The British Virgin Islands Financial Services Commission

Annual Report 2011

Contents

Mission **Statement**

To uphold the integrity of the British Virgin Islands (BVI) as a well-regulated international finance centre

and safeguard the economic interests of the territory by:

- Protecting the interest of the public and market participants
- Ensuring industry compliance with the highest international regulatory standards and best business practices
- Ensuring that the BVI plays its part in the fight against cross-border, white collar crime, while safeguarding the privacy and confidentiality of legimate business transactions

We **Pledge**

Vigilance – to remain keenly alert in our regulation and supervision of the financial services industry to protect and enhance the BVI's reputation and integrity as a leading destination for legitimate cross-border business

Integrity – to always endeavour to do the right thing, recalling the values and principles of the FSC in every action and decision

Accountability – to be responsible for addressing the financial needs and concerns of the business community

Leadership – to aspire to lead the industry with innovative, flexible legislation, deliver high quality service and maintain a clear vision of where we are going.

Our Logo: **The Lighthouse**

The lighthouse, embodies security, dependability, transparency and trust. Just as a lighthouse provides terrestrial travellers of today with the same sense of hope and re-assurance that it provided mariners years ago, the Commission's logo bears testimony to the Commission's dedication to upholding standards befitting a premier international finance centre. It is symbolic of our commitment to preserving the safety and soundness of the BVI's financial services system so as to maintain the confidence of clients doing business from and within the BVI

Strategic **Aims**

- To be fully aware of international standards and their application to the BVI and issue guidelines to the industry as necessary
- To ensure that all entries we authorise and supervise are operating within BVI legislation and regulation and international standards of best practice
- To ensure that all entities we authorise and supervise meet "fit and proper" criteria at the licensing stage and on an ongoing basis
- To conduct an ongoing review of financial services legislation and make recommendations for changes where necessary
- To ensure that the FSC operates effectively and efficiently
- To identify and deter abuses and breaches of legislation
- To raise public awareness of the BVI financial services industry and develop and implement a system of continuing education for industry practitioners
- To ensure that the Registry of Corporate Affairs provide world class services to ensure the international competitiveness of the BVI

Chairman's Statement

I am pleased to report to the Government and people of the British Virgin Islands through the Honourable Premier and Minister of Finance on the activities of the Commission during 2011.

The Commission has now completed its first 10 years of operations, and during this time revenues to the Commission, and to Government, have continually increased, albeit with the downturn in the global economy having a slowing impact in later years. During this time, total fees collected on behalf of Government have increased from $109m in 2002 to in excess of $200m in 2011, with net payments therefrom to Government increasing from slightly over $100m in 2002 to $178m in 2011.

Additionally, with the distribution of funds surplus to the Commission's immediate requirements this year in the amount of $4m, an additional amount in excess of $14.5m has been paid to Government from Commission surpluses during the years 2005 thru 2011.

At the same time, the Commission has adequately covered all its costs of operations, introduced innovative new systems, maintained and expanded its fixed assets, and built up its reserves from an initial $3.5m at commencement of operations to approximately $17.5m at the present time.

The Commission's cost of operations has increased considerably over these years, as it has been necessary to increase staff numbers to meet the demands of industry, to satisfy its regulatory remit, and to maintain the Territory's reputation as a well-regulated international financial centre meeting the ever-increasing demands placed upon it both by supra-national bodies and other countries.

I wish to commend the staff of the Commission for their hard work and dedication in the performance of their duties, and our more senior personnel for providing exemplary service as ambassadors for the Territory in their many presentations made at and participation in conferences and seminars at the international level.

In accordance with section 27 of the Financial Services Commission Act, I present this report on the operation and activities of the Commission for its 2011 year of operations together with the enclosed auditor's report and accompanying financial statements.

Robin Gaul
Chairman

Managing Director's Statement

Welcome to the tenth annual report of the BVI Financial Services Commission.

2011 continued to be a time of transition on the professional, national, regional and international levels. The Commission continued to work closely with our local industry and with the BVI government to ensure compliance with legislative requirements and increase our Territory's competitiveness.

I am pleased to report that in January, the Caribbean Financial Action Task Force (CFATF) removed the BVI from its regular mutual evaluation follow-up process and required us to report only once every two years. We are now focusing on addressing remaining deficiencies with a view to requesting full removal from the follow-up process in 2012.

The BVI was honoured to chair the CFATF's International Cooperation Review Group (ICRG), which helps members with low ratings to comply with established AML/CFT standards. Our work has led to the FATF making the ICRG a model for other FATF-style regional bodies.

Like all leading finance centres, the BVI needs constantly to explore new competitive opportunities. I am glad that our new Commercial Court is proving to offer much-needed breadth to our industry's value proposition. We aim to become more competitive in the registration of intellectual and industrial property and this year completed the first draft of a modern Trademarks Bill, which will be circulated widely during 2012. A new arbitration focus group is also aiming to prepare draft legislation by mid-2012.

As regards current business, we saw a healthy increase in applications for insolvency services, insurance business and investment business. Although banking and fiduciary services applications increased only slightly, the sector remained stable, resilient and in line with global trends. While funds business reflect global realities, our industry retains critical mass and the BVI remains the second leading offshore fund jurisdiction.

It is a fundamental point of principle with the Commission that we must be active in organisations whose decisions affect our business. We therefore continued to play a full role this year in local bodies such as the BVI Association of Compliance Managers, BVI Bankers Association and BVI Insurance Association, and in regional bodies such as the Caribbean Financial Action Task Force (CFATF), Council of Securities Regulators of the Americas, Association of Supervisors of Banks of the Americas and Caribbean Group of Banking Supervisors.

International organisations with which we work proactively include the Offshore Group of Banking Supervisors (OGBS), International Organization of Securities Commissions (IOSCO), International Association of Insurance Supervisors and Society of Trust and Estate Practitioners. We also engage closely with FATF working groups, regional colleges of regulators and meetings of UK Overseas Territories' regulators.

With IOSCO, we have been following up the revision of the IOSCO Principles and looking at the organisation's strategic direction. This has included coming together with other British finance centres to express joint concerns about possible changes to voting rights.

Another point of principle with the Commission is that we consult with the industry to enhance our thinking, drafts and proposals and ensure that final legislative and regulatory changes are endorsed and applied by everyone. The new industry liaison groups established in 2010 are working well and the FSC's quarterly Meet the Regulator meetings, as well as various seminars and workshops, have been well attended.

We have taken the opportunity to stress to our gatekeeper professionals such as lawyers and accountants that the extension of AML/CFT regulations provides them with a new opportunity to show the world that they do not facilitate illegal activity and are fully engaged in the fight against organised crime, money laundering and the financing of terrorism.

We have also encouraged legal professionals to support the Commission's work by making more efforts to explain to their clients the rationale behind new legislative measures aimed at safeguarding our Territory's reputation and future. This is not a job the Commission can do on its own.

It is also essential that the FSC continues to take the people of the BVI with us as our Territory develops further as a finance centre. A financial literacy programme to demystify the financial services industry to the general populace.

To ensure that our staff remain armed with the latest skills and knowledge, we continue to send them to international meetings, conferences and seminars and to provide full training opportunities. I am pleased to report that over two-fifths received training overseas and locally in 2011, the highest proportion to date.

We continue to receive tremendous support from government, industry, other regulatory stakeholders such as the Financial Intelligence Unit and our Board members. And of course, from the Commission's marvellous employees, of whom I am so proud. I am delighted that almost half have been with us for at least seven years.

To all, I express my great gratitude.

Robert Mathavious
Managing Director/CEO

Board of Commissioners

Mr. Phillip Fenty

Mr. Colin O'Neal
Deputy Chairman

Mr. Robin Gaul
Chairman

The Board of Commissioners is the Commission's governing and policy-setting body. It is committed to upholding the integrity of the Commission, protecting the interests of the public and serving all regulated individuals and companies through effective and ongoing oversight and services-oriented ideals policies and procedures. The Board monitors and oversees the management of the Commission through the Managing Director/CEO with the objective of ensuring economic and efficient use of Commission resources. The Board also ensures that the Commission's internal financial and management controls are adequate and that the Commission operates in accordance with principles of good governance. The members of the Board are appointed by Cabinet for terms ranging from one to three years.

Mr. E. Walwyn Brewley

Ms. Eleanor Smith

Mr. Robert Mathavious
(Ex-Officio) Commissioner

Mr. Martin Fuggle
External Commissioner

The Board initially comprised the Managing Director/CEO as an ex-officio member and not less than four or more than six other Commissioners, one of whom must be from outside the Territory. In 2011, to strengthen Corporate Governance and increase the depth of knowledge and experience of the Board, the FSC Act was amended to expand the composition of the Board. The Board now comprises the Managing Director/CEO as an ex-officio member and not less than six or more than nine other Commissioners, two of whom shall be from outside the Territory with a financial services background. Board meetings are convened at least once every month and are presided over by the Chairman and in his absence the Deputy Chairman.

Executive Management Team

Robert Mathavious
Managing Director/CEO

Jennifer Potter-Questelles
Deputy Managing Director,
Corporate Services

Kenneth Baker
Deputy Managing Director,
Regulation

Jacqueline Wilson
Director, Legal and Enforcement
Legal Counsel

Cherno Jallow, QC
Director, Policy, Research and Statistics

Annet Mactavious
Director, Human Resources
Secretary, Board of Commissioners

Board of Commissioners

Robin Gaul (Chairman), **Colin O'Neal** (Deputy Chairman), **E.**

Kenneth Baker
Deputy Managing Director
Regulation

Banking and Fiduciary Services Division
Director:
Kenneth Baker
Deputy Director: Banking
Michelle Georges
Deputy Director: Fiduciary
Simone Martin

Insolvency Services Division
Director:
David Abednego
Acting Deputy Director:
Shakuntala Yamraj

Insurance Division
Acting Director:
Harry Whitcher
Deputy Director:
Stanley Dawson

Investment Business Division
Director:
Brodrick Penn
Deputy Director:
Glenford Malone

Cherno Jallow, QC
Policy, Research and
Statistics Division

Policy, Research and Statistics Division
Director:
Cherno Jallow, QC
Deputy Director:
M. Alva McCall

Walwyn Brewley, Phillip Fenty, Eleanor Smith, Martin Fuggle, OBE

Board Secretary

Annet Mactavious

Robert Mathavious
Managing Director/CEO

Jennifer Potter-Questelles
Deputy Managing Director Corporate Services

Annet Mactavious
Human Resources Division

Jacqueline Wilson
Legal and Enforcement Division

Human Resources Division
Director:
Annet Mactavious
Deputy Director:
Carleen Penn

Legal and Enforcement Division
Director:
Jacqueline Wilson
Deputy Director, Legal:
Lynette Ramoutar
Deputy Director, Enforcement:
Gary Wilson

Corporate Services Division
Director:
Jennifer Potter-Questelles

Finance
Financial Comptroller:
Sheldon Scatliffe

Registry of Corporate Affairs
Director:
Myrna Herbert
Deputy Director:
Lydia Cline-George

Regulation and Supervision

Regulation and Supervision

Under the Financial Services Commission Act, 2001 two statutory committees have been established for the purposes of addressing matters pertaining to the licensing and supervision of its licensees and the enforcement of the requirements of the Act. These two statutory Committees are the Licensing and Supervisory Committee (LSC) and the Enforcement Committee (EC).

Licensing and Supervisory Committee

The LSC is the authorisation arm of the Commission, responsible for the assessment of all applications for licences and certificates to operate in and from within the BVI. The LSC is empowered with the authority to grant licences and authorisations as prescribed by all financial services legislation. The LSC is comprised of Directors of the Commission and decisions are taken by consensus and governed by the Guidelines and Operating Procedures of the Licensing and Supervisory Committee.

In reviewing and determining applications, the LSC must be satisfied that all requirements have been adhered to. In addition to licensing, the LSC retains responsibility for continuous supervision of authorised entities to ensure compliance with relevant laws and regulations and satisfaction of the fit and proper criteria for the conduct of financial services business. In instances where an application for a licence or for registration or recognition under financial services legislation is not approved, the LSC is required to notify the applicant and transmit a copy of the decision, together with a copy of the application to the Board of Commissioners for its record. Any person who is aggrieved by any decision of the Committee, other than a decision on the grant of a licence, or a decision under the Securities and Investment Business Act, 2010 refusing the grant of a licence on the basis that any person having a share or other interest in the applicant, whether legal or equitable does not satisfy the Commission's fit and proper criteria, may appeal the decision in accordance with Part VI of the FSCA.

The names of persons who have been granted licences or certificates under financial services legislation other than certificates under the BVI Business Companies Act are also required to be published by the LSC.

2011 saw a 24% increase in the total number of matters brought before the LSC with the Insolvency Services Division recording the largest increase over 2010 with 46%. Matters from the Insurance Division increased by 37% while matters from the Investment Business Division increased by 27%. Banking and Fiduciary Services recorded the smallest increase with only a 2% change over 2010.

Matters Brought Before the **Licensing and Supervisory Committee**

	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Total
Banking and Fiduciary Services	81	95	96	79	351
Investment Business	222	375	236	327	1160
Insurance	144	63	22	31	260
Insolvency	5	5	3	9	22
Total	**452**	**538**	**357**	**446**	**1793**

Enforcement Committee

One of the fundamental pillars of the Commission's regulatory mechanisms is its enforcement tools. As the nature, scope and reach of modern-day financial services business becomes increasingly complex, it has become an ever increasing imperative for regulators to put in place necessary measures to ensure the proper and effective policing of the financial services perimeter. The Commission takes its responsibility for the protection of its licensees, investors, potential customers of persons who are engaged in the provision of financial services business in or from within the Virgin Islands and the general public very seriously as the reputation and integrity of the Virgin Islands as a financial services centre hinges on it.

One of the Commission's principal functions and objectives relates to monitoring and enforcement action which explains the rationale, need and relevance of the essential enforcement tools vested in the Commission and exercised on its behalf by the EC. The functions of the EC, which is statutorily established under section 14(1) of the FSCA, must be guided by certain fundamental principles of transparency and fairness; it must demonstrate the highest standards of probity and circumspection, engage in analytical evaluation and foster confidence through its decision making processes. Furthermore, there must be certainty and consistency in the manner in which it takes its decisions, especially with respect to matters with the same or similar set of facts or circumstances under the same or similar governing legal and regulatory regimes; its decisions must equally be certain and consistent (as may be applicable). In doing so the EC is directed by the Guidelines and Operating Procedures for the Enforcement Committee.

Enforcement powers are used primarily to ensure that regulated persons comply with the requirements of all financial services legislation, and enable the Commission to achieve its regulatory objectives as set out in the FSCA. The Commission tries to address regulatory non-compliance without recourse to intrusive enforcement action. For example, where the contravention is minor and a licensee has taken immediate steps to remedy it, the Commission usually issues a warning. However, where the breach is of a serious nature or there is a history of non-compliance with regulatory laws or the licensee has not taken adequate remedial action in respect of a breach, the Commission considers what course of action would be a proportionate response while adhering to the required standards of fairness and consistency.

When the Commission performs its functions in pursuit of its statutory mandates, it is not liable for any loss or injury that a person may suffer as a result. This protection is essential to ensure the full and effective performance of the Commission's functions without let or hindrance. It is, however, tempered with the principle that in the execution of its duties and the exercise of its powers the Commission shall act in good faith.

During the year 2011, 138 cases were referred to the EC for a decision on appropriate enforcement action; up from 116 in 2010. This marked a 16 per cent increase in the number of cases dealt with by the EC in 2011. As in prior years, the most prevalent form of enforcement action taken during 2011 was the imposition of administrative penalties. There were 22 administrative penalties imposed for the year 2011. Nine warning letters and twelve (12) advisory warnings were also issued. In addition, there was one (1) case where an Examiner was appointed. There were twenty (20) cases where no action was warranted and sixty-three (63) cases that were noted for information.

In addition to the enforcement cases brought before the EC in 2011, twenty-one (21) compliance inspection reports were also considered by the EC and a total of twenty-two (22) compliance actions were taken by the EC in respect thereof.

On-site Inspection Programme

In 2004 the Commission introduced its on-site inspection programme with the primary purpose of improving the Commission's understanding of the business environment and controlling the risks incurred by regulated entities, focusing in particular on those areas deemed by the Commission to be the most significant.

In 2011 a dedicated On-site Inspection Unit was established to conduct these onsite reviews and to recommend any necessary corrective action that may be needed as a result of identified short-comings or breeches to relevant financial services legislation. The Unit is headed by the Commission's On-site Inspection Coordinator and is staffed by a senior regulator seconded from each Division responsible for the day-to-day supervision of the regulated entity.

