEAR		6,538,564	4,384,168
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Net change in fair value - FVOCI equity instruments		4,974,476	(1,406,742)
Foreign exchange (loss)/gain - FVOCI equity instruments		(129,011)	50,829
		4,845,465	(1,355,913)
Items that are or may be reclassified subsequently to profit or loss:			
Net change in fair value - FVOCI debt instruments		337,404	(192,660)
Share of OCI - associate	8	10,785	(19,077)
		348,189	(211,737)
Other comprehensive income/(loss)		5,193,654	(1,567,650)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		11,732,218	2,816,518

See accompanying notes to the financial statements.

NATIONAL INSURANCE SERVICES

Statement of Changes in Reserves

For the year ended December 31, 2019

(Expressed in Eastern Caribbean Dollars)

	Short-term benefit $	Long-term benefit $	Employment injury benefit $	National provident fund $	Fair value reserve $	Foreign exchange reserve $	Total $
Balance as of January 1, 2018	25,864,627	352,691,308	63,528,753	39,400,981	(7,556,701)	-	473,928,968
Net surplus/(deficit) for the year	2,255,442	(1,519,072)	5,448,603	(1,800,805)	-	-	4,384,168
Other comprehensive income:							
Net change in fair value - FVOCI equity instruments	-	-	-	-	(1,406,742)	-	-
Foreign exchange (loss)/gain - FVOCI equity instruments	-	-	-	-	-	50,829	-
Net change in fair value - FVOCI debt instruments	-	-	-	-	(192,660)	-	-
Share of OCI - associate	-	-	-	-	(19,077)	-	-
Total other comprehensive income	-	-	-	-	(1,618,479)	50,829	(1,567,650)
Balance as of December 31, 2018	28,120,069	351,172,236	68,977,356	37,600,176	(9,175,180)	50,829	476,745,486
Net surplus/(deficit) for the year	2,783,598	(524,436)	5,988,314	(1,708,912)	-	-	6,538,564
Other comprehensive income:							
Net change in fair value - FVOCI equity instruments	-	-	-	-	4,974,476	-	-
Foreign exchange (loss)/gain - FVOCI equity instruments	-	-	-	-	-	(129,011)	-
Net change in fair value - FVOCI debt instruments	-	-	-	-	337,404	-	-
Share of OCI - associate	-	-	-	-	10,785	-	-
Total other comprehensive income	-	-	-	-	5,322,665	(129,011)	5,193,654
Balance as of December 31, 2019	30,903,667	350,647,800	74,965,670	35,891,264	(3,852,515)	(78,182)	488,477,704

See accompanying notes to the financial statements.

NATIONAL INSURANCE SERVICES

Statement of Cash Flows

For the year ended December 31, 2019

(Expressed in Eastern Caribbean Dollars)

	Notes	2019 $	2018 $
Cash flows from operating activities			
Net surplus for the year		6,538,564	4,384,168
Adjustments for:			
Depreciation expense	11, 20	1,176,806	1,193,717
Amortisation expense	12, 20	40,034	44,109
Impairment recovery/(loss) - contributions and rent receivables		575,223	(83,703)
Impairment loss - investment securities		7,252,599	797,610
Share of profit of associate	8	(2,818,696)	(2,583,010)
Finance income	17	(23,623,616)	(12,079,842)
		(10,859,086)	(8,326,951)
Change in other assets		(221,771)	(623)
Change in contributions receivable		(582,278)	(11,100)
Change in benefits payable		69,871	848,255
Change in deferred income		(9,210)	(9,210)
Change in accounts payable and accrued liabilities		(63,767)	(242,016)
Change in inventories		(254,808)	(134,408)
Net cash used in operating activities		(11,921,049)	(7,876,053)
Cash flows from investing activities			
Change in investment in associate		1,290,000	(135,747)
Change in investment properties	9	(202,650)	(6,905,200)
Change in investment securities and deposits		(11,196,055)	2,319,869
Change in loans and advances		3,711,926	1,539,371
Acquisition of property and equipment	11	(208,253)	(444,752)
Acquisition of intangible assets	12	(156,356)	(136,733)
Interest received		11,264,457	17,382,535
Dividend received		2,002,088	1,501,609
Net cash from investing activities		6,505,157	15,120,952
Net change in cash and cash equivalents		(5,415,892)	7,244,899
Cash and cash equivalents at January 1		48,116,371	40,871,472
Cash and cash equivalents at December 31		42,700,479	48,116,371

See accompanying notes to the financial statements.

1. Reporting entity

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

2. Basis of preparation

(a) Statement of compliance

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

The financial statements were approved by the Board of Directors on August 31, 2020.

(b) Basis of measurement

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

Items	**Measurement Basis**
Financial instruments at FVTPL	Fair value
Financial instruments at FVOCI	Fair value
Investment properties	Fair value

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

2. Basis of preparation (cont'd)

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

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

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

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

- Note 9 - Investment properties
- Note 25 - Financial risk review
- Note 26 - Fair value of financial instruments

Residual values and useful lives of property and equipment

As noted in note 3(f), the residual values and useful life of each asset are reviewed at least at each reporting date and if expectations differ from previous estimates, the change is accounted for as a change in accounting estimate. The assumptions regarding residual values give rise to estimation uncertainty.

3. Significant accounting policies

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

(a) New and amended standards and interpretations

There were new standards and amendments which were applied during the current year, which are required for annual periods beginning on or after January 1, 2019. These standards and amendments did not materially impact the financial statements of The Service. The impact of the standards and amendments is explained below:

IFRS 16 Leases (Effective 1 January 2019)

The standard was issued in January 2016 and is applicable for annual reporting periods commencing on January 1, 2019. The new standard was preceded by IAS 17. Significant changes to the standard apply to lessee accounting, whereby a single lessee accounting model is used to recognise assets and liabilities unless the lease term is one year or under a year or the right of use asset has an immaterial value. Lessor accounting under the new standard is essentially identical to the predecessor standard.

The adoption of the standard did not impact the financial statements of the NIS.

