BAKER TILLY
(BVI) LIMITED

SOCIAL SECURITY BOARD

Financial Statements
For the year ended 31 December 2013

SOCIAL SECURITY BOARD

Financial Statements
For the year ended 31 December 2013

Table of Contents

VIRGIN ISLANDS SOCIAL SECURITY BOARD

Board Directory
At 31 December 2013

Members of the Board

Mr. Paul Webster *(Chairperson)*
Mr. Neil Smith *(Deputy Chairperson)*
Mrs. Antoinette Skelton *(Director)*
Ms. Annie Malone-Frett
Mr. Anghel George
Mr. Simon Potter
Mr. Michael Vanterpool

Secretary

Mrs. Jeanette Scatliffe-Boynes *(Deputy Director)*

Registered Office

P.O. Box 698
Road Town, Tortola VG 1110
Virgin Islands

Brokers and Custodians

Scotia McLeod
Scotia Plaza, 6th Floor
40 King Street West
Toronto, Ontario M5H 1H1
Canada

Royal Bank of Canada
Toronto International Branch
Royal Bank Plaza, South Tower
Suite 600, 200 Bay St., P.O. Box 88
Toronto, Ontario M5J 2J2
Canada

UBS Financial Services Inc. of Puerto Rico
AIG – Plaza, Penthouse
250 Muñoz Rivera Avenue
San Juan, Puerto Rico 00918
United States of America

Morgan Stanley
1221 Avenue of the Americas
New York, NY 10020
United States of America

Brokers and Custodians (Cont'd)

Advent Capital Management, LLC
1065 Avenue of the Americas
New York, NY 10018
United States of America

Barclays Capital Inc.
200 Park Avenue, 4th Floor
New York, NY 10166
United States of America

Bankers

First Bank Virgin Islands
Wickhams Cay 1
P.O. Box 435
Road Town, Tortola VG 1110
Virgin Islands

CIBC FirstCaribbean International Bank (Cayman) Limited
Wickhams Cay 1
P.O. Box 70
Road Town, Tortola VG 1110
Virgin Islands

Banco Popular de Puerto Rico
P.O. Box 67
Road Town, Tortola VG 1110
Virgin Islands

Scotiabank (Virgin Islands) Limited
Wickhams Cay 1
P.O. Box 434
Road Town, Tortola VG 1110
Virgin Islands

National Bank of the Virgin Islands Limited
Wickhams Cay 1
P.O. Box 275
Road Town, Tortola VG 1110
Virgin Islands

BAKER TILLY
(BVI) LIMITED
Chartered Accountants
P.O. Box 650
Tropic Isle Building
Nibbs Street
Road Town, Tortola VG 1110
British Virgin Islands
Tel: +1 284 494 5800
Fax: +1 284 494 6565
www.bakertillybvi.com

SOCIAL SECURITY BOARD

INDEPENDENT AUDITOR'S REPORT TO THE AUDITOR GENERAL,

GOVERNMENT OF THE VIRGIN ISLANDS

We have audited the accompanying financial statements of the Social Security Board (the "Board"), which comprise the statement of financial position as at 31 December 2013, and the statements of comprehensive income, changes in the Social Security Fund and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 4 to 26.

This report is made solely to the Auditor General, Government of the Virgin Islands (the "Auditor General"), in accordance with section 16(2)(b) of the Social Security Act (No. 17 of 1979). Our audit work has been undertaken so that we might state to the Auditor General those matters we are required to state to the Auditor General in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Auditor General, for our audit work, for this report, or for the opinion we have formed.

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

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

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

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

Basis for qualified opinion
We draw attention to Note 2(a) to the financial statements. The financial statements include benefits expenses which have been accounted for on a cash basis and not an accrual basis. This treatment is not in accordance with International Accounting Standard 1, "Presentation of Financial Statements."

Qualified opinion
In our opinion, except for the effects of the matter described in the basis for qualified opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Board as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter
The financial statements of the Board as at 31 December 2012 were restated to effect the changes in IAS 19 (as revised in 2011). Refer to note 17.

Baker Tilly (BVI) Limited

Chartered Accountants
28 August 2014
Tortola, British Virgin Islands

SOCIAL SECURITY BOARD

Statement of Financial Position
At 31 December 2013
Expressed in U.S. Dollars

	Note	2013	2012 (restated)	2011 (restated)
Assets				
Cash in hand and balances with banks and brokers		18,507,087	45,018,617	49,212,737
Receivables	4	6,295,578	9,287,160	7,552,943
Financial assets at fair value through profit or loss	5	377,293,216	294,558,900	250,213,737
Financial assets held to maturity	6	98,011,497	97,421,840	93,294,727
Fixed assets	7	2,128,581	1,503,596	1,487,593
Total assets		$ 502,235,959	$ 447,790,113	$ 401,761,737
Liabilities and social security fund				
Liabilities				
Payables		81,335	128,308	109,875
Pension plan liability	8	1,981,456	1,698,215	2,337,560
Total liabilities		2,062,791	1,826,523	2,447,435
Social security fund				
Employment injury benefits branch		15,957,804	14,334,587	12,531,300
Short-term benefits branch		68,337,919	65,673,723	62,342,448
Long-term benefits branch		415,502,794	365,580,797	324,066,537
Total social security fund		499,798,517	445,589,107	398,940,285
Restricted fund				
Joshua Smith Fund	9	374,651	374,483	374,017
Total liabilities and funds		$ 502,235,959	$ 447,790,113	$ 401,761,737