The extent of the on-site inspection is determined by the complexity of the regulated entity's business, its available resources and the Commission's specific concerns. Inspection visits culminate with wrap-up meetings with senior personnel at the regulated entity to review the entity's internal control systems. The Commission provides the entity with a formal inspection report, summarising the areas assessed and setting out recommendations for corrective action where required.

During the year in review, a total of 34 on-site inspections were conducted. 14 on-site inspections were conducted by the Banking and Fiduciary Services

2011 Enforcement Cases

	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Total
Enforcement Cases Before EC	22	48	31	41	138
Administrative Penalty:					
- Initial Notice	4	12	2	9	27
- Final Notice	-	12	6	4	22
- Waived Penalty	-	1	-	5	6
- Advisory Warning	-	8	1	3	12
- Appoint Examiner	-	-	-	1	1
- Appoint Qualified Person	-	-	1	-	1
- Directive	1	-	2	-	3
- No Action Warranted	4	5	3	8	20
- Noted for Information	13	22	16	12	63
- Public Statement	1	1	1	-	3
- Revoke Certificate or License	1	-	-	-	1
- Warning Letter	-	1	2	6	9
Total	**24**	**62**	**34**	**48**	**168**

Division, 14 inspections by the Insurance Division, and 6 on-site inspections by the Investment Business Division.

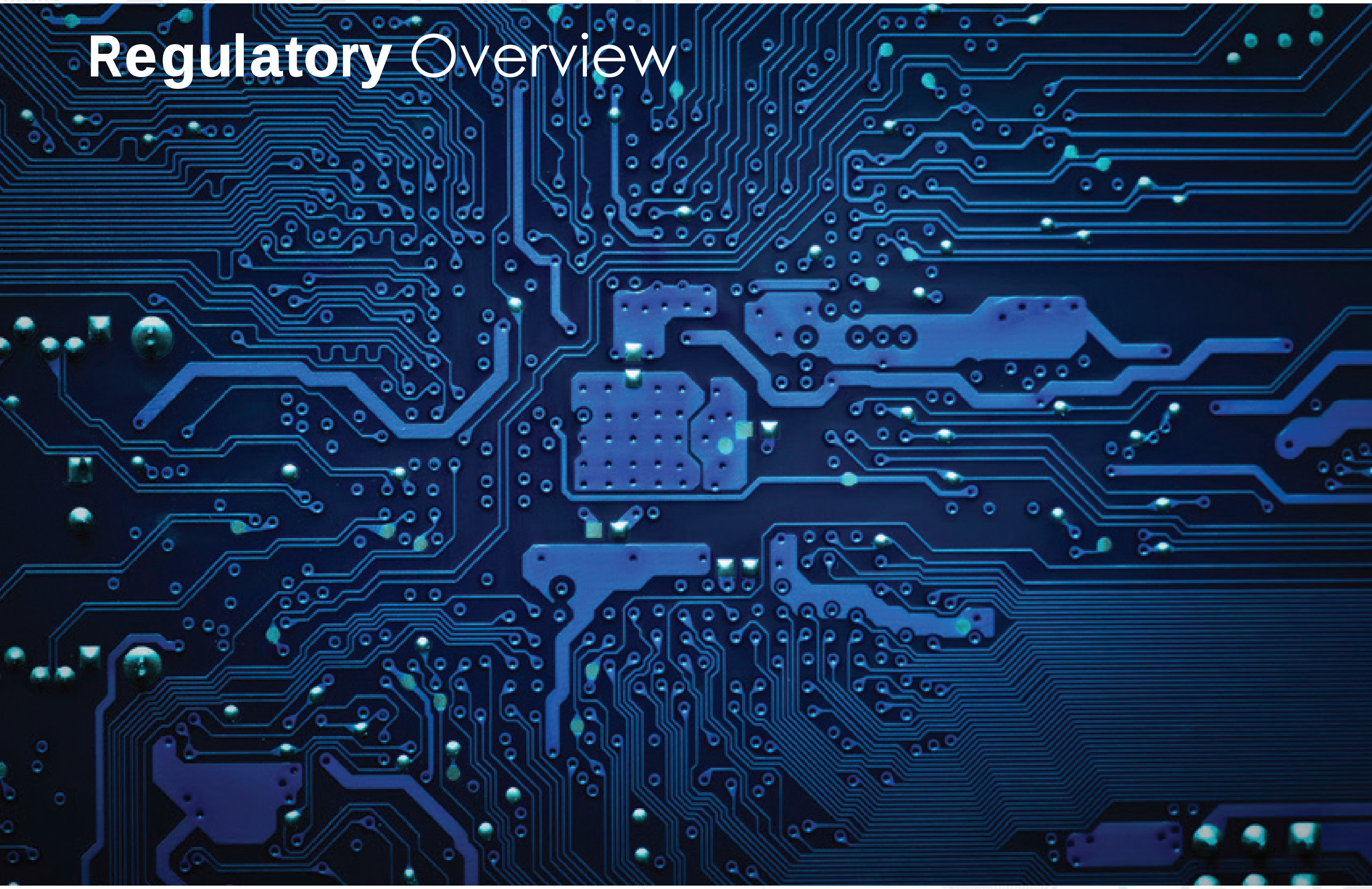
2011 On Site Inspection

	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Total
Compliance Cases Before EC	1	6	12	2	21
Administrative Penalty:					
- Corrective Action Plan	-	2	-	-	2
- Focused On-site Inspection	-	1	-	-	1
- No Action Warranted	-	1	-	-	1
- Noted for Information	-	3	9	5	17
- Warning Letter	1	-	-	-	1
Total	**1**	**7**	**9**	**5**	**22**

Number of Onsite Inspections

	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Total
Banking and Fiduciary Services: Banks	1	0	0	0	1
Banking and Fiduciary Services: Trust Companies	0	1	3	9	13
Insurance	0	0	0	14	14
Insolvency	0	0	0	0	0
Investment Business	0	0	0	6	6
Total	**1**	**1**	**3**	**29**	**34**

Regulatory Overview



Banking and Fiduciary Services

The Banking and Fiduciary Services Division's mandate comprises the supervision of banking institutions, subject to licensing under the Banks and Trust Companies Act, 1990 ("BTCA"). A banking licence issued under this Act must be in 1 of 3 categories: general banking, restricted Class I banking, or restricted Class II banking as mandated by section 10(1) of the BTCA.

Also included under the Division's mandate is the supervision of trust and corporate services providers (TCSPs). TCSPs are subject to licensing under the BTCA and Company Management Act, 1990 ("CMA"). Licensees seeking to provide trust services and/or company management services under the BTCA may fall into 1 of 5 classes: a Class I trust, Class II trust, restricted Class II trust, Class III trust and restricted Class III trust, in accordance with section 10 (1) of the BTCA. Applicants who wish to provide company management services only may seek to do so under the CMA.

Supervisory oversight is also provided for all BVI licensed Authorised Custodians captured under the Financial Services Commission Act, 2001, who are authorised to immobilise and maintain custody of bearer shares. Entities authorised to carry out this function may be service providers licensed by the Commission, or bodies incorporated or formed outside the BVI that are not resident in, and do not have a place of business in, the BVI.

With the passage of the Financing and Money Services Act (FMSA) in 2009 the Division now also has the responsibility for supervising money services remitters and/or financing businesses that are subject to licensing under the FMSA.

Sector Overview

Overall state of the sector

Fiduciary

During 2011, the fiduciary services industry experienced a contraction in the number of licensees, from 239 in 2010, to 225. This 6% decline in the number of licensees is attributable primarily to the cancellation of some restricted Class II trust licensees that have been restructured as private trust companies, and to a lesser extent, through the consolidation of business with parent entities, most of which appear to be based in Europe.

Banking

The BVI's banking sector continued to evidence stability during 2011. The local banking industry, in comparison to its Caribbean and global counterparts, continues to push ahead despite the fiscal challenges faced by stakeholders since the 2008-2009 economic downturn. The sector remains fairly resilient, despite a decline in earnings and total asset base as reported at the end of 2011. Notwithstanding the 5.88% decline in earnings year on year, the banks are all operating in line with global trends. Further, the 1.25% decrease in the total asset base remains well below 5.00% thus demonstrating some semblance of consistency in the bank's activities. During 2011, total nonperforming loans experienced an increase of 128.39%.

The banks continue to pursue aggressive collection efforts respective of the deterioration in quality experienced in their credit portfolios. This negativity in regard to the quality of their loan portfolios is offset by the fact that total nonperforming loans within the Territory amount to only 4.56% of total loans. It must also be noted that loans and advances experienced 6.10%

growth during the year and the Territory's total deposit base grew by 2.33% over 2010. In essence the Territory continues to demonstrate a stable economy and resilience in its banking system. BVI banks remain properly capitalised and over the regulatory requirement of 12% Tier 1 capital, with the average Tier 1 capital to risk weighted asset ratio being reported as 33.61% for commercial banks and 101.28% for the Territory's sole restricted banking licence-holder. Offsite surveillance of the banks' activities remains vigilant and robust and the rapport between the banks and the Commission remains open.

With respect to the Division's bank licensing regime, during the year, there were no applications for banking licenses and those relative to post-licensing activities were significantly low and comprised the customary appointments of directors and other senior officers. The foregoing is neither extraordinary nor alarming given the conservative approach the BVI has taken on growing its banking portfolio. The sector comprises 7 banking institutions; of the 7, 6 hold a general banking licence and 1 holds a restricted Class 1 licence.

Financing and Money Services

The FMSA which came into force in May 2010 was enacted to provide for the licensing, registration and supervision of persons wishing to carry on financing business, money services business and for connected matters. At the end of the 2011, the Commission had 3 open licence applications: 2 money services and 1 financing.

Authorised Custodians

During 2011 the Division continued its Authorised Custodian assessment exercise. The assessment was designed to review files for issues of non-compliance and to afford the division the opportunity to review and rate the Custodian's compliance culture as well as audit its supervisory files. Where files were found to be deficient, the division focused in 2011 on addressing the issues uncovered and had a chance to gain a better understanding of the operations of the licensees. Most Authorised Custodians will be subject to compliance inspections in 2012.

Change in scope of supervisory reach

In April 2011, the Financial Services (Miscellaneous Exemptions) Regulations, 2011 were brought into force. These Regulations replaced provisions of the Banks and Trust Companies Regulations, 1991, which dealt respectively, with: the form and context of an application for a licence issued under the BTCA; exemptions from submitting particulars for a restricted trust licence ; exemptions that applied to the holder of a restricted trust licence from complying with the requirement to submit audited financial statements; and general exemption for a company that solely provides directors and officers and nominee shareholder services from requiring a licence under the BTCA whilst reflecting more accurately current requirements set out in the BTCA. Effectively, this made slight, but necessary, amendments to the supervisory reach which primarily impacted Fiduciary Services. Observations of the practices over the years led to the introduction of the regulations which it is anticipated will add the flexibility needed to make the regime more relevant and efficient.

Supervisory Report

During 2011, the Division continued its review of legislation and contributed to the work necessary for the further development of VIRRGIN Phase III, as required by the Commission's Strategic Work Plan.

The On-site Inspection Unit carried out thirteen inspections of licensed TCSPs and one inspection of a licensed Bank. In the case of the TCSPs, the inspections were all focused and reviewed licensees' compliance against AML/CFT legislative requirements.

Outreach to TCSPs was carried out on a focused basis, which allowed licensees with significant compliance challenges to meet with key officers within the Division to discuss and address areas of deficiencies. These meetings were deemed necessary to ensure continuous communication with service providers and to ensure any developments in relation to the identified compliance matters were kept under review by the Division.

Desk-based or offsite monitoring

Fiduciary Services continued to ensure that licensees were aware of, and in compliance with the provisions of the Regulatory Code, 2009 including the requirement to submit Compliance Officer Reports and the placement of additional amounts, where necessary, to Regulatory Deposits held by the Commission.

Licensees commenced filing TCSP Prudential Returns under the Financial Services (Prudential and Statistical Returns) Order, 2009 during 2010 and the development and testing of the electronic platform was carried out in 2011. Once this is finalised, the e-filing, compilation and analysis of data will be in place by third quarter 2012.

During 2011 the Banking Unit continued to conduct its usual extensive monthly and quarterly analysis of the performance of both general and restricted bank license holders. This analysis generates various reports on financial performance, corporate governance and management, compliance with relative BVI financial services laws and international standards of best practice, and matters of enforcement. This review includes analyzing a combination of legally mandated, requested and researched/ published/public information such as audited annualfinancial statements and quarterly prudential returns; the quarterly financial information submitted or published by the bank's relative head offices and holding companies; monthly Board of Directors meeting minutes and monthly Compliance Progress Reports; and any other document required to be reviewed. In addition to conducting the normal offsite monitoring of the banks, the Division also monitors the environment in which they operate, taking into consideration changes in international best practice and policy.

Balance Sheet Information

Asset Analysis (Growth)

Year on year the overall Total Asset size of the banking system declined 1.04%. The most notable change was the 15.42% decrease in Other Assets. Other notable variances include a decline of 11.68% in Cash Items, and a 13.85% increase in Investments Held.

Liability and Shareholder's Equity Analysis (Growth)

1 including regulations 2, 11, 12 and 13

2 The term 'restricted trust licence' was replaced by restricted Class II trust licence with the passage of the Bank and Trust Companies (Amendment) Act, 2006.

Total Liabilities for the BVI banking sector at the end of the 2011 was down 3.23% compared to 2010. The most notable variances were a 44.95% decrease in Other Liabilities and a 10.07% increase in Long Term Debt. It should also be mentioned that Total Deposits grew 2.33% during 2011. The BVI banking sector's Total Shareholder's Equity continues its current positive trend and grew 9.52% in 2011.

Statement of Income and Expense and Profitability – Industry

Unlike the other financial statements in the quarterly prudential returns, the income statements prepared are cumulative of the banks' performance quarter on quarter until the end of their respective fiscal year. During 2011 the industry experienced deterioration in most line items related to net income year on year. Net income retained was reported at $35,758 as at the end of 2011, down 5.88% from $37,991 as at the end of 2010. The industry reported lower revenue from Interest Income and higher related Interest Expense resulting in a 2.36% decrease in Net Interest Income in Q4 2011, or $46,860 compared to $47,993 reported in Q4 2010. The largest benefit to the industry's bottom line was the overall reduction in Provisions for Losses by 45.68% to $409 from the $753 reported at the end of 2010. Non-Interest Income decreased 8.28% while revenue earned from the Net Gain on Foreign Exchange decreased by 28.06%. Non-Interest Expense increased 3.78% further reducing the net income retained.

Capital Adequacy and Liquidity – Industry

The banks in the BVI are properly capitalized and over the regulatory requirement of 12% Tier 1 capital with the average Tier 1 capital-to-risk weighted asset ratio being reported as 33.61% for commercial banks and 101.28% for the one non-commercial bank.

Asset Quality – Industry

The Total Non-Performing Loans in the BVI banking sector increased 128.39% to $45,818 at the end of 2011 up from $20,061 in 2010. The level of Non-Accruing Loans in the sector increased 63.11% while the total Loan Loss Reserves in the sector increased only 4.74% to $1,526, up from $1,457 at the end of 2010. It is noted that these increases were as a result of increased delinquencies in each bank's commercial and industrial loan portfolios, where commercial clients have faced great challenges in servicing their credit facilities.

Outlook for 2012

Table 1 - Quater on Quarter Comparison

Balance Sheet (Assets)	**Q1** 2011	**Q2** 2011	**Q3** 2011	**Q4** 2011	**Q4** 2010
Total Cash Items	729,399	717,308	724,807	669,304	757,820
Total Loans & Advances	1,573,568	1,572,529	1,625,848	1,622,126	1,528,843
Total Investments	1,622	2,311	2,267	1,899	1,668
Total Other Assets	140,738	170,780	141,689	170,100	201,105
Total Assets	**2,445,327**	**2,462,928**	**2,494,611**	**2,463,429**	**2,489,436**

Development of legislative framework for TCSPs

The Division has recognized the need to further refine the legislative provisions relating to TCSPs subsequent to the completion of the assessment against the OGBS Statement of Best Practice for TCSPs. This assessment, against the current legislative framework, was conducted based on the recommendation from the 2010 IMF FSAP. It is anticipated that further development of the legislative framework will include enhanced provisions specific to TCSPs for exposures, solvency and the handling of clients' assets financial exposures; more detailed record keeping requirements for TCSPs; and additional provisions for Managed Trust Company business.

The Division also plans to conduct a series of thematic inspections in conjunction with the On-site Inspection Unit to review licensees Introduced Business relationships, which will be a critical component of the review and development of legislation in this area. In addition, an exercise to revise the licensing regime to address subsidiaries of TCSPs that act as Registered Agents, as well as wider activities, is to be undertaken. It is anticipated that these efforts will extend beyond 2012 into 2013. During 2012, the Division also expects to complete the development and publication of Guidance Notes for the filing of TCSP Prudential Returns.

