British Virgin Islands Financial Services Commission

ANNUAL REPORT 2018

18

BRITISH VIRGIN ISLANDS FSC FINANCIAL SERVICES COMMISSION

CONTENTS

ABOUT US

SERVICES

Regulatory Overview

Non-Supervisory Divisions

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 legitimate business transaction

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

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

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

STRATEGIC AIMS

1. To be fully aware of international standards and their application to the BVI and issue guidelines to the industry as necessary
2. To ensure that all entities we authorise and supervise are operating in compliance with BVI legislation, regulation and international standards of best practice
3. To ensure that all entities we authorise and supervise meet “fit and proper” criteria at the licensing stage and on an ongoing basis
4. To conduct ongoing review of financial services legislation and make recommendations for changes, where applicable
5. To ensure that the FSC operates effectively and efficiently
6. To identify and deter abuses and breaches of legislation
7. To raise public awareness of the BVI financial services industry and develop and implement a system of continuing education for industry practitioners
8. To ensure that the Registry of Corporate Affairs provide world class services to ensure the international competitiveness of the BVI

OUR LOGO

THE LIGHTHOUSE

Just as a lighthouse provides terrestrial travelers 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.

TIMELINE 2018

October

MMBVI Insurance Forum

April

- Meet The Regulator Forum
- MMBVI Amazing Little Race to Save

December

- Board of Commissioners Christmas Cocktail
- FSC's Annual Kids Christmas Party

August

The Anti-Money Laundering and Terrorist Financing (Amendment) (No. 2) Code of Practice, 2018 came into effect

July

- Information Technology Disaster Recovery Site Upgrade Project
- MMBVI "Exposed: Understanding Home Insurance Coverage & Your Insurance Policy" Webinars

June

The Micro Business Companies Act came into effect

Cabinet

Board of Commissioners

Robin Gaul (Chairman), Jonathan Fiechter (Deputy Chairman), Denise Reovan, Ian Smith, Robert A. Mathavious, Carlene Romney, Andrew D. Bickerton, Carl S. Hiralal

FSC (HK) Ltd.

Asia Representative
Burton Chalwell Jr.

Robert A. Mathavious
Managing Director/CEO

Jennifer Potter-Questelles
Deputy Managing Director - Corporate Services

Kenneth Baker
Deputy Managing Director - Regulation

Cherno Jallow, QC
Policy, Research and Statistics Division

Annet Mactavious
Human Resources Manager

Stephen Grayson
Legal and Enforcement Division

Policy, Research and Statistics Division

Director
Cherno Jallow, QC

Ag. Deputy Director
Allene Gumbs

Human Resources Division

Director
Annet Mactavious

Ag. Deputy Director
Solika Carey

Legal and Enforcement Division

Ag. Director: Legal
Stephen Grayson

Ag. Deputy Director: Legal
Dian Fahie-DeCastro

Head of Enforcement:
Simone Martin

Board Secretary
Annet Mactavious

Corporate Services Division
Director
Jennifer Potter-Questelles

Finance
Director
Sheldon Scatliffe

Registry of Corporate Affairs
Registrar
Myrna Herbert
Deputy Registrar
Lydia George
Deputy Registrar
Travicca Smith
Deputy Registrar
Kamika Forbes

Banking, Insolvency and Fiduciary Services
Director
Kenneth Baker
Deputy Director: Fiduciary
Yolanda McCoy
Deputy Director: Insolvency
Shakuntala Yamraj
Deputy Director: Compliance Inspection Unit
Leon Wheatley

Investment Business Division
Director
Glenford Malone
Ag. Deputy Director
Kishelle Blaize-Cameron

Insurance Division
Director
Deputy Director
Trevecca Hodge

Executive Management Team

Robert Mathavious *Managing Director/CEO*	**Dawn Smith** *General Counsel*
Jennifer Potter-Questelles *Deputy Managing Director - Corporate Services*	**Glenford Malone** *Director - Investment Business*
Kenneth Baker *Deputy Managing Director - Regulation*	**Annet Mactavious** *Director - Human Resources* *Secretary, Board of Commissioners*
Cherno Jallow, QC *Director - Policy, Research and Statistics*	

BOARD OF COMMISSIONERS

Mr. Robin Gaul
Chairman

Mr. Jonathan Fiechter
Deputy Chairman

Mr. Carl Hiralal
External Member

Mr. Robert Mathavious
Managing Director/CEO

Ms. Carlene Romney
Member

Mr. Andrew Bickerton
Member

Ms. Denise Reovan
Member

Mr. Ian Smith
Member

The Board of Commissioners is the Commission's governing and policy-setting body and meets at least once every month. Board meetings are presided over by the Chairman and in his absence the Deputy Chairman. The Board comprises the Managing Director/CEO as an ex-officio member and not fewer than six or more than nine other Commissioners, two of whom must be from outside the Territory with a financial services background as legislated by the Financial Services Commission Act, 2001.

BOARD MEMBERS

Mr. Robin Gaul (Chairman)

Mr. Jonathan Fiechter

Mr. Robert Mathavious

Mr. Edward Price

Ms. Denise Reovan

Mr. Ian Smith

Mr. Carl Hiralal

Mr. Andrew Bickerton

Ms. Carlene Romney

REGULATION **AND SUPERVISION**

REGISTRY OF CORPORATE AFFAIRS

At the end of 2018 the Registry of Corporate Affairs (the Registry) maintained 402, 907 BVI business companies, 940 limited partnerships and over 7,000 intellectual property registrations on its register.

The Registry continues to deliver on international standards development by the Financial Services Commission and proves to be a regional and international standard bearer within financial services.

Several suites of legislation: the BVI Business Companies Act, 2004, the Partnership Act, 1996, the UK Patents Act, 1925, Trade Marks Act, 2013 and the new Micro Business Companies Act, 2017 are administered by the Registry.

The Registry is responsible for ensuring that entities registered in the BVI which do business in and from within the Territory remain compliant with the relevant legislative requirements as well as maintaining a register of high integrity.

Intellectual Property (IP)

The Office of the Registrar of Trade Marks, Patents and Copyright (the Office) is mandated to administer intellectual property legislation in the Territory. Despite the administrative challenges which the office faces in the manual processing of transactions, the Office was able to increase its efficiency.

A review of the Office's unpublished service standards reduced the processing times for the processing of transactions by approximately 25%. This review was prompted following the Office's engagement with regional IP professionals through the Intellectual Property Caribbean Association (IPCA) which identified the slow processing periods of national IP Offices to be one of the greatest challenges to the regional IP practitioner.

The Office continues to identify ways to make the BVI's intellectual property registration more attractive and convenient for persons wishing to do business with us.

The Office intends to introduce additional efficiency and automation to its current processes and transaction processing in the 1st Quarter of 2019. A pilot project testing the new system was completed by three of the registered trade marks agents in the last quarter of 2018.

In addition to modernizing its processing, the Office also reviewed its records management and was able to enhance the records management of 95% of its registry. The enhanced records management has improved the ability to retrieve records and has enable the Office to increase its responsiveness to clients as well as provide more efficient services.
The Office's engagement with the international intellectual property community, through its attendance at the International Trade Mark Association's (INTA) Annual Meeting underscored the importance for increasing public awareness of intellectual property rights. The intellectual property professionals and related organisations met at several fora hosted by INTA to develop better strategies to increase public awareness and the efficiency of IP rights enforcement.

In an effort to increase public awareness within the local business sector the Office launched an inter-agency partnership with the Government's Department of Trade, Investment Promotion and Consumer Affairs, which is responsible for the issues of trade licenses in the Territory. Discussions were held on the exchange of information and the provision of materials to promote IP rights registration and protection among SMEs in the Territory.

The primary business of the Office continues to be the renewal and maintenance of existing trade mark registrations, which forms approximately 57% of the annual transactions. New trade mark registrations account for approximately 23% of the trade mark activity for the office. Patent re-registration and renewals account for less than 5% of the annual business.

The principle objective for 2019 is to digitize at least 50% of the legacy trade mark registry. Other goals include the publication and implementation of the more automated processing, legislative review of the Trade Marks Act, 2013 and other supporting legislation, development and launch of the territory wide intellectual property enforcement campaign and the formation of a collaboration between the Office and the Association of Registered Trade Mark Agents to improve the delivery of services and address the demands of our growing industry.

Limited Partnerships

Limited Partnership Act, 2017 (LPA) came into force in January 2018 and repealed and replaced the Partnership Act of 1996.LPA provides a functional vehicle which realizes and makes provision for circumstances which reflect real life business arrangements.

The LPA provides for greater flexibility in the creation and adaptation of partnerships which extends to the formation of a legal personality, public registration of charges to secure priority under BVI law, transfer of existing partnerships to and from the BVI, the consolidation or merger of limited partnerships and additional provisions on winding up and insolvency procedures.

Existing partnerships may voluntarily re-register under the LPA. The LPA provides a transition period of 10 years after which it is expected that all prior limited partnerships will be registered under the LPA.

Formation of limited partnerships in 2018 increased by 160%. This increase is attributable to the greater versatility in the type of partnership arrangements offered under the LPA and is expected to stabilize within the upcoming year.

Micro Business Companies Act

The Micro Business Companies Act, 2017 (the MBC Act) came into effect in June 2018. The MBC Act is expected to attract micro and small sized enterprises that have an annual turnover or asset value is less than 2 million (in any currency) and which does not employ more than 10 persons.

There is great utility and potential in the use of micro business companies locally and internationally. The Territory's newest corporate structure will afford entrepreneurs the ability to create a separate legal identity with the established benefits without the full infrastructure of the traditional business company.

Micro business companies are required to file annual returns as well as interim returns but are precluded from carrying on any regulated business. The micro business company is a simple, innovative and transparent structure which gives the 21st century convenience of company incorporation over a mobile platform.

The MBC Act limits the registration of micro business companies to MBC agents who have been approved by the Commission.

VIRRGIN Developments

The Virtual Registry and Regulatory General Information Network (VIRRGIN) continues to be the flagship software application of the Commission. VIRRGIN manages transaction processing of corporate structures including the business company and limited partnership and facilitates comprehensive maintenance of the Register.

The Commission regularly updates VIRRGIN to ensure the electronic platform is modified to give effect to legislative amendments, streamline our processes and that the platform is performing optimally.

Following unrestricted access to the application following business interruptions experienced by Registered Agents in 2017, the Commission moved at the end of Q1 to require adherence with the usual VIRRGIN user agreements. These agreements restrict legitimate access to the application to registered natural users in the BVI or Hong Kong in the case of VIRRGIN LITE. Other changes to the application in 2018 included to enable filings under the LPA; and to provide a consolidated transaction for the Register of Directors filing and restoration for a previously struck off company.

BVI Business Companies Act

Since its introduction in 2005 there have been several amendments to the BVI Business Companies Act, 2004. The nature of the amendments range from responding to a shift in the financial services environment, to addressing changes in administrative policies.

Effective 1 January, 2018 the Territory effected its first increase in incorporation and annual fees since the introduction of the BVI Business Companies Act, 2004. The incorporation fees for BVI Business Companies authorised to issue 50,000 shares or less increased by 28.6%. The percentage increases of incorporation fees for other company structures, post incorporation fees and annual renewal fees varied.

Following the introduction of a requirement for BVI business companies to file director details with the Registry, the BVI BCA was further amended. The related 2018 amendment makes the filing of the directors' details a prerequisite qualification to be eligible to be issued a Certificate of Good Standing on request.

Outlook

The Registry will continue to review and advocate update registry legislation to improve the ease of doing business within the Territory. In 2019 the Registry intends to further enhance VIRRGIN and create a Registry Online Toolbox which will provide greater detail than standard FAQs. This toolbox will address transaction processes, legislative provisions and practices and policies of the Registry.

BANKING, INSOLVENCY AND FIDUCIARY SERVICES

Governance

The Banking, Insolvency & Fiduciary Services Division (the "Division") ensures that all financial institutions and trust and corporate service providers operating in and from within the BVI comply with relevant BVI laws, international regulatory standards and established best business practices. The Division also supervises BVI licensed authorised custodians of bearer shares as well as financing and money services businesses.

Primary legislation governing these service providers include the Banks and Trust Companies Act, 1990 "BTCA"), the Company Management Act, 1990, the Financial Services Commission Act, 2001 – [Aide Memoire #3] and the Financing and Money Services Act, 2009.

The business and activities of Licensed Insolvency Practitioners ("IPs") are governed by the Insolvency Act, 2003.

The Division operates as three Teams: Fiduciary Services, Insolvency Services and Banking.

Fiduciary

During the year, the team was supplemented by the addition of two summer interns who worked for a period of about 2 months. The summer interns were university students in their third year of study in a business or finance programme.

Additional resources have been on loan to the division to assist with the conversion of subsidiaries which came about as a result of legislative changes during the year. The legislative changes were an effort to better clarify the status of subsidiaries listed on the licence of a regulated entity which may have been conducting regulated activity. These entities must now be removed from the parent licence and obtain a separate licence if they engage in regulated business.

Approximately 200 subsidiary companies owned by about 58 licensed entities were affected by the change in policy. The policy change corrects the anomaly where the BTCA did not expressly provide for subsidiaries to comply with regulatory obligations. This created some challenges with appointments of directors. At year end, approximately 10% of subsidiaries had been removed from the licenses of regulated firms. The legislative amendment took effect early in quarter 4 and the exercise will continue in 2019.

Professional Development and Training

Professional development and training is critical to the operational efficiency of the division and as important feature each year.

In 2018, members of the Banking and Fiduciary Services Team participated in regional and international development events in a number of areas/disciplines.