The financial statements on pages 4 to 26 were approved and authorised for issuance by the Members of the Board on 28 August 2014 and signed on their behalf on the same date by:

Chairperson

Director

SOCIAL SECURITY BOARD

Statement of Comprehensive Income
For the year ended 31 December 2013
Expressed in U.S. Dollars

	Note	2013				2012 (restated)
		Employment injury benefits branch	Short-term benefits branch	Long-term benefits branch	Total	Total
Income						
Employee contributions		—	2,518,591	12,245,564	14,764,155	14,446,074
Employer contributions		—	2,527,179	12,287,317	14,814,496	14,444,682
Voluntary contributions		—	5,718	27,801	33,519	34,318
Self-employed contributions		—	33,009	160,494	193,503	200,950
Employment injury scheme		1,865,405	—	—	1,865,405	1,822,381
Total contributions		1,865,405	5,084,497	24,721,176	31,671,078	30,948,405
Realised gain/(loss) on investments		—	—	12,651,082	12,651,082	(250,728)
Change in unrealised gain on investments		—	—	21,349,440	21,349,440	20,902,516
Interest and dividend income		1,100,976	2,347,670	10,313,555	13,762,201	14,107,860
Management fees		(109,880)	(234,303)	(1,029,315)	(1,373,498)	(1,090,573)
Total return on investment		991,096	2,113,367	43,284,762	46,389,225	33,669,075
Other income		48,333	103,065	452,774	604,172	510,670
Total income		2,904,834	7,300,929	68,458,712	78,664,475	65,128,150
Expenses						
Benefits paid		781,460	3,570,220	13,851,414	18,203,094	15,265,334
Administrative expenses		475,584	1,014,114	4,455,108	5,944,806	3,923,369
Depreciation and amortisation	7	12,188	25,989	114,173	152,350	131,090
Total expenses		1,269,232	4,610,323	18,420,695	24,300,250	19,319,793
Net income during the year		1,635,602	2,690,606	50,038,017	54,364,225	45,808,357
Other comprehensive income						
Remeasurement (loss)/gain on defined benefit obligation		(12,385)	(26,410)	(116,020)	(154,815)	840,465
Total comprehensive income		$ 1,623,217	$ 2,664,196	$ 49,921,997	$ 54,209,410	46,648,822

SOCIAL SECURITY BOARD

Statement of Changes in the Social Security Fund
For the year ended 31 December 2013
Expressed in U.S. Dollars

	2013			
	Employment injury benefits branch	**Short-term benefits branch**	**Long-term benefits branch**	**Total**
Balance at 1 January (restated)	14,334,587	65,673,723	365,580,797	445,589,107
Net income during the year	1,635,602	2,690,606	50,038,017	54,364,225
Other comprehensive income for the year	(12,385)	(26,410)	(116,020)	(154,815)
Total comprehensive income	1,623,217	2,664,196	49,921,997	54,209,410
Balance at 31 December	$ 15,957,804	$ 68,337,919	$ 415,502,794	$ 499,798,517

	2012 (restated)			
	Employment injury benefits branch	**Short-term benefits branch**	**Long-term benefits branch**	**Total**
Balance at 1 January (restated)	12,531,300	62,342,448	324,066,537	398,940,285
Net income during the year (restated)	1,736,050	3,187,902	40,884,405	45,808,357
Other comprehensive income for the year (restated)	67,237	143,373	629,855	840,465
Total comprehensive income (restated)	1,803,287	3,331,275	41,514,260	46,648,822
Balance at 31 December (restated)	$ 14,334,587	$ 65,673,723	$ 365,580,797	$ 445,589,107

See note 17 for the impact of adoption of revised accounting policy.