Authorised Custodian Regime

The Division plans to develop the regulatory framework for Authorized Custodians. Specifically, it is envisaged that the framework will result in the introduction of new legislation which will include requirements for filing annual prudential returns; the development of additional record keeping and reporting requirements; and possible amendment to VIRRGIN filing for BVI BCs that retain

Table 2 - Quarter and Year on Year Comparison					
Balance Sheet (Liabilities & Shareholder's Equity)	**Q1** 2011	**Q2** 2011	**Q3** 2011	**Q4** 2011	**Q4** 2010
Total Deposits	1,593,033	1,611,898	1,692,351	1,701,419	1,662,631
Total Long Term Debt	120,412	119,016	120,412	135,466	123,073
Total Accrued Liabilities	12,616	12,200	34,067	12,528	11,919
Total Other Liabilities	283,751	263,970	179,289	145,106	263,595
Total Loss Reserves	1,261	1,269	1,425	1,526	1,457
Total Liabilities	2,011,073	2,008,353	2,028,123	1,996,045	2,062,675
Total Shareholders Equity	434,254	454,575	466,488	467,384	426,761
Total Liabilities & Shareholder's Equity	**2,489,436**	**2,462,928**	**2,494,611**	**2,463,429**	**2,224,907**

the ability to issue bearer shares that have been placed and immobilized.

Development of statistical returns for financing and money services business

As stated above, the Division commenced its implementation of the FMSA during 2010 which focused on the licensing of the previously unregulated industry. In tandem with the regulation of businesses that carry out financing and/or money services business, the Division acknowledged the necessity to develop returns to better gauge the growth, profitability and viability of this industry. Therefore, the development of statistical returns for financing and money services business will be carried out during 2012-2013.

Table 3 - Income Comparison for Q4 2011 and Q4 2010		
BVI Banking Sector	**Q4** 2011	**Q4** 2010
Interest Income	52,805	54,219
Interest Expense	5,945	6,226
Net Interest Income	46,860	47,993
Provisions for Losses	409	753
Non-Interest Income	7,230	7,883
Operating Income	53,681	55,123
Non-Interest Expense (Overhead)	18,246	17,581
Net Gain/(Loss)	323	449
Income before Taxes	35,758	37,991
Net Income	35,758	37,991
Net Income Retained	35,758	37,991

Inspections of licensees domiciled outside of the Territory

Following both the reviews of the Territory by the CFATF in 2008 and the IMF in 2010, the need to conduct more on-site inspections was highlighted. This aspect has also been underscored by the existence of licensees that currently operate outside of the Territory. Thus, the Division has planned to carry out inspections of licensees that are domiciled outside the Territory during 2012.

Increased consultation with the industry

For 2012, the establishment of a Fiduciary Liaison Committee will be undertaken. The objective of the Committee being to positively impact the fiduciary services industry through meaningful discussions, reviews and the production of papers and reports. It is clear that there is an increasing need for more structured dialogue, better synergy between the Commission and the industry, as well as the need to address critical issues that impact TCSPs.

Table 4 - Asset Quality Comparison

BVI Banking Sector (Asset Quality)	**Q1** 2011	**Q2** 2011	**Q3** 2011	**Q4** 2011	**Q4** 2010
Total Non-performing Loans	122,593	95,582	95,781	45,818	20,061
Total Non-accruing Loans	121,733	94,161	95,205	31,224	19,143
Total Loan Loss Reserves	1,261	1,269	1,425	1,526	1,457
Average Non-performing Loans percentage of Total Loans	**8.23%**	**7.03%**	**7.17%**	**4.56%**	**2.23%**


12,5 %
11,9 %
22,8 %
36,9 %

Investment Business

The Investment Business Division administers the Securities and Investment Business Act, 2010 ("SIBA") and regulates, licenses, and supervises all securities and investment business and mutual funds that are recognised, registered and licenced under the Act.

Sector Overview

Overall State of the Sector

2011 was a "humbling year" for funds globally with major underperformance in many asset classes. The lack of performance was attributed in part to the growing and uncertain Euro-zone crisis. Investor preferences and their continued demand for liquidity and transparency also played a role in the marginal growth of the industry. Notwithstanding, the global fund industry's asset levels climbed slightly above $1.7 trillion.

The current state of the local industry can be described as 'depressed' relative to new business, but sufficiently buoyant and busy in relation to existing business, especially from the private sector perspective as a result of compliance, closures, and reorganizations. Fund business over the past several quarters has exhibited a general downward trend, and overall numbers are lower than pre global crisis (2008/2009). The first 2 quarters of 2011 were mildly encouraging of a resurgent upward trend, but this trend did not last throughout 2011.

Although, by the year end the industry saw a slight increase in the level of new business when compared to 2010, the total numbers remained significantly lower than those seen in 2008 and earlier. The fund industry remained depressed and ended the year with an approximate 5% decrease in the overall numbers of funds on its register. In addition, the levels of liquidations and cancellations remained high thereby solidifying the decline in the total number of funds operating in the BVI. The factors attributing to this are many, but primarily global decline in new hedge fund startups, loss of market confidence in the type of investment space, desire for more transparent products, competition from new markets in Europe and other offshore jurisdictions, and the perceptions of an enhanced regulatory regime are the main factors.

Based on current trending, it is uncertain, whether fund recognition/ registration figures recorded pre-2008 will materialize again. Moreover, the constant evolution and development of global regulatory approaches, as well as threats in US and Europe may continue to stymie growth in the industry. However, the industry still has critical mass and remains the second leading offshore fund jurisdiction as it has a solid reputation and proven regulatory regime to build on. While the future isn't certain, all indications are that the sector is poised to continue to develop at pace with global growth trends.

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New Developments or Influences (regional and international)

Regulatory reform continued to dominate the international landscape in fund regulation. In both North America and Europe rule making and new regulations relating to recent legislative changes (Dodd Frank and the Alternative Investment Fund Managers Directive (AIFMD) respectively) were a primary focus in 2011.

For example in respect of the AIFMD, the European Securities and Markets Authority ("ESMA") submitted its formal proposals to the European Commission relating to the implementation of Level 2 measures of the AIFM Directive covering 4 key areas, namely; i) General provisions for managers, authorisation and operating conditions, ii) Governance of AIFs' depositaries, iii) Transparency requirements and leverage; and iv) Third countries. The European Commission is expected to implement relevant measures on the basis of ESMA's recommendation.

The application and implementation of the Directive as it relates to third country entities will be specifically relevant to the BVI.

To this end, during the latter part of Quarter 4, 2011, the Commission agreed to create a focus group with the following core objectives: i) reviewing the AIFM Directive; ii) assessing the Directive's implications and impact on BVI domiciled funds; and iii) formulating appropriate recommendations in mitigation thereto. The Division

3 (Dodd Frank and the Alternative Investment Fund Managers Directive (AIFMD) respectively

anticipates that the focus group will be formulated during the first quarter of 2012.

IOSCO continued its work as the standard setter in the securities sector. Amongst other works it published reports or consulted is areas related to: systemic risk mitigation, regulation of nominee accounts, high frequency trading, unregulated financial markets and products, principles for dark liquidity, OTC derivatives, developing corporate bonds in emerging markets and technological changes on market integrity and efficiency.

The Commission attended various IOSCO meetings both at the international level (Annual General Meeting), and Emerging Markets and Regional Committee meetings. Much of the work in 2011 revolved around the continued work subsequent to the revision of the IOSCO Principles, as well as ongoing work on the Review of IOSCO's Strategic Direction. As part of the Strategic Direction reviews, work has begun on addressing membership and voting rights issues, the latter of which has significant implications for the BVI. Views on the exercise of voting rights were collectively put to IOSCO by BVI and other OTs and Crown Dependencies.

Legislative Amendments/ Developments

Throughout 2011, the Division continued to earnestly administer SIBA which brought with it the arduous responsibility to prudently assess applicants for licensing in new and complex categories of licenses. The implementation of the regulatory regime post SIBA, identified that a new regulatoryapproach should be adapted for the legacy business of fund management.

To that end, the Commission invited and received from the Securities and Investment Business Advisory Committee ("SIBAC") during latter part of 2011, a draft on a proposed "streamlined" regime for certain fund related intermediation activities currently covered by SIBA. The Commission has commenced its review of SIBAC's proposal and expects to draft regulations to carry forward that proposal early in 2012. The Division is hopeful that the new regime will spark a renewed interest in the BVI fund management and fund business.

The Division throughout the year had a number of staffing shifts. The progression of "problem cases" during the year placed a further strain on the Division's resources, as a result of two of the Division's mid-level staff having been heavily involved in progressing and resolving one major case. The net effects was the addition of a new regulator, although often changes resulted in the loss of more senior regulators to other areas within the Commission mostly notably to address compliance management Through additional recruitment efforts the division hopes to be able to add regulators to its staff complement in 2012 to address the expanding needs of managing SIBA's administration.

Another major issue emerged when concerns were raised by private sector practitioners as to whether the correct balance has been struck between regulation and commercialism. The contention being that SIBA, and especially the Regulatory Code, as well as the Commission's enforcement processes have created an overly onerous regime for the conduct of fund business within the BVI. The concerns centred on the impact on the mutual fund and mutual fund management business, as these represent the 'legacy' business in the BVI and are the drivers of the success of the BVI Funds industry.

In response, the Commission made a decision to develop a new regime to streamline the regulatory obligations for 'legacy' business while at the same time maintaining a sufficiently robust regulatory regime that could withstand the rigours of international standards and scrutiny, and as a result, commenced work on the review of proposals by the SIBAC to introduce a new and streamlined regulatory regime for fund managers. The robustness of the r egulatory regime is critically important in the new era of heightened regulation, however, the BVI is faced with the quandary of balancing heightened regulation against the need to mitigate the negative perceptions that arise as a result thereof.

Key Initiatives

During Q4, the Division engaged in a strategic planning offsite retreat to discuss strategies for delivering on its 2012 Work Plan, and to reflect on progress made on the 2011 Work Plan. Employees of the Division noted the challenges encountered in trying to deliver on the 2011 Work Plan and entered into healthy discussions on ways to overcome the hurdles experienced in 2011 to increase efficiency in 2012.

Training & Key Conferences/ Seminars

It is critical that all members of the Commission staff have opportunities to expand their knowledge base, personal networks and increase their skill sets through training programs. It has always been a priority at the Commission to ensure that our staff have the requisite skills and expertise to best serve the industry. Thus, we ensure, year after year, that our staff are exposed to key conferences, seminar and training opportunities.

The Division continued in the Commission's tradition of providing relevant training to its staffers, and many staffers were exposed to various overseas and local training and conferences including the Director's and other regulatory staff's attendance at IOSCO's Emerging Markets Committee and IOSCO's annual training seminar; the Deputy Director's attendance at IOSCO's 34th Annual General Meeting as well as its Inter-American Regional Committee, and FAFT and CFATF Plenaries.

The training and participation at these and other conferences and seminars by various members of staff covered areas such systemic risk management, unregulated markets and products, investor protection and education, revised IOSCO principles, redefining the new global standards in anti-money laundering, the new strategic direction of IOSCO, and global regulatory reform.

In addition, the Director attended and participated in the Alternative Investment Management Association Policy and Regulatory Forum – a high level regulatory forum where policy makers, senior regulatory personnel and industry executives discuss key regulatory and policy issues in the asset management space.

The Director delivered remarks at the International Finance Centre's Fund Symposium in Uruguay, a forum designed to target the Argentinean and Uruguayan area of Latin America, at which the BVI's regulatory philosophy, an overview of its regulatory regime, and the key areas of the new securities and investment business regime were presented.

Statistical Analysis

The total number of funds operating in the BVI declined by approximately 5% from the 2010 figures whilst the number of IB licences declined negligibly; with only 2 less licensees than 2010. The decline in fund business during 2011 was not as pronounced as in 2010 (7.9%), however the large number of cancellations and significantly reduced levels of new business continues to produce an apparent sustained downward decline in the number of a ctive funds in the BVI.

The number of licensees painted a more positive picture for the investment business industry. However, the numbers were largely attributable to the progression of a large number of investment business licence applications which were submitted within Q4 2010, in an effort to comply with the requirements of SIBA. The positive reflection relating to new licensees was tempered by an almost equal number of licensees being cancelled in 2011.

The BVI fund business regime now reflects a declining trend in the number of new fund business and large increases in the cancellations, thereby reflecting large net declines in overall fund business. Whilst the overall trending for licensees remained flat, it is not anticipated that this would be sustained given the expected fall off of new applicants as time progresses beyond the introduction of SIBA.

Achievements from Work Plan

The key achievements relating to the Division's work plan related to the Administration of SIBA, the Regulatory Code, and The Public Funds Code. It was anticipated that administration of SIBA would be daunting given the complexity of new business applicants and the magnitude of filings to become SIBA compliant. The Division was able to

- review, assess and approve several dozen applications for licences in multi-categories of licences,
- review and assess hundreds of M&As for SIBA compliance,
- review and assess hundreds of offering documents for SIBA compliance,
- review, assess and accept hundreds of notifications of appointments of Authorised Representatives.
- review and assess multiple dozen prospectuses; and register them in accordance with the Public Funds Code.
- assess and approve a few hundred applications for exemptions from various SIBA requirements.

Major tasks related to SIBA and the Codes' administration and compliance are expected to continue in 2012.
The Division was also able to successfully introduce and implement new fees regulations, which effectively resulted in a tripling of the fees earned by the Division in 2011 (approximately $3.5 million dollars), as compared to 2010.

2012 Outlook

In 2011 there was a focus on implementation and administration of local regulation (SIBA), but also constant vigilance on international developments. It is expected that in 2012 the Division will bring closure to several SIBA compliance and administration projects, which would likely result in increased enforcement, administrative or disciplinary actions.

In 2012 the Division is expected to engage in key legislative development work relating to the new streamlined regulatory regime for fund managers. On the international level, the Division is expected to further its work in relation to assessment, recommendation, and mitigation of the implications of the AIFMD directive. The Division also expects that continued engagement of IOSCO on matters of its strategic direction and policy initiatives, would be one of its prevalent undertakings in 2012.

The Division expects that global regulatory reform would continue to be a dominant feature of this new 'era' for securities and investment business. The focus on systemic risk management, unregulated markets and products will continue. The global and possible extra-territorial regulatory reaches of national regulators will also be a major threat to jurisdictions such as the BVI and therefore we must remain vigilant. Already, new US initiatives such as FATCA have been identified to have major implications for BVI funds, as well as other investment vehicles.

It is also expected that the size of the fund industry will retrench as the downward trending seen in 2011 continues into 2012. Whilst BVI continues to have critical mass and remains one of the largest players in the offshore fund industry, the appetite for hedge funds has waned globally, and is clearly reflected in the BVI. It is hopeful that new regulations, if approved, could spur new growth. However, global regulatory reform and reach, diminished appetite for hedge funds, the end life of a large number of existing BVI funds and investor preference will likely produce lower numbers in 2012.

Mutual Funds and Investment Business Statistics

	As at Dec 31 2010	As at Dec 31 2011	% Change
Active Funds	**2706**	**2590**	**(5%)**
Professional Funds	1759	1700	(4%)
Private Funds	741	712	(4%)
Public Funds	206	178	(16%)
Active Licensees	**527**	**525**	**(1%)**

Insurance

The Insurance Division's mandate covers the supervision of domestic insurers, captive insurers, insurance managers, loss adjusters and intermediaries consisting of insurance agents and insurance brokers that are subject to licensing requirements under the Insurance Act, 2008, the Insurance Regulations, 2009, the Regulatory Code, 2009 and subsequent amendments. The Insurance Division also takes into account other legislation, prudential standards and international best practices in the supervision of persons carrying on insurance business in or from within the British Virgin Islands.

In 2011 there were 174 Captives, 35 Domestic Insurers, 14 Insurance Managers, 17 Insurance Agents, 6 Insurance Brokers and 5 Loss Adjusters licensed by the Commission and regulated by and through its Insurance Division. The majority of the captive insurers licensed comprised of single parent captive insurance companies emanating from the USA.

The BVI's captive market suffered a decline in the number of captive insurers licensed in 2011 which mainly resulted from a number of captives re-domiciling onshore or to other offshore jurisdictions, liquidations and cancellation of licenses of licensed entities.
The domestic market on the other hand remained stable with the Insurance Division fielding continued inquiries from domestic insurers considering the possibility of applying to be licensed in the BVI.

The intermediary market maintained its stability as the number of licensed Insurance Agents, Insurance Brokers, Insurance Managers and Loss Adjusters remained the same. In 2011, 3 applications to carry on insurance business as an Insurance Agent were considered in relation to selling certain credit life products. These applicants were granted conditional approvals with one (1) licence being issued and two (2) still pending to be issued.