3. Significant accounting policies (cont'd)

(a) New and amended standards and interpretations (cont'd)

Amendments to IFRS 9 Financial Instruments (Effective 1 January 2019)

The amendment relates to prepayable financial assets with prepayment features with negative compensation. Previously, if it was possible for a borrower to prepay an amount that is substantially lower than the amount contractually due, then this instrument did not satisfy the solely payments of principal and interest (SPPI) test. However under the amendment an instrument with a prepayment option can satisfy the SPPI test and can therefore be classified at amortized cost or fair value through other comprehensive income.

The amendment did not have an impact on the current year financial statements of the NIS.

(b) Foreign currency transactions

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

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

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

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising on the translation of the equity instruments classified as FVOCI are recognised in OCI.

(c) Investment in associate

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

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

3. Significant accounting policies (cont'd)

(d) Financial assets and liabilities

(i) Recognition and initial measurement

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

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

(ii) Classification

On initial recognition, a financial asset is classified as measured at:

— amortised cost;

— fair value through other comprehensive income (FVOCI); or

— fair value through profit or loss (FVTPL).

Debt instruments

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

Classification and subsequent measurement of debt instruments depend on:

— The business model for managing the asset; and

— The cash flow characteristics of the asset.

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

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

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

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

3. Significant accounting policies (cont'd)

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

(ii) Classification (cont'd)

Business model assessment

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

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

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

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

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

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

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

Financial liabilities

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

3. Significant accounting policies (cont'd)

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

(iii) Derecognition

Financial assets

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

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

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities.

Financial liabilities

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

(iv) Offsetting

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

(v) Fair value measurement

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

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

3. Significant accounting policies (cont'd)

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

(v) Fair value measurement (cont'd)

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

(vi) Impairment

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

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

Note 25 provides more detail of how the expected credit loss allowance is measured.

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

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

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

3. Significant accounting policies (cont'd)

(e) Investment properties

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

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

(f) Property and equipment

(i) Recognition and measurement

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

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

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

(ii) Reclassification to investment property

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

(iii) Subsequent costs

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

(iv) Depreciation

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

3. Significant accounting policies (cont'd)

(iv) Depreciation (cont'd)

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

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

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

(g) Intangible assets

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

(i) Recognition and measurement

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

(ii) Amortisation

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

(iii) Derecognition

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

(iv) Internally generated intangible assets

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

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

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

- the technical feasibility of completing the intangible asset so that it will be available for use or sale.
- its intention to complete the intangible asset and use or sell it.

3. Significant accounting policies (cont'd)

(g) Intangible assets (cont'd)

(iv) Internally generated intangible assets (cont'd)

(ii) Development phase (cont'd)

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

(h) Impairment

(i) Financial assets

IFRS requires the estimation of expected credit losses which are derived from unbiased and probability weighted estimates. The following assets and disclosures that are applicable to the Service are within the scope of IFRS 9:

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

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

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

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

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

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

3. Significant accounting policies (cont'd)

(h) Impairment (cont'd)

(i) Financial assets (cont'd)

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

(ii) Non-financial assets

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

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

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

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

(i) Contributions receivable

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

(j) Inventories

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

3. Significant accounting policies (cont'd)

(k) Revenue

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

(l) Finance income and expense

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

Finance expense comprises foreign currency losses on investments.

(m) Loan commitments

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

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

For other loan commitments The Service recognises a loss allowance.

Liabilities arising from loan commitments are included within provisions.

4. New and amended standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2019 and earlier application is permitted; however, the Service has not early adopted them in preparing these financial statements.

Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting* (effective January 1, 2020)

The definition of material was changed, the new definition is as follows:

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The previous definition focused on omitting and misstating, however the new definition focuses on obscuring. The view of the IASB is that obscuring material information with information that can be omitted has a similar effect as omitting and misstating. The term 'reasonably' was included to reduce the scope of information that is required to be disclosed and the term 'primary users' was also included to narrow the scope of information.

Early adoption is permitted and amendments must be applied prospectively. An entity is required to make a disclosure if it opts to early adopt.

This amendment is not expected to have a significant impact on the NIS' financial statements.

5. Loans and advances

	2019 $	2018 $
Loans guaranteed by the Government of St. Vincent and the Grenadines	44,485,500	46,989,136
Loans secured by mortgage	55,904,053	57,102,529
Unsecured staff loans	326,631	336,445
	100,716,184	104,428,110
Provision for impairment losses	(15,460,226)	(10,648,307)
	85,255,958	93,779,803

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

	2019 $	2018 $
Balance at January 1	10,648,307	120,518
Effect of adoption of IFRS 9	-	11,335,057
Movements during the year	4,811,919	(807,268)
Balance at December 31	15,460,226	10,648,307

6. Interest receivable on loans and investment securities

	2019 $	2018 $
Interest receivable – investment securities	2,987,875	3,027,015
Interest receivable - loans	10,812,055	7,758,372
	13,799,930	10,785,387

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

	2019 $	2018 $
Balance at January 1	-	1,770,649
Reclassification	-	(1,770,649)
Balance at December 31	-	-

7. Investment securities and deposits

	2019 $	2018 $
Investment securities at FVTPL		
Equities	31,793,440	25,415,159
Investment securities at amortised cost		
Debt securities	195,089,863	184,171,797
Expected credit losses	(24,052,609)	(23,392,076)
	171,037,254	160,779,721
Investment securities at FVOCI		
Debt securities	5,665,227	6,375,416
Expected credit losses	(29,815)	(10,158)
	5,635,412	6,365,258
Equities designated as at FVOCI	50,838,832	45,464,028
	56,474,244	51,829,286
	259,304,938	238,024,166

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

	2019 $	2018 $
Balance at January 1	23,402,234	21,121,808
Effect of adoption of IFRS 9	-	675,548
Charge for the year	4,874,895	1,671,268
Reversal of impairment	(4,194,705)	(66,390)
Balance at December 31 (note 25 (b) (ii))	24,082,424	23,402,234

7. Investment securities and deposits (cont'd)

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

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

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

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

The NIS has investments in fixed deposits classified at amortised cost, in CL Financial Group as at December 31 as follows:

	2019 $	2018 $
Fixed deposits	19,886,683	18,116,034
Payment received	(274,216)	-
Capitalisation of interest receivable	-	1,770,649
Gross carrying value at December 31	19,612,467	19,886,683
Provision for impairment	(18,474,511)	(18,824,282)
Fixed deposits, net	1,137,956	1,062,401
Interest receivable	-	1,770,649
Capitalisation of interest receivable	-	(1,770,649)
Interest receivable, net	-	-

8. Investment in associate

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

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

	2019 $	2018 $
Percentage ownership interest	20%	20%
Total assets	1,126,608,002	1,001,282,839
Total liabilities	(1,001,234,906)	(883,607,125)
Net assets (100%)	125,373,096	117,675,714
NIS' share of net assets, being carrying amount of interest in associate	25,074,619	23,535,138
Revenue	55,495,008	51,150,213
Profit from continuing operations (100%)	14,093,481	12,915,048
Other comprehensive (loss)/income (100%)	53,925	(95,386)
Total comprehensive income (100%)	14,147,406	12,819,662
Balance as at January 1	23,535,138	20,854,534
Net impact of adopting IFRS 9 – share of profit	-	665,599
Net impact of adopting IFRS 9 – OCI	-	(38,928)
Share of profit	2,818,696	2,583,010
Share of OCI	10,785	(19,077)
Dividend received	(1,290,000)	(510,000)
Balance as at December 31	25,074,619	23,535,138

9. Investment properties

	2019 $	2018 $
Balance at January 1	22,716,487	15,811,287
Additions	202,650	6,905,200
Balance at December 31	22,919,137	22,716,487

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

Rental income from investment properties of $1,447,929 (2018: $1,443,171) has been recognised in other income.

9. Investment properties (cont'd)

Measurement of fair values

(i) *Fair value hierarchy*

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

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

(ii) *Valuation technique and significant unobservable inputs*

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

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

10. Inventories

	2019 $	2018 $
Balance at January 1	9,063,908	8,929,497
Acquisitions/Additions	254,805	134,408
Balance at December 31	9,318,713	9,063,905

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

The General Employees Cooperative Credit Union Limited (GECCU) owns property adjoining the lands owned by the NIS. Both parties, the NIS and GECCU, entered into a Memorandum of Understanding (MOU) that establishes a working relationship for the joint planning and physical infrastructural development of the properties owned by the parties (“the Project”). The MOU establishes and defines the Project activities and provides for, among other things, a framework for project administration and cost allocation. The total size of the proposed development is 57.2 acres. GECCU is the owner of 31.2 acres and the NIS owns 26 acres. The parties plan to develop the lands for residential and commercial purposes with the intention of sale in the ordinary course of business.

11. Property and equipment

	Freehold buildings $	Furniture and fixtures $	Office equipment $	Building related equipment $	Computer equipment $	Motor vehicles $	Total $
Cost							
Balance at January 1, 2018	35,212,569	2,103,695	524,300	1,587,128	1,495,449	481,727	41,404,868
Additions	-	14,753	6,945	216,768	206,286	-	444,752
Disposals	-	(15,346)	-	-	-	-	(15,346)
Balance at December 31, 2018	35,212,569	2,103,102	531,245	1,803,896	1,701,735	481,727	41,834,274
Balance at January 1, 2019	35,212,569	2,103,102	531,245	1,803,896	1,701,735	481,727	41,834,274
Additions	-	43,357	20,730	43,254	100,912	-	208,253
Disposals	-	-	-	-	-	-	-
Balance at December 31, 2019	35,212,569	2,146,459	551,975	1,847,150	1,802,647	481,727	42,042,527
Accumulated depreciation							
Balance at January 1, 2018	8,122,586	2,086,502	506,542	872,624	1,321,460	156,425	13,066,139
Depreciation for the year	861,659	6,389	7,440	113,935	127,025	77,269	1,193,717
Disposals	-	(15,346)	-	-	-	-	(15,346)
Balance at December 31, 2018	8,984,245	2,077,545	513,982	986,559	1,448,485	233,694	14,244,510
Balance at January 1, 2019	8,984,245	2,077,545	513,982	986,559	1,448,485	233,694	14,244,510
Depreciation for the year	861,659	10,098	8,806	117,830	103,693	74,720	1,176,806
Disposals	-	-	-	-	-	-	-
Balance at December 31, 2019	9,845,904	2,087,643	522,788	1,104,389	1,552,178	308,414	15,421,316
Carrying amounts							
At December 31, 2018	26,228,324	25,557	17,263	817,337	253,250	248,033	27,589,764
At December 31, 2019	25,366,665	58,816	29,187	742,761	250,469	173,313	26,621,211

12. Intangible assets

	Computer software $
Cost	
Balance at January 1, 2018	1,939,011
Additions	136,733
Balance at December 31, 2018	2,075,744
Balance at January 1, 2019	2,075,744
Additions	156,356
Balance at December 31, 2019	2,232,100
Accumulated amortisation	
Balance at January 1, 2018	1,926,746
Amortisation for the year	44,109
Balance at December 31, 2018	1,970,855
Balance at January 1, 2019	1,970,855
Amortisation for the year	40,034
Balance at December 31, 2019	2,010,889
Carrying amounts	
At December 31, 2018	104,889
At December 31, 2019	221,211

13. Contributions receivable

	2019 $	2018 $
Contributions receivable	15,377,197	14,794,919
Provision for impairment losses	(10,232,347)	(9,829,887)
	5,144,850	4,965,032

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

	2019 $	2018 $
Balance at January 1	9,829,887	6,134,830
Effect of adoption of IFRS 9	-	3,787,508
Change in provision for impairment losses	402,460	(92,451)
Balance at December 31	10,232,347	9,829,887

14. Other assets

	2019 $	2018 $
Prepayments	210,611	251,404
Staff receivables	190,293	137,782
Rent and other receivables	5,145,998	4,935,944
	5,546,902	5,325,130
Provision for impairment losses	(1,589,500)	(1,416,736)
	3,957,402	3,908,394

15. Accounts payable and accrued liabilities

	2019 $	2018 $
Due to BVI Social Security	166,054	98,084
Contributions refundable	77,411	33,637
Accounts payable and accruals	1,538,775	1,679,730
Other payables	35,120	69,676
	1,817,360	1,881,127

16. Reserves

(a) Benefit reserves

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

Apportionment of contribution income

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

Contribution income is allocated as follows:

	2019 %	2018 %
Long-term benefit	85.45	85.45
Short-term benefit	8.25	8.25
Employment injury benefit	6.30	6.30
	100.00	100.00

16. Reserves (cont'd)

(b) National Provident Fund

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

(c) Foreign exchange reserve

Foreign exchange reserve comprises all foreign currency differences arising on translation of debt and equity securities classified as FVOCI.