SOCIAL SECURITY BOARD

Statement of Cash Flows
For the year ended 31 December 2013
Expressed in U.S. Dollars

	2013	2012 (restated)
Operating activities		
Total comprehensive income	54,209,410	46,648,822
Adjustments for:		
Depreciation and amortisation	152,350	131,090
Realised (gain)/loss on investments	(12,651,082)	250,728
Change in unrealised gain on investments	(21,349,440)	(20,902,516)
Interest and dividend income	(13,762,201)	(14,107,860)
Management fees	1,373,498	1,090,573
Other income	(604,172)	(510,670)
Operating income before working capital changes	7,368,363	12,600,167
Decrease/(increase) in operating receivables	3,184,577	(882,080)
(Decrease)/increase in payables	(46,973)	18,433
Increase/(decrease) in pension plan liability	283,241	(639,345)
Cash flows from operating activities	10,789,208	11,097,175
Investing activities		
Payments on acquisition of fixed assets	(777,335)	(147,093)
Net purchase of held-for-trading investments	(48,733,794)	(23,693,375)
Net purchase of held-to-maturity investments	(589,489)	(4,126,647)
Net repayment of employee loans	13,439	16,543
Interest and dividend income received	13,555,767	13,239,180
Management fees paid	(1,373,498)	(1,090,573)
Other income received	604,172	510,670
Cash flows from investing activities	(37,300,738)	(15,291,295)
Net decrease in cash and cash equivalents	(26,511,530)	(4,194,120)
Cash and cash equivalents at beginning of year	45,018,617	49,212,737
Cash and cash equivalents at end of year	$ 18,507,087	$ 45,018,617
Cash and cash equivalents comprise:		
Cash in hand	7,353,716	7,316,448
Due from brokers	11,153,371	37,702,169
	$ 18,507,087	$ 45,018,617

1. GENERAL INFORMATION

The Virgin Islands Social Security Board (the "Social Security Board" or "Board"), is a body corporate established in the Virgin Islands under the Social Security Act, Cap. 266. The principal activity of the Board is to administer the operations of the Social Security Fund (the "Fund"). The financial records and statements are maintained and presented in U.S. Dollars, rounded to the nearest dollar.

Contributions to the Fund are, subject to a few exceptions, compulsory for all persons employed in the Virgin Islands between the ages of 15 and 65 years as well as for employers and self-employed persons. Contributions to the Fund are apportioned between the employment injury, short-term and long-term benefits branches. The contribution level is recommended by independent actuaries and is currently 8.5% of insurable earnings capped at $37,944 (2012: $36,936) per annum, with 4.0% being payable by the employee and 4.5% by the employer. Contributions revenue of all employees, with the exception of most Government employees, is apportioned between the employment injury, short and long-term benefits branches of the Board in the ratio of 0.68:1.45:6.37 (Government employees 0.50:0.50:6.50). The contribution level of Government employees is currently 7.5% of insurable earnings.

Disbursements from the employment injury benefits branch are in relation to any benefits associated with that branch. Disbursements from the short-term benefits branch are usually in respect of maternity, sickness and funeral benefits. Disbursements from the long-term benefits branch are usually in respect of survivors', age and invalidity pensions and grants. Administrative costs of the Board are apportioned between the three branches of the Fund on a similar basis to contributions to the Fund.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the Board's financial statements are set out below.

(a) Statement of compliance

The financial statements of the Board have been prepared in accordance with International Financial Reporting Standards ("IFRSs") other than benefits expense which has been recognised on a cash basis rather than on an accrual basis. The treatment of benefits expense is in contravention of IAS 1, "Presentation of Financial Statements." The Members of the Board concluded that the cash basis would be more suitable than the accrual basis due to the expense and delay involved in calculating reliable accruals for benefits expense.

(b) Basis of preparation

The financial statements are prepared on a fair value basis for financial assets and liabilities at fair value through profit or loss. Other financial assets and liabilities are stated at amortised cost.

The accounting policies have been applied consistently by the Board and are consistent with those used in the previous year, except as detailed below.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

(b) **Basis of preparation**

Change in accounting policy due to the application of IAS 19 (revised), "Employee Benefits" ("revised IAS 19")

The Board has applied IAS 19 retrospectively and in accordance with the transitional provisions. The transitional provisions do not have an impact on future periods. The opening statement of financial position of the earliest comparative period presented (1 January 2012) has been restated.

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the "corridor approach" permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a "net interest" amount under the revised IAS 19, which is calculated by applying the discount rate to the net defined benefit liability or asset. Revised IAS 19 also introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures.

See note 17 for the impact of application of revised IAS 19.

There are no other new, revised or amended IFRSs or International Financial Reporting Interpretations Committee ("IFRIC") interpretations that are effective for the first time for the financial period beginning on 1 January 2013 that would be expected to have a material impact on the Board's financial statements.

(c) **Use of estimates**

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions 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. **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

(d) **Financial instruments**

(i) Classification

The Board classified its investments into the following two categories: at fair value through profit or loss and held-to-maturity.

The category of financial assets and financial liabilities at fair value through profit or loss comprises financial instruments held-for-trading. Held-for-trading instruments are those that the Board principally holds for the purpose of short-term profit taking. These include investments in equity securities, convertible securities, corporate bonds and government bonds.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Board has the intent and ability to hold to maturity. These include investments in certificates of deposit at various financial institutions and socio-economic loans advanced to the Government of the Virgin Islands.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets that are classified as loans and receivables include receivables.