The main developments from a regulatory perspective include:

- Having worked with the Insurance Act, 2008 which became effective on February 1 2010, the Insurance Division has noticed a number of areas that appear to require being amended as there appears to be certain anomalies which need to be corrected. However, the Insurance Division will be addressing these issues with a view to proposing amendments, and at the same time remaining in compliance with international standards set by the International Association of Insurance Supervisors ("IAIS").

- Ongoing review and updates to the significant amendments to the IAIS's Insurance Core Principles ("ICP's") and drafting of guidance papers for group wide supervision.

- Ongoing discussions relative to the introduction of the Solvency II regime which hold responsibility of the senior management of insurers fully responsible to manage their business in a prudent manner in order to foster the demand of greater supervisory convergence. Solvency II also places greater emphasis on insurers to hold two capital requirements: the Solvency Capital Requirement and the Minimum Capital Requirement.

- Continuing to foster better relationships with the regulated persons while at the same time maintaining a balance with international standards.

The Insurance Division represents the Commission as a member of the IAIS, the Offshore Group of Insurance Supervisors ("OGIS") and the Caribbean Association of Insurance Regulators. The Insurance Division is a member of the Executive Committee and Evaluation Committee of OGIS.

To keep on the cutting edge of developments, the Insurance Division has begun to review standards, principles, guidance and issues papers completed by the IAIS during 2011 as a means to assess how these developments affect the current legislation that governs the regulation of persons carrying on insurance business in or from within the British Virgin Islands. The IAIS process of improving the ICP's is ongoing and is expected to continue throughout 2012 and 2013.

The Commission in order to address the current and anticipated developments and challenges faced in carrying out its remit continues to strengthen its Insurance Division Team through recruitment, training, bringing experience and expertise from the insurance arena as well as other areas of financial services sectors to support the existing expertise in the Insurance Division.

Despite expectations for developments in the insurance sector, the market continues to be difficult for smaller insurers within the captive insurance market. The intermediary market also encounters challenges with the r equirements imposed as a result of the enactment of the Insurance Act, 2008, the Insurance Regulations, 2009 and the Regulatory Code, 2009. Such challenges for intermediaries include for instance the requirement to appoint an auditor and submit audited financial statements as well as to maintain professional indemnity insurance due to the costs associated therewith.
From the Captive Insurers Financial

Statistics and the Domestic Insurance Companies Statistics the BVI Insurance Industry is a Million dollar industry comprising of $ 514,361,986 for captive insurers and $ 91,945,680 for domestic insurers in gross written premiums in 2010. Due to the fact that audited financial statements and annual domestic statistical returns are not due until six (6) months after an insurer's financial year end and several insurers were granted extensions of time to submit these reports to September 30 2012 for the financial year ended December 31 2011, the statistics that appear herein are for 2010.
The BVI Insurance Market is dominated by property and casualty insurance products written in the captive insurance market. In the domestic market, health and property insurance account for the largest insurance premium generating products.

Outlook for 2012

The outlook and growth for the insurance market generally appears to have shown some improvement with applications being submitted for consideration and licensing. The Insurance Division is optimistic that the growth from past years may return over time as insurance managers continue to encourage their current clients and prospective clients to continue or establish in the British Virgin Islands. Also coupled with the vast number of enquiries on insurance regulation fielded during 2011, the Insurance Division is hopeful that these enquires will be fruitful in revamping the insurance market to grow to the heights it realized in 2006 when there were four hundred and thirty (430) captives licensed in the British Virgin Islands.

To follow are charts showing the statistics for Captives and Domestic Insurers for the calendar year 2010 with comparisons for the Domestic Market in BVI.

Captive Insurers Financial Statistics - 2010	
Gross Written Premiums	$514,361,986
Net Written Premiums	$453,755,124
Claims Incurred	($11,218,286)
Underwriting & Other Costs	($180,386,113)
Underwriting Results	$162,150,725
Gross Assets	$1,939,498,220
Allowable Assets	$1,521,468,221
Net Worth	$1,058,066,974

Domestic Insurance Statistics - 2010

	2008	2009	2010
Motor	$6,443,174	$7,939,714	$7,956,991
Property	$16,153,706	$21,463,575	$21,141,858
Liability	$5,729,041	$7,945,547	$11,747,297
Marine & Aviation	$7,992,121	$6,555,949	$7,127,280
Health	$30,771,893	$40,123,448	$38,646,433
Accident	$187,133	$42,169	$685,911
Life	$3,323,604	$4,163,086	$4,488,949
Other	$6,691,174	$6,223,255	$150,961
Total GWP	**$77,291,846**	**$94,456,743**	**$91,945,680**


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Insolvency Services

The Insolvency Services Division is responsible for the licensing and regulation of insolvency practitioners. The insolvency regime is governed by the Insolvency Act, 2003 and other related subsidiary legislation.

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Under the Insolvency regime only licensed insolvency practitioners are eligible to accept appointments as administrator, administrative receiver, interim supervisor, supervisor, provisional liquidator, liquidator (other than in a solvent liquidation procedure) or bankruptcy trustee for insolvency matters.

The Insolvency Services Division currently supervises 23 licensed insolvency practitioners (22 full and 1 restricted). During the year, 8 new licenses were issued and 4 licenses were revoked at the licensee's request. All of the new licensees represent expansions of existing firms.

Supervision and Interaction

In 2011, the Division, on behalf of the Commission, consented to the appointment of 21 overseas insolvency practitioners. These overseas practitioners were appointed jointly with locally licensed practitioners in accordance with the Insolvency Act. The majority of the 21 overseas practitioner appointments involved cases where the key assets were located in the Far East, specifically Hong Kong. The overseas practitioners were chosen based on their key experience required in dealing with the assets in question and having great familiarity with the customs of the jurisdiction in which the assets were located. In all cases, the joint appointee had to meet the requirement of possessing similar qualifications from a recognised jurisdiction in order to be appointed.

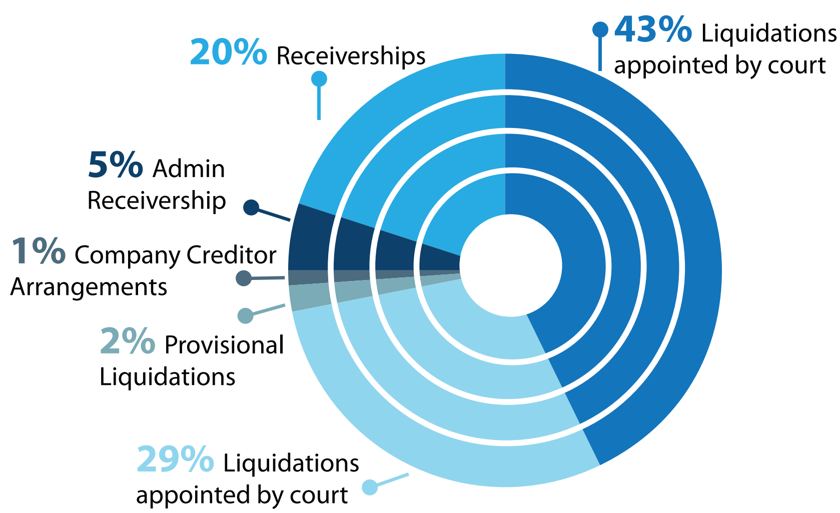
Staff/Training

The Division operates and functions effectively with its current staff complement of five. In 2011 members of the Division attended several conferences and training seminars including the INSOL International Regional Conference held in Singapore, the INSOL International Caribbean Seminar held locally in the BVI, and the International Association of Insolvency Regulators' (IAIR) Annual General Meeting and Conference in Jersey, Channel Islands. This meeting is a Regulator-centered conference which provides an opportunity for Regulators around the world to share their experiences.

2011 Statistical Analysis

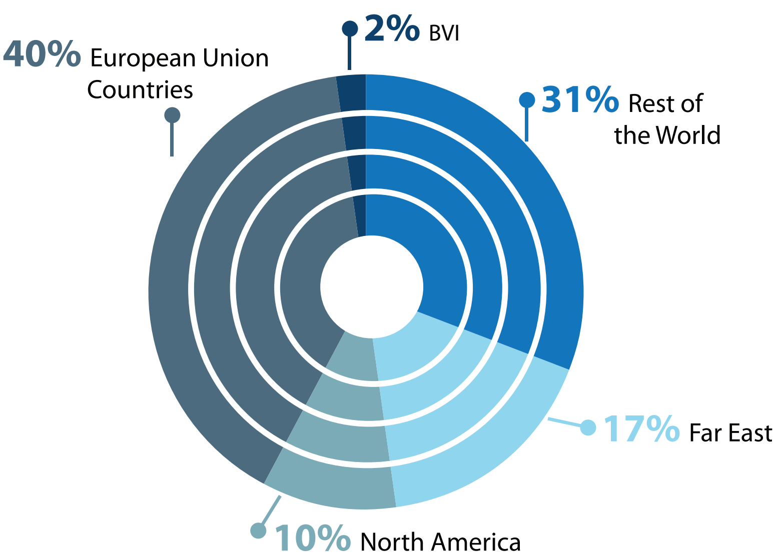
The Annual Returns that must be submitted to the Division by its licensees provide industry statistics on the number of insolvency cases brought forward from previous years, cases opened and closed in a given year and the number of cases going forward to the following year, along with the jurisdictions from which new cases were drawn.

As of 31 December 2011, the statistical summary of cases by classification for the year showed that the Territory began the year with 235 cases in progress and closed with 221 cases in progress at year end. This case load was shared between the 23 licensed Insolvency Practitioners and the Official Receiver.



In 2011 45 cases were opened compared to 88 in 2010. The 53 cases closed in 2011 reflected a 20.4% increase in closures over the 44 cases recorded in 2010. In relation to the overall number of cases in progress there was a 13% decline from 249 in 2010 to 221 at the end of 2011.

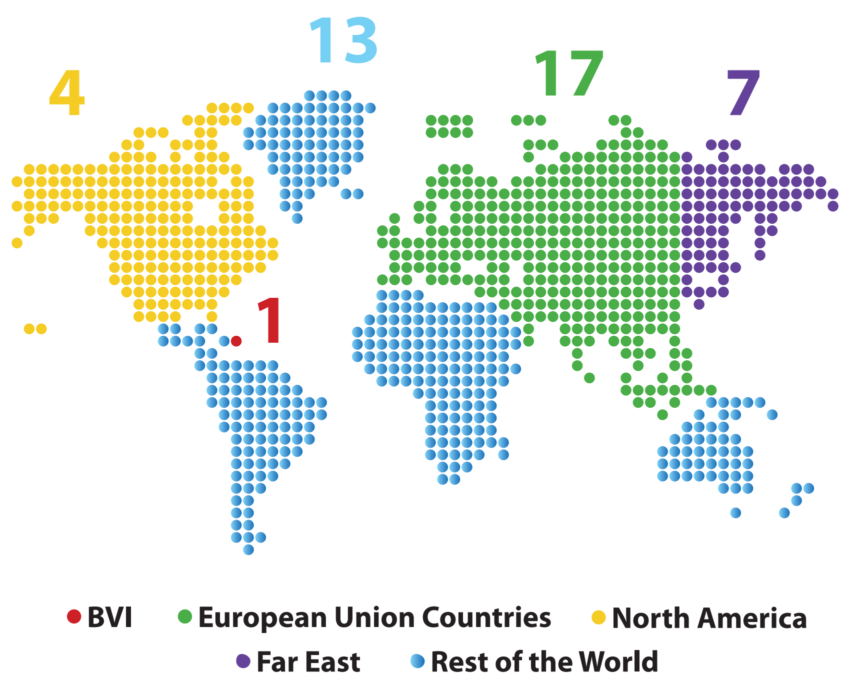
Main Centres of Operations for new Cases

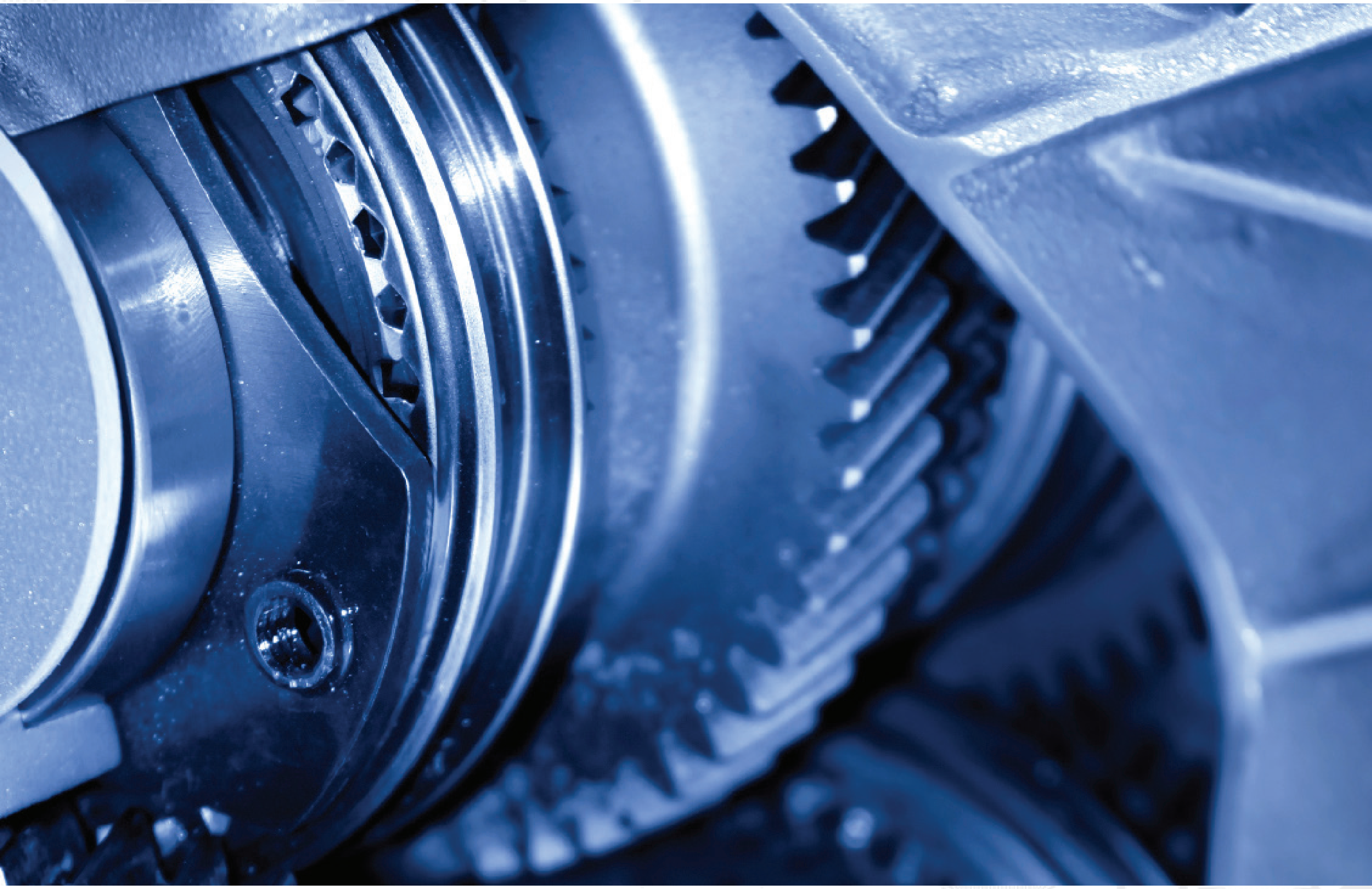


Analysis of the centres of operations from which new cases were drawn in 2011 shows that the European Union Countries accounted for 40% of all new cases; Rest of the World accounted for 31%; Far East accounted for 17%; North America accounted for 10%, the BVI accounted for 2 % and the Caribbean (other than the BVI) had no new cases.

2012 Outlook

The Division anticipates that 2012 will continue the trend observed in 2011 where the majority of insolvency cases will consist of joint appointments with overseas practitioners. It is also expected that China and Eastern Europe will lead the way in liquidations and restructuring as the slowdown in the demand for natural resources begins to affect many of the suppliers and auxiliary services associated with this industry. A small number of liquidations and restructurings involving local companies are expected to continue as the negative effect of the global economy continues to filter its way into the BVI economy.





Registry of Corporate Affairs

The Registry of Corporate Affairs (the Registry) administers the BVI Business Companies Act, the Partnership Act, the Trade Marks Act, the Registration of UK Patents Act and the registration of United Kingdom Trade Marks Act. The Division is responsible for ensuring that entities doing business in, and from within, the Territory are duly registered and that the Register is properly maintained.

