FINANCIAL SERVICES COMMISSION · ANGUILLA ·

ANGUILLA FINANCIAL SERVICES COMMISSION
Annual Report and Accounts 2011

Anguilla's licensing and regulatory body for the financial services industry

OUR MISSION

To enhance the safety, stability and integrity of Anguilla's financial system and contribute to Anguilla being a premier financial centre, through appropriate regulation and legislation, judicious licensing, comprehensive monitoring and good governance.

ANGUILLA FINANCIAL SERVICES COMMISSION

Financial Statements

December 31, 2011

(expressed in United States dollars)

ANGUILLA FINANCIAL SERVICES COMMISSION
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2011
CERTIFICATE OF AUDIT AND REPORT OF THE CHIEF AUDITOR

Section 61(2) of the Financial Administration and Audit Act (Revised Statutes of Anguilla Chapter F27, revised as at December 2008)(the Act) permits me, as Chief Auditor, to accept the audit of the accounts and financial statements of a government agency by an independent auditor of the government agency if the appointment of the auditor has been approved by me, and the audit of the government agency has been performed in accordance with my directions.

After I accept the audit of the accounts and financial statements of a government agency by an independent auditor, Sections 61(6) and (7) of the Act require me to issue a certificate of audit and prepare a report that evidence the acceptance of the audit of the independent auditor, and to send the certificate of audit and report to the government agency, to the minister responsible for the government agency and to the Minister of Finance.

Section 16 of the Financial Services Commission Act 2003 requires the Financial Services Commission to submit to the Governor a copy of its audited accounts, including the report of the auditor on the accounts, and a report on its operations and activities for the financial year (the annual report). The Governor is required, as soon as is reasonably practicable, to cause them to be tabled in the House of Assembly.

The appointment of PriceWaterhouseCoopers (PwC) as the independent auditor of the Financial Services Commission was approved by me. PwC were directed to undertake their audit in accordance with appropriate auditing standards, and I accept their audit of the Commission's financial statements for the year ended 31 December 2011.

As recorded in their Auditors' Report, PwC have audited the financial statements of the Financial Services Commission as of 31 December 2011, which comprise the statement of financial position as of 31 December 2010, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The Commission's management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards. PwC's responsibility is to express an opinion on the financial statements based on their audit.

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

In PwC's opinion, the financial statements present fairly, in all material respects, the financial position of the Anguilla Financial Services Commission as of 31 December 2011 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

I have no observations to make on these financial statements.

M L Daynes
Chief Auditor
24 July 2012

INDEPENDENT AUDITORS' REPORT

To the Chief Auditor of Anguilla

We have audited the accompanying financial statements of the Anguilla Financial Services Commission (the "Commission"), which comprise the statement of financial position as of December 31, 2011, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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.

Auditors' 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 about 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 auditors' judgement, 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 auditors consider 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 audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Anguilla Financial Services Commission as of December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Chartered Accountants
June 22, 2012
Basseterre, St. Kitts

PricewaterhouseCoopers refers to the Eastern Caribbean firm of PricewaterhouseCoopers a. A full listing of the partners of the Eastern Caribbean firm is available on request at the above address.

Anguilla Financial Services Commission
Statement of Financial Position
As of December 31, 2011

(Expressed in United States dollars)

	2011 $	2010 $
Assets		
Non-current assets		
Property and equipment (note 6)	**37,571**	30,924
Intangible assets (note 5)	**75,000**	60,000
	112,571	90,924
Current assets		
Investments (note 8)	**1,778,325**	1,398,476
Other assets (note 9)	**65,830**	15,163
Accounts receivable (note 10)	**4,534**	7,822
Cash and cash equivalents (note 7)	**930,216**	1,072,241
	2,778,905	2,493,702
Total assets	**2,891,476**	2,584,626
Equity		
Accumulated reserves	**2,149,117**	1,880,252
Liabilities		
Current liabilities		
Statutory deposits (note 12)	**441,323**	405,679
Deferred revenue (note 13)	**219,667**	239,617
Accounts payable and accrued expenses (note 11)	**81,369**	59,078
Total liabilities	**742,359**	704,374
Total liabilities and equity	**2,891,476**	2,584,626

The notes on pages 24 to 39 are an integral part of these financial statements.