As a member of the Group of International Finance Centre Supervisors (GIFCS), the Commission was represented by Fiduciary Services team members at a supervisory college in Quarter 4. The supervisory college was hosted in Bermuda and Commission had the opportunity to make a presentation on the subject group's activities in the BVI. The Director also participated in the GIFCS plenary in the UAE during the fourth quarter.

BVI fiduciary licensees resumed regular operations following the business interruption late last year. Mergers and acquisitions continue to change the landscape of fiduciary services providers. In 2018 we observed a slight contraction in the number of licensed service providers due to this type of reorganisation.

Trust and Corporate Service providers are met with a rapidly changing industry sector as compliance obligations brought about by Foreign Account Tax Compliance Act, Common Reporting Standards and Global Data Protection Regulation increase.

These issues all appear to include decisions to consider mergers and acquisitions and to benefit from economies of scale.

As a consequence of the limited activity brought about by the immobilization of bearer shares, the Commission opted to phase out its authorized custodian regime. The regime managed the service providers that maintained custody of immobilized bearer shares issued in respect of BVI Companies.

During the second quarter of 2018, the Commission guided and managed the winding up of a systemically significant fiduciary services providers the winding up of the licensees provided the opportunity for the Fiduciary Services Division to invoke its Business Risk Framework and for staff to test the guidelines and procedures outlined in the framework.

Closely held private groups, family offices and those entities who wish to undertake limited business volumes for specified clients, now have additional licensing options within the provision of the BTCA. During [date/quarter of amendment] the BTCA was amended to expand the classes of licences available by two. The amendment act also introduced a definition and prescribed functions of a Registered Agent.

Industry: Compliance Training

In an effort to improve the level of regulatory compliance in the financial services industry, the Commission introduced and conducted a mandatory course in compliance from 20th March – 12th April 2018. The purpose of the course was to introduce a system of continuing education for industry practitioners in accordance with section 4(1)(j) of the Financial Services Commission Act. Participants were directed to the course both as a result of supervisory oversight and in lieu of formal enforcement action where is was deemed applicable.

The course was specifically targeted to address the needs of directors and compliance officers. Seventy-seven persons representing forty Trust and Corporate Service Providers, money services licensees, insurance managers, insurance agents and domestic insurers attended the course in two cohorts.

The course was developed by the Commission in collaboration with H. Lavity Stoutt Community College (HLSCC) and delivered by the Financial Services Institute of the HLSCC.

National Risk Assessment Recommendation 2 - Beneficial Ownership Information Review

Since 1st January 2016, all BVI registered agents are required to maintain beneficial ownership information in the Virgin Islands for all companies that they provide registered agent services to. The team charged with this initiative, which includes Fiduciary Services staff, assessed the level of compliance by those licensees that had previously indicated that they were not fully compliant or were granted additional time to become compliant. An assessment was done at the end of January 2018 in relation to those companies incorporated during the period 1st January to 31st December 2016.

Insolvency Services

The Insolvency Services Unit commenced and concluded 2018 supervising 27 Insolvency Practitioners (IPs) which was a record high number for commencing a year since inception of the insolvency regime.

The Commission maintains memberships with international bodies including the International Association of Insolvency Regulators as well as International Association of Restructuring, Insolvency & Bankruptcy Professionals (INSOL International).

The Unit developed the Voluntary Revocation of Licence to act as an Insolvency Practitioner form which was posted to the Commission's website early in February 2018 as a measure to alleviate some of the challenges faced with IPs surrendering their licence.

Despite the damage and destruction from Hurricane Irma in 2017 and issues of the aftermath that rendered many IPs initially unable to meet their requirements of annual returns and license renewal due to damage or destruction of many office facilities, they were able to do so as a result of the Financial Services (Continuity of Business) Act, 2017 which allowed for certain exemptions which enabled them to meet the requirements by the deadline.

Annual Returns

BVI registered IPs adhere to a reporting regime that includes the submission/filing of an annual return. These annual returns provide industry statistics on the number of insolvency cases brought forward from previous years, cases opened, closed and transferred to/from another licensee. The returns also include information on the number of cases going forward to the next year, and the jurisdictions where cases have their main centre of operations.

The Annual Returns statistics for 2018 show the overall number of cases opened remained the same as that of 2017. Court Liquidations being the highest which has been the norm over the years, accounted for approximately 51% of the total cases. The centre of main interest in the majority of appointments were from the "Rest of the World" category with the second highest being the British Virgin Islands and the Far East. To date, there still has been no activity pertaining to bankruptcies, individual creditors and administrations. There was a decrease in the number of cases closed in 2018 as compared to 2017. The year concluded with a significantly larger number of cases in progress in comparison to 2017 year end.

Licence Type	Licences issued in 2018	Licences Cancelled in 2018	Dec- 31-2018
General Banking	0	0	6
Money Services and/or Financing Business	1	0	5
Restricted Class I Banking	0	-1	1
Class I Trust	0	-4	60
Class II Trust	0	-4	22
Class III Trust	2	-2	18
Restricted Class II Trust	2	-4	54
Restricted Class III Trust	0	0	0
Company Management	0	-1	17
Authorised Custodian	0	-4	6
Total	**5**	**-20**	**189**

The Annual Returns were revised to collect additional data to help with risk analysis and for overall assessment for improved desk based supervision.

Revenue

The revenue collected in 2018 for the Insolvency Unit amounted to $90,050 which represents a 3.86% increase compared to 2017. This is comprised primarily of post-licencing fees which are levied in respect of changing conditions or circumstances of the licensed practitioner.

Risk Assessments

All current IPs have been assessed for the level of risk they pose to the Territory, based on the Commission Risk Assessment Framework. The average risk rating for the current complement of IPs is medium-low. The risk assessments are conducted at the license application stage and repeated based on triggers or review periods outlined in the risk assessment framework and matrix.

Onsite Compliance Inspections

Due to medium-low risk ratings of the current IPs, the annual returns data and other desk based supervisory roles were considered adequate monitoring of the activity in this sector in 2018.

Joint Overseas Insolvency Practitioner Appointments

Overseas practitioners may be appointed jointly with BVI practitioners to mitigate the risk in asset recovery in the jurisdiction where the subject assets are located. In these cases, the joint appointee must possess similar qualifications to those required in the BVI from a recognized jurisdiction in order to be appointed. The Division ensures notices pursuant to Insolvency Act section 483 included consent to act in prescribed form, and that the overseas practitioners had sufficient qualifications and security to adequately perform their functions.

The overseas joint appointments slightly increased over 2017 volumes. The notices include overseas appointees worldwide with the highest number pertaining to Hong Kong.
The Joint Overseas Insolvency Practitioner Appointment Form which was initially introduced in 2017 was revised January 2018 to better obtain information for processing.

Staff

Dedicated staff for the unit remained at two persons during 2018. The Deputy Director and the Administrative Assistant.

Insolvency Surplus Account

The Insolvency Surplus Account (ISA) is described in section 327 of the Insolvency Rules, 2005. During 2018, two deposits were made to the Insolvency Surplus Account and there were no disbursements.

Banking Sector

Banking Sector Analysis

The Commission began the process of phasing out the bearer share regime by implementing two major changes designed to encourage BVI business companies which have issued bearer shares to convert those bearer shares to registered shares. The Division took the opportunity to meet with each authorized custodian and inform them that the regime would be phased out. Current license holders were encouraged to submit the existing licence for cancellation before the end of the year. Four (4) authorised custodian licence were cancelled in 2018.

Basel II Implementation: The Caribbean Technical Assistance Committee's (CARTAC) assistance to the Caribbean Group of Banking Supervisors (CGBS) with Basel II implementation continued in 2018. The BVI has agreed to utilize the resources and the experience of the CARTAC/CGBS initiative for its own adoption of the Basel II Standard.

At the close of 2018, the BVI's banking sector comprised seven banks; six commercial and one restricted. The restricted bank has not commenced full operations and is currently preparing for business.

Capital and Liquidity Analysis

- Capital levels continue to exceed requirements: At 43% capital levels remain consistent QoQ, above the regulatory requirement of 12%;

- Asset quality demonstrated 1% change: Non-performing assets represents 10% of total loans,
- Return on equity and assets decrease: Indicating lower profitability.

- Liquidity levels fluctuate but remained acceptable: the Banks continue to demonstrate ability to repay liabilities that can be claimed at short notice

Capital Adequacy

BVI commercial banks remain adequately capitalized over the regulatory requirement of 12% Tier I capital. Average Tier I Capital to Risk Weighted Asset Ratio was reported at 43.58%.

Regulatory Outlook

Monitoring of the banks' growth, profitability, asset quality, liquidity and capitalization continues to be exercised. The Banking Unit continues to maintain open dialogue with the banks and the home supervisors of branch and subsidiary banking licence holders that operate within the jurisdiction.

Balance Sheet Analysis – At the end of 2018, the banking sector's total asset size, at approximately $2.37 billion, remains comparable to Q3 2018's performance of $2.49 billion. The balance sheet experienced changes qoq as: Cash items decreased by (13%) qoq due to seasonality and/or the level of activity by the general public, to meet projected commitments and other liquidity demands, and fluctuations in balances held with inter-company accounts. Marketable Securities decreased by (22%) qoq due to one bank's non-renewal of short-term investments that matured. Loans and Advances demonstrated no significant change qoq increasing 1%. Investments experienced no change qoq. Other Assets increased 2% qoq due to the fluctuation of inter-office activity.

Deposits decreased by (5%) qoq due to draw down of funds, within one bank's deposits portfolio, related to insurance disbursement checks (damages from Q3 2017 hurricanes). Long Term Debt increased 3% qoq due to fluctuation in nostro accounts of licensees that conduct business in foreign currencies. When compared to Q4 2017, this category declined (27%) yoy. Accrued Liabilities demonstrated no significant change, decreasing by (1%) qoq due to a decline in service providers' activity and accrued interest payable on interest bearing accounts. Other Liabilities decreased (11%) qoq and yoy due to the fluctuation of balances held on inter-company accounts (due to Head Offices and Branches). Loss Reserves declined (17%) qoq due to lower provisioning for potential loan losses. Total Shareholder's Equity increased 2% qoq and yoy reflecting growth of net income for the fourth quarter of the year.

Income Statement Analysis - Retained earnings increased YoY to $35.2 million from ($39.0) million. The primary factor for this increase was attributed to the decline of operating expenses and lower provisioning for loan losses. Further, during the same reporting period of the previous year, London International Bank and Trust Limited reported a write-off of $53 million in related debt as an operational expense during the winding up of the company (cancellation of the restricted banking licence).

Asset Quality Analysis – Non-performing loans (NPLs) declined by (1%) between quarters. The portfolio reflects $125.5 million QoQ or 10% of total loans and advances. The industry reported that as a result of properties assessed as being under insured, insurance claim settlements were not sufficient and customers had to utilize their own funds to effect repairs, thus falling behind with loan payments. Loan Loss Reserves declined (17%) qoq due to lower provisioning for potential loan losses. Post Hurricane Irma, analysis relating to the NPL's Projected Losses was calculated taking into consideration factors such as unemployment, destruction of property, delayed issuance of insurance cheques, loss of lives, persons who have left the territory, businesses that have closed, etc. Additional ratios were also calculated encompassing the probable occurrence of additional natural disasters.

Capital and Liquidity Analysis – Capital levels at 43% remain consistent and above the regulatory requirement QoQ. Liquidity financial soundness continue to fluctuate QoQ. Liquid assets as a percentage of short term liabilities plus total deposits at 45% indicates that the banking sector will be able to satisfy primary short term liabilities and current obligations, including demands for deposits.

Financing and Money Services

Regulatory Outlook

The 2018 amendment to the Financing and Money Services (Amendment) Act, 2018 reformed the current regime by modifying the definition of "financing business". The new financing business definition has been expanded to include the provision of pay day advances and consumer finance loans, and removes the restriction on the amount or value of the credit and pay day advances that may be given. The expanded definition also created seven classes of licensees. Also included in the recent amendment is an expanded definition of "money services business" to include the transmission of monetary value, including electronic money, mobile money and payments and other alternative methods. These changes recognized the changed and emerging areas of payment and money services business which the Territory looks to embrace and encourage.

There are two money services business licensees (MSBs): Grace Kennedy Money Services (BVI) Limited (GKMS) and Carilink Limited (Carilink). The Banking Unit continues to monitor the licensees closely through the prudential report and financial statements submissions.

Information on the funds transmitted from and received in the BVI via money services businesses in 2018 is given below.

The Financing and Money Services (Amendment) Act, 2018 reformed the current regime by modifying the definition of "financing business" to include the provision of pay day advances and consumer finance loans, and removing the restriction on the amount or value of the credit and pay day advances that may be given.

Consumer finance loans are restricted to between $5,000 and $25,000. The aim is to provide credit without affecting traditional providers or undercutting existing lenders. The definition of "financing business" was expanded to create seven different classes of licensees:

- Money transmission, including electronic and mobile payments
- Issuing, selling or redeeming money orders or traveller's cheques
- Financing business
- Financing lease
- Operating ATMs
- International financing and lending in the peer-to-peer FinTech market, including peer-to-peer business
- and business-to-business markets
- And, finally, any other specified services.

As a result of the amendments to the Financing and Money Services Act, peer-to-peer FinTech business is recognized as a new lending option.

Licence Type	2018
Outgoing funds from BVI	$76.7m
No. of outgoing transactions	243,529
Average per transaction	$332
Remittances Received in BVI	$6.1m
Suspicious activity reports filed	53

2019 Outlook

In 2019 the Commission anticipates progressing the following legislative amendments and introductions:

a. Regulatory Code amendments;

b. a Regulatory (Consumer Protection) Code to provide consumer protection rules relating to banking business, money services business and insurance business.

c. A regulatory Sandbox regime including the development of regulatory and supervision measures (through amendments to the Financial Services Commission Act and relevant regulatory legislation).