(d) Fair value reserve

The fair value reserve comprises:

(i) the cumulative net change in the fair value of equity securities designated at FVOCI;

(ii) the cumulative net change in the fair value of debt securities at FVOCI until the assets are derecognized or reclassified. This amount is reduced by the amount of loss allowance; and

(iii) revaluation reserves relating to revaluation of investment properties.

17. Net finance income

	2019 $	2018 $
Interest on loans	5,634,961	6,237,756
Interest income on unimpaired investments	8,644,038	8,529,438
Dividend income on financial assets	2,002,088	1,501,609
Finance income	16,281,087	16,268,803
Net foreign exchange (loss) on investments	(142,592)	(397,072)
Gain/(loss) on disposal of investments	7,485,121	(3,791,889)
Other gains/(losses)	7,342,529	(4,188,961)
Net finance income recognised in profit or loss	23,623,616	12,079,842

18. Other income, net

	2019 $	2018 $
Rental income	1,447,929	1,443,171
Surcharges and other fees	364,180	728,813
	1,812,109	2,171,984

19. Classification of benefits

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

	Short-term benefit		Long-term benefit		Employment injury benefit		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	$	$	$	$	$	$	$	$
Sickness benefit	1,912,587	1,858,001	-	-	-	-	1,912,587	1,858,001
Maternity benefit	1,155,337	1,333,590	-	-	-	-	1,155,337	1,333,590
Maternity grant	310,850	361,680	-	-	-	-	310,850	361,680
Funeral grant	-	-	1,886,246	2,193,872	-	-	1,886,246	2,193,872
Invalidity benefit	-	-	978,385	886,618	-	-	978,385	886,618
Survivor's benefit	-	-	4,498,417	4,854,830	-	-	4,498,417	4,854,830
Age benefit	-	-	54,925,020	50,391,075	-	-	54,925,020	50,391,075
Age grant	-	-	615,685	2,110,993	-	-	615,685	2,110,993
NIS employment injury medical	-	-	-	-	305,061	11,193	305,061	11,193
NIS employment injury	-	-	-	-	137,543	113,343	137,543	113,343
NIS employment disablement	-	-	-	-	91,429	84,117	91,429	84,117
NIS employment death	-	-	-	-	77,086	46,303	77,086	46,303
Non-contributory assistance age pension	-	-	749,930	844,246	-	-	749,930	844,246
Elderly assistance benefit	-	-	338,670	367,256	-	-	338,670	367,256
Total expenditure	3,378,774	3,553,271	63,992,353	61,648,890	611,119	254,956	67,982,246	65,457,117

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

	2019	2018
	$	$
Age benefit	1,952,331	2,048,413
Survivor's benefit	45,032	75,314
Invalidity benefit	16,043	35,164
	2,013,406	2,158,891

20. General and adminstrative expenses

	2019 $	2018 $
Accommodation and travel expenses	307,831	282,714
Advertising and promotion	113,154	138,221
Amortisation expense	40,034	44,109
Annual awards dinner and anniversary celebrations	17,100	10,450
Audit fees	70,350	77,549
Bank charges	112,398	22,510
Cleaning expense	110,400	114,634
Depreciation expense	1,176,806	1,193,717
Directors' fees and expenses	173,565	166,527
Donations, community and education projects	591,489	788,764
Insurance	206,918	205,200
Legal fees	443	9,694
Management fees	738,048	755,173
Miscellaneous expenses	15,515	41,876
Office expenses	36,512	44,217
Postage and stationery	154,580	123,319
Post office charges	48,000	48,000
Professional fees	196,899	60,794
Repairs and maintenance	345,803	257,217
Staff costs (Note 21)	6,352,402	5,878,563
Subscriptions	180,654	189,203
Security	142,505	179,438
Utilities	592,135	510,029
Administrative research and filing services - legal	190	-
	11,723,731	11,141,918

21. Staff costs

	2019 $	2018 $
Salaries and wages	5,484,433	5,158,777
National Insurance contributions	197,783	187,076
Retirement benefit contributions	238,328	241,311
Staff training	136,157	109,919
Uniforms and medical insurance	295,701	181,480
	6,352,402	5,878,563
Number of employees at December 31	94	92

22. Income tax

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

23. Pension plan

The National Insurance Services provides retirement benefits under a defined contribution plan administered by Colonial Life Insurance Company (Trinidad) Limited (CLICO) for all of its employees. Under the provisions of the plan, the National Insurance Services and its employees are required to contribute 6% and 3%, respectively, of the employees' basic monthly salary towards the plan. During the year, National Insurance Services' contribution to the pension plan amounted to $238,328 (2018 $241,311). This amount was charged to profit or loss. The NIS suspended payment directly to CLICO because of the financial instability of the institution effective October 2010. However, the contributions are paid into a deposit account at BOSVG for the benefit of staff.

24. Classification of financial assets and financial liabilities

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

IFRS 9 classification

December 31, 2019	Amortised cost	Fair value through other comprehensive income	Financial asset at fair value through profit/loss	Total
Assets				
Cash and cash equivalents	42,700,479	-	-	42,700,479
Loans and advances	85,255,958	-	-	85,255,958
Interest receivable on investment securities	2,861,047	126,828	-	2,987,875
Interest receivable on loans	10,812,055	-	-	10,812,055
Investment securities and deposits	171,037,254	56,474,244	31,793,440	259,304,938
Contributions receivable	5,144,850	-	-	5,144,850
Other assets	3,957,402	-	-	3,957,402
Total financial assets	321,769,045	56,601,072	31,793,440	410,163,557
Liabilities				
Benefits payable	3,999,344	-	-	3,999,344
Accounts payable and accrued liabilities	1,817,360	-	-	1,817,360
Deferred income	24,040	-	-	24,040
Total financial liabilities	5,840,744	-	-	5,840,744

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

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

25. Financial Risk Review

(a) Introduction and overview

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

- credit risk
- liquidity risk
- market risk

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

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

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

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

(b) Credit risk

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

Exposure to credit risk

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

Management of credit risk

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

- *Formulating credit policies* covering collateral requirements, credit assessment, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval of investments and loans.