Approved by the Board of Members on June 22, 2012

Member **Member**

Statement of Comprehensive Income
For the year ended December 31, 2011

(Expressed in United States dollars)

	2011 $	2010 $
Revenues		
Licence fees	**1,062,713**	1,075,744
Interest income	**73,592**	66,245
Other income	**3,349**	2,738
	1,139,654	1,144,727
Operating expenses		
Payroll and related costs (note 14)	**569,552**	426,943
Maintenance/technical support	**59,474**	22,642
Professional service fees	**48,975**	62,118
Travel and subsistence (note 15)	**48,748**	38,908
Subscriptions	**33,380**	26,867
Board members' allowances	**29,096**	30,156
Bad debts written off	**28,150**	39,200
Annual meeting	**12,000**	14,016
Office supplies	**9,580**	4,753
Depreciation (note 6)	**9,034**	6,742
Audit fees	**7,000**	6,000
Cleaning	**6,000**	6,000
Other expenses	**4,834**	2,390
Entertainment	**2,453**	2,719
Communications	**1,851**	1,807
Bank charges	**662**	406
Disposal of plant and equipment	**–**	1,843
	870,789	693,510
Surplus for the year	**268,865**	451,217
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year	**268,865**	451,217

The notes on pages 24 to 39 are an integral part of these financial statements.

(Expressed in United States dollars)

	Accumulated reserves $
Balance as of December 31, 2009	**1,437,656**
Comprehensive income for the year	**451,217**
Contribution to the Government of Anguilla (note 16)	**(8,621)**
Balance as of December 31, 2010	**1,880,252**
Comprehensive income for the year	**268,865**
Balance as of December 31, 2011	**2,149,117**

The notes on pages 24 to 39 are an integral part of these financial statements.

Statement of Cash Flows
For the year ended December 31, 2011

(Expressed in United States dollars)

	2011 $	2010 $
Cash flows from operating activities		
Surplus for the year	268,865	451,217
Item not affecting cash:		
Interest income	(73,592)	(66,245)
Accounts receivable written off	28,150	39,200
Depreciation (note 6)	9,034	6,742
Loss on disposal of property and equipment	–	1,843
	232,457	432,757
Changes in operating assets and liabilities:		
Increase in accounts receivable	(24,862)	(39,983)
(Increase)/decrease in other assets	(50,667)	4,466
Increase in accounts payable and accrued expenses	22,291	7,022
Increase in statutory deposits	35,644	405,679
Decrease in deferred revenue	(19,950)	(73,774)
Cash generated from operations	194,913	736,167
Interest received	65,409	72,946
Net cash from operating activities	260,322	809,113
Cash flows from investing activities		
Purchase of intangible assets	(15,000)	(60,000)
Purchase of property and equipment	(15,681)	(19,864)
(Decrease)/increase in investments	(371,666)	33,875
Net cash used in investing activities	(402,347)	(45,989)
Cash flows from financing activities		
Contribution to the Government of Anguilla	–	(8,621)
Net cash used in financing activities	–	(8,621)
Net (decrease)/increase in cash and cash equivalents	(142,025)	754,503
Cash and cash equivalents at beginning of the year	1,072,241	317,738
Cash and cash equivalents at end of the year (note 7)	930,216	1,072,241

The notes on pages 24 to 39 are an integral part of these financial statements.

(Expressed in United States dollars)

1. General information

Incorporation and principal activity

The Anguilla Financial Services Commission ("the Commission") was established under the Financial Services Commission Act Revised Statues and Regulation Act (R.S.A.c.) F28 on November 26, 2003 and it commenced operations on February 2, 2004 in the Valley, Anguilla, BWI.

The principal activity of the Commission is to regulate the financial services industry in Anguilla in accordance with the prescribed financial services enactments and to carry out such other functions as are determined under section 3 of the Financial Services Commission Act.

2. Significant accounting policies

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

a) Basis of preparation

The financial statements of the Commission have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). They have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates. The areas involving a higher degree of judgement and complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

New and amended standards adopted by the Commission

Certain new standards, interpretations and amendments to existing standards have been published that become effective during the current financial year. The Commission has assessed the relevance of such new standards, interpretations and amendments and has concluded that these will not be relevant.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2011 and not early adopted

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of the IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is 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 the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Commission is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on January 1, 2013.

(Expressed in United States dollars)

2. **Significant accounting policies** *...continued*

a) Basis of preparation *... continued*

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2011 and not early adopted

- IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Commission is yet to assess IFRS13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on January 1, 2012.

b) Property and Equipment

Property and equipment are stated at historical cost, less accumulated depreciation and impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Commission and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is computed using the straight-line method to allocate the cost of each asset to their residual values, over the estimated useful lives.

Furniture and fittings	5-10 years
Computers and equipment	5-10 years

The asset's residual values and useful lives are reviewed and adjusted if appropriate at each statement of financial position date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of changes in accumulated reserves.

c) Intangible assets

Computer software
Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of five years.