THE COMPLIANCE **INSPECTION UNIT**

On 15 September 2017, the Commission via press release notified the general public that all scheduled compliance inspections had been suspended until 31 December, 2017. This decision was taken in recognition of the business continuity challenges experienced by industry practitioners and licensed firms following the disruptive severe weather events. The compliance inspection programme recommenced in 2018 with a reduced schedule.

During the period where the program was suspended, the Commission used desk supervision and the procedures and provisions provided by the 2017 continuity of business legislation to monitor the recovery and operations of regulated entities. Additional interim returns and data collection methods were used to collect and analyse information provided by licensees on the business recovery, restoration and information management.

Over the course of 2018 a total of thirty two (32) compliance inspection reports were issued as a final. These inspection reports detailed varying corrective actions that licensed entities were required to be implemented in specific time-frames. Additionally, five (5) Licensees were subject to administrative penalties, two (2) Licensees received warning letters and three (3) Licensees were issued strongly worded letters for various breaches of financial services legislation.

The Commission commenced four inspections in 2018 from two regulated business sectors: Money Services and Banking and Fiduciary Services. The process for selection of the Licensees for inspection included consideration of the results of risk assessments, the rate of non-compliance with relevant legislation and inspections previously undertaken on the Licensees. Deliberations of the Enforcement Committee, results of internal monitoring activity and intelligence from desk-based supervision also contribute to the schedules. With the Risk Assessment Framework being consistently applied, the Commission included timely review of the licensed firms to consider the extent of training, claims handling, and business continuity and recovery plans and arrangements. As a result, the Commission extended and expanded the scope of review and inspection of these areas. The extended scope specifically reviewed activities and controls related to systems, risk assessment, reporting and operational risk. The events of 2017 impacted each licensed entity and provided a unique opportunity.

All compliance inspections conducted in 2018 were full scope inspections, which means they represented a comprehensive review of the full operations and lines of business of the licensee. The majority of firms inspected in 2018 were subject to a previous inspection.

The Compliance Inspection Unit provided technical assistance to other members of the Territory's Inter-Governmental Committee on Anti-Money Laundering and Counter Terrorist Financing Matters.

INVESTMENT **BUSINESS**

Through the administration of the Securities and Investment Business Act, 2010, the Mutual Funds Regulations, 2010, the Public Funds Code, 2010, the Investment Business (Approved Managers) Regulations, 2012 and the Securities and Investment Business (Incubator and Approved Funds) Regulations, 2015 the Investment Business Division, continues with the regulation and supervision of Investment Business licensees, approved investment managers, authorised representatives and mutual funds (private, professional, public, foreign, incubator and approved funds).

The Securities and Investment Business Act, 2010 governs the Commission's responsibility for regulation of the Securities industry in the BVI. The Commission's regulatory powers span 7 categories of securities and investments licence; Dealing in Investments, Arranging Deals in Investments, Investment Management (this includes management of Segregated Portfolios, Mutual Funds, Pension Schemes, Insurance Products and the Management of Other Types of Investments), Investment Advice (including and excluding advice to mutual funds), Custody of Investments (including and excluding mutual funds), Administration of Investments (including and excluding mutual funds) and Operate and Investment Exchange.

The Approved Manager's regime was introduced 4 years ago and provides an alternative regime for BVI Investment Advisors/Managers who would otherwise require licensing under The Securities and Investment Business Act, 2010. The regime framework is created by The Investment Business (Approved Managers) Regulations, 2012 which makes it significantly easier for small to midsize Investment Managers and Investment Advisors to operate in or from within the BVI.

The Commission's strategic objectives for 2018 included accelerating the adoption of a fully risk-based supervisory regime. With the Investment Business Division, fulfillment of this objective included deploying resources to address the supervision of the activities of the firms that are found to pose the greatest risks.

Following a number of changes in 2018, the Investment Business Division's resources have been specifically directed and allocated to systemically important licensees based on completed, comprehensive risk assessments. The division's focus this year has been on risk identification and mitigation and promoting improved regulatory compliance.

During 2018, the Division systematically escalated engagement with licensees as required by the tenets of the Risk Supervision Framework. These actions included the drafting of supervisory plans which highlight risk factors that requires immediate attention.

The Investment Business division in collaboration with the Corporate Services Division, completed the development and delivery of an improved platform for the collection of BVI mutual funds statistics as required by The Mutual Funds Annual Returns. The improved platform provides a more efficient and user friendly approach and feedback from the industry has been positive. Generally there has been a steady and consistent level of compliance. The MFARs are extremely helpful to the division as a supervisory monitoring tool. They serve as valuable input to the risk assessment process and assist with improving the supervisory approach we apply to licensed firms.

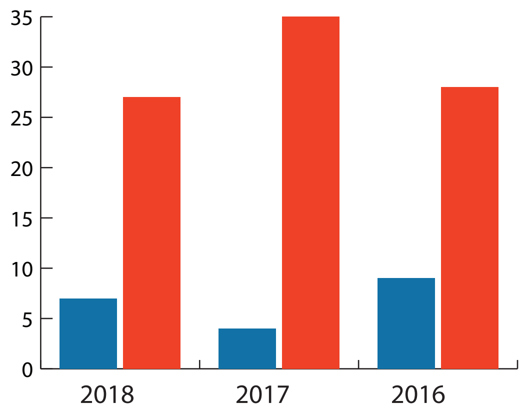
The MFAR report provides summary financial statistics on BVI funds and their investment activities over the reporting period. It is a Commission mechanism used to predict trends in the funds industry.

MFAR data facilitates participation in the IMF Coordinated Portfolio Investment Survey (CPIS). The CPIS collects data on holdings of portfolio investment securities, specifically equities, long-term debt and short-term debt instruments and provides estimates of portfolio investment liabilities for every economy. Data from MFAR has been used to provide statistical information to the Financial Stability Board, IOSCO, EU and OECD in relation to their ongoing assessments of BVI.

Mutual Funds Under Remit by Fund Type

Mutual Funds Under Remit by Fund Type			
	2016	**2017**	**2018**
Professional Funds	1,114	1,007	955
Private Funds	386	340	329
Public Funds	52	48	44
Foreign Funds	6	6	6
Incubator Funds	23	41	66
Approved Funds	33	57	98

Approvals and Cancellations



INSURANCE

The Insurance Division of the Commission is responsible for the regulation and supervision of persons licensed by the Commission through the Insurance Act and other applicable pieces of financial services legislation. Entities licensed to conduct insurance business and related activities include: domestic insurers, captive insurers, insurance intermediaries (insurance agents and insurance brokers), insurance managers and loss adjusters. Regulation and supervision of the sector comprises desk-based (off-site) and on-site monitoring to ensure compliance by licensees of BVI legislation, prudential standards and internationally accepted best practices.

The relevant legislation administered by the Insurance Division includes the Insurance Act, 2008, the Insurance (Amendment) Act, 2015, the Insurance Regulations, 2009, the Insurance (Amendment) Regulations, 2015 and the Regulatory Code, 2009. The Insurance Guidelines, 2016 were also issued by the Commission to compliment the provisions of the Act and the Regulations.

The special legislation namely the Financial Services (Continuity of Business) Act, 2017 which was enacted in 2017 to provide measures for conduct, operation, licensing, regulation and supervision and generally for continuity of financial services business in the Virgin Islands following the passage of Hurricane Irma and for other connected matters was extended for a period of 3 months ending on 31 March 2018.

Captive Insurance

At the end of 2018 BVI captive licensees stand at 73. The captive insurance sector continues to experience a decline in the total number of licensees.

The Division recognizes the slow reception to legislative changes which were enacted in 2016 to provide greater flexibility for existing licensees as well as those interested in utilizing the captive insurance sector.

Two captive insurers, for which joint liquidators were appointed, were wound up and had their licenses subsequently revoked.

Captive Insurers Business 2017 Written	
Gross Written Premiums	$343,088.110
New Written Premiums	$336,392,921
Claims Incurred	$100,575,295
Underwriting Results	$50,143,307
Gross Assets	$1,183,174,155

Domestic Insurance

BVI licensed domestic insurers now stand at 39. The domestic market continued to process and settle claims resulting from the three catastrophic events in 2017 namely the August 7 2017 Flood and Hurricanes Irma and Maria.

Recognizing the complaints received from policyholders coupled with the public dissatisfaction and unfair treatment encountered during the claims handling process feedback was gathered to be considered for the creation of market conduct rules for domestic insurers and insurance intermediaries. The International Association of Insurance Supervisors guidelines are also being followed to draft market conduct rules.

Since the Territory implemented a compulsory National Health Insurance initiative in 2016; insurers offering health insurance evidenced a decrease in policyholders procuring health insurance coverage. However, the insurers licensed under the Act continued to offer supplemental coverage.

One domestic insurer continued to wind up its business in the Territory and is progressing through the liquidation process.

Companies	No. of Insurance Licensees
Captives	73
Domestic	39

Intermediaries

Intermediaries	No. of Insurance Licensees
Insurance Agents	14
Insurance Brokers	4
Insurance Managers	10
Loss Adjusters	16

Licensing of loss adjusters increased as a result of the demand for loss adjusters to remain in the Territory to continue assessing and adjusting claims resulting from the catastrophic events of 2017.

The Division's human resources in 2018 comprised a team of 5.

The Division continued to be actively involved with the various liaison groups. The Domestic Insurance Advisory Council which was constituted in 2015; continued to meet to discuss issues and concerns in the domestic market including the Hurricane Irma claims, educating clients, potential clients and the public on insurance and preparedness for the next hurricane season.

The Captive Insurance Advisory Council, a group of private and public sector representatives, continued to meet to discuss means for reversing the current trend in the captive insurance industry. Following the catastrophic events of 2017 and the enactment of the Financial Services (Continuity of Business) Act, 2017 the Insurance Tribunal was established. The Insurance Tribunal continues to receive and investigate reports from persons who are aggrieved by a decision of an insurer with respect to a claim and to mediate between the insurer and the insured to reach an amicable settlement. The Insurance Tribunal prepares quarterly reports for the Commission as required by the Financial Services (Continuity of Business) Act, 2017. These reports highlight areas of common concern from the investigated cases which will be considered when drafting market conduct rules and making amendments to the Act.

Members of the Division continue to attend and participate in regional and international bodies including: International Association of Insurance Supervisors (IAIS), Group of International Insurance Centre Supervisors ("GIICS") and Caribbean Association of Insurance Regulators ("CAIR"). The GIICS training covered the power of data in our industry, How the NAIC is handling innovation in the insurance industry and Cyber Security: NIST Framework within the context of the SEC and Department of Financial Services & Equifax Case Study.

The CAIR training covered implementing Group-wide and Cross-Border Supervision of Insurance Conglomerates, Risk Based Capital and ORSA Framework, Roles and Responsibilities of the Appointed Actuary, Stress-testing for Financial Stability – A tool for insurers and insurance supervisors and Catastrophic Risk Insurance/Reinsurance in the Caribbean – Issues and Challenges.

Attendance and participation in events hosted by the afore-mentioned bodies afforded members of the Division the opportunity for professional development, networking and to gain experience. The Division cooperated and exchanged information with its counterparts in the United States Virgin Islands particularly after the catastrophic events of 2017 where experiences were shared and discussions held on its regulatory regime.

The BVI Finance Limited, the body responsible for marketing and promoting the territory's financial services collaborates with the Division to promote the jurisdiction at conferences.

Domestic Insurance Companies 2017 Total Gross Written Premiums	
Line of Business	**Annual Returns 2017**
Motor	$7,934,079
Property	$27,502,450
Liability	$11,314,358
Marine & Aviation	$14,342,993
Health	$8,200,980
Accident	$44,414,654
Life	$7,088,337
Other Property & Casualty	$16,947,626
Totals	$137,745,480

Domestic Insurance Companies 2017 Total Gross Claims Paid	
Line of Business	**Annual Returns 2017**
Motor	$22,833,920
Property	$209,585,093
Liability	$272,685
Marine & Aviation	$26,631,535
Health	$2,216,313
Accident	$3,049,091
Life	$3,590,098
Other Property & Casualty	$1,241,397
Totals	269,420,13

BVI FSC (HK) LIMITED

HONG KONG OFFICE

BVI FSC (HK) Ltd is a company incorporated in Hong Kong and wholly owned by the Financial Services Commission of the BVI. With a staff complement of two, headed by the Commission's Asia Representative, the HK office represents the regulatory and supervisory interests of the Commission in the Asia Pacific Region. Through the representative office, the Commission is able to efficiently maintain and service key business relationships and provide liaison services to licensees with offices in Asia.

The BVI FSC HK operating as a representative office promotes regulatory compliance. This primary objective is achieved through developing effective relationships with regional regulatory authorities, managing and monitoring service delivery for BVI Registry of Corporate Affairs functions, responding to inquiries about regulation of BVI financial services and products.

During 2018, service volumes at the HK office increased and dramatically by over 90%. Documents issued and delivered from the HK office increased to over 34,000 and included initial certificates of incorporation for over 50% of total new companies. Initiatives in 2018 included participation in the BVI Asia Trade Mission which included events in Singapore, Beijing, Hangzhou, Shanghai and Hong Kong. The trade mission's theme was BVI: Asia's international partner in the digital era.

A number of the outreach initiatives and events saw the Asia Representative representing the Commission at conferences and meetings with industry practitioners. As the FSC HK shares offices with BVI Houses Asia, the BVI Government's office-Asia, it collaborated with House Asia on education efforts concerning BVI law, regulation, products and services.