Financial liabilities, other than those at fair value through profit or loss, are non-derivative contractual obligations to deliver cash or another financial asset to another entity and include payables, pension plan liability and the Joshua Smith Fund.

(ii) Recognition

The Board recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of an instrument.

The Board accounts for the purchase and sale of financial assets and financial liabilities using trade date accounting. From this date, any gains and losses arising from changes in fair value of financial assets or financial liabilities are recorded.

Financial liabilities are not recognised unless one of the third parties has performed or the contract is a derivative contract not exempted from the scope of IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39").

Held-to-maturity assets are recognised on the date the funds are transferred to the borrower, in the case of socio-economic loans, and in the case of the certificates of deposit, the date the Board commits to purchase these instruments.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

(d) **Financial instruments**

(iii) ***Measurement***

Financial instruments are measured initially at fair value (transaction price) plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately, while on other financial instruments they are amortised.

Subsequent to initial recognition, all instruments classified at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of comprehensive income.

All held-to-maturity assets are measured at amortised cost using the effective interest method.

Financial assets classified as loans and receivables are carried at amortised cost using the effective interest method, less impairment losses (refer to accounting policy (j)), if any.

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective interest method.

(iv) ***Derecognition***

A financial asset is derecognised when the Board loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Held-for-trading assets that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Board commits to sell the assets. The Board uses the average cost method to determine the gain or loss on derecognition.

Held-to-maturity assets are derecognised on the day the principal amounts are received by the Board.

(v) ***Fair value measurement principles***

The fair value of financial instruments at fair value through profit or loss is based on their quoted market prices at the reporting date without any deduction for estimated future selling costs.

If a quoted market price is not available on a recognised stock exchange or from a broker/dealer for non-exchange-traded financial instruments, the fair value of the instrument is estimated using valuation techniques.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

(e) **Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand and balances with banks and brokers, net of overdrafts, and short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

(f) **Fixed assets**

Fixed assets are stated at cost and are depreciated using the straight-line method over their estimated useful lives. Leasehold land is amortised over the term of the lease.

Cost includes expenditure that is directly attributable to the acquisition of the asset, and includes purchase price, import duties, taxes and any directly attributable costs to bring the assets to their working condition and location for their intended use. Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Board. All other expenditure is recognised in the statement of comprehensive income when it is incurred.

The rates of depreciation and amortisation in use are based on the following estimated useful lives:

Leasehold building	33 years
Furniture and equipment	5 – 20 years
Leasehold land	99 years

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation, and any impairment in value are removed from the account and any resulting gain or loss is credited or charged to current operations.

(g) **Income and expenditure recognition**

Contribution income is recognised in the statement of comprehensive income on the accrual basis.

Interest income is recognised in the statement of comprehensive income as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Dividend income relating to exchange traded equity securities is recognised in the statement of comprehensive income on the ex-dividend date, net of withholding taxes, if any.

All other income is recognised in the statement of comprehensive income on the accrual basis.

Benefits expense is recognised on the date payment of benefits is made. All other expenses are recognised on the accrual basis.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

(h) **Leases**

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments and receipts made under operating leases (net of any incentives received) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

(i) **Employee benefits**

The Board's net obligation in respect of defined benefit pension plans is calculated separately by each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Board's obligations and that are denominated in the currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.

The Board must meet the balance of the cost of funding the Pension Fund and the Board must pay contributions at least equal to those paid by members, which are fixed. The funding requirements are based on regular (at least every 3 years) actuarial valuations of the Fund.

In calculating the Board's obligation in respect of its defined benefit pension plan, all actuarial gains and losses are recognised in the statement of comprehensive income. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirement that applies to the Board.

The past service cost, the service cost and the net interest expense for the year is included in the employee benefits expense in the statement of comprehensive income. The remeasurement on the net defined benefit liability is included in the statement of comprehensive income as part of other comprehensive income.

(j) **Impairment losses**

The carrying amounts of the Board's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is estimated as the greater of an asset's net selling price and value in use. An impairment loss is recognised in the statement of comprehensive income whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowance is reversed through the statement of comprehensive income.

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.

2. **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

(k) **Contingent liabilities**

Certain conditions may exist as of the reporting date, which may result in a loss to the Board but which will only be resolved when one or more future events occur or fail to occur. The Directors assess such contingent liabilities, and such assessment inherently involves an exercise of judgment.

If the assessment of a contingency indicates that there is a present obligation as a result of a past event, that it is probable that an outflow of resources will be required to settle the obligation, and the amount of the obligation can be reliably estimated, then the estimated liability is accrued in the Board's financial statements. If the assessment indicates that there is a possible obligation, or it is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, if determinable and material, is disclosed.