Costs associated with maintaining computer software programmes are recognised as an expense when incurred.

Intangible assets which are not completed are classified as work-in-progress. Work-in-progress is not depreciated. On completion of the database, the relevant amounts would be transferred to intangible assets.

(Expressed in United States dollars)

2. **Significant accounting policies** *...continued*

d) Accounts receivable

Accounts receivable are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of accounts receivables is established when there is objective evidence that the Commission will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the accounts receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the market rate of interest for similar borrowers. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

e) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents comprise cash at bank and in hand, deposits held at call with banks, and other short term highly liquid investments with maturities at acquisition of three months or less.

f) Foreign currency transactions

Functional and presentation currency
Items included in the financial statements of the Commission are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Commission's functional and presentation currency is United States dollars.

Transaction and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in currencies other than the functional currency are reported at the exchange rates prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the statement of changes in accumulated reserves.

g) Revenue recognition

Licence fees

Licence fees comprise of amounts collected from companies licensed by the Commission. Revenue is recognised when the licence fees are due.

Interest income

Interest income is recognised in the statement of comprehensive income for all interest bearing instruments on an accruals basis using the effective interest method based on actual purchase price. Interest income includes income earned on cash and cash equivalents and term deposits.

(Expressed in United States dollars)

2. **Significant accounting policies** *...continued*

h) Financial assets

(i) Classification

The Commission classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Commission's loans and receivables comprise 'accounts receivable and prepayments' and 'cash and cash equivalents' in the statement of financial position.

(iii) Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Commission commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for loans and receivables. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Commission has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

(iv) Off setting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(v) Impairment of financial assets carried at amortised cost

The Commission assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Commission uses to determine that there is objective evidence of an impairment loss include:

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the Commission, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- (iv) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation
- (v) the disappearance of an active market for that financial asset because of financial difficulties; or

(Expressed in United States dollars)

2. **Significant accounting policies** *...continued*

h) Financial assets *... continued*

(v) Impairment of financial assets carried at amortised cost ... continued

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
- adverse changes in the payment status of borrowers in the portfolio; and
- national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Commission first assesses whether objective evidence of impairment exists.

For the loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the commission may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

i) Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

j) Provisions

Provisions are recognised when the Commission has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made.

(Expressed in United States dollars)

2. **Significant accounting policies** *...continued*

k) Employee benefits

Pension costs

The Commission's contribution to the Government's defined benefit pension plan is charged to the statement of comprehensive income in the period to which the contributions relate. The Commission does not have its own pension plan and its pension costs are limited to contributions made.

Post-employment obligations

The Commission recognizes a liability and an expense for gratuity due to its employees based on the terms of the employment contracts.

3. Financial Risk Management

3.1 Financial risk factors

The Commission's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Commission's overall risk management programme seeks to minimise potential adverse effects on the Commission's financial performance.

Risk management is carried out by management under policies approved by the board of directors. The Board identifies and evaluates financial risks in close cooperation with the Commission's management.

a) Market risk

The Commission takes on exposure to market risks, which is the risk that the fair value of cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open position in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

i) Currency risk

Substantially all of the Commission's transactions and assets and liabilities are denominated in either Eastern Caribbean dollars or United States dollars. Currency risk arises when future commercial transactions or recognized assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Commission's exposure to currency risk is limited as its transactions are mainly denominated in United States or Eastern Caribbean dollars. The exchange rate of the Eastern Caribbean dollar (EC$) to the United States dollar (US$) has been formally pegged at EC$2.70 = US$1.00 since July 1976. Management does not believe significant foreign exchange risk exists as of December 31, 2011.

(Expressed in United States dollars)

3. Financial Risk Management *... continued*

3.1 Financial risk factors *... continued*

ii) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Commission takes on exposure to the effects of fluctuations in the prevailing level of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event unexpected movements arise. The Commission's financial assets and liabilities are non-interest bearing with the exception of loans and receivables which earn interest based on market rates as disclosed in notes 7 and 8.

iii) Price risk

The Commission has no investments held or classified as available-for-sale or at fair value through profit or loss, and thus is not exposed to cash flow equity securities price risk. The Commission is not exposed to commodity price risk.

b) Credit risk

Credit risk arises from the possibility that counterparties may default on their obligations to the Commission. The Commission's credit risk arises from cash and cash equivalents, accounts receivable and loan receivables. The Commission uses internal ratings, assessment of credit quality of counterparty, taking into account its financial position, past experience and other factors. Any losses expected from non-performance from these counterparties are provided for through the use of an allowance for impairment account. Accordingly, the Commission's maximum exposure to credit risk is indicated by the carrying amount of its financial assets.