8	34,990	1
OUTREACH	CERTIFICATES	PROJECT
5	4	1
PRESENTATIONS	CONFERENCES	ROAD SHOW

NON-SUPERVISORY **DIVISIONS**

LEGAL AND ENFORCEMENT

There are 5 legal practitioners and 3 support staff in the Legal Unit which advises the Commission on its operations and on corporate, regulatory and enforcement matters. The Unit also represents the Commission in all litigation matters.

In 2018 the Legal Unit responded to 111 requests for legal advice including on:

- licensing, authorization and supervisory issues;

- contraventions of financial services legislation and the appropriate exercise of the Commission's enforcement powers;

The Unit represented the Commission in 134 new cases. 70% of these cases were applications to restore BVI Business Companies to the Register of Companies. The Unit also represented the Commission in proceedings to appoint a liquidator to a licensee on public interest grounds.

Financial Services Appeal Board

The Financial Services Appeal Board handles appeals against regulatory and enforcement decisions made by the Commission. At the end of 2018 there were six live appeals and one decision pending from the High Court on an appeal from a decision of the Appeal Board. No new appeals were lodged in 2018.

International Cooperation

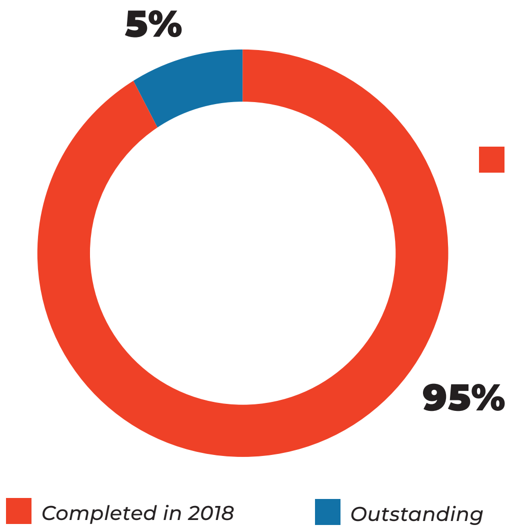
The Commission is signatory to memoranda of understanding with foreign regulatory and law enforcement agencies and through active engagement, promotes a sound financial services environment, regulatory compliance and the detection and reduction of financial crime. In 2018, the Legal Unit handled 161 incoming international cooperation requests and referrals and issued 6 requests to other regulators. 36% of the referrals were from the Financial Crime Information Network (FIN-NET) based in London.

2018 Litigation Cases

#	Legislations	No. of Cases
1	Section 57 (2) - BCA	28
2	Section 207A - BCA	5
3	Section13 (3) - BCA	2
4	Section 100 (5) - BCA	1
5	Section 217 (4) - BCA	1
6	Section 218 - BCA	90
7	Insolvency Act, 2003 479 (1)	1
8	Insolvency Act, 2003 (162)	1
	Total	**129**

Total IC Requests		
Number of Requests Completed in 2018	**Number of Requests Outstanding**	**Total Number of 2018 IC Requests**
153	8	161

Total 2018 IC Requests



Enforcement

The Unit is responsible for conducting investigations of serious breaches of financial services legislation, monitoring financial services activity in or from within the jurisdiction and administering enforcement actions as mandated by the Commission's Enforcement Committee. At the outset of 2018, the Commission commenced reorganisation of the Unit to enhance its enforcement capabilities, which included the development of specialized skill sets and an increase in the Unit's human resources.

The Unit received a total referral of 695 matters in 2018 and was able to close 64% of its investigations. The sources of the referrals were: internal divisions and external regulatory counterparts, complaints against regulated and non-regulated entities, enquiries, monitoring/surveillance of financial services activity in and from within the territory and internal requests for screening of applicants seeking appointment as senior officers of licensees. In 2018 the Unit focused its expertise on more serious contraventions of financial services legislation. Some of the 2018 investigations of the Unit included the investigation and intervention into potential fraud through 3 ponzi schemes, investigation of breaches of international sanctions, fraudulent trading and unauthorized financial services business.

Enforcement Activity

The Commission performs functions that are germane to ensuring a vibrant and stable economy, whilst maintaining the reputation of the jurisdiction. These functions extend beyond the responsibility for the regulation and supervision of its licensees and the financial services industry in general. The Enforcement Committee is the Commission's designated internal function that considers and determines the exercise of the Commission's enforcement powers pursuant to the Financial Services Commission Act, 2001. Enforcement activities undertaken by the Enforcement Committee include: enforcement action outcomes, aides to enforcement and other enforcement decisions.

Enforcement Action Outcomes

The imposition of penalties, issuance of directives, and advisory warnings/public statements or warning letters are the most common enforcement action for minor to moderate regulatory compliance breaches. The Commission has more draconian measures within its powers that are only employed where efforts to effectively supervise a licensee have failed. These powers include the revocation, cancellation or suspension of licenses and winding up orders.

Aides to Enforcement

The Commission's robust enforcement regime operates on the premise that enforcement action must be taken to address misconduct and dissuade other participants from committing breaches. The Enforcement Committee must strike a balance between this premise and other factors. Some factors which are considered include the existing and potential risks and the resulting impact of the misconduct. To achieve the greatest impact on regulatory compliance the Enforcement Committee may issue letters of reprimand (strongly worded letters) or engage directors and senior officers of the licensee to encourage compliance. Although these mechanisms are not statutorily defined as enforcement action, they are viewed as effective aides to enforcement.

Other Enforcement Committee Decisions

Decisions relating to policy changes, referrals to the Board of Commissioners and other administrative functions are identified as other enforcement decisions, rather than actions against licensees. The Commission's assessment of the effectiveness of its enforcement regime is ongoing. Policy revisions, the adoption of new procedures and an increase in its enforcement capabilities will be completed to meet new challenges.

A closer look at enforcement activity

The Enforcement Committee reviewed 108 cases involving suspected contraventions to financial services legislation, the Regulatory Code or a practice direction in 2018.

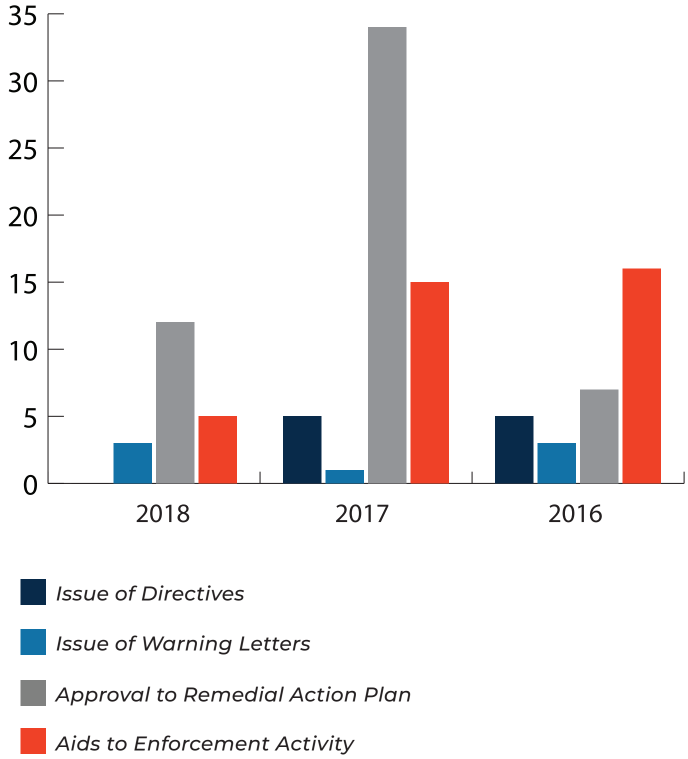
The Commission's recent enforcement activity is implicative of the premise that the enforcement action to which it most often avails itself varies from year to year. Overall, the enforcement tools, including aides, most utilized in response to regulatory breaches were warning letters and public statements. In 2017, the Commission imposed penalties in 17 instances, while issuing 27 directives and an equal number (27) of admonitory actions- which were inclusive of Cease and Desist orders.

The Commission enlisted the involvement of law enforcement agencies on particular matters as part of the Territory-wide effort to combat money laundering and terrorist financing. A total of eight (8) cases were referred to the Financial Investigation Agency and the Royal Virgin Police Force in 2018.

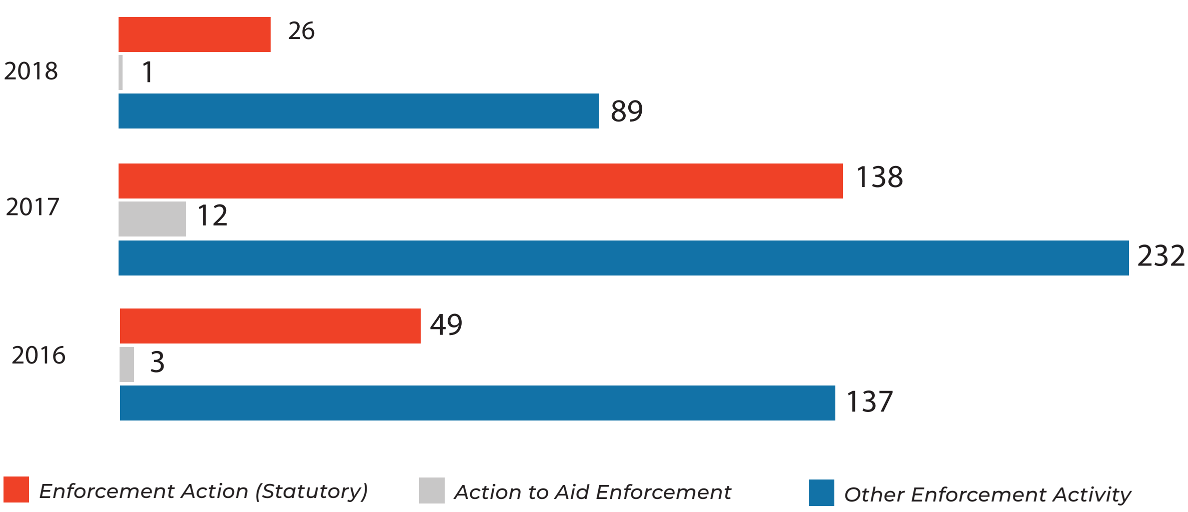
Compliance Inspections

As the Commission conducted on-site compliance evaluations, its supervisory enforcement practices aimed at remediating noncompliance remained consistent. Three (3) warning letters were issued in 2018 as an outcome of a Compliance Inspection, which on average is at par with prior activity in recent years. Noticeably, however, was the Commission's departure from implementing remedial measures to address AML/CFT noncompliance. This may be indicative of an improved compliance culture amongst licensees following the efforts of the Commission in 2017.

Compliance Inspection Enforcement Activity



Enforcement Activity Results



POLICY, RESEARCH AND **STATISTICS**

The Policy Research and Statistics Division ("the Division") in 2018 continued to support the Commission's functions through the development of legislative proposals, polices and guidelines that aid in meeting international standards, enhance existing legislation, increase the effectiveness and efficiency of the Commission's operations and embrace technology advancements within the financial services industry. The Division also serves as the hub for the production and maintenance of statistics relative to the Commission's operations. The Policy Division also coordinates the Commission's AML functions, addressing priority matters in this area.

Review, Development and Implementation of Financial Services Legislation
The Commission's role in reviewing, proposing and implementing financial services legislation is a collaborative effort with both internal and external stakeholders. During 2018, the Policy Division engaged all units and divisions within the Commission to facilitate a joined up approach to address regulatory concerns and challenges and propose suitable legislation or legislative amendments for implementation. The legislative development process also includes consulting with relevant industry participants and government agencies. These collaborations resulted in the progression of legislation for enactment during the year. Legislative agenda challenges have been influences by emerging international standards, gaps and inefficiencies in the regulatory environment, emerging products, services and business models, and technology advancements that impact the financial services industry. As a result of these developments and collaborations, the Policy Division proposed and developed the following Bills, Regulations and subsidiary legislation for enactment in the jurisdiction:

New Legislation

- *Limited Partnership Regulations, 2018*

The Limited Partnership Regulations, created to accompany the Limited Partnership Act, 2017, establish the provisions necessary to administer the Limited Partnership Act at the Registry of Corporate Affairs.

- *Financial Services (Limited Partnership Fees) Regulations, 2018*

These Regulations apply a schedule of fees to limited partnerships subject to the Limited Partnership Act, 2017 and the Limited Partnership Regulations, 2018.

- *Segregated Portfolio Companies (BVI Business Company) Regulations, 2018*

Segregated Portfolio Companies (Insurance) Regulations, 2018

Segregated Portfolio Companies (Mutual Funds) Regulations, 2018

These Regulations were all enacted in tandem with the BVI Business Companies (Amendment) Act, 2018 and respectively introduced the segregated portfolio company regime to all BVIBCs, whether conducting regulated financial services activities or not, and revamped the segregated portfolio regimes applicable to insurance companies and mutual funds.

Amended Legislation

- *Anti-money Laundering (Amendment) Regulations, 2018*

Via the provisions of these amended regulations, entities licensed by the Commission are required to submit their identification, record keeping, internal reporting, internal controls and communications procedures to the Commission for approval. This approval process was previously administered by the Financial Investigation Agency ("the FIA").

- *Anti-Money Laundering and Terrorist Financing (Amendment) Code of Practice, 2018*

- *Anti-Money Laundering and Terrorist Financing (Amendment) (No. 2) Code of Practice, 2018*

There were two substantive amendments to the Code of Practice this year. The amended Code clarifies the types of documentation that may be accepted for verification of identification.