25. Financial Risk Review (cont'd)

(b) Credit risk (cont'd)

Management of credit risk (cont'd)

— *Reviewing and assessing credit risk* including assessing all credit exposures in excess of designated limits, prior to funds being committed to new investments. Loans are subject to the same review process.

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

(i) Credit quality analysis IFRS 9

	Stage 1	Stage 2	Stage 3	Total 2019	Total 2018
	$	$	$	$	$
Debt securities measured at amortised cost					
Investment grade	48,504,562	-	-	48,504,562	34,521,890
Non-investment grade	112,291,671	14,681,163	-	126,972,834	123,005,224
Credit impaired	-	-	19,612,467	19,612,467	26,644,683
Gross carrying amount	**160,796,233**	**14,681,163**	**19,612,467**	**195,089,863**	**184,171,797**
Less: loss allowance	(6,201,396)	(1,112,065)	(16,739,148)	(24,052,609)	(23,392,076)
Carrying amount	**154,594,837**	**13,569,098**	**2,873,319**	**171,037,254**	**160,779,721**
Debt securities measured at FVOCI					
Investment grade	5,042,180	-	-	5,042,180	5,042,180
Non-investment grade	-	268,820	-	268,820	1,316,412
Credit impaired	-	-	-	-	-
Gross carrying amount	**5,042,180**	**268,820**	**-**	**5,311,000**	**6,358,592**
Loss allowance	(10,255)	(19,560)	-	(29,815)	(10,158)
Carrying amount – fair value	**5,358,259**	**277,153**	**-**	**5,635,412**	**6,365,258**

25. Financial risk review (cont'd)

(b) Credit risk (cont'd)

(i) Credit quality analysis IFRS 9 (cont'd)

	Stage 1	Stage 2	Stage 3	Total	2018
	$	$	$	$	$
December 31, 2019					
Loans to corporations and public sector measured at amortised cost					
Investment grade	-	-	-	-	-
Non-investment grade	31,646,114	-	-	31,646,114	35,815,278
Credit impaired	-	-	63,725,494	63,725,494	63,725,494
Gross amount	**31,646,114**	**-**	**63,725,494**	**95,371,608**	**99,540,772**
Less: loss allowance	(1,076,506)	-	(14,133,419)	(15,209,925)	(10,497,425)
Carrying amount	**30,569,608**	**-**	**49,592,075**	**80,161,683**	**89,043,347**
Loans to employees measured at amortised cost					
Performing	4,940,663	-	-	4,940,663	4,618,880
Past due but not credit impaired	-	-	-	-	-
Credit impaired	-	-	403,912	403,912	268,458
Gross carrying amount	**4,940,663**	**-**	**403,912**	**5,344,575**	**4,887,338**
Less: loss allowance	(64,690)	-	(185,610)	(250,300)	(150,882)
Carrying amount	**4,875,973**	**-**	**218,302**	**5,094,275**	**4,736,456**
	35,445,581	**-**	**49,810,377**	**85,255,958**	**93,779,803**

25. Financial risk review (cont'd)

(b) Credit risk (cont'd)

(i) Credit quality analysis IFRS 9 (cont'd)

Contributions receivable measured at amortised cost	**2019 $**	**2018 $**
Current	2,633,065	569,897
Past due 0 - 30	47,493	82,961
Past due 31 - 60	53,328	50,125
Past due 61 – 90	44,543	53,229
Non-performing	12,598,768	14,038,707
Gross carrying amount	15,377,197	14,794,919
Less: loss allowance	(10,232,347)	(9,829,887)
Carrying amount	5,144,850	4,965,032

Rent receivables measured at amortised cost	**2019 $**	**2018 $**
Current	5,151	131,436
Past due 0 - 30	1,300	36,028
Past due 31 - 60	82,378	28,192
Past due 61 – 90	(200)	33,469
Non-performing	1,038,043	847,924
Gross carrying amount	1,126,672	1,077,049
Less: loss allowance	(828,327)	(655,563)
Carrying amount	298,345	421,486

(ii) Expected credit loss measurement

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

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

No impairment loss is recognised on equity investments.

25. Financial risk review (cont'd)

(b) Credit risk (cont'd)

(ii) Expected credit loss measurement (cont'd)

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

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

General approach

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

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

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

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

Simplified approach

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

25. Financial risk review (cont'd)

(b) Credit risk (cont'd)

(ii) Expected credit loss measurement (cont'd)

Significant increase in credit risk

For debt securities, the Service assesses significant increase in credit risk based on credit risk migration or back stop criteria. Credit risk migration criteria is reliant on the IFRS 9 low credit risk exemption, which assumes no significant increase in credit risk for investment grade instruments. On the other hand, the backstop criteria is utilised when there is insufficient information to determine credit risk rating.

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

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

Default and credit impaired

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

— Quantitative criteria:

- More than 90 days past due on its contractual payments

— Qualitative criteria:

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

25. Financial risk review (cont'd)

(b) Credit risk (cont'd)

(ii) Expected credit loss measurement (cont'd)

Credit risk curing

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

— Stage 3 debt instruments are reclassified to stage 2 or 1 if the instrument is no longer deemed to be credit impaired. The quantitative and qualitative criteria for both stages 2 and 1 will determine the stage to which the instrument is categorised.

— An instrument classified as stage 2 will be classified as stage 1 when the credit risk is deemed to be low based on the quantitative and qualitative factors.

Expected credit loss model

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

Debt securities

The expected credit loss for debt securities is the product of the Probability of Default, Loss Given Default and Exposure at Default, discounted to the report date using the effective interest rate.

Contribution and rent receivables

The expected credit loss for contribution and rent receivable is the product of the Default rate and the carrying value discounted to the report date using the Service actuarial hurdle rate.