Loss contingencies considered remote are generally not disclosed.

(l) **Amended and newly issued accounting standards not yet adopted**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Board; however IFRS 9, Financial Instruments: Classification and Measurement ("IFRS 9") will result in changes in disclosure.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of an instrument.

- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

Expressed in U.S. Dollars

2. **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

(l) **Amended and newly issued accounting standards not yet adopted**

- The concept of 'embedded derivatives' does not apply to financial assets within the scope of this standard and the entire instrument must be classified and measured in accordance with specific guidelines.

- New requirements apply where an entity chooses to measure a liability at fair value through profit or loss. In these cases, the portion of the change in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

The Board currently accounts for its financial assets in accordance with the classification and measurement requirements under IAS 39. Due to the nature of these financial assets, these requirements will remain the same under IFRS 9; however, the adoption may result in additional disclosures to the financial statements upon implementation.

3. **TAXATION**

The Board is deemed to be exempt from the provisions of the Income Tax Act, Cap. 206, of the Territory of the Virgin Islands.

Effective 1 January 2005, the Government of the Virgin Islands, by virtue of the introduction of the Payroll Taxes Act, 2004, which reduced the rate of income tax to zero, effectively abolished income taxes in the Territory. Further, beginning 1 January 2005, the Board became subject to a payroll tax equating to 6% of all salaries, wages and benefits paid to employees.

4. **RECEIVABLES**

	2013	**2012**
Contributions receivable - net of allowance for doubtful accounts of $4,055,773 (2012: $1,458,122)	2,050,466	4,196,788
Interest receivable	2,814,764	2,608,330
Other receivables and prepayments	1,430,348	2,482,042
	$6,295,578	$9,287,160

5. **FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

	2013	**2012**
Financial assets held for trading		
Common shares	160,961,207	116,408,173
Debt securities	216,332,009	178,150,727
Total	$377,293,216	$294,558,900

Expressed in U.S. Dollars

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Cont'd)

The common shares and debt securities are grouped based on their broker, as follows:

	2013		2012	
	Fair value	% of Social Security Fund	Fair value	% of Social Security Fund
Royal Bank of Canada	143,731,587	28.76	99,226,458	22.27
Advent Capital Management, LLC	28,629,912	5.73	23,560,562	5.29
ScotiaMcLeod	22,794,800	4.56	16,253,807	3.65
UBS Financial Services Inc. of Puerto Rico	58,981,944	11.80	50,800,128	11.40
Morgan Stanley Private Wealth Management	62,600,949	12.53	59,695,691	13.40
Barclays Wealth	60,554,024	12.12	45,022,254	10.10
	$377,293,216	75.50	$294,558,900	66.11

6. FINANCIAL ASSETS HELD TO MATURITY

	2013	2012
Certificates of deposit	59,355,619	53,443,758
Socio-economic loans	38,655,878	43,978,082
	$98,011,497	$97,421,840

Certificates of deposit

	2013		
	Fair value	Interest rate	Maturity date
First Bank of the Virgin Islands	8,132,000	1.55%	21.06.14
First Bank of the Virgin Islands	8,221,022	1.55%	19.05.14
First Bank of the Virgin Islands	6,025,000	1.30%	27.09.14
National Bank of the Virgin Islands	9,194,752	2.20%	26.03.14
National Bank of the Virgin Islands	8,539,701	1.75%	22.11.14
National Bank of the Virgin Islands	12,868,493	1.75%	18.09.14
National Bank of the Virgin Islands	6,000,000	1.50%	17.03.14
Scotiabank (Virgin Islands)	374,651	3.00%	12.08.14
	$59,355,619		

Expressed in U.S. Dollars

6. **FINANCIAL ASSETS HELD TO MATURITY** (Cont'd)

Certificates of deposit

	2012		
	Fair value	**Interest rate**	**Maturity date**
Banco Popular de Puerto Rico	13,552,730	1.45%	24.05.13
First Bank of the Virgin Islands	8,000,000	1.65%	21.06.13
First Bank of the Virgin Islands	8,087,112	1.65%	19.05.13
National Bank of the Virgin Islands	8,996,822	2.20%	26.03.13
National Bank of the Virgin Islands	8,355,872	2.20%	22.11.13
National Bank of the Virgin Islands	6,076,739	1.80%	04.03.13
Scotiabank (Virgin Islands)	374,483	0.06%	12.08.13
	$53,443,758		

Socio-economic loans

	2013			2012
	Cost	**Interest rate**	**Maturity date**	**Cost**
Government of the Virgin Islands				
New Peebles Hospital	24,062,500	6.00%	March 2022	26,979,167
Road Improvement Project #2	4,100,878	4.50%	September 2020	4,708,415
Beef Island Airport Project	1,117,500	6.75%	September 2017	1,415,500
Hospital Bridge Loan	9,375,000	6.00%	March 2021	10,875,000
Total socio-economic loans	38,655,878			43,978,082
Less: Receivable within one year	(5,322,204)			(5,322,204)
Receivable outside one year	$33,333,674			$38,655,878

The rates of interest attached to these loans are fixed, with the exception of the Road Improvement Project # 2 and the New Peebles Hospital loans. The Road Improvement Project # 2 loan is at the rate of U.S. Prime less 0.50%, with an interest rate floor of 4.5% and the New Peebles Hospital loan is at the rate of U.S. Prime less 1%, with an interest rate floor of 6%. The loans are secured by a guarantee from the Government of the Virgin Islands.