The No. 2 amendment specifically integrates the use of electronic verification for AML/CFT purposes. Flexibility in the requirements for certification of documentation and the verification of a customer. The amendment, (No.2) also allows for greater flexibility in making certificate requirements for documentation and verification of customer address.

- *Banks and Trust Companies (Amendment) Act, 2018*

The Banks and Trust Companies (Amendment) Act, 2018 introduced 2 new classes of licenses. The new licenses enable the licensee to perform trust and company management business for a limited number of trusts and family businesses. The amendment also requires subsidiaries of licensees that wish to engage in regulated financial services business to obtain their own licenses (separate from the parent company) to provide trust and company management services. The Act also facilitates the provision of registered agent services to Micro Business Companies (MBCs).

- *BVI Business Companies (Amendment) Act, 2018*

This amendment facilitates the establishment of unregulated BVI Business Companies (BVIBCs) as Segregated Portfolio Companies (SPCs). The Act requires compliance with the provision that requires the filing of a Register of Directors as a condition for the Registry of Corporate Affairs issuing a Certificate of Good Standing on behalf of a BVIBC.

- *BVI Business Companies (Amendment of Schedule 1) (No.3) Order, 2018*
- *BVI Business Companies (Amendment of Schedule 1) (No.2) Order, 2018*
- *BVI Business Companies (Amendment of Schedule 1) Order, 2018*

These orders amend Schedule 1 of the BVI Business Companies Act, to include maximum penalties for legislative breaches and for the inclusion of some transaction filing fees.

- *BVI Business Companies (Restricted Company Names) (Amendment) Notice, 2018*

The Notice adds the term "Registered Agent" to the list of restricted company names. As such, a BVIBC seeking to use this term within its name will require the Commission's explicit approval.

- *Company Management (Amendment) Act, 2018*

This Act incorporates provisions similar to those of the Banks and Trust Companies (Amendment) Act, 2018.

- *Financial Services (Amendment) Act, 2018*

This Act expands the scope of the Commission's regulatory regime to allow for the approval of corporate entities to perform a licensee's compliance function.

- *Financial Services (Fees) (Amendment) (No. 3) Regulations, 2018*
- *Financial Services (Fees) (Amendment) (No. 2) Regulations, 2018*
- *Financial Services (Fees Amendment) Regulations, 2018*

These regulations were amended to include fees applicable to a Registered Agent acting for a MBC; fees for the application and approval of a body corporate to provide compliance function services; and fees related to new classes of licences created under the Financing and Money Services Act.

- *Financial Services (Prudential and Statistical Returns) (Amendment of Schedule 3) Order, 2018*

This Order amended the Fiduciary Services Business Returns in Schedule 3 to require annual filings of the Return rather than bi-annual filings.

- *Financing and Money Services (Amendment) Act, 2018*

This Act redefined financing business and money services business and created different classes of licences, also allowing the possibility for regulating international financing and lending via peer-to-peer technology.

Consolidation of Legislation

As at the end of 2018 the Commission published unofficial consolidated versions of the following legislation on its website, for access by stakeholders and the general public:

- *Anti-money Laundering and Terrorist Financing Code of Practice*
- *Anti-money Laundering Regulations.*

Communication of Regulatory Requirements

In 2018, the Commission committed to enhancing its communication with external stakeholders by providing periodic notices of matters affecting industry participants and the Territory at large. The Policy Division contributed to these efforts at enhancing the Commission's communication, through the development of industry circulars and guidance. The Division also developed and enhanced application forms to facilitate improved information gathering and reporting of legislatively required submissions.

The Division developed or contributed to following guidance documents and circulars issued in 2018:

- *Industry Circular - BVI Business Companies Act (Amendment of Schedule) (No. 3) Order, 2018*
- *Industry Circular - National Risk Assessment Report*
- *Corporate Compliance Function Services Guidance*
- *Sanctions Risks Related to North Korea's Shipping Practices*
- *Segregated Portfolio Company (SPC) non-regulated BVI Business Company Registration Guidance*

Regional and International Engagement

As a part of the effort to adequately engage standards setters in global financial services regulations, the Commission regularly collaborates and contributes to a number of international bodies in developing international standards, collating and analysing jurisdictional data for reporting, assisting in conducting international assessments and attending relevant meetings and conferences. The Policy Division has been an integral part of the Commission's regional and international engagement role and contributed to the following in 2018:

Caribbean Financial Action Task Force (CFATF)

The Territory is integrally involved in the work of the CFATF and committed to assisting member countries to meet international AML/CFT standards. Individuals from the Policy Division assisted these initiatives within the CFATF by performing in the following capacities:

- representing the jurisdiction at CFATF Working Groups and Plenary Meetings
- serving as a financial assessor on the CFATF mutual evaluation of the Cayman Islands
- completing relevant FATF/CFTAT Surveys
- serving as a member of the CFATF Steering Group.

Completion of Surveys

As part of its international commitment to the development of standards, the Commission regularly participates in surveys to provide information to standard setters. The data from these surveys are used to identify and analyse trends in global or regional financial services sectors, develop financial indicators, identify risk exposures and improve on gaps and deficiencies. During the year 2018, the Division participated in information gathering surveys from the following organisations:

- Association of Supervisors of Banks of the Americas (ASBA)
- International Association of Insurance Supervisors (IAIS)

- World Bank (WB)
- Group of International Financial Centres (GIFCS)
- Caribbean Association of Insurance Regulators (CAIR).

International Representation

The Policy Division represented the Commission at the following meetings during the year 2018:

- Association of the Overseas Countries and Territories of the European Union (OCTA) International Tax Workshop
- The Group of International Insurance Centre Supervisors ("GIICS") Annual Seminar and Annual General Meeting.

Domestic Engagement

As a regulator, the Commission enlists the input of private and public sector stakeholders in identifying and coordinating efforts for enhancement of the jurisdiction's regulatory framework and the effective implementation of these measures. This is undertaken through the establishment of various industry committees which the Division has responsibility to coordinate, including:

- Company Law Review Advisory Committee (CLRAC)
- Inter-governmental Committee on AML/CFT Matters (IGC)
- Joint Anti-money Laundering and Terrorist Financing Advisory Committee (JALTFAC)
- Council of Competent Authorities (CCA)

Policy Division team members also serve as members of Other Liaison Groups, including the Securities and Investment Business Advisory Committee (SIBAC), the Captive Insurance Advisory Committee (CIAC) and the Intellectual Property Advisory Group (IPAG).

Internal Engagement

Internal development at the Commission in 2018 saw the Policy Division participate and provide support and guidance for initiatives related to general enhancement of the risk-based supervisory framework, and the development of an approach to fin-tech.

Ongoing Initiatives

In 2018, the Policy Division continued to advance activities in preparation for upcoming Commission and Territorial international assessments (GIFCS, CFATF). The Policy Division also led the development of new prudential returns, guidance documents on AML/CFT matters and conduct specific legislation. We also created and enhanced internal regulatory and supervisory processes, measured the impact and effectiveness of the Commission's regulatory programme and revamped applicable forms.

CORPORATE
SERVICES

Finance

The Finance Department assists the Commission to shape and deliver on its regulatory remit by providing quality advice and services, particularly on fiscal and economic matters.

The Finance Department provides monthly reports to management and the Board of Commissioners on the Commission's financial status and activities. The reports include information on revenue, expenditure, cash flow, the performance of investment products and the overall financial position for the reporting period.

The Finance Department also proposes and enforces policies and procedures to encourage compliance with accounting standards and best business practices, and to maintain financial integrity and good governance.

Our People – The key to the Finance Department carrying out its remit is its people. The Director, Finance oversees four team members; an Accounts Payable Manager, Staff Accountant, Accounts Officer and an Accounts Assistant/Cadet.

Budget and financial management services and advice - The Finance Department is responsible for delivering and managing the Commission's annual operating budget. During the year the Finance Department oversaw a $28.6MM (2017: $25.9MM) expenditure budget comprised of $25.5MM (2017: $24.1MM) for operating expenditures and $3MM (2017: $1.8MM) for capital expenditures. In 2018 the Commission realized expenditures of $24.8MM. That was $4MM or 13% within budget estimates. In 2018 $23.3MM was realized in operating expenditures which was $2.2MM or 9% within budget estimates. Capital expenditures of $1.5MM were 50% below budget estimates.

The Finance Department is also responsible for collecting and processing fees on behalf of Government. The 2018 budget projections for those fees were $211.4MM (2017: $187.9MM). Actual receipts (excluding those to the sole credit of the Commission) amounted to $260MM (2017: $197.8MM) which was $48.6MM or 23% above budget projections. Out of those fees the Finance Department transferred $232MM (2017: $175.4MM) to Government pursuant to the retention agreement between the Commission and the Government for 2018.

From its retention of fees collected on behalf of the Government (2017: 11.5%, 2016: 11.5 %) and other collections, the Commission had available $31MM (2017: $25MM) in direct revenue to fund the Commission's operations. After operating expenditures the Commission generated an operating surplus of $6MM (2017: $1.03MM).

Management and Accountability – As required by the Financial Services Commission Act, 2001, the Commission engaged an external auditor to assess the financial statements of the Commission for the year ended December 31, 2017. The financial audit includes considering internal controls, evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made. The external auditor issued an unqualified report on those statements on October 23, 2018.

Investment Funds Administration – The Finance Department also administers the Commission's reserves and other assets through investments. The department performs this function in line with an Investment Policy set out by the Investment sub-committee of the Board. At the end of 2018 the Commission's brokerage account had a market value of $10.6MM. Of the funds invested, $8.1MM in US Treasuries is the amount of regulatory deposits held on behalf of licensees. The department also oversaw $10.2MM in termed deposits.

Support and procedural assistance – During the year the department collaborated with other areas to plan, support and execute various initiatives. In addition to financial knowledge, the department provided business insights to help guide business decisions. Some of those initiatives included the retrofit of the Commission's new Resource Centre where the department was involved in budgeting and the bidding process. Similarly, the division was part of the development team for the MBC, technology solution; assisting with financial workflows and revenue recording.

Financial support and technical assistance to Government – The Commission is tasked with providing financial funding to a number of Government initiatives and bodies. The Finance Department executes these appropriations consistent with directions from the Board of Commissioners. The Commission made financial contributions to the Financial Investigation Agency, BVI International Arbitration Centre and Financial Services Institute at H. L. Stoutt Community College amounting to approximately $3MM.

Information Technology

The Information Technology (IT) Department facilitates the efficient management of The Commission's automated business practices in a secure and resilient manner, using appropriate and effective technology. The department prides itself on procuring equipment and cutting edge tools, and employing the practices and processes that improve operations. As anticipated, 2018 presented another full program of projects for the IT team.

There were numerous department highlights during the year including:

- Improving our data protection systems and access controls
- Making significant progress on the design, development and delivery of The Commission's new website
- Enhancing our existing intranet to improve internal communications
- Deploying our Mutual Fund Annual Returns (MFAR) application enhancements to licensees
- Ongoing network upgrades for faster throughput and elimination of latency issues
- Successfully upgrading all infrastructure for our business continuity program
- Successfully upgrading replication software between locations boosting our ability to be available for service in any situation.
- Successfully testing partial and full failovers and initiating a testing schedule for ongoing verification.

System uptime and service goals for the 2018 year again met our defined standards of attaining above 98% uptime. The Security of our physical premises, network, applications and our data continue to be a prime focus of our team. Assessing our vulnerability to cyber-attacks and educating ourselves at conferences and through resource enhancement has strengthened our capabilities. The team understands and appreciates the probability of being affected by a system compromise and in response we have worked to fortify the Commission's infrastructure and our recovery plans.

We have conducted significant industry research and after reviewing and re-allocating resources, the IT team is moving forward with plans to introduce and implement enhanced information systems across all lines of business. These objectives and plans will improve our general capabilities and will allow the Commission to better and more effectively regulate firms using new data in new ways. The Commission already has fairly sophisticated systems in place for company registration and financial returns which produce invaluable data and enable us to undertake analysis of key information provided to it electronically. We are now consciously reviewing those big data sources as we embrace Suptech and Regtech solutions. The initiative to implement and deploy a fully automated, end to end licensing and supervisory solution for our team of regulators has commenced and should be completed within 18 – 24 months.

Attendance this year at the Singapore FinTech Festival provided additional opportunities to examine new technology solutions for consideration. Roll out of the Commission's new customer support platform was realized in 2018. The system provides near instant metrics regarding service delivery provided to our clients by telephone and email.

The Commission also formally stood up its Project Management Office with the aim of reducing project management challenges by centralizing the selection and prioritization of projects and initiative (both tech and non tech) through the use of formal project management techniques. The development of the MBC technology solution was managed by the PMO whilst it was still in its beta stage.

Facilities

The Commission's major facility improvement initiative in 2018 was the completion of the FSC Resource Centre.

The Managing Director formally opened the Resource Center with an all employee town hall meeting in January. The Resource Centre project was undertaken in 2017 to provide a dedicated space for team collaboration, training and professional development. The 4,000 square foot space includes 6 meeting rooms, with a single room capacity of up to 150 persons, and is outfitted with improved audio/ video capabilities. Smart boards and other technology solutions are available to encourage more efficient use of the space for meetings and events for employees, clients and other industry partners.

FINANCIAL LITERACY
MONEY MATTERS BVI

Money Matters BVI (MMBVI) is the Commission's financial literacy programme. It delivers public education on the functions of the Commission and matters relating to or affecting financial services business. The programme engages with all sectors of the community through outreach initiatives, media campaigns and other activities.