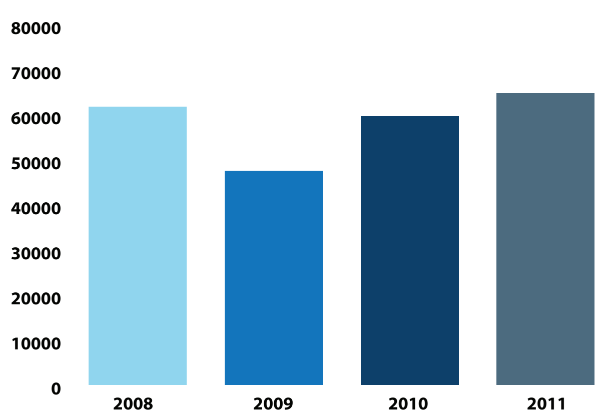
SECTOR OVERVIEW

Despite the sluggishness of the global economy, the Registry continues to excel in its strongest area, BVI Business Companies. New incorporations for 2011 totaled 64,729 creating an increasing trend from 2009 to 2011. With the exception of the fourth quarter of 2011, each of the first three quarters showed an increase above those for 2010.

Limited Partnerships maintained a low profile in 2011 with 68 registrations, compared to 72 in 2010. Registration of local trademarks increased to 205 above 192 in 2010, while UK trademarks had an unexpected decrease with only 68 registrations in comparison to 88 in 2010. As of 31 December, 2011, the total number of companies registered was 733,797, with the total active companies being 481,002. During 2011, there were 51,147 companies struck off the Register for non-payment of fees.

Incorporations and Registrations

New Incorporations	2008	2009	2010	2011	% Change
BVI Business Companies	61,716	47,477	59,623	64,729	7.89



POST INCORPORATION TRANSACTIONS

The majority of post incorporation transactions increased in 2011 when compared with 2010. Requests for certificates of good standing which are usually at a high volume increased marginally in 2011, and totaled 50,518; a 1.16% increase over 2010.

Dissolutions, appointment of liquidators and continuations out of the BVI all decreased in 2011. These decreases produced positive results, as more companies remained on the Register.

SUPERVISORY REPORT

Drafts of the BVI Business Companies Regulations and the BVI Business Companies (Amendment) Act were circulated to the industry in mid 2011 to seek industry input. The Explanatory Notes to the draft BVI Business Companies (Amendment) Act were also circulated at that time. There has been significant consultation on these drafts from the industry and by way of the Company Law Review Advisory Committee. In addition, drafting of the Trademarks bill continued and the draft was completed within the last quarter of 2011.

The search function that will allow the industry to use VIRRGIN to conduct electronic searches was introduced to a beta testing group. This group comprised of a sample of industry practitioners who used the function to conduct searches and are expected to provide feedback on the performance before the function is opened to the wider industry in 2012.

2012 OUTLOOK

It is expected that the amendments and the regulations to the BVI Business Companies Act will be implemented and introduced in 2012. These two pieces of legislation will complement the existing BVI Business Companies Act and will enhance the prospect of selecting a BVI Business company. The Trademarks bill is expected to be circulated to the industry during the first quarter of 2012 for consultation.
Other activities the Registry anticipates to embark upon during 2012 are:

- The launch of VIRRGIN's electronic search function;
- Digitalising company files to support electronic searches;
- Exploring the possibility of extended hours; and
- Conducting in-house and industry training in relation to the BVI Business Companies Act and the Regulations.

Non-Supervisory Divisions

Legal and Enforcement Division

The Legal and Enforcement Division provides ongoing legal support to the Commission's regulatory divisions, the Managing Director, Committees of the Commission, and the Board of Commissioners. The Division also executes requests for assistance from foreign regulatory and law enforcement authorities and takes conduct of enforcement action, as directed by the Enforcement Committee ("EC"), against regulated persons that act in violation of the regulatory and anti-money laundering laws, as well as against persons carrying on unauthorised financial services business.

Primary responsibilities, legislation

The Division co-ordinates and executes requests for assistance by foreign regulatory and law enforcement authorities on an ongoing basis. The Division also makes requests for assistance to foreign regulatory authorities where assistance is required for the performance of the Commission's regulatory functions.

In addition, the Division receives enquiries, complaints and reports relating to BVI companies from private individuals. Such complaints or reports may raise matters of regulatory concern or reputational risk to the Territory. In such cases, the Division conducts preliminary investigations before referring the matter to the EC and/or any relevant regulatory, law enforcement or intelligence agency.

The Division represents the Commission in civil proceedings in the High Court. These generally comprise applications for the restoration of companies that have been struck off the Register of Companies and dissolved under the BVI Business Companies Act, 2004 (the "BVI BC Act"). The Division also represents the Commission where the Commission's decisions on enforcement action involve applications to the Court made under the Financial Services Commission Act, 2001, the Insolvency Act, 2003 and other financial services legislation. In addition, the Division is responsible for advising on the interpretation and application of all legislation by which the regulatory and supervisory functions of the Commission are governed. It also advises on the interpretation and application of other BVI legislation and, from time to time, the interpretation of foreign legislation.

SUPERVISORY REPORT

Requests for Assistance

Requests for assistance from foreign regulatory or law enforcement authorities are categorised as formal requests. In most cases, the formal requests that the Commission receives from foreign regulatory authorities seek information to facilitate the conduct of due diligence inquiries or investigations into breaches of foreign regulatory laws. During 2011 the Division received 110 formal requests from foreign regulatory authorities, up from 98 in 2010. The Division also received 18 informal requests for assistance from other non-regulatory/law enforcement agencies.

With respect to inquiries, complaints and reports relating to BVI companies from private individuals, regulatory bodies, government agencies and law enforcement, the Division received 131 such reports and inquiries which led to investigations and referrals to external agencies during the year. This reflects a 16.6% decrease from 2010.

Eighteen matters were referred to the Financial Investigation Agency (FIA) under the Memorandum of Understanding (MOU) between the FIA and the Commission. This reflects a marked decrease over the ninety-eight (98) matters that were referred to the FIA in 2010. The cases referred related to companies which are alleged to be involved in investment fraud, tax evasion, tax avoidance, corruption, Ponzi schemes, forgery of documentation issued by the Registry of Corporate Affairs, fraud, unauthorised business, money laundering, advanced fee fraud schemes, breaches of US sanctions against Iran and Internet fraud.

There were five requests made for the performance of enhanced due diligence investigations under the MOU. The requests sought information on various individuals who required the Commission's approval for appointment as directors of regulated entities. In addition, the Commission filed 23 Suspicious Activity Reports (SARs) with the FIA relating to cases of suspected fraud, Ponzi schemes, money laundering, UN sanctions, tax evasion and corruption.

Regulatory and Enforcement Action

The Division provides advice to the regulatory divisions on appropriate enforcement action to address regulatory breaches and similar concerns. Decisions on appropriate enforcement action are ultimately made by the EC and the Division is responsible for implementing the decisions of the EC and keeping the EC and the Board abreast of developments in this regard.

A decrease in the number of matters referred to the Division was observed during the year 2011. The 178 matters referred to the Division for advice on regulatory and enforcement action reflects a 14% decrease over the 205 matters dealt with in 2010.

Court Proceedings

During 2011, the Division represented the Commission and/or the Registrar of Corporate Affairs in 55 applications under the BVI BC Act, an increase of 51% over the number of applications filed in 2010. Forty-nine applications sought the revocation of the dissolution of companies; four (4) sought the termination of voluntary liquidation; and two (2) sought amendments to the Memorandum and Articles of Association of companies. In addition to the applications made under the BVI BC Act, one case involved an application by the Commission for the appointment of a liquidator on the public interest ground of the Insolvency Act, 2003.

	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Total
Formal Requests	32	21	31	26	110
Informal Requests	3	1	6	8	18
Investigations**	43	39	14	35	131
Information to share to FIA under MOU	3	8	5	2	18
Information to share to FIA under MOU	1	2	-	2	5
Information share to counterpart regulatory authorities	1	1	-	-	2
Information share to counterpart regulatory authorities	2	2	-	-	4
Reports filed with RVIPF	1	4	1	2	8
SAR's filed with FIA	7	8	-	8	23
Total	**93**	**86**	**57**	**83**	**319**

2012 Outlook

The Division facilitates the work of the Commission and its regulatory divisions by providing advice on the interpretation and application of financial services laws. It is responsible for providing guidance and legal advice to ensure that the Commission's internal controls and procedures are transparent and efficient and its decisions fair, consistent and proportionate. To promote this objective the Division proposes to embark on a training programme for the Commission's staff on the requirements of administrative law, how those requirements apply to the Commission's day to day functions and the steps that the Commission and the regulatory divisions need to take to ensure adherence to those requirements. The Division also proposes to provide training for the Commission's staff on the application of the Enforcement Committee Guidelines.

The Division also intends to engage additional staff, so that it can better assist the Commission in the discharge of its functions in a more timely manner. To enhance the performance of its functions, the Division's staff will receive training in enforcement-based investigation and research, advocacy, case preparation, and report-writing in 2012.

Regulatory Divison/ Agencies	Q1 2011	Q2 2011	Q3 2011	Q4 2011
Administration	0	0	0	2
Investment Business	10	16	21	13
Banks and Fiduciary Services	8	13	14	5
Insurance	20	10	7	26
Insolvency	0	2	0	0
Finance	0	0	0	0
Registry of Corporate Affairs	3	3	0	2
Policy, Research and Statistics	0	0	0	0
Approved Persons Regime Unit	0	0	0	0
Enforcement	0	0	0	0
Attorney General and Governor's Office	0	0	0	0
Total	**41**	**44**	**42**	**51**

Policy, Research and Statistics

Strategic intelligence gathering and policy development is the responsibility of the Policy Research & Statistics Division. In carrying out its mandate, the Division monitors international regulatory and legislative developments, develops regulatory policies, researches topics related to the financial services industry and produces industry statistics. It is also responsible for taking the lead in all anti-money laundering and terrorist financing related matters and for planning and executing in-house training and development aimed at institutional strengthening. In addition, the Division formulates responses (in liaison with the relevant Divisions where necessary) to all surveys and questionnaires submitted by regional and international bodies in relation to the Territory's financial services sector.

Sector Overview

CFATF Mutual Evaluation Follow-up

In January 2011, the BVI satisfied the CFATF's requirements to be removed from the regular mutual evaluation follow-up process and be placed on biennial follow-up, which means the BVI is now required to report on its progress in addressing its deficiencies once every two years. The report which was compiled by the Division showed that the Territory had made significant strides in addressing its deficiencies through appropriate administrative and legislative reform. Since being placed on biennial follow-up, the Division has continued to ensure that the remaining deficiencies identified in the 2008 CFATF Mutual Evaluation of the Territory are being appropriately addressed, with a view to requesting removal from the follow-up process completely in 2012.

CFATF International Cooperation Review Group

The BVI is the current Chair of the CFATF International Cooperation Review Group (ICRG) and is represented by the Director of the Division. The Director is assisted by the Director of the Legal and Enforcement Division (LED). The ICRG is working on reigning in members with poor AML/CFT ratings in their mutual evaluation reports to comply with the established standards and has undertaken the responsibility of ensuring the fifteen member jurisdictions which are either currently under FATF ICRG review or are potential candidates for such review have committed themselves at the highest level possible to the ongoing reform process.

The Director presented updates on the ICRG's work at the FATF ICRG and Plenary meetings in February 2011. Additionally, the Director of the LED attended, on his behalf, the bi-annual meetings of the FATF Americas Regional Review Group, in addition to undertaking a high level mission to Trinidad and Tobago. A high level mission was also undertaken to Venezuela in 2011. These missions and the overall work of the ICRG have set the standard for the level of work to be carried out; so much so that the CFATF ICRG has now become a model for other FATF Style Regional Bodies (FSRBs) and the tremendous achievements recorded in the CFATF reform process have been acknowledged by the FATF.

Legislative Developments

The Division continued its collaboration with the Attorney General's Chambers (AGC) to review the Territory's financial services legislation; however, 2011 saw a slowdown in the legislative reform process. Fewer legislation was drafted during the course of the year than in previous years as most areas identified in the various reports emanating from regional and international reviews requiring reform had been substantially addressed. Four new pieces of legislation were developed by the Division and forwarded to the AGC for review and onward transmission to Cabinet and the House of Assembly in 2011. The following legislation were all enacted and brought into force:

- Financial Services (Miscellaneous Exemptions) Regulations, 2011
- Financial Services (Miscellaneous Exemptions) (Amendment) Regulations, 2011
- Financial Services Commission (Amendment) Act, 2011; and
- Securities and Investment Business (Amendment of Schedule 8) Order, 2011

Supervisory Report

Regulatory Developments

In 2011, the Division prepared, and the Board approved, the Code of Conduct for On-site Inspectors which serves as guidance for members of the Commission's Onsite Inspection Team while carrying out their inspection duties. The Code sets out minimum standards to be maintained by all regulators while conducting onsite inspections of the Commission's licensees. As members of the Commission, regulators generally are expected to observe the highest standards of ethical conduct, consistent with the values of integrity, impartiality and discretion, and are expected to act with integrity in carrying out all of their functions, avoiding any behaviour that would reflect adversely on themselves, other members of the inspection team or the Commission. All inspectors are expected to observe the Code both in letter and spirit.

The Division also prepared Guidelines in Relation to the Use of Restricted Company Names and Approval of Company Name Endings. These Guidelines were implemented to assist in drawing attention to the restricted names comprised in the various regulatory legislation as well as the restricted names prescribed by the Commission, and in the processing of applications for obtaining the consent or approval of the Commission for use of such names.

In addition to this, the Division drafted Guidelines for Applying for an Exemption to Appoint a Custodian or Fund Manager which is expected to be approved by the Board and issued early in 2012. Persons wishing to provide custodian and management services are required to be licensed, and all licensees must make arrangements for the proper protection of clients' assets. There are circumstances, however, in which the requirement to appoint a custodian or fund manager may not be necessary or feasible. The Guidelines, therefore, provide guidance on the circumstances in which an exemption may be granted and outline the documentation and other supporting information that are required to be submitted when making an application for exemption from appointing a custodian or fund manager.

Statistics

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Inter-governmental Committee on AML/CFT Matters

The Division is responsible for coordinating the activities of the Inter-governmental Committee on AML/CFT Matters (IGC) which was established by virtue of section 50 the Anti-money Laundering and Terrorist Financing Code of Practice, 2008 ("the Code") to promote cooperation between law enforcement and regulatory authorities in the fight against money laundering and terrorist financing. Members of the IGC share information on activities which might have AML/CFT implications and deliberate on how best to coordinate efforts to effectively combat financial crime. The IGC comprises representatives of the Commission as Chairman, Attorney General's Chambers, Office of the Director of Public Prosecutions, Ministry of Finance, Royal Virgin Islands Police Force, HM Customs Department, Immigration Department, VI Shipping Registry, BVI Airports Authority, Trade and Consumer Affairs Department, Financial Investigation Agency and Ports Authority, and meets at least once a quarter to provide updates on any AML/CFT matters encountered by members during that time. The Division is also responsible for the collection of AML/CFT statistics submitted by members of the Committee.

Joint Anti-money Laundering and Terrorist Financing Advisory Committee

The Joint Anti-money Laundering and Terrorist Financing Advisory Committee (JALTFAC) is a body comprised of representatives of the regulatory and law enforcement authorities and private sector entities and professionals. It is established under section 27A of the Proceeds of Criminal Conduct Act, 1997, and is responsible for providing advice on all AML/CFT matters, including the review of AML/CFT legislation. The Division is responsible for coordinating the activities of this Committee as any changes to the Territory's AML/CFT regime must be discussed and reviewed by JALTFAC before implementation. All decisions made by JALTFAC are carried forward by the Division or coordinated by the Division for implementation.

During the year JALTFAC focused its attention on addressing the issue of the monitoring and supervision of Designated Non-financial Businesses and Professions (DNFBPs) as this remains one of the few outstanding issues in relation to satisfying the requirements of the FATF's 40 +9 Recommendations. This matter is to be taken up by the Financial Investigation Agency which has responsibility for the subject matter. The Division prepared, on behalf of JALTFAC, a general questionnaire to gauge the level of understanding of AML/CFT issues amongst DNFBPs, an AML/CFT questionnaire for legal practitioners, accountants and notaries public, and a draft pre-inspection questionnaire for use by the FIA in preparing for the monitoring and supervision of DNFBPs.

The registration and supervision of non-profit organisations (NPOs), also remains outstanding and has now been taken on by the Government. As a result, members of JALTFAC were appointed to a committee headed by the Permanent Secretary in the Deputy Governor's Office to consider the FATF Recommendation and formalise a plan for the effective monitoring and supervision of this sector. At the end of 2011 the committee held its first public consultation which attracted over 100 persons representing various NPOs within the Territory.