Expressed in U.S. Dollars

7. FIXED ASSETS

	Leasehold building	Furniture and equipment	Leasehold land	Total
Cost				
At 1 January 2013	2,678,918	1,957,997	118,615	4,755,530
Additions	535,322	242,013	—	777,335
At 31 December 2013	3,214,240	2,200,010	118,615	5,532,865
Accumulated depreciation				
At 1 January 2013	1,485,535	1,721,113	45,286	3,251,934
Charge for the year	86,065	65,087	1,198	152,350
At 31 December 2013	1,571,600	1,786,200	46,484	3,404,284
Net book value				
At 31 December 2013	$1,642,640	$ 413,810	$ 72,131	$2,128,581
At 31 December 2012	$1,193,383	$ 236,884	$ 73,329	$1,503,596

8. PENSION PLAN LIABILITY

The Board operates a defined benefit plan, the assets of which are held in a separate trust, the Social Security Employees Pension Trust (the "SSEPT"). The SSEPT is funded by the payments from employees and by the Board (in accordance with the recommendations of independent qualified actuaries).

The amount recognised in the statement of financial position is determined as follows:

	2013	2012 (restated)
Present value of funded obligations	3,886,083	3,218,709
Fair value of plan assets	(1,877,139)	(1,489,079)
Present value of net obligations	2,008,944	1,729,630
Unrecognised transition cost	(27,488)	(31,415)
Liability in the statement of financial position	$1,981,456	$1,698,215

Expressed in U.S. Dollars

8. PENSION PLAN LIABILITY (Cont'd)

The net expense recognised in the statement of comprehensive income is as follows:

	2013	2012 (restated)
Current service cost	150,507	164,200
Interest cost	98,700	138,048
Transitional liability recognised	3,927	3,927
	$253,134	$306,175

Remeasurements recognised in other comprehensive income were as follows:

Actuarial loss on obligation/adjustments	296,847	(829,623)
Actuarial gain on plan assets	(142,032)	(10,842)
	$154,815	$(840,465)

The movement in the liability recognised in the statement of financial position is as follows:

Opening net liability	1,698,215	2,337,560
Net expense recognised in the statement of comprehensive income	253,135	306,175
Remeasurements recognised in other comprehensive income	154,815	(840,465)
Contributions paid	(124,709)	(105,055)
Closing net liability	$1,981,456	$1,698,215

Significant actuarial assumptions for the determination of the pension fund liability are discount rate and rate of salary increase.

The principal actuarial assumptions used in calculating the pension fund liability are:

Discount rate	6%	6%
Rate of salary increase	4%	4%

A sensitivity analysis was performed by the Actuary for 1% changes in discount rate and salary increases with respect to the pension fund liability and management noted that there would be no material effect to the Fund and total comprehensive income.

9. RESTRICTED FUND

The restricted fund, the Joshua Smith Fund relates to amounts set aside by the Board for the purpose of funding a cancer research program. The assets of the Joshua Smith Fund are held in a certificate of deposit account totalling $374,651 (2012: $374,483).

Expressed in U.S. Dollars

10. LEASE COMMITMENTS

The Board entered into a lease agreement concerning a parcel of land situated on Wickhams Cay 1, Road Town, Tortola VG 1110, Virgin Islands. The lease term is 99 years which commenced on 1 January 1974.

The annual ground rent has been fixed at 1% of the lease premium since inception and is subject to review every five years, with the next review due on 31 December 2015.

The minimum future lease payments are summarised as follows:

	2013	**2012**
Less than 1 year	1,186	1,186
More than 1 year but less than 5 years	4,744	4,744
More than 5 years	64,044	65,230
	$69,974	$71,160

The Board had also sublet a portion of its leasehold property to the National Bank of the Virgin Islands Limited at an annual rent of $nil (2012: $83,181). The agreement ended on 31 December 2012.

11. RELATED PARTY TRANSACTIONS

During the year, the Fund paid payroll costs and other expenses of $384,302 (2012: $187,718) on behalf of National Health Insurance ("NHI"), which is currently financed by the Government of the Virgin Islands. As at 31 December 2013, the Government of the Virgin Islands owed the Fund $40,582 (2012: $39,173).