In 2018, the BVI was grappling with the filing, handling and settling of record numbers of insurance claims. Issues of insurance, underinsurance and self-insurance presented themselves as areas of priority for MMBVI and an opportunity to provide, timely, relevant and useful information to a greater cross section of the BVI public. The initiatives were launched under the campaign, "Exposed". Webinars under the theme: Exposed Understanding Insurance Coverage & Your Homeowners Insurance Policy were held in July 2018. MMBVI also partnered with the BVI Bar Association and the BVI Chamber of Commerce and Hotel Association to host an Insurance Forum: "Exposed: Understanding Risk Mitigation for Small Business through Adequate Insurance Coverage."
Much of the MMBVI's work in 2018 focused on the current issues affecting the BVI Community following the passage of Hurricanes Irma and Maria. Other initiatives were geared towards personal finance and included a presentation at the International Women's Day Information Fair entitled: "Overcoming Barriers (Low Financial Knowledge and Lack of Confidence) to the Financial Well-being of Women".

A notable accomplishment of MMBVI was the reactivation of the Financial Education Network (FEN) in July, 2018. FEN was established in partnership with industry professionals and organizations across the banking, construction, education, financial services, health, human resources, insurance, investment, media, public, religion, and non-profit sectors. FEN meets quarterly to develop initiatives, like its Lunch and Learn held in November, 2018, which addressed issues women face in managing money and the issues which surround access and abuse of money which affect our aging population.

The programme also hosted the "Amazing Little Race to Save", an obstacle course event for pre-school and primary school aged students under the theme "I Can Save Too!". Sponsors for the event included local banks and businesses within the community. Over 230 children participated in an afternoon of games which encouraged positive decisions about using money.

MMBVI is committed to its mission to build awareness and assist in shifting attitudes towards proper money management. Through its partnership with FEN and other organizations, like the International Forum on Investor Education, the programme has been able to increase its reach within the BVI Community and make regional and international contributions.

In addition to its usual calendar of activities MMBVI intends to create public awareness campaigns which feature the work of divisions within the Commission. These campaigns would provide greater insight on the work the Commission undertakes, its significance to our jurisdiction and other global financial services issues.

HUMAN
RESOURCES

The Commission continues to be one of the premier employers in the Territory and received over 300 applications for employment during 2018. The Human Resources Division is responsible for the recruitment and retention of talent to sustain a reliable workforce to execute the work of the Commission.

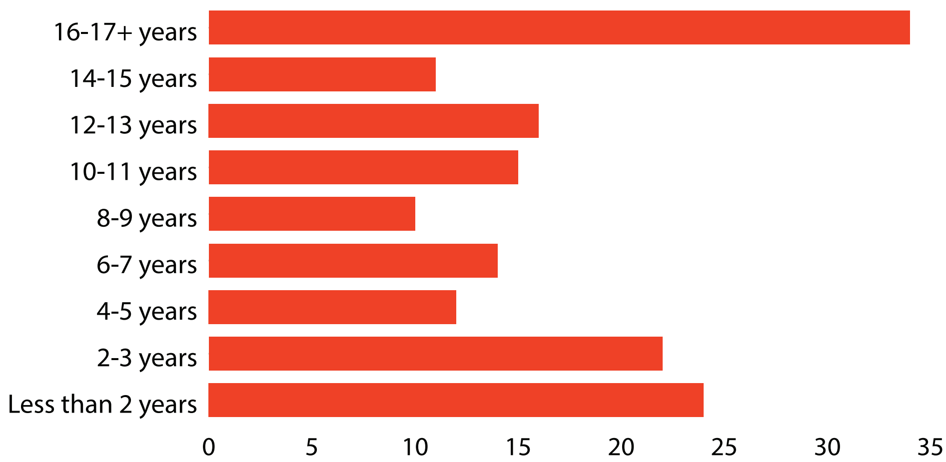
The Division is committed to deliver exceptional customer service to the Commission's employees while seeking to mediate the interests of the Commission's employees and the Commission. The work of the division ensures that staff relations are healthy, positive and promote an environment which fosters and rewards innovation and stellar contributions.

Workforce Composition

The Commission comprised a total of 158 employees in supervisory and non-supervisory roles. Approximately 52% of the workforce has been with the Commission for 10 years or less.

Supervisory Employees – 45
Non-supervisory Employees – 113
(includes one temporary employee)

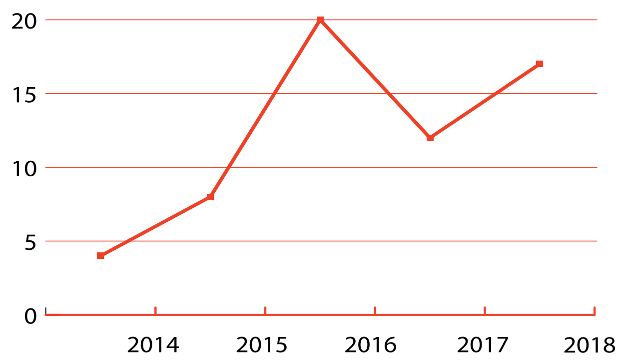
Employee Years By Service



Employee Turnover

Eighteen employees separated from the Commission in 2018, three temporary employees and the remainder regular full-time employees, which included one separation due to early retirement.

Employee Turnover - FY Comparison



Highlights

Recruitment

- 330 applications were received and processed
- 15 vacancies were advertised, 6 of which were filled by external candidates
- 18 summer interns were placed
- Overall, 15 new hires were recruited in regular full-time positions

Compensation and Administration

A salary adjustment was applied across the board at the beginning of the fiscal year. During the course of the year six employees received new appointments on promotion and four employees received lateral transfers.

Educational Assistance

Two employees were granted paid study leave. The employees embarked on their programmes of study in the fields of Law and Business and Management with Accounting and Finance in September 2018.

Benefits Administration

- 11 employee loans were processed
- 20 medical claims were handled by the Division
- 2 Participants were added to the Pension Plan
- 12 Pension payments/reimbursements were made from the Pension Plan

Training and Development

Employees of the Commission are regularly granted the opportunity for professional development and enrichment through the attendance at international meetings and conference and other specialist training events. In 2018, the Commission was represented at 17 sector related events and training.

The statistics below provides a snapshot of the number of employees in supervisory and non-supervisory roles who benefited from enrichment opportunities in 2018.

Category	Total
Supervisory	16
Non- supervisory	14
Total	**30**

Accomplishments

The Division established a Study Leave Committee to review and consider requests/applications for study leave/financial assistance. The Commission's Directors for: Finance, Human Resources, Registry of Corporate Affairs, and Investment Business are members of the Study Leave Committee. The Committee's role is to consider each application on its merits and make recommendations to the Managing Director following a meeting with the applicants.

Vacation Leave System – The Division conducted an audit of the vacation accruals and employee entitlements following a review and update to the vacation leave system.

Looking Forward

The Human Resources Division consists of a small team of two persons that desires to work diligently to assist the Commission in achieving its goals. In order to accomplish this, the Division will work proactively in light of imminent change and a developing workforce.

The Division has continued to work towards elevating the value of the HR function by streamlining its processes and procedures. It anticipates fully achieving that objective in 2019 with the implementation of an HR service delivery platform prior to the end of the 2019 fiscal year.

FINANCIAL **STATEMENTS**

BRITISH VIRGIN ISLANDS
FINANCIAL SERVICES COMMISSION

Audited Consolidated Financial Statements

For the Year Ended December 31, 2018

BDO

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Table of Contents
For the Year Ended December 31, 2018

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Directory
For the Year Ended December 31, 2018

BOARD OF COMMISSIONERS

Mr. Robin Gaul	Chairman
Mr. Jonathan Fiechter	Deputy Chairman
Ms. Denise Reovan	Commissioner
Mr. Ian Smith	Commissioner
Ms. Carlene Romney	Commissioner
Mr. Andrew Bickerton	Commissioner
Mr. Carl Hiralal	Commissioner
Mr. Robert Mathavious	Managing Director/CEO, ex officio Commissioner

REGISTERED OFFICE

P.O. Box 418
Pasea Estate
Road Town, Tortola
British Virgin Islands

COMMISSION SECRETARY

Ms. Annet Mactavious

INDEPENDENT AUDITORS

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British Virgin Islands

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Road Town
Tortola VG1110
British Virgin Islands

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of the British Virgin Islands Financial Services Commission and its subsidiaries (the "Group"), which comprise of the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive income, changes in reserves and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

BDO Limited

Tortola, British Virgin Islands
October 9, 2019

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Consolidated Statement of Financial Position
As at December 31, 2018
Expressed in United States Dollars

	Notes	2018 $	2017 $
ASSETS			
Non-current assets			
Property and equipment	4	5,748,276	6,155,035
Projects under development	5	334,161	1,197,901
Total non-current assets		6,082,437	7,352,936
Current assets			
Regulatory deposits	7	8,691,499	9,407,031
Cash and cash equivalents	8	17,898,877	18,775,173
Time deposits	9	10,238,720	5,181,817
Other receivables and deposits	10	722,367	565,466
Total current assets		37,551,463	33,929,487
TOTAL ASSETS		43,633,900	41,282,423
RESERVES AND LIABILITIES			
Capital reserves			
Contributed capital	11	3,993,900	3,993,900
Property and equipment reserve	11	6,082,437	7,352,936
Total capital reserves		10,076,337	11,346,836
Revenue reserves			
Training reserve	11	400,000	400,000
Loan revolving reserve	11	165,000	165,000
Future capital expansion reserve	11	7,500,000	7,500,000
Refunds and drawback reserve	11	50,000	50,000
Enforcement reserve	11	2,000,000	2,000,000
Contingency reserve	11	2,766,834	1,671,604
Administrative penalties fund reserve	11	2,409,816	2,092,906
Total revenue reserves		15,291,650	13,879,510
Total reserves		25,367,987	25,226,346
Current liabilities			
Trade and other payables	12	3,730,837	2,267,627
Deposits on account	13	4,843,577	3,381,419
Distribution payable to Government	14	1,000,000	1,000,000
Regulatory deposits from licensed entities	7	8,691,499	9,407,031
Total liabilities		18,265,913	16,056,077
TOTAL RESERVES AND LIABILITIES		43,633,900	41,282,423

Signed on behalf of the Commission on Aug. 27, 2019

Chairman *Managing Director*

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

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Consolidated Statement of Comprehensive Income
For the Year Ended December 31, 2018
Expressed in United States Dollars

	Notes	2018 $	2017 $
INCOME			
Fees collected on behalf of the Government	8	262,536,321	200,090,702
Less: Fees due to the Government	8	(231,972,987)	(175,395,655)
Fees retained by the Commission		30,563,334	24,695,047
Other income	15	179,476	164,901
Interest income		156,849	118,906
TOTAL INCOME		30,899,659	24,978,854
EXPENSES			
BVI House Asia funding	19	394,649	233,523
Conferences and seminars		34,108	37,059
Depreciation	4	1,528,946	1,440,952
Financial Investigations Agency funding	19	750,000	500,000
Financial Services Institute funding	19	450,000	300,000
Impairment loss	4, 5	1,236,460	-
Insurance		120,303	78,547
Insurance Tribunal	19	102,335	-
International Arbitration Centre funding	19	1,811,600	1,833,837
Licenses and fees		124,043	87,701
Literature and reference		93,735	95,509
Maintenance and hire		798,561	736,315
Memberships and subscriptions		126,362	97,458
Miscellaneous		21,521	22,144
Office expenses		218,306	187,933
Professional services		1,689,153	1,574,232
Public relations		140,822	68,686
Rent and lease	19	1,289,538	1,312,828
Staff costs	17	13,733,538	13,928,851
Travel and subsistence		458,386	417,829
Telephone and communications		717,858	722,061
Utilities		234,704	277,724
TOTAL EXPENSES		26,074,928	23,953,189
SURPLUS BEFORE GOVERNMENT DISTRIBUTION AND ENFORCEMENT PROCEEDS		4,824,731	1,025,665
Distribution to Government	14	(5,000,000)	(1,000,000)
(DEFICIT) SURPLUS BEFORE ENFORCEMENT PROCEEDS		(175,269)	25,665
Enforcement proceeds	16	316,910	456,740
SURPLUS FOR THE YEAR		141,641	482,405

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

Consolidated Statement of Changes in Reserves
For the Year Ended December 31, 2018
Expressed in United States Dollars

	Opening balance $	Surplus for the year $	Transfers $	Closing balance $
2018:				
Surplus	-	141,641	(141,641)	-
Contributed capital	3,993,900	-	-	3,993,900
Property & equipment reserve	7,352,936	-	(1,270,499)	6,082,437
Training reserve	400,000	-	-	400,000
Loan revolving reserve	165,000	-	-	165,000
Future capital expansion reserve	7,500,000	-	-	7,500,000
Refunds & drawbacks reserve	50,000	-	-	50,000
Enforcement reserve	2,000,000	-	-	2,000,000
Contingency reserve	1,671,604	-	1,095,230	2,766,834
Administrative penalties fund reserve	2,092,906	-	316,910	2,409,816
	25,226,346	141,641	-	25,367,987
2017:				
Surplus	-	482,405	(482,405)	-
Contributed capital	3,993,900	-	-	3,993,900
Property & equipment reserve	7,486,281	-	(133,345)	7,352,936
Training reserve	400,000	-	-	400,000
Loan revolving reserve	165,000	-	-	165,000
Future capital expansion reserve	7,500,000	-	-	7,500,000
Refunds & drawbacks reserve	50,000	-	-	50,000
Enforcement reserve	2,000,000	-	-	2,000,000
Contingency reserve	1,512,594	-	159,010	1,671,604
Administrative penalties fund reserve	1,636,166	-	456,740	2,092,906
	24,743,941	482,405	-	25,226,346

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

-6-

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Consolidated Statement of Cash Flows
For the Year Ended December 31, 2018
Expressed in United States Dollars

	2018 $	2017 $
CASH FLOW FROM OPERATING ACTIVITIES		
Surplus for the year	141,641	482,405
Adjustment to reconcile net surplus to net cash from operating activities before working capital changes:		
Depreciation	1,528,946	1,440,952
Impairment loss	1,236,460	-
Interest income	(156,849)	(118,906)
Operating surplus before working capital changes	2,750,198	1,804,451
(Increase) decrease in other receivables and deposits	(156,901)	781,824
Increase in trade and other payables	1,463,210	142,984
Increase in deposits on account	1,462,158	84,404
Increase in distribution payable to Government	-	1,000,000
Net cash flows from operating activities	5,518,665	3,813,663
CASH FLOW FROM INVESTING ACTIVITIES		
Increase in time deposits - net	(5,056,903)	(61,083)
Acquisition of property and equipment	(735,786)	(496,107)
Costs for projects under development	(759,121)	(811,500)
Interest received	156,849	118,906
Net cash used in investing activities	(6,394,961)	(1,249,784)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(876,296)	2,563,879
CASH AND CASH EQUIVALENTS		
At beginning of year	18,775,173	16,211,294
At end of year	17,898,877	18,775,173

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

1. ORGANISATION AND OBJECTIVES

The British Virgin Islands Financial Services Commission (the "Commission" or the "Parent") was established under the Financial Services Commission Act, 2001 (the "Act") on December 31, 2001. The Act established the Commission including its subsidiaries (collectively referred to as the "Group") 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 at Pasea Estate, Road Town, Tortola, British Virgin Islands.