Probability of default

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

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

25. Financial Risk Review (cont'd)

(b) Credit risk (cont'd)

(ii) Expected credit loss measurement

Probability of default (cont'd)

Due to insufficient historical data and supportable information, staff loan default rate is approximated by a variable with a universal scope. In this regard, the Service incorporates non performing loan (NPL) ratios for the banking sector of St Vincent and the Grenadines, published by the Eastern Caribbean Central Bank. To convert the observed NPL ratios into cumulative or lifetime default rates, the Service uses an exponential transformation function.

Default rates for contribution and rent receivables comprise the following:

— Calculation of marginal default rates or roll rates from historical ageing analysis; and
— Exponential transformation of average roll rate to establish a default rate term structure of cumulative or lifetime measures

Exposure at default

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

Loss given default

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

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

25. Financial Risk Review (cont'd)

(b) Credit risk (cont'd)

(ii) Expected credit loss measurement

Probability of default (cont'd)

The table below shows techniques for estimating the LGD:

Approach	**Description**	**Scope**
Asset pricing model LGD	This approach assumes that the spread above risk free rate reflects the recovery rate once the PD is known.	Sovereign Bonds Treasury Bills
Workout LGD	Present value of estimated cash flows resulting from work-out or recovery process	Loans Fixed Deposits
Market-based LGD	Estimates of LGD are derived from recovery rates published by external rating agency	Corporate Bonds

Forward-looking information

To incorporate forward-looking information into the estimate of the ECL, the Service:

— Considers macroeconomic forecasts for indicators such as Unemployment Rate, GDP, Inflation, Debt to GDP, Interest Rates and Credit Spreads from reputable sources to form expectations for input into forecasting model;

— Selects an appropriate stochastic process to produce forecasts of macroeconomic variables over a five-year period; and

— Incorporates multiple scenarios by:

- Examining historical experience;
- Applying an appropriate simulation technique to generate a large of number alternative economic scenarios;
- Selecting economic scenarios that correspond to a 10.0 per cent Downside (10^{th} percentile), a Base Case (50^{th} percentile), and 10.0 per cent Upside (90^{th} percentile), respectively;
- Calculating the likelihood or probability weight of each selected scenarios based on the statistical properties from the distribution of the scenarios;
- Transforming through the cycle PDs into point in time or conditional PDs with an appropriate credit risk model; and
- Appling judgemental overlay or through the cycle PDs when economic forecasts are unreliable or there is an absence of reasonable or supportable input data.

25. Financial risk review (cont'd)

(b) Credit risk (cont'd)

(ii) Expected credit loss measurement

Amount arising from ECLs

	2019				2018
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
Debts securities measured at amortised cost					
Balance at January 1	**1,127,721**	**1,112,619**	**21,151,737**	**23,392,077**	**21,789,194**
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Net remeasurement of loss allowance	3,525,916	(554)	(2,085,133)	1,440,229	1,525,383
New assets originated or purchased	1,675,973	-	-	1,675,973	143,402
Assets derecognised or repaid	(128,214)	-	(2,327,456)	(2,455,670)	(65,903)
Write-offs	-	-	-	-	-
Balance at December 31	**6,201,396**	**1,112,065**	**16,739,148**	**24,052,609**	**23,392,076**
Debts securities measured at FVOCI					
Balance at January 1	**9,004**	**1,154**	**-**	**10,158**	**8,162**
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Net remeasurement of loss allowance	5,894	18,406	-	24,300	(487)
New assets originated or purchased	-	-	-	-	2,483
Assets derecognised or repaid	(4,643)	-	-	(4,643)	-
Write-offs	-	-	-	-	-
Balance at December 31	**10,255**	**19,560**	**-**	**29,815**	**10,158**
	6,211,651	**1,131,625**	**16,739,148**	**24,082,424**	**23,402,234**

25. Financial risk review (cont'd)

(b) Credit risk (cont'd)

(ii) Expected credit loss measurement

Amount arising from ECLs (cont'd)

	2019				2018
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
Loans to corporations and public sector measured at amortised cost					
Balance at January 1	**345,448**	**-**	**10,151,977**	**10,497,425**	**11,194,578**
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Net remeasurement of loss allowance	731,058	-	3,981,442	4,712,500	(728,298)
New assets originated or purchased	-	-	-	-	32,714
Assets derecognised or repaid	-	-	-	-	(1,569)
Write-offs	-	-	-	-	-
Balance at December 31	**1,076,506**	**-**	**14,133,419**	**15,209,925**	**10,497,425**

	2019				2018
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
Loans to employees measured at amortised cost					
Balance at January 1	**40,546**	**-**	**110,337**	**150,883**	**260,997**
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	(1,587)	-	1,587	-	-
Net remeasurement of loss allowance	1,838	-	73,686	75,524	(57,118)
New assets originated or purchased	26,184	-	-	26,184	2,428
Assets derecognised or repaid	(2,291)	-	-	(2,291)	(55,425)
Write-offs	-	-	-	-	-
Balance at December 31	**64,690**	**-**	**185,610**	**250,300**	**150,882**

25. Financial risk review (cont'd)

(b) Credit risk (cont'd)

(ii) Expected credit loss measurement

Amount arising from ECLs (cont'd)

	2019						2018
	Current	**0 - 30**	**31 - 60**	**61 - 90**	**Over 90**	**Total**	**Total**
Contributions receivable							
Balance at January 1	**212,865**	**54,089**	**31,266**	**35,604**	**9,496,063**	**9,829,887**	**9,922,338**
Net remeasurement of loss allowance	979,231	(21,348)	5,906	(4,354)	(556,975)	402,460	(92,451)
Balance at December 31	**1,192,096**	**32,741**	**37,172**	**31,250**	**8,939,088**	**10,232,347**	**9,829,887**
Rent receivables							
Balance at January 1	**64,655**	**21,235**	**17,657**	**20,962**	**531,054**	**655,563**	**646,815**
Net remeasurement of loss allowance	(61,109)	(20,303)	33,654	(20,962)	241,484	172,764	8,748
Balance at December 31	**3,546**	**932**	**51,311**	**-**	**772,538**	**828,327**	**655,563**

25. Financial risk review (cont'd)

(b) Credit risk (cont'd)