During 2011, JALTFAC also discussed the need to review sections 25 and 28 of the Code which address verification of legal persons and verification of trusts respectively, to bring them in compliance with Global Forum Peer Review requirements. Amendments to the Code are expected to be put in place in 2012.

Company Law Reform Advisory Committee

The Company Law Reform Advisory Committee (CLRAC) is charged with the responsibility of reviewing the BVI Business Companies Act, 2004 (BCA) and other legislation relevant to company law, and advising the Commission on any potential changes that could be made to the Act or other relevant legislation which might foster the ongoing development of the industry. The Division is responsible for advising on the convening of the CLRAC and coordinates the work of the CLARC. The CLRAC met in earnest in 2011 to discuss possible changes to the BVI Business Companies Act and the long anticipated development of the BVI Business Companies Regulations.

Some of the issues reviewed for inclusion in the Regulations include the use of foreign character names, re-use of company names, re-registration of companies, and the eligibility of persons to act as voluntary liquidator. In addition to the Regulations, the BCA underwent substantial reform during this time. At the end of 2011, a new BVI Business Companies (Amendment) Act and BVI Business Companies Regulations had been agreed upon and drafted. These legislation are due to be enacted in 2012.

Intellectual and Industrial Property Focus Group

The Intellectual and Industrial Property Focus Group was established in 2010 to review the Territory's laws on intellectual and industrial property matters with a view to reforming the regime. The Focus Group is charged with the responsibility of reviewing and revising the existing IIP Laws and advising on appropriate new legislation that takes into account current treaties on the subject, and determining how best the Commission can effectively administer the regime, for which it has responsibility. Whilst much of the ground work was completed in 2010, the first draft of the Trademarks Bill was finished in early 2011. Since that time the draft Bill has gone through several revisions to ensure that the final product will be one that will meet the objectives of the Focus Group as laid out in its Terms of Reference. The Bill is scheduled to be distributed for public consultation in early 2012 with a view to having it approved by the end of the year. The Division chairs and coordinates the work of this Focus Group.

Focus Group on the Development of New Legislation on Arbitration

In 2011 the Commission determined that, based on increasing global demand for various mechanisms to address commercial dispute resolution, the Virgin Islands is in a prime position to take advantage of this growing need for the establishment of an international arbitration centre to manage and administer commercial dispute proceedings.

In December 2011, the Focus Group on the Development of New Legislation on Arbitration (AFG) held its inaugural meeting. The AFG was charged with the responsibility of reviewing and revising the existing arbitration laws and advising on appropriate new legislation that take into account current and emerging standards in arbitration law, including established international treaties and how best these may be appropriately and effectively developed within any new and revised Arbitration legislation. The AFG is expected to carry out much of its work in 2012 with a view to having draft legislation prepared by mid-year. The work of the AFG is coordinated by the Division.

AML/CFT Training

Since 2008 the Division has been responsible for co-ordinating the Commission's in-house AML/CFT training. This training is a requirement of Section 47 of the Code and is required to be conducted on an annual basis. In 2011, sixty-nine persons, consisting of both regulatory and no-regulatory staff received AML/CFT training. During the sessions staff were trained on how to assess AML/CFT manuals and compliance when carrying out inspections; and how to identify weaknesses in internal control systems, record keeping and customer due diligence measures. They were also introduced to the Commission's preparations in developing an AML/CFT risk assessment framework and apprised of the new developments affecting compliance with international AML/CFT standards. This portion of the training focused on the changes being made to the FATF's 40 +9 Recommendations as well as the work being carried out by the FATF and CFATF ICRG.

2012 Outlook

With the Third Round of CFATF Mutual Evaluations drawing to a close, and the imminent publication of the Revised FATF standards on AML/CFT, the Division envisions that 2012 will be the beginning of an on-going period of significant legislative reform, as all AML/CFT laws will have to be reviewed and revised to be brought into line with the new standards prior to the commencement of the Fourth Round of Mutual Evaluations.

As the Territory prepares to advance to Phase II of the Global Forum's Peer Review Process other legislative changes will be required to ensure the Territory is able to meet the standards set by this review process, thereby allowing it to maintain its standing in the global community. The likely areas of reform will relate to business companies and partnerships.

Other regulatory reform is also expected with the passage of the BVI Business Companies (Amendment) Act and the BVI Business Companies Regulations which should come into effect in 2012 and which will require the development of necessary Guidelines and procedures. Also, as the Investment Business Division begins to fully implement the various provisions of SIBA and measure its effect against the expectations of the industry and its impact on fund business, it is anticipated that some changes to the legislation may be required to maintain the BVI's position as a leader in the industry. Consideration will be given to developing a new regime in relation to investment advisers and managers whereby such persons may be approved to engage in defined relevant business without having to be licensed.

It is anticipated that the IIP Focus Group's work on trademarks will be concluded in 2012 and that the draft Trademarks Bill will be advanced to Cabinet and the House of Assembly for consideration. It is also anticipated that significant progress will be made by the AFG in developing a modern Arbitration Act and laying the foundation for the establishment of the BVI as an international arbitration centre.

The Division will also continue to support the IGC and JALTFAC, and will continue its involvement with the CFATF ICRG and other CFATF working groups. It will also continue liaising and working with all the Divisions to develop new policies relevant to their work, including effecting reforms wherever considered necessary.

Corporate Services

The Corporate Services Division functions as the Operations arm of the Commission and is comprised of several business units including finance, information technology, general administration, facilities and corporate communications.

Efforts to manage the expanding infrastructure and operations needs of the Commission consumed the Corporate Services Division in 2011. As the Commission's regulatory responsibilities increase, so do its requirements to maintain efficient and effective operational structure. The Corporate Services Divisions manages the Commission's Information Technology assets, administers its financial revenue and expenditure budget and provides comprehensive support in general and office administration, facilities and physical infrastructure management to all other divisions.

The Commission's Corporate Communications Unit ensures that a consistent corporate image of the Commission is visible and displayed in its many publications, interaction with media, industry and other stakeholders. Through both segmented direct contact and general publications, the Commission uses various forms of mass media to engage practitioners and the general population. The Corporate Communications function is also concerned with coordinating public meetings and speaking engagements for Commission employees. This year's efforts included various trade association meetings, liaison groups and ad hoc committees to advance topical issues and challenges. The Commission continued its popular Meet-the-Regulator forum which in seminar format allows the Commission to engage current practitioners at various stages in the development of new and revised facets of the comprehensive regulatory regime. Quarterly publication of the Commission's statistical bulletin is aimed at providing timely and relevant information on usage of financial services products to allow practitioners and Government to observe time sensitive data and evaluate trends. The Commission is particularly pleased to have been able to launch its Money Matters website as part of its ongoing commitment to improve access to financial information to improve financial literacy. The website forms part of the Financial Literacy portfolio and was followed by the publication of the results of a survey on financial literacy that was conducted in the Territory by the Commission.

Information Technology

The Commission prides itself on ensuring that every effort is made to increase efficiency and reduce operations costs through the use of technology. A move to paperless meetings late in 2010 was fully adopted in 2011 and now full Board of Commissioners Meetings and the meetings of both statutory committees the LSC and EC are conducted paper free. This move allows for seamless exchange of information to accommodate alternate members of the meetings who are away from the office. It also allows for more efficient access to past meeting information and provides a 'virtual' legislation library for unprecedented access to the full suite of financial services legislation during meetings.

The Commission's primary technology focus remains plans to introduce fully automated processing for regulatory applications through its VIRRGIN platform. In 2011, extensive work was completed to finalise comprehensive requirements for the application which would allow implementation to commence in 2012. The VIRRGIN requirements efforts were a critical part of the encompassing review of procedures manuals and processes that govern the activities in regulatory divisions.

In an effort to improve the user experience and to transform what has always been a very time and labour intensive requirement for the Commission, a limited test was conducted of internet based searches of the Register of Companies. The test was limited to a select group of regular users of the service who already had access to the Commission's VIRRGIN application. The testing period was effective and highly rated by those participating and the Commission anticipates a full roll out to qualified VIRRGIN users in the next year.

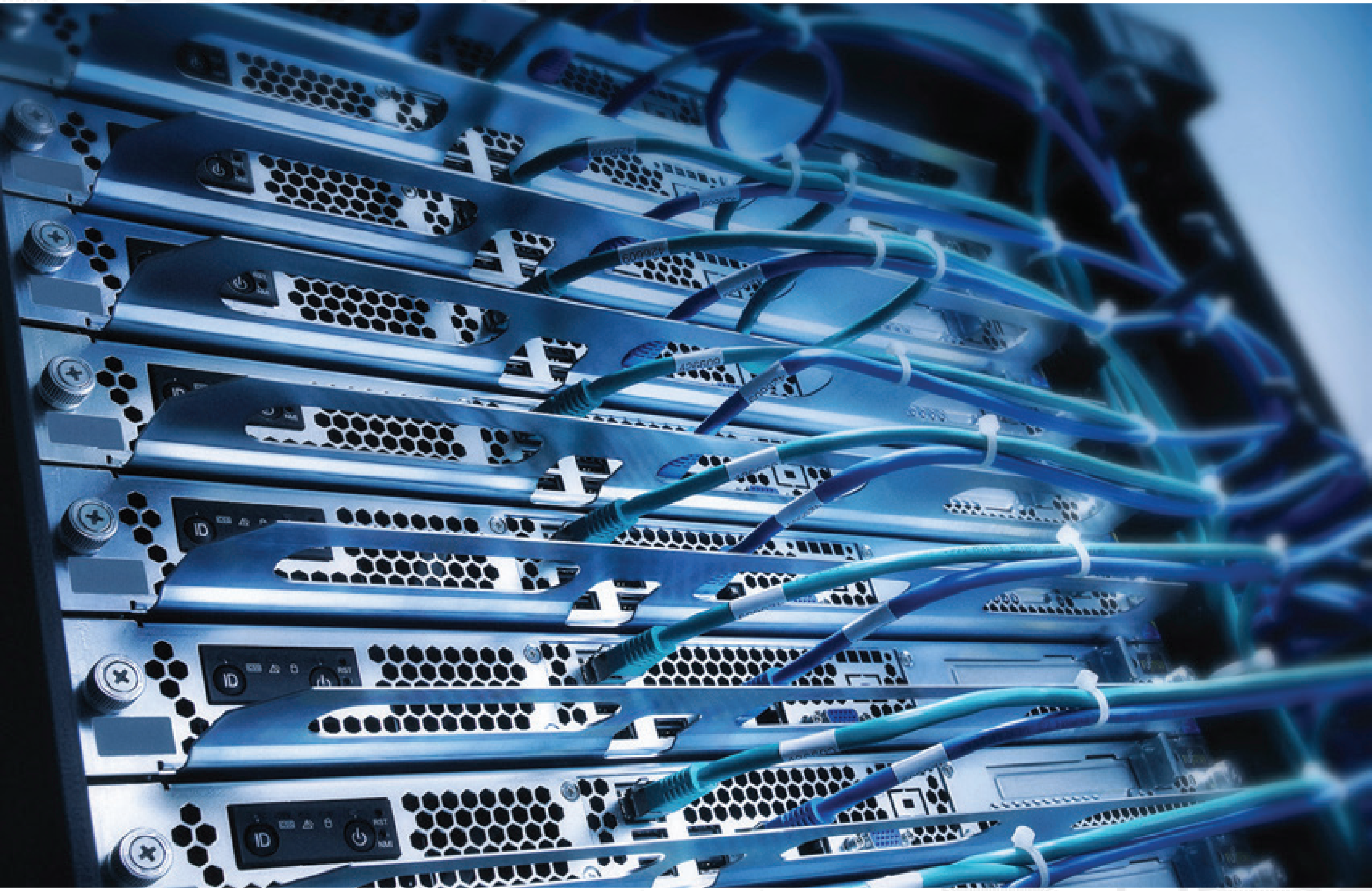
Finance

In 2011 the Commission collected Government revenue totaling approximately $199MM, up $11MM, or 6%, from $187MM reported in 2010. The audited results also surpassed the conservative 2011 revenue estimates by 5% or $10MM. The positive results are vouched to an increase in fees enacted by legislation, namely entrenched in the Regulatory divisions, which were realized in 2011. Examples of such legislations are the Financial Services

Commission (Fees) Regulations, 2010 that was gazetted on October 14, 2010 and the FSC Fees Amendment Regulations, 2010 that was gazetted on December 20, 2010.

2011 Registry and Regulatory revenue preview			
	2010	**2011**	**Variance**
Registry of Corporate Affairs	185,440,945	193,089,937	7,648,992
Banking and Fiduciary Services	1,313,725	2,193,795	880,070
Insolvency Services	50,000	78,000	28,000
Insurance	332,175	1,032,725	700,050
Investment Business	1,542,640	3,625,425	2,082,785
Total	**188,679,485**	**200,019,882**	**11,340,397**

However, the main driver or indicator for future growth, new licensees, has been relatively temperamental in 2011 across all divisions, especially as it relates to the US and European debt crisis. As the global economy goes so also goes the pulse of the financial services industry. Thus looking beyond the 2011 results, immediate future growth forecasts are traditional at best. It is important to keep in mind that while 2011 benefited from an increase in fees that in no means is a sustainable approach going forward. Continuing to realise a robust financial services regulatory regime will always be the Commission’s mantra as quality always leads to growth.



Human Resources

The human resources function is an essential part of any professional organisation. At the Commission the main objective of the Human Resources Division is to fulfil the organisational needs of the organisation through the recruitment, development and retention of high performing employees, and to meet the needs of the Commission's staff. Its mission is to promote fair and equitable treatment of all employees and to administer an impartial disciplinary process and an attractive compensation and benefits plan, as well as provide relevant information on all HR-related matters.

EMPLOYMENT

Staffing and Recruitment

One of the key functions of the Division is to assist applicants and employees with all phases of the employment process. In 2011, the Department processed approximately 93 requests for employment resulting in the recruitment of nine new employees to fill some vacant and newly created positions. In one instance, one position was filled internally. Internal transfers helped to facilitate optimising staffing levels among existing divisions and units. In addition to the recruitment of these employees, three staff members were afforded significant promotions during the course of the year.

Through the Annual Summer Employment Programme ten temporary employees were hired, an increase of 60% over 2010. The Summer Employment Programme mainly accommodates current college-level students and this year also included participants from the Secondary-School "On The Job" training programme.

Staff retention is critically important to the Commission. The organisation prides itself on ensuring that all employees are treated in an equitable manner and that benefits offered are comparable with industry standards. In so doing the Commission has, over the years, managed to retain a large number of staff. This retention is reflected in the Commission's growing maturity, as 45% of the current staff have been employed with the Commission for at least seven years, up from 40% in 2010.

While there was an increase in departures over 2010 where there were no departures from the Commission, nine new staff were hired during 2011. At the end of 2011 the Commission's staff count reflected a net increase of five and now stands at 140.

Employees by Years of Service

Years	Number of Employees	Percentage of Employees
0-3 Years	39	27.9%
4-6 Years	38	27.1%
7-9 Years	63	45.0%
Total	**140**	**100%**

Employees Movement

Hires	9
Departures	5
Study Leave	3
Transfers	3
Internal secondments	2

COMPENSATION ADMINISTRATION

Benefits Administration

The Commission prides itself on providing its staff with benefits comparable to other leading organisations within the Territory. During 2011 the Division continued its effort to provide support and advice to staff by responding to a number of benefits-related matters as they arose. At the end of 2011, 86 % of employees were enrolled in the Commission-sponsored health insurance plan. With respect to retirement benefits the pension/retirement plan continued to have an employee participation rate of 96 %. The remaining 4% of the staff are contract employees, which due to the terms of their employment, excludes their participation in the plan.

TRAINING AND DEVELOPMENT

Staff Development

Over 40% of staff received training opportunities in 2011 through their attendance and participation in various regional and international conferences and seminars. This marks a 9% increase over the number of staff that was trained in 2010. Also during 2011, three employees continued to pursue their respective programmes of study abroad. Additionally, two employees successfully completed studies at the H. Lavity Stoutt Community College.

EMPLOYEE RELATIONS

In 2011 counselling support was provided to a small number of staff members on an individual basis through the Employee Assistance Programme. Counselling was also provided to one Division to assist divisional staff in coping with the loss of two long-term co-workers.

During the holiday season the Commission continued to foster a spirit of togetherness and promote holiday spirit by holding its fifth Annual Christmas Party for FSC Kids; an event that continues to be appreciated by staff and their families. The event was attended by a number of employees and their families who gathered to celebrate the Christmas season.