The Commission is governed by a Board of Commissioners which includes a Chairman, six independent Commissioners and the Managing Director/CEO. The Government of the British Virgin Islands (the "Government") is the sole interest holder in the Commission.

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. SIGNIFICANT ACCOUNTING POLICIES

2.1 Presentation of financial statements

(i) International Financial Reporting Standards (IFRS)

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB).

(ii) Accounting convention

The consolidated financial statements are prepared under the historical cost convention.

(iii) Presentation and functional currency

The financial statements are presented in United States Dollars ($), which is the Group's functional and presentation currency.

(iv) Significant accounting estimates and judgement

The preparation of the consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. Management is also required to exercise its judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Significant judgments, estimates and assumptions made by management in the preparation of these consolidated financial statements are disclosed in Note 3.

2.2 IFRS adoption

(i) Standards, amendments and interpretations to existing standards effective and relevant to the Group

The Group has initially applied IFRS 15 and IFRS 9 from January 1, 2018. A number of other new standards are also effective for January 1, 2018 but they do not have material effect on the Group's consolidated financial statements.

- IFRS 15, Revenue from Contracts with Customers. In the current year, the Group has applied *IFRS 15 Revenue from Contracts with Customers* (as amended in April 2016) which is effective for an annual period that begins on or after January 1, 2018. IFRS 15 established a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced *IAS 18, Revenue, IAS 11 Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control at a point in time or over time requires judgement. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added to IFRS 15 to deal with specific scenarios.

  The application of IFRS 15 has not had a significant impact on the financial position and/or performance of the Group apart from adding greater details on revenue recognition policies. For additional information about the Group's accounting policies relating to revenue recognition, see Note 2.7.

Expressed in United States Dollars

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 IFRS adoption (continued)

(i) Standards, amendments and interpretations to existing standards effective and relevant to the Group (continued)

- IFRS 9 Financial Instruments. IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 became effective for annual periods beginning on or after January 1, 2018.

  Classification and Measurements

  IFRS 9 contains the principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

  IFRS 9 largely contains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

  Impairment

  IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

  For an explanation on how the Group classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see Note 2.6.

  Impact of adoption of IFRS.

  IFRS 9 has been applied retrospectively by the Group and did not result in a change to the classification or measurement of financial instruments. In line with the characteristics of the Group's financial instruments as well as its approach to their management, the Group neither revoked nor made any new designations on the date of initial application. The Group has chosen to take advantage of the option not to restate comparatives, therefore, the 2017 figures are presented under IAS 39. IFRS 9 has not resulted in changes in the carrying amount of the Group's financial instruments due to changes in measurement categories. All financial assets that were classified as FVTPL under IAS 39 are still classified as FVTPL under IFRS 9. All financial assets that were classified as loans and receivables and measured at amortised cost continue to be.

  The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and liabilities as at January 1, 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Cash and cash equivalents	Loans and receivables	Amortised cost	18,775,173	18,775,173
Time deposits	Loans and receivables	Amortised cost	5,181,817	5,181,817
Other receivables and deposits	Loans and receivables	Amortised cost	565,466	565,466
Regulatory deposits	Loans and receivables	Amortised cost	9,407,031	9,407,031
			$ 33,929,487	$ 33,929,487

Expressed in United States Dollars

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 IFRS adoption (continued)

(i) Standards, amendments and interpretations to existing standards effective and relevant to the Group (continued)

- IFRS 9 Financial Instruments (continued)

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Trade and other payables	Other financial liabilities	Other financial liabilities	2,267,627	2,267,627
Distribution payable to Government	Other financial liabilities	Other financial liabilities	1,000,000	1,000,000
Regulatory deposits from licensed entities	Other financial liabilities	Other financial liabilities	9,407,031	9,407,031
			12,674,658	12,674,658

There was no material impact on adoption from the application of the new impairment model. IFRS 9 requires the Group to record ECLs on all of its trade receivables, either on a 12-month or lifetime basis. This amendment has not had a material impact on the Group's financial statements. The Group only holds trade receivables with no financing component and which have maturities of less than 12 months at amortised cost and therefore has adopted an approach similar to the simplified approach to ECLs.

- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration. The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to the advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This interpretation does not have any impact on the Group’s consolidated financial statements.

- Amendments to IAS 28 investments in Associates and Joint Ventures - Clarification that measuring investees at FVTPL in an investment-by-investment choice. The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at FVTPL. If an entity that is not itself an investment entity, has an interest is an associate or joint venture that is an investment entity, then it may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or join venture is initially recognised; (b) the associate or joint venture becomes an investment entity and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Group's consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 IFRS adoption (continued)

(ii) Standards, amendments and interpretations to existing standards in issue but not yet effective and relevant to the Group

A number of new standards are effective for annual periods beginning after January 1, 2018 and earlier application is permitted, however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

Of those standards that are not yet effective, IFRS 16 is expected to have a material impact on the Group's consolidated financial statements in the period of initial application.

- IFRS 16 Leases. The Group is required to adopt IFRS 16 Leases from January 1, 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard on January 1, 2019 may change because:
  - The Group has not finalised its assessment; and
  - The new accounting policies are subject to change until the Group presents its first consolidated financial statements that include the date of initial application.

  IFRS 16 introduces a single, on balance sheet lease accounting model for leases. A lessee recognises a right-of-use asset representing its right to use the underlying assets and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

  IFRS 16 replaces existing guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC15 Operating leases Incentives and SIC27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

  The Group will recognise new assets and liabilities for its operating leases of office space. The nature of expenses related to those leases will not change because the Group will recognise a depreciation charge for right-of-use assets and interest on lease liabilities.

  Previously, the Group recognised operating lease expenses on a straightline basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

2.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Commission and its subsidiaries. Control is achieved when the Commission:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Commission reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Commission has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give the practical ability to direct the relevant activities of the investee unilaterally. The Commission considers all relevant facts and circumstances in assessing whether or not the Commission's voting rights in an investee are sufficient to give it power, including:

- the size of the Commission's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Commission, other vote holders or other parties;
- rights arising from other contractual arrangements; and

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Basis of consolidation (continued)

When the Commission has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give the practical ability to direct the relevant activities of the investee unilaterally. The Commission considers all relevant facts and circumstances in assessing whether or not the Commission's voting rights in an investee are sufficient to give it power, including:

- the size of the Commission's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Commission, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Commission has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Commission obtains control over the subsidiary and ceases when the Commission loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Commission gains control until the date when the Commission ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are set aside under the reserves accounts. Total comprehensive income of subsidiaries is also closed to the reserves accounts.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.4 Property and equipment

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

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

At the end of each reporting period, the Group is required to assess whether there is any indication that an asset may be impaired. If there is an indication that an asset may be impaired, then the asset's recoverable amount must be calculated. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gain and losses on disposals are determined by comparing the proceeds with the carrying amounts of the assets and are recorded in the statement of comprehensive income.

2.5 Projects under development

Costs incurred on the Virtual Integrated Registry and Regulatory General Information Network ("VIRRGIN") and Micro Business Companies ("MBC") projects 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 and MBC projects are expensed in the period to which they relate.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Financial instruments

A financial instrument that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, FVOCI and FVTPL.

The classification of financial assets at initial recognition depends on the financial assets' contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction prices determined under IFRS 15. Refer to the accounting policies section 2.7 (*Revenue* recognition).

In order for a financial asset to be classified and measured at amortised cost or FVOCI, it needs to give rise to cash flows that are "solely payments of principal and interest" (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date i.e. the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes other receivables and deposits, time deposits, regulatory deposits and cash and cash equivalents.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Financial instruments (continued)

(ii) Derecognition of financial assets

Financial assets are derecognised and removed from the consolidated statement of financial position when the rights to cash flows from financial assets expire, or the financial assets have been transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. Any interests created or retained on the transferred financial assets are recognised separately as assets or liabilities.

On derecognition of financial assets, the difference between carrying amounts and the total of considerations received and cumulative gains or losses that had been recognised in other comprehensive income are recognised in profit or loss.

When the Group retains substantially all of the risks and rewards of ownership for transferred financial assets, the financial assets continue to be recognised and the consideration received is recognised as a financial liability.

When financial assets are transferred and the Group neither transfers nor retains substantially all of the risks and rewards of ownership of the financial assets, nor transferred control of the assets, the financial assets continue to be recognised to the extent of the continuing involvement in the financial assets.

When continuing involvement takes the form of guaranteeing the transferred assets, the continued involvement is measured at the lower of the carrying amount of the financial assets and the maximum amount of consideration received that the Group could be required to repay.

(iii) Impairment of financial assets

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience.

(iv) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, distribution to government payable and regulatory deposits from licensed entities.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Trade and other payables, distribution payable to Government and regulatory deposits from licensed entities are measure at amortised cost using the effective interest rate method.

(v) Derecognition of financial liabilities

Financial liabilities are derecognised and removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled, or expires. The difference between the carrying amount of the financial liabilities derecognised and the consideration paid, is recognised in profit or loss.

Where financial liabilities are replaced with the same lender or the terms are substantially modified, the original financial liabilities are derecognised and new financial liabilities have been recorded.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Financial instruments (continued)

(vi) Offsetting financial instruments

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

2.7 Revenue recognition

The effect of initially applying IFRS 15 on the Group's revenue from contracts with customers is described in Note 2.2(i).

Revenue Streams, Performance Obligations and Revenue Recognition Policies

The Group derives revenue from the collection of fees and charges payable under the Act and financial services legislation in the following area:

- Registry of Corporate Affairs;
- Banking and Fiduciary Services;
- Investment Business;
- Insurance; and
- Insolvency Services.

Revenue from providing services is recognised in the accounting period in which the services are rendered. Revenue is recognised over time as the services are provided. Revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. This is determined based on the time.

In addition, the Group collects revenue from the imposition of penalties and enforcement fees which are recognised on an accrual basis at the time the penalties and enforcement fees are imposed.

The Group also generates revenue through interest income from its investments and deposits with banks. Interest income is recognised as interest accrued on a time basis by reference to the principal outstanding and to the effective interest rate applicable.

2.8 Expense recognition

All expenses are recognised in the consolidated statement of comprehensive income on the accrual basis.

2.9 Taxation

In accordance with Section 28 of the Act, the Commission is exempt from the payment of all taxes, levies and license fees on its income and operations and from the payment of all taxes, duties and rates on its property and documents. Taxes payable by the Commission pertain to payroll taxes. Certain investment income may be subject to withholding taxes at its source from the country of origin.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs in those foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into US Dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in the other comprehensive income and accumulated in equity.

2.11 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 consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

2.12 Pension plan

Payments to defined contribution plans are recognised as an expense when employees have rendered service entitling them to the contributions.

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATE UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, the Commissioners of the Group are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

(a) Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimates, that the Commission have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Going concern

A key assumption in the preparation of consolidated financial statements is that the entity will continue as a going concern. The going concern assumption assumes that the Group will continue in operation for the foreseeable future and will be able to realise its assets and discharge its liabilities in the normal course of operations.