(iii) Collateral held and other credit enhancements

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

Type of credit exposure:

	Percentage of exposure that is subject to collateral requirements		
	2019 %	**2018 %**	**Principal type of collateral held**
Loans and advances			
Loans to the Government of St. Vincent and the Grenadines	100	100	Property and Government guarantees
Loans to other statutory bodies	100	100	Property and Government guarantees
Staff loans	99	99	Property and bills of sale
Other	100	100	Property and Government guarantees
Investment debt securities			
Government bonds	-	-	None
Corporate bonds	-	-	None
Contributions receivable	-	-	None

(iv) Concentration of credit risk

The maximum exposure to credit risk by geographic region was:

	Contributions receivable	Interest receivable	Loans and advances	Investment securities and deposits	Total
December 31, 2019					
Domestic	5,144,850	12,527,482	85,255,958	97,836,812	200,765,102
OECS	-	164,388	-	22,977,554	23,141,942
Other Caribbean	-	914,150	-	81,739,034	82,653,184
Other	-	193,910	-	56,751,538	56,945,448
Carrying amount	5,144,850	13,799,930	85,255,958	259,304,938	363,505,676

25. Financial risk review (cont'd)

(b) Credit risk (cont'd)

(iv) Concentration of credit risk (cont'd)

	Contributions receivable	Interest receivable	Loans and advances	Investment securities and deposits	Total
December 31, 2018					
Domestic	4,965,032	9,506,093	93,779,803	102,007,857	210,258,785
OECS	-	83,787	-	18,718,777	18,802,564
Other Caribbean	-	1,093,279	-	77,914,049	79,007,328
Other	-	102,228	-	39,383,483	39,485,711
Carrying amount	4,965,032	10,785,387	93,779,803	238,024,166	347,554,388

The maximum exposure to credit risk by sector was:

	Interest receivable	Loans and advances	Investment securities and deposits	Total
December 31, 2019				
Local government and other related entities	11,768,654	65,533,387	46,563,523	123,865,564
Other governments	923,082	-	47,544,135	48,467,217
Corporate	1,082,641	14,628,296	165,197,280	180,908,217
Employees	25,553	5,094,275	-	5,119,828
Carrying amount	13,799,930	85,255,958	259,304,938	358,360,826
December 31, 2018				
Local government and other related entities	8,737,939	72,277,183	53,771,878	134,787,000
Other governments	1,079,577	-	51,051,743	52,131,320
Corporate	948,615	16,766,164	133,200,545	150,915,324
Employees	19,256	4,736,456	-	4,755,712
Carrying amount	10,785,387	93,779,803	238,024,166	342,589,356

25. Financial risk review (cont'd)

(c) Liquidity risk

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

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

	Carrying amount $	Contractual cash flows $	Under 1 year $	1-5 years $	6-10 years $	Over 10 years $
December 31, 2019						
Non-derivative financial assets						
Cash and cash equivalents	42,700,479	42,700,479	42,700,479	-	-	-
Loans and advances	85,255,958	114,832,633	-	14,614,356	22,304,306	77,913,971
Interest receivable on investment securities	2,987,875	2,987,875	2,987,875	-	-	-
Interest receivable on loans	10,812,055	12,289,826	12,289,826	-	-	-
Investment securities and deposits	259,304,938	307,170,129	105,540,091	52,946,831	71,266,088	77,417,119
Contributions receivable	5,144,850	15,377,197	-	-	15,377,197	-
Other assets	3,957,402	5,546,902	5,546,902	-	-	-
	410,163,557	500,905,041	169,065,173	67,561,187	108,947,591	155,331,090
Non-derivative financial liabilities						
Benefits payable	(3,999,344)	(3,999,344)	(3,999,344)	-	-	-
Accounts payable and accrued liabilities	(1,817,360)	(1,817,360)	(1,817,360)	-	-	-
Deferred income	(24,040)	(24,040)	(9,210)	(14,830)	-	-
	(5,840,744)	(5,840,744)	(5,825,914)	(14,830)	-	-
Net liquidity gap	404,322,813	495,064,297	163,239,259	67,546,357	108,947,591	155,331,090

25. Financial risk review (cont'd)

(c) Liquidity risk (cont'd)

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

Exposure to liquidity risk

The key metric used by the Service for measuring liquidity requirement is the ratio of budgeted contributions income to benefits payable.

25. Financial risk review (cont'd)

(d) Market risk

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

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

	Market risk measure		
	Carrying amount $	**Trading portfolios $**	**Non-trading portfolios $**
December 31, 2019			
Assets subject to market risk			
Cash and cash equivalents	42,700,479	-	42,700,479
Loans and advances	85,255,958	-	85,255,958
Investment securities and deposits	259,304,938	31,793,440	227,511,498
Total	387,261,375	31,793,440	355,467,935

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

25. Financial risk review (cont'd)

(d) Market risk

Currency risk

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

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

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

	December 31, 2019		
	CAD	**TTD**	**Other**
Interest receivable	5,041	256,930	9,369
Investment securities and deposits	2,673,740	5,256,238	1,714,367
Total exposure	2,678,781	5,513,168	1,723,736

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

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

	2019 EC$	**2018 EC$**
1 TTD:	0.3819	0.3868
1 CAD:	2.1473	1.9702

25. Financial risk review (cont'd)

(d) Market risk

Currency risk (cont'd)

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

	2019 EC$		2018 EC$	
	Strengthening	**Weakening**	**Strengthening**	**Weakening**
TTD (10% movement)	551,317	(551,317)	467,040	(467,040)
CAD (10% movement)	267,878	(267,878)	178,803	(178,803)

Interest rate risk

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

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

Fixed rate instruments

	Carrying amount	
	2019 $	**2018 $**
Interest-earning financial assets	264,775,524	263,001,428

Fair value sensitivity analysis for fixed rate instruments

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

26. Fair value of financial instruments

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

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

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

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

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

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

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

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

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

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

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

(a) Financial assets measured at fair value

	Level 1	Level 2	Level 3	Total
December 31, 2019				
Investment securities				
Debt securities	-	5,635,412	-	5,635,412
Equities	43,171,355	37,753,312	1,707,605	82,632,272
	43,171,355	43,388,724	1,707,605	88,267,684