All financial assets such as cash and cash equivalents, investments and accounts receivables are categorized as neither past due nor impaired in 2011 and 2010.

(Expressed in United States dollars)

3. Financial Risk Management ... *continued*

3.1 Financial risk factors ... *continued*

b) Credit risk... *continued*

Credit Quality

The tables below show the credit quality of Commission's financial assets that are neither past due nor impaired:

	High Grade $	Standard Grade $	Total $
December 31, 2011			
Cash and cash equivalents	**930,216**	**–**	**930,216**
Investments	**1,778,325**	**–**	**1,778,325**
Accounts receivable	**–**	**4,534**	**4,534**
	2,708,541	**4,534**	**2,713,075**
December 31, 2010			
Cash and cash equivalents	1,072,241	–	1,072,241
Investments	1,398,476	–	1,398,476
Accounts receivable	–	7,822	7,822
	2,470,717	7,822	2,478,539

The credit qualities of financial assets were determined as follow:

- Cash and cash equivalents and investments are only placed with well-known banks and financial institutions. The credit quality of these financial assets is considered to be of high grade.
- Accounts receivables are standard grade financial instruments with satisfactory financial capability and credit standing but with some elements of risks where certain measure of control is necessary in order to mitigate risk of default.

(Expressed in United States dollars)

3. Financial Risk Management ... *continued*

3.1 Financial risk factors ... *continued*

c) Liquidity risk

Liquidity risk is the risk that the Commission is unable to meet its payment obligations associated with its financial liabilities when they fall due. In order to manage liquidity risks, management seeks to maintain sufficient levels of cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities, to meet reasonable expectation of its short-term obligations.

The following tables analyses the Commission's financial liabilities in relevant maturity grouping based on the remaining period at the statement of financial position date to the contractual maturity date.

	Less than 1 Year $
At December 31, 2011	
Accounts payable and accrued expenses	**81,369**
Statutory deposit	**441,323**
Deferred revenue	**219,667**
Total liabilities	**742,359**
Total assets held for liquidity purposes	**2,753,063**
Net liquidity gap	**(2,010,704)**
At December 31, 2010	
Accounts payable and accrued expenses	**59,078**
Statutory deposit	**405,679**
Deferred revenue	**239,617**
Total liabilities	**704,374**
Total assets held for liquidity purposes	**2,479,739**
Net liquidity gap	**(1,775,365)**

(Expressed in United States dollars)

3. Financial Risk Management *... continued*

3.2 Fair value estimation of financial assets and liabilities

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market value, if one exists. None of the Commission's financial assets and liabilities are traded in a formal market. Estimated fair values are assumed to approximate their carrying values of the Commission's financial assets and liabilities due to their short term nature.

3.3 Capital risk management

The Commission's objectives when managing capital are to safeguard the Commission's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to optimise the cost of capital.

4. Critical accounting estimates and judgements

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

The Commission makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Management does not consider that there are estimates and assumptions that will have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

5. Intangible assets

In 2010, the Commission entered into an agreement with AXSO Global Inc. to provide services in respect of the implementation of the SIGMA Reporting and Analytics System. As at December 31, 2010, the SIGMA Reporting and Analytics System was in the development phase and costs amounted to $60,000. In 2011, the system was fully paid but not yet in operation.

(Expressed in United States dollars)

6. Property and equipment

	Computers and Equipment $	Furniture and Fittings $	Total $
Year ended December 31, 2010			
Opening net book value	8,771	10,874	19,645
Additions	5,813	14,051	19,864
Write back of depreciation	4,307	800	5,107
Disposal	(4,307)	(2,643)	(6,950)
Depreciation charge	(3,867)	(2,875)	(6,742)
Closing net book amount	**10,717**	**20,207**	**30,924**
As at December 31, 2010			
Cost	28,226	29,765	57,991
Accumulated depreciation	(17,509)	(9,558)	(27,067)
Net book amount	**10,717**	**20,207**	**30,924**
Year ended December 31, 2011			
Opening net book value	10,717	20,207	30,924
Additions	9,798	5,883	15,681
Write back of depreciation	8,124	1,191	9,315
Disposal	(8,124)	(1,191)	(9,315)
Depreciation charge	(5,958)	(3,076)	(9,034)
Closing net book amount	14,557	23,014	37,571
As at December 31, 2011			
Cost	**38,024**	**35,648**	**73,672**
Accumulated depreciation	**(23,467)**	**(12,634)**	**(36,101)**
Net book amount	**14,557**	**23,014**	**37,571**

(Expressed in United States dollars)

7. Cash and cash equivalents

	2011 $	2010 $
Operating bank accounts	**752,512**	705,200
3 month term deposits held at National Bank of Anguilla Ltd, maturing on March 9, 2012 bearing interest 3% per annum	**177,628**	366,847
	930,140	1,072,047
Interest receivable	**76**	194
Total cash	**930,216**	1,072,241

The operating bank accounts are held with National Bank of Anguilla and bear interest at a rate of 1% per annum (2010: 1%).