Operating and finance leases

The Group has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

(b) Key sources of estimate uncertainty

The following are the key assumptions concerning the future, and other key sources of estimate uncertainty at the end of the reporting period, that may have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives of property and equipment

The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property, plant and equipment are analysed in Note 4. Based on management's assessment as at December 31, 2018, there is no change in estimated useful lives of property and equipment during the year. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

Expressed in United States Dollars

4. PROPERTY AND EQUIPMENT

The movements of the carrying amounts of the Group's property and equipment are as follows:

	Freehold land $	Leasehold land $	Motor vehicles $	Furniture and equipment $	Computer and software $	Leasehold improvements $	Total $
Cost							
Balance at December 31, 2017	4,500,000	130,000	264,797	2,940,447	14,598,506	2,421,203	24,854,953
Additions	-	-	-	159,660	565,226	10,900	735,786
Transfer from project under development	-	-	-	-	1,622,861	-	1,622,861
Balance at December 31, 2018	4,500,000	130,000	264,797	3,100,107	16,786,593	2,432,103	27,213,600
Accumulated depreciation							
Balance at December 31, 2017	-	26,827	181,860	2,647,859	13,482,511	2,360,861	18,699,918
Depreciation	-	2,063	46,319	138,933	1,313,112	28,519	1,528,946
Balance at December 31, 2018	-	28,890	228,179	2,786,792	14,795,623	2,389,380	20,228,864
Accumulated impairment							
Impairment	-	-	-	-	1,236,460	-	1,236,460
Balance at December 31, 2018	-		-		1,236,460	-	1,236,460
Carrying amount							
At December 31, 2018	4,500,000	101,110	36,618	313,315	754,510	42,723	5,748,276
Cost							
Balance at December 31, 2016	4,500,000	130,000	264,797	2,804,612	14,238,234	2,421,203	24,358,846
Additions	-	-	-	135,835	360,272	-	496,107
Balance at December 31, 2017	4,500,000	130,000	264,797	2,940,447	14,598,506	2,421,203	24,854,953
Accumulated depreciation							
Balance at December 31, 2016	-	24,764	135,541	2,518,181	12,259,659	2,320,821	17,258,966
Depreciation	-	2,063	46,319	129,678	1,222,852	40,040	1,440,952
Balance at December 31, 2017	-	26,827	181,860	2,647,859	13,482,511	2,360,861	18,699,918
Carrying amount							
At December 31, 2017	4,500,000	103,173	82,937	292,588	1,115,995	60,342	6,155,035

Expressed in United States Dollars

5. PROJECTS UNDER DEVELOPMENT

The movements of the cost of the Group's projects under development are as follows:

	VIRRGIN $	MBC $	RC $	Total $
Balance at December 31, 2016	386,401	-	-	386,401
Additions	-	811,500	-	811,500
Balance at December 31, 2017	386,401	811,500	-	1,197,901
Additions		424,960	334,161	759,121
Transfer to property and equipment	(386,401)	(1,236,460)	-	(1,622,861)
Balance at December 31, 2018	-	-	334,161	334,161

(i) Virtual Integrated Registry and Regulatory General Information Network ("VIRRGIN")

As of December 31, 2018, 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 is being completed in three phases of development, each of which will be released separately. The VIRRGIN project costs to be capitalized 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 capitalized as Computer and Software under of Property and Equipment (see Note 4). During the year ended December 31, 2018, the Commission completed the Phase III of VIRRGIN and subsequently transferred to property and equipment.

(ii) Micro Business Companies ("MBC")

In March 2017, the Commission engaged Peridot Solutions, LLC to develop an application system to administer and manage Micro Business Companies. During the year ended December 31, 2018, the Commission completed the MBC and incurred development costs totaling $1,236,460 which was transferred to property and equipment. As at December 31, 2018, the Commission has impaired the total amount of MBC due to no revenues generated.

(iii) Resource Center ("RC")

In July 2018, the Commission engaged James Todman Construction to construct a resource center facility which will be utilized for staff trainings and meetings. During the year ended December 31, 2018, the Commission incurred $334,161 on the project. As at December 31, 2018, the Commission estimates to incur an additional $459,839 to complete the project.

6. SUBSIDIARIES

<u>Composition</u>

The Parent has three wholly-owned subsidiaries as at December 31, 2018, two of which are domiciled in the British Virgin Islands and one in Hong Kong. These subsidiaries provide disaster recovery and Hong Kong liaison services to the Parent.

<u>Financial support</u>

The Parent provides financial support to all three subsidiaries which currently do not derive revenue on their own therefore are dependent on the Parent for their operational financing.

Expressed in United States Dollars

7. REGULATORY DEPOSITS

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 Group. The Group has undertaken to hold these amounts in a designated interest-bearing bank account of $614,829 (2017: $1,412,500) and in treasury bills of $8,076,670 (2017: $7,994,531). Interest earned on these interest-bearing instruments is distributed to the licensees on a semi-annual basis.

The investment in treasury bills have maturities of twelve months from the acquisition date.

The deposits are refundable upon surrender of the licence. For the year ended December 31, 2018, the deposits earned an average rate of interest of 0.62% (2017: 0.06%). Total interest income earned for these deposits amounted to $53,981 (2017: $5,355).

8. CASH AND CASH EQUIVALENTS

	2018 $	2017 $
Cash held in Government Trust Account	15,468,342	7,657,943
Payable to Government	(10,313,974)	(5,523,223)
Net cash held in Government Trust Account	5,154,368	2,134,720
Cash in operating accounts	11,972,913	16,278,415
Cash in insolvency account	771,596	362,038
Total cash and cash equivalents	17,898,877	18,775,173

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 Group's financial year, the Cabinet of Government ("Cabinet") determines the percentage of fees collected on its behalf that is to be remitted to the Government, with the Commission retaining the balance. For the year ended December 31, 2018, the Commission retained 11.5% (2017: 11.5%) of revenue up to the projected revenue stream and thereafter, the Commission retained 7.5% (2017: 7.5%) of any revenue in excess of the projected revenue stream. This resulted in cash of $10,313,974 (2017: $5,523,223) being held on behalf of the Government as at December 31, 2018.

The cash and cash equivalents disclosed above and in the consolidated statement of cash flows include $2,400,755 (2017: $2,085,778) which are held in a separate bank account. These deposits relate to funds received for enforcement penalties and not available for general use by the Commission (see Note 11 for restrictions on the administrative penalties fund reserve).

9. TIME DEPOSITS

Time deposits represent short term placements with the local depository banks whose maturity dates are between 92 and 353 days from the reporting date (2017: between 206 and 358 days), and are more than three months from the placement date with an average interest rate of 1.45% (2017: 0.75%). As at December 31, 2018, the total time deposits amounted to $10,238,720 (2017: $5,181,817) For the year ended December 31, 2018, total interest earned from time deposits amounted to $79,423 (2017: $62,434).

10. OTHER RECEIVABLES AND DEPOSITS

	2018 $	2017 $
Prepaid expenses	344,362	299,271
Due from BVI House Asia	245,200	164,799
Travel advances	50,916	41,648
Loan to employees	44,156	45,525
Interest receivable	36,733	14,223
Receivable from licensee – returned cheque	1,000	-
	722,367	565,466

Expressed in United States Dollars

11. 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; and

(ii) Property and 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 those 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 securing of property, constructing and equipping the Commission's own building at a future date;

(iv) Refunds and drawback reserve to provide cash for making refunds when necessary;

(v) Enforcement reserve to establish a fund to address enforcement expenses as they arise; and

(vi) Contingency reserve to establish a fund in the event of unforeseen circumstances.

(vii) Administrative penalties fund reserve is funded by enforcement proceeds imposed and received by the Commission and is restricted for administration of public awareness and education in salient areas identified by the Commission.

12. TRADE AND OTHER PAYABLES

	2018 $	2017 $
Accounts payable and accrued expenses	1,336,357	760,677
Employee deductions and benefits payable	1,094,099	905,591
Insolvency surplus reserve	751,882	344,936
Deferred revenue	548,499	256,423
	3,730,837	2,267,627

Employee deductions and benefits payable

Employee deductions and benefits payable includes accrued unpaid vacation benefits totalling $1,090,247 (2017: $887,611) payable to the Commission's employees.

Insolvency surplus reserve

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

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.

Expressed in United States Dollars

13. 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 funds with the Commission in advance of effecting an online transaction. As at December 31, 2018, the balance on this account amounted to $4,843,577 (2017: $3,381,419). These funds are included as part of the cash in operating accounts of the Group (see Note 8).

14. DISTRIBUTION TO GOVERNMENT

During the year ended December 31, 2018, the Board of Commissioners approved and paid a distribution to Government amounting to $4,000,000 from the surplus earned during the year ended December 31, 2018. On August 27, 2019, the Board of Commissioners approved an additional distribution to Government of $1,000,000. This was accrued and recorded as a distribution payable to Government at December 31, 2018.

On October 23, 2018, the Board of Commissioners approved a distribution to Government of $1,000,000 from surplus earned by the Commission during the year ended December 31, 2017 and was paid during the year ended December 31, 2018. This was accrued and recorded as distribution payable to Government at December 31, 2017.

15. OTHER INCOME

	2018 $	2017 $
Receipts of court ordered legal cost	145,000	112,950
Receipts of miscellaneous income	34,476	51,951
	179,476	164,901

16. ENFORCEMENT PROCEEDS

Enforcement proceeds relates to fees imposed and received for enforcement actions against licensees. These fees are not available for general use by the Commission. Refer to Notes 8 and 11.

17. STAFF COSTS

	2018 $	2017 $
Wages and salaries	10,257,001	10,587,861
Allowances and benefits	2,224,202	2,071,409
Payroll taxes	513,176	556,938
National health insurance	314,260	318,322
Social Security benefits	259,014	268,374
Employment costs	165,885	125,947
	13,733,538	13,928,851

The average number of full-time employees in 2018 was 181 (2017: 170).

During the year ended December 31, 2018, the Commission paid $1,337,116 (2017: $1,118,048) for current service costs toward a defined contribution plan (the "Plan", see Note 21), which has been included in allowances and benefits.

18. RELATED PARTY BALANCES

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 8).

Expressed in United States Dollars

19. COMMITMENTS AND CONTINGENCIES

Commitments

The Group has a contract with Digicel wherein Digicel will provide the Group with dedicated internet access to and from the Group's data center. The contract commenced in March 2014 at a monthly cost of $14,506 for three years. That commitment expired in 2017. The Group currently incurs monthly charges of $14,500 for the service on a month to month basis.

In a separate agreement, the Group also contracted Equinix Hong Kong Limited to provide the Group with data center services. The contract commenced in 2014 with a monthly cost of $3,886. In 2017, the Group's commitment with Equinix Hong Kong Limited has expired and the contract is now on an automatic renewal term of two years that can be terminated by either party.

The Group 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:

	2018	2017
	$	$
Within one year	725,810	1,176,295
Between one and five years	1,168,935	1,011,052
Five years and beyond	-	-
	1,894,745	2,187,347

For the year ended December 31, 2018, the Group recognised rent expense amounting to $1,289,538 (2017: $1,312,828).

The Commission is committed to provide funding to BVI House Asia, Financial Investigation Agency, Financial Services Institute, International Arbitration Centre and Insurance Tribunal as support to their operations. The Board of Commissioners of the Commission and the Government determine necessary funding requirement of these entities on an annual basis as part of the Government's budget discussion. The total funding recorded during the year amounted to $3,508,584 (2017: $2,867,360). These are recorded as part of the expenses in the consolidated statement of comprehensive income of the Commission.

Contingencies

In the ordinary course of business, the Group 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 Group does not believe that such proceedings (including litigation) will have a material effect on its results and financial position.

20. FINANCIAL RISK MANAGEMENT

Financial risk factors

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

20. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk factors (continued)

other payables, deposits on account, distribution payable to Government, and regulatory deposits from licensed entities.

20.1 Market risk

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

(i) Foreign currency risk

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

As at December 31, 2018, the Group did not have any significant foreign currency denominated assets or liabilities.

(ii) Interest rate risk

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

The Group’s exposure to the risk of changes in market interest rates relates primarily to the Group’s cash and cash equivalents and time deposits. As at December 31, 2018 approximately 47% (2017: 51%) of the Group’s assets were held in bank accounts, with floating interest rates.

With all other variables held constant, given a 25 basis point increase in the market interest rate, the Group’s surplus would increase by $52,993 (2017: $52,875) A decrease of 25 basis points in the market interest rate, with all other variables held constant, would decrease the Group’s surplus by an equal amount.

20.2 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 Group’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.

Expressed in United States Dollars

20. FINANCIAL RISK MANAGEMENT (Continued)

20.2 Credit risk

The Group's regulatory deposits, cash and cash equivalents (excluding petty cash), time deposits, other receivables and 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.

Moody's	2018 $	2017 $
Aa2	5,377,887	211,421
Aa3	-	2,584,179
A2	9,907	-
Ba1	-	17,719,583
Ba2	16,580,874	-
Ba3	1,030,052	2,248,782
Total rated	22,998,720	22,763,965
Non-rated	6,274,623	2,839,929
Total	29,273,343	25,603,894

20.3 Liquidity risk

Liquidity risk is the risk that the Group may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Group is exposed to liquidity risk from its financial liabilities which include trade and other payables, deposits on account, distributions to Government, amounts due to Government and regulatory deposits from licensed entities. 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. The following table shows the Group's aging of its contractual repayment period to its creditors as of December 31, 2018:

	On demand $	Within one year $	Total $
Trade and other payables	3,717,072	-	3,717,072
Deposits on account	4,843,577	-	4,843,577
Regulatory deposits from licensed entities	8,691,499	-	8,691,499
Total	17,252,148	-	17,252,148

The following table shows the Group's aging of its contractual repayment period to its creditors as of December 31, 2017:

	On demand $	Within one year $	Total $
Trade and other payables	1,508,719	758,908	2,267,627
Deposits on account	3,381,419	-	3,381,419
Regulatory deposits from licensed entities	9,407,031	-	9,407,031
Total	14,297,169	758,908	15,056,077

21. DEFINED CONTRIBUTION PENSION PLAN

The Commission established a defined contribution plan (the “Plan”) to provide retirement benefits for all established employees which 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.

22. SUBSEQUENT EVENTS

No events have occurred subsequent to December 31, 2018 and before the date of the report that would have a significant effect on these financial statements other than those already disclosed in the notes.

23. COMPARATIVE FINANCIAL INFORMATION

Prior year comparatives have been amended to conform with current year presentation.

Produced and published by the British Virgin Islands Financial Services Commission