2012 OUTLOOK

Looking ahead to 2012, the Human Resources Division intends to focus on enhancing the training function at the Commission to better meet the needs of its staff. The Division also hopes to provide in-house financial education primarily for those members of staff who could benefit from making positive behavioural changes through better budgeting habits, ultimately reducing their financial stress and becoming better prepared for eventual retirement.

Financial Statements

BRITISH VIRGIN ISLANDS
FINANCIAL SERVICES COMMISSION

Audited Financial Statements

For The Year Ended December 31, 2011

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

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BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Commission Directory

BOARD OF COMMISSIONERS

Mr. Robin Gaul	Chairman
Mr. Colin O'Neal	Deputy Chairman
Ms. Eleanor Smith	Commissioner
Mr. Phillip Fenty	Commissioner
Mr. Martin Fuggle	Commissioner
Mr. E. Walwyn Brewley	Commissioner
Mr. Robert Mathavious	Managing Director, ex officio Commissioner

REGISTERED OFFICE

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COMMISSION SECRETARY

Ms. Annet Mactavious

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British Virgin Islands

Independent Auditors' Report

To the Board of Commissioners
British Virgin Islands Financial Services Commission
Tortola, British Virgin Islands

We have audited the accompanying financial statements of the British Virgin Islands Financial Services Commission (the "Commission"), which comprise of the statement of financial position as at December 31, 2011, and the related statements of comprehensive income, changes in reserves, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We have 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 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 controls 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 Commission as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BDO Limited

August 28, 2012
Tortola, British Virgin Islands

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Statement of Financial Position
As at December 31, 2011
Expressed in United States Dollars

	Notes	2011	2010
ASSETS			
Non-current assets			
Fixed assets	3,4	1,273,960	904,155
VIRRGIN project under development	4	386,401	386,401
		1,660,361	1,290,556
Current assets			
Regulatory deposits	5	7,892,404	7,050,449
Cash and cash equivalents	6	17,089,687	16,132,388
Time deposits	7	5,020,035	4,998,000
Financial assets at fair value through profit or loss	8	2,898,031	-
Other receivables and deposits	9	473,885	471,180
		33,374,042	28,652,017
TOTAL ASSETS		**$35,034,403**	**$ 29,942,573**
RESERVES AND LIABILITIES			
Capital reserves			
Contributed capital	10	3,993,900	3,993,900
Property & equipment reserve	10	1,660,361	1,290,556
Total capital reserves		5,654,261	5,284,456
Revenue reserves			
Training reserve	10	400,000	400,000
Loan revolving reserve	10	165,000	165,000
Future capital expansion reserve	10	8,500,000	8,500,000
Refunds reserve	10	50,000	50,000
Enforcement reserve	10	2,000,000	2,000,000
Contingency reserve	10	658,947	760,089
Total revenue reserves		11,773,947	11,875,089
Total reserves		17,428,208	17,159,545
Current liabilities			
Trade and other payables	11	1,870,809	1,874,407
Deposits on account	12	1,842,982	1,858,172
Distribution payable to Government	13	6,000,000	2,000,000
Regulatory deposits from licensed entities	5	7,892,404	7,050,449
Total liabilities		17,606,195	12,783,028
TOTAL RESERVES AND LIABILITIES		**$35,034,403**	**$ 29,942,573**

Signed on behalf of the Commission on August 28, 2012

Chairman

Managing Director

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Statement of Comprehensive Income
For The Year Ended December 31, 2011
Expressed in United States Dollars

	Notes	2011	2010
INCOME			
Fees collected on behalf of the Government	6	200,019,882	188,679,485
Less: Fees due to the Government	6	(178,019,757)	(168,136,158)
Fees retained by the Commission		22,000,125	20,543,327
Other income		187,250	141,123
Interest income		189,763	177,737
Unrealised movement on financial assets at fair value through profit or loss		2,473	-
TOTAL INCOME		22,379,611	20,862,187
EXPENSES			
Advertising		6,066	1,840
Conferences and seminars		132,634	153,380
Contributions		100,632	78,260
Depreciation	3	797,130	1,234,077
Financial Investigations Agency funding		500,000	491,528
Insurance		91,679	67,019
Licenses and fees		43,586	61,963
Literature and reference		110,543	98,724
Maintenance and hire		464,733	350,414
Memberships and subscriptions		51,767	66,822
Miscellaneous		167	821
Office expenses		220,120	289,313
Professional services		1,578,004	1,822,008
Public relations		6,917	913
Rent and lease		932,449	918,797
Staff costs	14,18	11,302,426	11,211,427
Travel and subsistence		835,804	849,068
Telephone and communications		672,172	651,445
Utilities		264,119	248,512
TOTAL EXPENSES		18,110,948	18,596,331
SURPLUS BEFORE GOVERNMENT DISTRIBUTION		4,268,663	2,265,856
Distribution to Government	13	(4,000,000)	(2,000,000)
SURPLUS FOR THE YEAR		**$ 268,663**	**$ 265,856**

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Statement of Changes in Reserves
For The Year Ended December 31, 2011
Expressed in United States Dollars

	Opening balance	Surplus for the year	Transfers	Closing balance
2011:				
Surplus for the year	-	268,663	(268,663)	-
Contributed capital	3,993,900	-	-	3,993,900
Property & equipment reserve	1,290,556	-	369,805	1,660,361
Training reserve	400,000	-	-	400,000
Loan revolving reserve	165,000	-	-	165,000
Future capital expansion reserve	8,500,000	-	-	8,500,000
Refunds & drawbacks reserve	50,000	-	-	50,000
Enforcement reserve	2,000,000	-	-	2,000,000
Contingency reserve	760,089		(101,142)	658,947
	$17,159,545	**$268,663**	**$ -**	**$ 17,428,208**

	Opening balance	Surplus for the year	Transfers	Closing balance
2010:				
Surplus for the year	-	265,856	(265,856)	-
Contributed capital reserve	3,993,900	-	-	3,993,900
Property & equipment reserve	1,887,759	-	(597,203)	1,290,556
Training reserve	400,000	-	-	400,000
Loan revolving reserve	165,000	-	-	165,000
Future capital expansion reserve	7,500,000	-	1,000,000	8,500,000
Refunds & drawbacks reserve	50,000	-	-	50,000
Enforcement reserve	2,000,000	-	-	2,000,000
Contingency reserve	897,030	-	(136,941)	760,089
	$ 16,893,689	**$ 265,856**	**$ -**	**$ 17,159,545**

The accompanying notes form an integral part of these financial statements

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Statement of Cash Flows
For The Year Ended December 31, 2011
Expressed in United States Dollars

	2011	2010
CASH FLOW FROM OPERATING ACTIVITIES		
Surplus for the year	268,663	265,856
Adjustment to reconcile net surplus to net cash from operating activities before working capital changes:		
Depreciation	797,130	1,234,077
Interest income	(189,763)	(177,737)
Unrealised movement on financial assets at fair value through profit or loss	(2,473)	-
Operating surplus before working capital changes	873,557	1,322,196
Decrease (increase) in other receivables and deposits	14,233	(367,812)
(Decrease) increase in trade and other payables	(3,598)	1,009,629
(Decrease) increase in deposits on account	(15,190)	184,016
Increase (decrease) in distribution payable to Government	4,000,000	(2,000,000)
Net cash generated from operations	4,869,002	148,029
CASH FLOW FROM INVESTING ACTIVITIES		
Movement of time deposits-net	(22,035)	(4,998,000)
Purchase of financial assets at fair value through profit and loss-net	(2,895,558)	-
Acquisition of fixed assets-net	(1,166,935)	(636,874)
Interest received	172,825	177,737
Net cash used in investing activities	(3,911,703)	(5,457,137)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	957,299	(5,309,108)
CASH AND CASH EQUIVALENTS		
At beginning of year	16,132,388	21,441,496
At end of year	**$ 17,089,687**	**$ 16,132,388**

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
For The Year Ended December 31, 2011
Expressed in United States Dollars

1. ORGANISATION AND OBJECTIVES

The British Virgin Islands Financial Services Commission (the "Commission") was established under the Financial Services Commission Act, 2001 (the "Act") on December 31, 2001. The Act established the Commission as an autonomous regulatory authority responsible for the regulation, supervision and inspection of all financial services in and from within the British Virgin Islands. Such services include insurance, banking, insolvency, fiduciary business, company management, mutual funds business as well as the registration of companies, limited partnerships and intellectual property. The registered office of the Commission is located at Pasea Estate, Road Town, Tortola, British Virgin Islands.

The Commission oversees all regulatory responsibilities previously handled by the Government of the British Virgin Islands (the "Government") through the Financial Services Department with the additional responsibilities of facilitating public understanding of the financial services system and its products, policing the perimeter of regulated activity, reducing financial crime and preventing market abuse.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards, which comprise standards issued or adopted by the International Accounting Standards Board and interpretations issued by its Standing Interpretations Committee. They have been prepared under the historical cost convention (with the exception of the revaluation of financial assets at fair value through profit or loss) and are expressed in United States ("US") dollars.

2.2 Standards, amendments and interpretations to existing standards effective January 1, 2011 and relevant to the Commission

- **Improvements to IFRSs**. Issued in May 2010, the improvements contain numerous amendments to IFRS, which are considered non-urgent but necessary. The improvements result in accounting changes for presentation, recognition or measurement purposes; or they are terminology or editorial changes only. These improvements have no significant impact in the Commission's accounting practice.

- **IAS 24 (revised), *Related Party Disclosures*.** The revision clarifies the definition of related parties.

The application of the above mentioned amendments had no significant effect on the current period or any prior period. None of the other new standards, interpretations and amendments effective for the first time from January 1, 2011, have had a material effect on the financial statements.

2.3 Standards, amendments and interpretations to existing standards in issue but not yet effective and relevant to the Commission

The following new standards, interpretations and amendments, which have not been applied in these financial statements will or may have an effect of the Commission's future financial statements:

- **IAS 1 (amendment), *Presentation of Financial Statements*.** Amendments to IAS 1 require companies preparing financial statements in accordance with IFRSs to group together items within other comprehensive income (OCI) that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements (effective for accounting period beginning on or after July 1, 2012).

- **IAS 19 (amendment), *Employee Benefits*.** The amendments will provide investors and other users of financial statements with a much clearer picture of an entity's obligations resulting from the provision of defined benefit plans and how those obligations will affect its financial position, financial performance and cash flow (effective for accounting period beginning on or after January 1, 2013).

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
For The Year Ended December 31, 2011
Expressed in United States Dollars

2. ACCOUNTING POLICIES (Continued)

2.3 Standards, amendments and interpretations to existing standards in issue but not yet effective and relevant to the Commission (continued)

- **IFRS 7 (amendment), Financial Instruments: Disclosures.** The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets, including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period (effective for annual period beginning on or after July 1, 2011). Additional amendments in IFRS 7 will also require disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position (effective for annual periods beginning on or after January 1, 2013).

  With the amendments to IFRS 9 *Financial Instrument*, entities applying IFRS 9 do not need to restate prior year periods but are required to provide modified disclosures (effective for annual periods beginning on or after January 1, 2015)

- **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 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 (effective for accounting period beginning on or after January 1, 2015).

- **IAS 32, Financial Instruments: Presentation.** The amendments address inconsistencies in current practice when applying the offsetting criteria. They clarify the meaning of "currently has legally enforceable right of set off" and that some gross settlement systems may be considered equivalent to net settlement (effective for annual periods beginning on or after January 1, 2014)

- **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 requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP (effective for accounting period beginning on or after January 1, 2013).

Other standards, amendments and interpretations effective or in issue but not yet effective were issued but are not listed here. Management considered these as not relevant to the Commission and their application would have no impact on the Commission's accounting policies.

The Commission is yet to assess the above mentioned standards, amendments and interpretations full impact on its financial reports and intends to adopt these standards when they become effective.

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
For The Year Ended December 31, 2011
Expressed in United States Dollars

2. ACCOUNTING POLICIES (Continued)

2.4 Fixed assets

Fixed assets are stated at historical cost less accumulated depreciation. Depreciation is calculated on the straight-line method to write off the cost of each asset over their estimated useful life as follows:

Computer software and equipment	3 years	Motor vehicles	5 years
Office equipment	5 years	Leasehold improvements	5 years
Leasehold land	63 years		

2.5 VIRRGIN project under development

Costs incurred on the Virtual Integrated Registry and Regulatory General Information Network ("VIRRGIN") project are recognised as intangible assets to the extent that such expenditure is expected to generate future economic benefits. Development costs for each phase, including licensing costs that have been capitalised, are transferred to fixed assets when each phase of project is completed. Depreciation will be charged on the costs of each phase as each phase is brought into use. Maintenance and support costs relating to the VIRRGIN project are expensed in the period to which they relate.

2.6 Regulated deposits from licensed entities

These deposits are carried at cost and consist of current deposits held at commercial banks and U.S Treasury Bills with maturity dates of one year or less.

2.7 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents consist of current deposits held with commercial banks with maturity dates of three months or less.

2.8 Time deposits

This category comprises short term placements with maturity dates of more than three months from the placement date. These time deposits are held at amortised cost using the effective interest method.

2.9 Financial asset at fair value through profit and loss

This category comprises investments held long and are carried in the statement of financial position at fair value with changes in fair value recognised in the statement of comprehensive income within "Unrealised movement on financial assets at fair value through profit or loss".

Securities that are listed on a stock exchange and are freely transferable shall be valued at their last sales price on the date of determination on the stock exchange which is the principal exchange for such securities, or, if no sales occurred on such day, at the bid price on such exchange at the close of business on such day if held from and at the asked price at the close of business on such day. If sold, securities traded over the counter which are freely transferable, shall be valued at the last sales price on the date of determination, or, if no sales occurred on such day, at the bid price at the close of business on such day if held long and at the asked price at the close of business on such day if held short.

2.10 Fair value hierarchy

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

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
For The Year Ended December 31, 2011
Expressed in United States Dollars

2. ACCOUNTING POLICIES (Continued)

2.10 Fair value hierarchy (continued)

- Quoted prices (unadjusted) in active markets for identical financial assets and financial liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the financial assets and the financial liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2);
- Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs) (Level3).

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

2.11 Revenue recognition

Fees and commission income are recognised upon approval of the transaction by the Commission. Interest income and expenses are recognised on an accrual basis.

2.12 Taxation

In accordance with Section 28 of the Act, the Commission is exempt from the payment of taxes on its income and operations.

2.13 Foreign currency translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Assets and liabilities are translated at the exchange rate in effect at the date of the financial statements.

2.14 Leases

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

2.15 Pension plan

The Commission's pension plan obligations are recognised on the accrual basis. Past service contributions were recognised when paid.

2.16 Financial instruments

Financial instruments carried on the statement of financial position include cash and cash equivalents, time deposits, financial assets at fair value through profit or loss, regulatory deposits, other receivables and deposits, trade and other payables, deposits on account, distribution payable to Government, and regulatory deposits from licensed entities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

2.17 Use of estimates

The preparation of financial statements in conformity with International Financial Reporting Standards 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
For The Year Ended December 31, 2011
Expressed in United States Dollars

3. FIXED ASSETS

As of December 31, 2011:

Cost	Leasehold Land	Motor Vehicles	Furniture & Equipment	Computers & Software	Leasehold Improvements	Total
Cost, opening balance	130,000	159,503	2,096,986	8,734,389	2,056,917	13,177,795
Additions	-	-	108,788	969,124	89,023	1,166,935
Cost, ending balance	130,000	159,503	2,205,774	9,703,513	2,145,940	14,344,730
Accumulated depreciation						
Accumulated depreciation, opening balance	12,382	114,483	1,850,337	8,300,047	1,996,391	12,273,640
Depreciation	2,065	25,260	135,313	580,754	53,738	797,130
Accumulated depreciation, ending balance	14,447	139,743	1,985,650	8,880,801	2,050,129	13,070,770
Net book value	**$ 115,553**	**$ 19,760**	**$ 220,124**	**$ 822,712**	**$ 95,811**	**$ 1,273,960**

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
For The Year Ended December 31, 2011
Expressed in United States Dollars

3. FIXED ASSETS (Continued)

As of December 31, 2010:

Cost	**Leasehold Land**	**Motor Vehicles**	**Furniture & Equipment**	**Computers & Software**	**Leasehold Improvements**	**Total**
Cost, opening balance	130,000	159,503	2,019,093	8,204,502	2,027,823	12,540,921
Additions	-	-	77,893	529,887	29,094	636,874
Cost, ending balance	130,000	159,503	2,096,986	8,734,389	2,056,917	13,177,795
Accumulated depreciation						
Accumulated depreciation, opening balance	10,317	82,583	1,699,914	7,296,409	1,950,340	11,039,563
Depreciation	2,065	31,900	150,423	1,003,638	46,051	1,234,077
Accumulated depreciation, ending balance	12,382	114,483	1,850,337	8,300,047	1,996,391	12,273,640
Net book value	$117,618	$45,020	$246,649	$434,342	$60,526	$904,155

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
For The Year Ended December 31, 2011
Expressed in United States Dollars

4. VIRRGIN PROJECT UNDER DEVELOPMENT

As of December 31, 2011, the Commission has an existing contract with NCS Pte. Ltd (formerly Singapore Computer Systems Limited) relating to the development of an internet-based information system featuring electronic filing of documents called Virtual Integrated Registry and Regulatory General Information Network ("VIRRGIN").