Also, during the year, the Members of the Board, Investment Committee & Appeals Tribunal received allowances of $122,400 (2012: $121,950) for services rendered to the Fund. Furthermore, two Members of the Board are employed by Social Security Board.

12. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS

Financial assets of the Board include cash in hand and balances with banks and brokers, receivables, financial assets at fair value through profit or loss and financial assets held to maturity. Financial liabilities include payables, pension plan liability and the Joshua Smith Fund.

The nature and extent of the financial instruments outstanding at the reporting date and the risk management policies employed by the Board are discussed below.

(a) Market risk

Market risk embodies the potential for both losses and gains and includes interest rate risk and price risk.

Market risk is managed on a regular basis by the Investment Manager and its overall market positions are monitored by the Board's Investment Committee.

Details of the Board's investment portfolio at the reporting date are disclosed in notes 5 and 6 to the financial statements. All investments in equity securities, convertible securities and bonds, corporate and government bonds, certificates of deposit and socio-economic loans are disclosed separately.

Expressed in U.S. Dollars

12. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS (Cont'd)

(a) Market risk

Interest rate risk

The majority of the Board's financial assets are interest bearing. These interest-bearing financial assets mature or reprice in the short-term, no longer than twelve months.

At 31 December 2013, the interest rate profile of the Board's interest-bearing financial instruments was:

	Carrying amount	
	2013	**2012**
Fixed rate instruments		
Financial assets	$256,160,909	$190,025,591
Variable rate instruments		
Financial assets	$ 58,182,597	$ 90,169,550

The table below summaries the weighted average interest rates for the interest bearing financial instruments:

	2013 %	**2012** %
Held-for-trading investments	3.62	4.50
Certificates of deposit	1.74	2.64
Socio-economic loans	5.85	5.84

In reference to current market interest rates, an approximate change of 9% (2012: 19%) in the interest rates of interest bearing financial instruments, based on the movement of market interest rates of the U.S. monthly Libor rate, with all other variables held constant, would have changed the statement of comprehensive income by $1,211,268 (2012: $2,738,234).

Price risk

Price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

As the majority of the Board's financial instruments are carried at fair value with fair value changes recognised in the statement of comprehensive income, all changes in market conditions will directly affect net investment income.

The following table details the breakdown of financial instruments carried at fair value held by the Board as a percentage of the Social Security Fund:

	2013 %	**2012** %
Financial assets held for trading	75.50	66.11

Expressed in U.S. Dollars

12. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS (Cont'd)

(a) Market risk

Price risk

In reference to current market prices, an approximate change of 9% (2012: 6%) in the price of held-for-trading investments, based on movement of the S&P 500, with all other variables held constant, would have changed the statement of comprehensive income by $35,247,298 (2012: $16,286,065).

(b) Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if financial instrument counterparties failed to perform as contracted.

The extent of the Board's exposure to credit risk in respect of these financial assets approximates their carrying values as recorded in the Board's statement of financial position.

As at 31 December 2013, the Board's financial assets exposed to credit risk amounted to the following:

	2013	2012
Cash in hand and balances with banks and brokers	18,507,087	45,018,617
Receivables	6,295,578	9,287,160
Held-for-trading investments	377,293,216	294,558,900
Held-to-maturity investments	98,011,497	97,421,840
	$500,107,378	$446,286,517

The Board's balances with banks and brokers, interest receivable and investments are with various financial institutions and organisations. Credit risk on employee loans is limited, since the amount is and will be deducted periodically from remuneration and other amounts due to that employee.

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered small due to the short settlement periods involved.

The contributions receivable from defaulters were from those employers who had not paid at least three monthly contributions. To reduce exposure to credit risk from the defaulters' contributions, the Board performs monthly inspections of collections from defaulters.

The ageing of the Board's contributions receivable as at 31 December 2013 was as follows:

	2013		2012	
	Gross	Impairment	Gross	Impairment
Current	-	-	110,425	-
3 – 6 months	644,214	-	4,089,324	2,961
Over 6 months	5,462,025	4,055,773	1,455,161	1,455,161
	$6,106,239	$4,055,773	$5,654,910	$1,458,122

Expressed in U.S. Dollars

12. **FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS** (Cont'd)

(b) **Credit risk**

The movement in the allowance for doubtful accounts as at 31 December 2013 is as follows:

	2013	2012
Balance at 1 January	1,458,122	926,245
Additional allowance	2,597,651	531,877
Balance at 31 December	$4,055,773	$1,458,122

(c) **Liquidity risk**

The Social Security Act provides for the regular settlement of claims made by persons employed in the Virgin Islands and it is therefore exposed to liquidity risk of meeting such claims at any time.

The Board's investment in socio-economic loans is dependent on the borrower's ability to pay and generally may be illiquid. As a result, the Board may not be able to liquidate quickly some of its investments in this instrument type at an amount close to its fair value in order to meet its liquidity requirements.