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Investment securities				
Debt securities	-	6,365,258	-	6,365,258
Equities	61,476,435	7,503,692	1,899,060	70,879,187
	61,476,435	13,868,950	1,899,060	77,244,445

(b) Financial assets not measured at fair value

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

27. Regulatory reserves

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

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

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

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

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

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

28. Related parties

(a) Identification of related party

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

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

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

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

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

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

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

28. Related parties (cont'd)

(b) Related Party transactions and balances

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

(c) Transactions with key management personnel

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

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

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

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

28. Related parties (cont'd)

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

	Net transaction values for the year ended December 31		Balance as at December 31	
	2019 $	2018 $	2019 $	2018 $
Loans and advances				
National Lotteries Authority	(580,080)	(543,858)	4,388,104	4,968,184
Bank of St. Vincent and the Grenadines	(2,253,304)	(1,297,253)	14,679,780	16,933,083
Government of St. Vincent and the Grenadines	(919,134)	(3,100,054)	7,614,444	8,533,578
National Student Loan Company	-	-	20,955,860	20,955,860
National Properties Limited	-	(1,669,516)	42,769,635	42,769,635
Staff	457,237	(343,486)	5,344,576	5,075,942
Investments				
Government of St. Vincent and the Grenadines	9,352,249	992,576	64,259,166	54,906,917
Campden Park Container Port	-	-	27,000	27,000
Rent				
Government of St. Vincent and the Grenadines	7,062	5,856	288,521	281,459
Cost of living allowance				
Government of St. Vincent and the Grenadines	289,625	309,203	3,545,708	3,256,083
Contribution income				
Government of St. Vincent and the Grenadines	2,535,922	(851,149)	24,188,047	21,652,125
Interest receivable				
National Lotteries Authority	(779)	(1,473)	12,677	13,456
Bank of St. Vincent and the Grenadines	(6,436)	(5,520)	19,739	26,175
Government of St. Vincent and the Grenadines	(16,949)	(993,398)	105,466	122,415
National Student Loan Company	991,939	114,341	3,025,679	2,033,740
National Properties Limited	2,927,550	(1,921,685)	9,146,438	6,218,888
Staff	6,297	2,514	25,553	19,256
Investment in associate				
Bank of St. Vincent and the Grenadines	1,539,481	2,680,604	25,074,619	23,535,138

28. Related parties (cont'd)

Key management personnel compensation

Key management personnel compensation comprised the following:

	2019 $	2018 $
Short-term employee benefits	499,431	489,600
Post-employment benefits	11,987	11,880
Directors	140,714	141,615
	652,132	643,095

29. Commitments

Capital commitments

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

	2019 $	2018 $
	50,715	179,928

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

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

	2019 $	2018 $
Total off-balance sheet credit commitments	189,959	-

30. Subsequent events

The World Health Organization declared the novel Coronavirus (COVID-19) outbreak a pandemic on March 11, 2020 and in St. Vincent & the Grenadines, cases of the virus were first reported in March 2020. The pandemic and the measures to control its human impact have resulted in disruptions to economic activity and business operations. This could have significant negative financial effects on the Service, depending on factors such as (i) the duration and spread of the outbreak, (ii) the restrictions and advisories from Government,(iii) the effects on the financial markets and (iv) the effects on the economy overall, all of which are highly uncertain and cannot be estimated reliably.

If the financial performance of the Service is impacted because of these things for an extended period, the Service's results may be materially adversely affected.

NATIONAL INSURANCE SERVICES

ADDITIONAL INFORMATION

TO THE

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

KPMG

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ADDITIONAL COMMENTS OF INDEPENDENT AUDITORS

To: The Honourable Minister of Finance
Administrative Building
Kingstown

The accompanying Schedule of Branch Operations is presented as supplementary information only. In this respect, it does not form part of the financial statements of the National Insurance Services for the year ended December 31, 2019 and hence is excluded from the opinion expressed in our report dated August 31, 2020 to the Honourable Minister of Finance on such financial statements.

KPMG

KPMG

Kingstown, St. Vincent and the Grenadines

NATIONAL INSURANCE SERVICES

Schedule of Branch Operations

December 31, 2019

(Expressed in Eastern Caribbean Dollars)

	Short-term Benefit		Long-term Benefit		Employment Injury Benefit		National Provident Fund		Total	Total
	2019 $	2018 $	2019 $	2018 $	2019 $	2018 $	2019 $	2018 $	2019 $	2018 $
Income										
Contributions	5,596,086	5,529,246	57,961,889	57,269,586	4,273,374	4,222,333	-	-	67,831,349	67,021,165
Net financing income	1,479,818	712,295	18,479,365	9,650,312	3,664,433	1,717,235	-	-	23,623,616	12,079,842
Interest on National Provident Fund	(19,074)	(21,115)	(238,188)	(286,067)	(47,232)	(50,904)	304,494	358,086	-	-
Other	382,041	392,287	3,957,023	4,063,142	291,741	299,565	-	-	4,630,805	4,754,994
Total income	7,438,871	6,612,713	80,160,089	70,696,973	8,182,316	6,188,229	304,494	358,086	96,085,770	83,856,001
Expenditure										
Benefits	3,378,774	3,553,271	63,992,353	61,648,890	611,119	254,956	2,013,406	2,158,891	69,995,652	67,616,008
Impairment loss - contributions and rent receivables	47,457	(6,905)	491,529	(71,525)	36,238	(5,273)	-	-	575,224	(83,703)
Impairment loss – investment securities	454,313	47,032	5,673,281	637,192	1,125,005	113,386	-	-	7,252,599	797,610
Administrative expenses	774,729	763,873	10,527,362	10,001,488	421,640	376,557	-	-	11,723,731	11,141,918
Total expenditure	4,655,273	4,357,271	80,684,525	72,216,045	2,194,002	739,626	2,013,406	2,158,891	89,547,206	79,471,833
Net surplus for the year	2,783,598	2,255,442	(524,436)	(1,519,072)	5,988,314	5,448,603	(1,708,912)	(1,800,805)	6,538,564	4,384,168

In Memory of

Hannif Sutherland

National Insurance Services
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