VIRRGIN will be completed in three phases of development, each of which will be released separately. The VIRRGIN project costs to be capitalised will include (a) registry engine license; (b) implementation and development costs for Phases I, II and III; other additional consultancy and software implementation charges; and airfares, accommodation and other travel expenses incurred relating to the implementation of the project. Cost relating to Phase I and II of VIRRGIN have been capitalised as Computer and Software as part of Fixed assets (see Note 3). The cost of $386,401 (2010: $386,401) relates to the uncompleted Phase III which is expected to be finished by December 31, 2012. The estimated costs to completion of the project, excluding any additional costs, are S$1,161,304 (equivalent to $894,320) (2010: $899,778).

Additional costs were also incurred and capitalised that relates to the overall VIRRGIN project amounting to $200,785 as of December 31, 2011 (2010: $57,855).

5. REGULATORY DEPOSITS FROM LICENSED ENTITIES

By statute, certain entities licensed to operate in the financial services sector within the British Virgin Islands are required to place a deposit with the Commission. The Commission has undertaken to hold these amounts in a designated interest-bearing account $1,305,536 (2010: $474,367) and fixed income securities $ 6,586,868 (2010: $6,576,082) and distributes interest thereon to the licensees on a semi-annual basis. The deposits are refundable upon surrender of the licence.

6. CASH AND CASH EQUIVALENTS

	2011	2010
Cash held in Government Trust Account	5,410,645	6,156,490
Payable to Government	(3,594,049)	(4,154,620)
Net cash held in Government Trust Account	1,816,596	2,001,870
Cash in operating accounts	14,993,887	13,889,177
Cash in insolvency account	279,204	241,341
Total cash and cash equivalents	**$ 17,089,687**	**$ 16,132,388**

Fees collected on behalf of the Government are paid into a trust account maintained jointly in the name of the Commission and the Government. Prior to the commencement of the Commission's financial year, the Government's Cabinet ("Cabinet") determines the percentage of fees collected on their behalf that is to be remitted to them, with the Commission retaining the balance. For the year ended December 31, 2011, the Commission retained 10.5% (2010: 10.5%) of revenue up to the projected revenue stream and thereafter, the Commission retained 7.5% (2010: 7.5%) of any revenue in excess of the projected revenue stream. This resulted in cash of $3,594,049 (2010: $4,154,620) being held on behalf of the Government as at December 31, 2011.

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
For The Year Ended December 31, 2011
Expressed in United States Dollars

7. TIME DEPOSITS

Represents short term placements with the local depository banks whose maturity dates, 361 days (2010: 363 days), are more than three months from the placement date but less than one year from the financial statement reporting date with an average interest rate of .38% (2010: .44%).

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011	2010
Government and agency securities	2,236,928	-
Corporate bonds	661,103	-
	$ 2,898,031	**$ -**

The government and agency securities and corporate bonds are categorised as Level 2 within the fair value hierarchy.

9. OTHER RECEIVABLES AND DEPOSITS

	2011	2010
Loan to employees	17,796	38,138
Travel advances	94,167	29,643
Interest receivable	36,675	19,737
Prepaid expenses	320,260	383,662
Miscellaneous receivables	4,987	-
	$ 473,885	**$ 471,180**

10. RESERVES

In accordance with Section 26 of the Act, the surplus for the year is allocated to capital and revenue reserve accounts at the discretion of the Commission. The capital and revenue reserves established include:

Capital reserves

(i) Contributed capital represents an initial transfer of capital from the Government of the British Virgin Islands on the establishment of the Commission. It represented approximately 3 months of operating expenses.
(ii) Property & equipment reserve reflects the investment into property & equipment to date, less amortisation.

Revenue reserves

(i) Training reserve for long term training/ study leave of staff;
(ii) Loan revolving reserve to facilitate staff loans (personal, medical, etc.) as the Act requires employees transferred from Government at the inception of the Commission to be no less well off than they were with Government;
(iii) Future capital expansion reserve to partly finance the future securing of property, constructing and equipping the Commission's own building;
(iv) Refunds reserve to provide cash for making refunds when necessary;
(v) Enforcement reserve to establish a fund to address enforcement expenses as they arise;
(vi) Contingency reserve to establish a fund in the event of unforeseen circumstances.

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
For The Year Ended December 31, 2011
Expressed in United States Dollars

11. TRADE AND OTHER PAYABLES

	2011	2010
Accounts payable and accrued expenses	179,210	397,071
Insolvency surplus reserve	270,224	234,649
Deferred revenue	286,158	233,644
Employee deductions and benefits payable	1,135,217	1,009,043
	$ 1,870,809	**$ 1,874,407**

Employee deductions and benefits payable includes accrued unpaid vacation benefits totalling $717,512 (2010: $652,606) payable to the Commission's employees. In the past, it has been the policy of management to require employees to take vacation days rather than paying them out. However, this policy was changed during the year ended December 31, 2010. During the year ended December 31, 2010, unpaid vacation benefits totalling $108,873 were paid to the Commission's employees.

Pursuant to the Insolvency Rules, 2005, the insolvency surplus reserve pertains to monies representing unclaimed assets received from liquidators or bankruptcy trustees after the completion of a liquidation or bankruptcy. Funds are paid out of the reserve to any person the Commission is satisfied to make payment with respect to the insolvency proceedings for which the monies were paid into the reserve.

Deferred revenue pertains to fees collected by the Official Receiver, held by the Commission for safekeeping, pending administrative arrangements between the Government and the Commission, including whether the benefit of these funds will accrue to the Commission.

12. DEPOSITS ON ACCOUNT

In 2006, the Commission introduced a new internet based information system (VIRRGIN) that allows companies to administer transactions online. As a result of this development, companies are required to deposit amounts with the Commission in advance of effecting an online transaction. As at December 31, 2011, the balance on this account amounted to $1,842,982 (2010: $1,858,172).

13. DISTRIBUTION PAYABLE TO GOVERNMENT

On August 28, 2012, the Board of Commissioners approved a distribution to Government of $4,000,000 (2010: $2,000,000) from surplus earned by the Commission during the year ended December 31, 2011.

14. STAFF COSTS

	2011	2010
Wages and salaries	8,529,396	7,900,015
Allowances and benefits	2,136,841	2,736,241
Employment costs	201,876	175,535
Payroll taxes	434,313	399,636
	$ 11,302,426	**$ 11,211,427**

The average number of full time employees in 2011 was 149 (2010: 142).

During the year ended December 31, 2011, the Commission paid $1,262,483 (2010: $1,162,455) for current service costs toward a defined contribution pension plan (the "Plan"), which has been included in allowances and benefits.

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15. RELATED PARTY TRANSACTIONS

The Government's Financial Secretary and Accountant General along with the Chairman of the Board of Commissioners and the Managing Director of the Commission are signatories to a joint account maintained in the names of the Government and the Commission referred to as the Government Trust Account as per Section 19 (1) and (7) of the Act. (See Note 6).

16. COMMITMENTS AND CONTINGENCIES

Commitments

As explained in Note 4, the Commission is contracted with NCS Pte. Ltd (formerly Singapore Computer Systems Limited) to design and implement the VIRRGIN project. The contracted cost to completion of the design and implementation of the project is S$1,161,304 equivalent to $894,320 (2010: $899,778) as at December 31, 2011, plus maintenance and support costs of S$931,399 (equivalent to $717,270) as at December 31, 2011 (2010: S$931,399 equivalent to $721,648).

The Commission currently occupies various properties in accordance with the terms of annual operating lease agreements and is committed to making payments on these leases as agreed in the future.

The future aggregate minimum lease payments under non-cancellable leases are as follows:

2012	970,446
2013	910,940
2014	873,140
2015	457,340
2016	304,893
	$3,516,759

Contingencies

In the ordinary course of business, the Commission is subject to legal proceedings, claims, disputes and litigation as a result of its role as the regulator of the British Virgin Islands financial services industry. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, the Commission does not believe that such proceedings (including litigation) will have a material effect on its results and financial position.

17. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Commission's activities expose it to a variety of financial risks; market risk (foreign exchange risk, interest rate risk), credit risk and liquidity risk. The Commission's overall risk management programme focuses on the unpredictability of financial markets and 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 Commissioners. The management identifies, evaluates and hedges financial risks in close co-operation with the Board of Commissioners. The Board of Commissioners provides guidance for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Financial assets of the Commission include cash and cash equivalents, financial assets at fair value through profit or loss, time deposits, regulatory deposits, other receivables and deposits. Financial liabilities include trade and other payables, deposits on account, distribution payable to government and regulatory deposits from licensed entities.

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17. FINANCIAL RISK MANAGEMENT (Continued)

17.1 Market risk

(i) Foreign exchange risk

The Commission is exposed to foreign currency risk on the agreement to supply, develop, implement and commission the VIRRGIN project (Note 4). The contracted costs for the project are in Singapore Dollars (S$). As at December 31, 2011, the foreign exchange rate was $0.77010 (2010: $0.77480) per S$, with the average exchange rate for the year ended December 31, 2011 being $0.79626 (2010: $0.73437) per S$. Had the Singapore dollar foreign exchange rate strengthened against the US dollar by 1% (2010: 1%) with all other variables remaining constant, the overall costs to complete the project, including maintenance/support costs, would increase by $16,116 (2010: $16,214). A weakening of 1% in the Singapore dollar against the US dollar, with all other variables held constant, would have an equal but opposite effect.

(ii) Interest rate risk

Cash flow interest rate risk

The Commission's exposure to the risk of changes in market interest rates relates primarily to the Commission's cash and cash equivalents and time deposits. As at December 31, 2011 approximately 63% (2010: 70%) of the Commission's assets were held in bank accounts, with floating interest rates.

Cash flow interest rate sensitivity analysis

With all other variables held constant, given a 25 basis point increase in the market interest rate, the Commission's surplus would increase by $55,290 (2010: increase by $40,331). A decrease of 25 basis points in the market interest rate, with all other variables held constant, would decrease the Commission's surplus by an equal amount.

Fair value interest rate risk

The Commission is exposed to fair value interest rate risk on its financial assets at fair value through profit or loss in government and agency securities and corporate bonds. These government and agency securities and corporate bonds bear fixed rates of interest and the fair value of the bonds are inversely affected by movements in market interest rates. The Commission does not hedge itself against fair value interest rate risk.

Fair value interest rate sensitivity analysis

With all other variables held constant, given a 25 basis point increase in the yield rate of government and agency securities and corporate bonds, the Commission's surplus would decrease by $54,371 (2010: $Nil). A decrease of 25 basis points in the yield rate, with all other variables held constant, would increase the Commission's surplus by $56,800 (2010: $Nil).

17.2 Credit risk

Credit risk arises from regulatory deposits, cash and cash equivalents, time deposits, other receivables and deposits and its financial assets at fair value through profit or loss. These financial assets are held with financial institutions with an investment grade credit rating. Other receivables include travel expense advances and unsecured loans extended to various employees of the Commission. The extent of the Commission's exposure to credit risk in respect of these financial assets approximate the carrying values as recorded in the Commission's statement of financial position.

The Commission's management addresses credit risk through placement of cash on short term money market placements, financial assets at fair value through profit or loss, interest bearing deposits and U.S Treasury Bills at a variety of regulated BVI and US financial institutions and effective and efficient collection policies.

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17. FINANCIAL RISK MANAGEMENT (Continued)

17.2 Credit risk (continued)

The Commission's regulatory deposits, cash and cash equivalents (excluding petty cash), time deposits and financial assets at fair value through profit or loss are held by financial institutions with the following rating per Moody's Investors Services.

	2011	2010
Aa1	2,512,910	2,500,005
Aa2	2,508,269	2,499,702
A2	12,712,388	12,704,735
B2	575,428	614,143
Baa3	14,591,162	9,862,252
	$ 32,900,157	**$ 28,180,837**

17.3 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents to meet its current operating requirements. The Commission is not exposed to significant liquidity risk as it maintains sufficient cash and cash equivalents to meet its current and foreseeable future obligations.

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

	On Demand	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
As at December 31, 2011					
Trade and other payables	717,512	1,153,297	-	-	1,870,809
Deposit on account	1,842,982	-	-	-	1,842,982
Distribution payable to Government	6,000,000	-	-	-	6,000,000
Regulatory deposits	7,892,404	-	-	-	7,892,404
	$ 16,452,898	**$ 1,153,297**	**$ -**	**$ -**	**$ 17,606,195**
As at December 31, 2010					
Trade and other payables	652,606	1,221,801	-	-	1,874,407
Deposit on account	1,858,172	-	-	-	1,858,172
Distribution payable to Government	2,000,000	-	-	-	2,000,000
Regulatory deposits	7,050,449	-	-	-	7,050,449
	$ 11,561,227	**$ 1,221,801**	**$ -**	**$ -**	**$ 12,783,028**

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18. DEFINED CONTRIBUTION PENSION PLAN

The Commission has established a defined contribution pension plan (the “Plan”) to provide retirement benefits for all established employees and is administered by Trustees appointed by the Commission. Under the Plan, the Commission has an obligation limited to 15% of the participants’ basic annual salary, with the participants contributing a minimum of 5%. A participant’s interest in the Commission’s contributions commences to vest after 7 years employment and is fully vested after 10 years.

Glossary of Terms

AML	*Anti-Money Laundering*
ARA	*Association of Registered Agents (BVI)*
ASBA	*Association of Supervisors of Banks of the Americas*
BIS	*Bank for International Settlements*
CARTAC	*Caribbean Regional Technical Assistance Centre*
CDB	*Caribbean Development Bank*
CFATF	*Caribbean Financial Action Task Force*
CFT	*Combating the Financing of Terrorism*
CGBS	*Caribbean Group of Banking Supervisors*
CIMA	*Cayman Islands Monetary Authority*
CSP	*Corporate Service Provider*
ECCB	*Eastern Caribbean Central Bank*
ECLAC	*Economic Commission for Latin America and Caribbean*
Egmont Group	*Informal Group of FIUs (International Cooperation)*
EU	*European Union*
EUSD	*European Union Savings Tax Directive*
FATF	*Financial Action Task Force*
FCO	*Foreign and Commonwealth Office*
FIA	*Financial Investigation Agency (BVI)*
FIRST	*Financial Sector Reform and Strengthening (FIRST) Initiative*
FIUs	*Financial Intelligence Units*
FRB	*Federal Reserve Bank*
FSA	*Financial Services Authority (UK Regulator)*
FSC	*Financial Services Commission*
FSF	*Financial Stability Forum*
FSLAC	*Financial Services Legislation Advisory Committee (BVI)*
IAIR	*International Association of Insolvency Regulators*
IAIS	*International Association of Insurance Supervisors*
IBC	*International Business Company*

Glossary of Terms (Cont'd)

ICA	*International Compliance Association*
ICSA	*Institute of Chartered Secretaries and Administration*
IFC	*International Finance Centre (BVI)*
IMF	*International Monetary Fund*
IOSCO	*International Organisation of Securities Commissions*
ITIO	*International Tax and Investment Organisation*
JALTFAC	*Joint Anti-Money Laundering and Terrorist Financing Advisory Committee*
KYC	*Know Your Customer*
LSC	*Licensing and Supervisory Committee (BVI)*
MLAT	*Mutual Legal Assistance (in Criminal Matters) Treaty*
MLRO	*Money Laundering Reporting Officer*
MOF	*Ministry of Finance (BVI)*
MOU	*Memorandum of Understanding*
NGOs	*Non-Governmental Organisations*
NPOs	*Non-Profit Organisations*
OECD	*Organisation of Economic Co-operation and Development*
OFC	*Offshore Financial Centre*
OGBS	*Offshore Group of Banking Supervisors*
OGIS	*Offshore Group of Insurance Supervisors*
OR	*Official Receiver (BVI)*
PEP	*Politically Exposed Person*
SAR	*Suspicious Activity Report*
SEC	*Securities and Exchange Commission*
SIBA	*Securities and Investment Business Act (BVI)*
STEP	*Society of Trust and Estate Practitioners*
STR	*Suspicious Transaction Report*
TIEA	*Tax Information Exchange Agreement*
MmOU	*Multi Lateral Memorandum of Understanding*