The Board's equity investments are considered to be readily realisable as they are all listed on North American stock exchanges.

13. **FAIR VALUE INFORMATION**

Many of the Board's financial instruments are carried at fair value on the statement of financial position. Usually, the fair value of financial instruments can be reliably determined within a reasonable range of estimates. For certain of the Board's financial instruments not carried at fair value, including cash in hand and balances with banks and brokers, receivables and payables, the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments. The Joshua Smith Fund is carried at amortised cost.

The major methods and assumptions used in estimating the fair value of financial instruments are disclosed in note 2(d) of the significant accounting policies section.

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore, cannot be determined with absolute precision. Changes in assumptions could significantly affect the estimates.

The Board adopted the amendment to IFRS 7 which requires the Board to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Expressed in U.S. Dollars

13. **FAIR VALUE INFORMATION** (Cont'd)

The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level of input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgment by the Board. The Board considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following table analyses within the fair value hierarchy the Board's financial assets (by class) measured at fair value at 31 December 2013:

	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Held-for-trading investments:				
Common shares	160,961,207	-	-	160,961,207
Debt securities	216,332,009	-	-	216,332,009
Total	$377,293,216	$ -	$ -	$377,293,216

The following table analyses within the fair value hierarchy the Board's financial assets (by class) measured at fair value at 31 December 2012:

	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Held-for-trading investments:				
Common shares	116,408,173	-	-	116,408,173
Debt securities	178,150,727	-	-	178,150,727
Total	$294,558,900	$ -	$ -	$294,558,900

At the reporting date, the Board had financial assets categorised as held for trading at a cost of $336,022,160, (2012: $274,637,284) and a fair value of $377,293,216 (2012: $294,558,900).

14. CAPITAL RISK MANAGEMENT

The capital of the Board is represented by the Social Security Fund. The Board's objective when managing capital is to safeguard the Board's ability to continue as a going concern in order to provide benefits to all those entitled.

The Board's policies and processes in managing the Social Security Fund are described in note 1.

The Members of the Board monitor capital on the basis of the value of the Social Security Fund.

The Board is not subject to regulatory imposed capital requirements.

15. ACTUARIAL REVIEW

In accordance with section 17 of the Social Security Act, the Board commissioned its eleventh actuarial review as of 31 December 2012 which was carried out by Derek Osborne of Horizonnow Consultants Ltd., Nassau, Bahamas who submitted his report to the Board on 2 September 2013. The review covered the operations of the Board for the period from 1 January 2010 to 31 December 2012.

The report stated that:

- the data on which the projections and analysis were based were sufficient for the nature of the projections;
- the assumptions used were, in the aggregate, reasonable and appropriate; and,
- the methodology employed was appropriate and consistent with sound actuarial principles.

The main recommendations of the report, for the Board's consideration, addressed the following matters:

a) consider a new approach to how self-employed persons contribute;
b) consider changing the formula for annual wage ceiling adjustments from price inflation to price inflation plus 1%;
c) increase all minimum pension rates by 10%, and then, starting January 2014, adjust these on the same basis as currently used for pensions;
d) consider the payment of invalidity benefit to disabled persons who earn minimal wages;
e) increase the contribution rate paid by civil servants from 7.5% to 8.0% so that the difference between the rates paid by private and public sector workers better reflects the extra benefit available to private sector workers; and,
f) establish Good Governance Guidelines in line with those developed by the International Social Security Association (ISSA).

The Board's next actuarial review is due as of 31 December 2015

16. COMPARATIVES

Certain comparative figures have been reclassified to conform with the present year's presentation.

See note 17 for the effects of the restatement due to the Board's application of revised IAS 19 for the year ended 31 December 2012.

Expressed in U.S. Dollars

17. IMPACT OF ADOPTION OF REVISED ACCOUNTING POLICY

The Board has adopted IAS 19 (as revised in 2011) retrospectively for which the Board has adjusted the `opening equity as of 1 January 2012 and the figures for 2012 have been restated as if revised IAS 19 had always been applied.

	Pension fund liability	Retained earnings
Balance as reported at 1 January 2012	903,668	400,374,177
Effect of application of revised IAS 19	1,433,892	(1,433,892)
Restated balance at 1 January 2012	$2,337,560	$398,940,285

	Pension fund liability	Retained earnings
Balance as reported at 31 December 2012	1,122,084	446,165,238
Effect of application of revised IAS 19	576,131	(576,131)
Restated balance at 31 December 2012	$1,698,215	$445,589,107

The effect on the statement of comprehensive income was as follows:

	2013	2012
Decrease in employee benefit expense	128,426	17,296
Increase in remeasurement gains	154,815	840,465
Increase in total comprehensive income	$283,241	$857,761