(Expressed in United States dollars)

8. Investments

	2011 $	2010 $
Loans and receivables		
One (1) year term deposit held at National Bank of Anguilla Ltd, maturing on March 22, 2012 bearing interest at a rate of 3.5% per annum (2010: 3.5%)	**914,105**	883,194
One (1) year term deposit held at National Bank of Anguilla Ltd, maturing November 19, 2012 and bearing interest at a rate of 3.5% per annum (2010: 3.5%)	**186,260**	179,961
One (1) year term deposit held at National Bank of Anguilla Ltd, maturing November 19, 2012 and bearing interest at a rate of 3.5% per annum (2010: 3.5%)	**164,329**	158,772
One (1) year term deposit held with First Caribbean International Bank, maturing on October 15, 2012 bearing interest at a rate of 3% per annum (2010: 3.5%)	**154,500**	150,000
One (1) year term deposit held with First Caribbean International Bank, maturing on April 9, 2012 bearing interest at a rate of 3% per annum	**324,399**	–
	1,743,593	1,371,927
Interest receivable	**34,732**	26,549
Total investments	**1,778,325**	1,398,476

(Expressed in United States dollars)

9. Other assets

	2011 $	2010 $
Downpayment for purchase of property and equipment	**37,588**	–
Prepayments	**25,842**	13,963
Housing deposits	**2,400**	1,200
Total other assets	**65,830**	15,163

10. Accounts receivable

Accounts receivable consists of amounts outstanding for licence fee as at December 31, 2011 and 2010.

11. Accounts payable and accrued expenses

	2011 $	2010 $
Accrued expenses	**67,233**	37,727
Trade payables	**7,868**	7,223
Accrued gratuity	**6,268**	14,128
Total accounts payable and accrued expenses	**81,369**	59,078

12. Statutory Deposits

Section 8 (1) of the Insurance Act, R.S.A.c. I16 requires that a license undertaking domestic insurance business shall maintain in a bank in Anguilla, funds in cash, short-term securities or other realisable investments approved by the Commission, the total value of which shall at least equal the total of its:

i) Unearned premium reserve
ii) Outstanding claims reserve
iii) Reserve for the claims incurred but not reported; and
iv) Unexpired risks reserve

Section 8 (2) of the Insurance Act states that 'The commission may require an approved external insurer to place with the Commission an interest bearing deposit to meet existing and future liabilities for a period to be determined by the Commission. The amount of the deposit will not exceed forty percent of its annual premium income net of re-insurance premiums with respect to each class of insurance undertaken.

(Expressed in United States dollars)

At December 31, 2011 statutory deposits in the amount of $441,323 (2010: $405,679) were held by the Commission in connection with approved external insurers.

13. Deferred revenue

Deferred revenue consists of licence fees for the financial year ended December 31, 2012 paid during the current year.

14. Payroll and related costs

	2011 $	2010 $
Salaries	**496,287**	350,839
Staff recruitment	**23,482**	9,343
Housing allowances	**17,800**	14,400
Social security costs	**15,511**	13,907
Health insurance	**14,891**	12,677
Pension costs	**9,442**	8,564
Gratuities	**(7,861)**	17,213
Total payroll and related costs	**569,552**	**426,943**

Included in the payroll and related costs are amounts paid to key members of management as follows:

	2011 $	2010 $
Salaries	**191,751**	117,304
Board members' allowance	**29,095**	30,156
Gratuities	**–**	17,213
Housing allowances	**17,920**	14,400
Total key management compensation	**238,766**	179,073

(Expressed in United States dollars)

15. Travel and subsistence

	2011 $	2010 $
Regulatory	**32,591**	10,280
Chairman's travel and subsistence	**12,640**	23,164
Training	**3,517**	5,464
Total travel and subsistence	**48,748**	38,908

16. Contribution to the Government of Anguilla

In accordance with Section 19 of the Financial Services Commission Act, the Commission may make payments from its surplus to the Government of Anguilla after all its reserves have been adequately funded. During the year ended December 31, 2011, there were no contributions paid to the Government of Anguilla. In 2010 the Commission made a monetary contribution of $8,621. This was reflected in the statement of changes in accumulated reserves.