



ANGUILLA FINANCIAL SERVICES COMMISSION  
Annual Report and Accounts 2010

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



## **OUR MISSION**

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



# **ANGUILLA FINANCIAL SERVICES COMMISSION**

## **Financial Statements**

**December 31, 2010**

**(expressed in United States dollars)**

**ANGUILLA FINANCIAL SERVICES COMMISSION**  
**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER, 2010**  
**CERTIFICATE OF AUDIT AND REPORT OF THE CHIEF AUDITOR**

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

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

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

The appointment of PriceWaterhouseCoopers (PwC) as the independent auditor of the Financial Services Commission was approved by me. PwC were directed to undertake their audit in accordance with appropriate auditing standards, and I accept their audit of the Commission's financial statements for the year ended 31 December 2010.

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

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

In PwC's opinion, the financial statements present fairly, in all material respects, the financial position of the Anguilla Financial Services Commission as of 31 December 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

I have no observations to make on these financial statements.



M L Daynes  
Chief Auditor  
28 June 2011



## INDEPENDENT AUDITOR'S REPORT

### To the Chief Auditor of Anguilla

We have audited the accompanying financial statements of the Anguilla Financial Services Commission (the "Commission"), which comprise the statement of financial position as of December 31, 2010, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, these financial statements present fairly, in all material respects, the financial position of **Anguilla Financial Services Commission** as of December 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Chartered Accountants

June 7, 2011

Basseterre, St. Kitts

.....  
*PricewaterCoopers, Cnr. Bank Street & W. Independence Sq. P.O. Box 1038, Basseterre, St. Kitts, West Indies  
T: (869) 466 - 8200, F: (869) 466 - 9822, [www.pwc.com/kn](http://www.pwc.com/kn)*

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

# Anguilla Financial Services Commission

## Statement of Financial Position As of December 31, 2010

(Expressed in United States dollars)

	2010 \$	2009 \$
<b>Assets</b>		
<b>Non-current assets</b>		
Intangible assets (note 5)	60,000	–
Plant and equipment (note 6)	<u>30,924</u>	19,645
	<u>90,924</u>	19,645
<b>Current assets</b>		
Cash (note 7)	1,072,241	317,738
Investments (note 8)	1,398,476	1,439,052
Accounts receivable	7,822	7,039
Other assets (note 9)	<u>15,163</u>	19,629
	<u>2,493,702</u>	1,783,458
<b>Total assets</b>	<u>2,584,626</u>	1,803,103
<b>Equity</b>		
Accumulated reserves	<u>1,880,252</u>	1,437,656
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses (note 10)	59,078	52,056
Statutory deposits (note 11)	405,679	–
Deferred revenue (note 12)	<u>239,617</u>	313,391
<b>Total liabilities</b>	<u>704,374</u>	365,447
<b>Total liabilities and equity</b>	<u>2,584,626</u>	1,803,103

The notes on pages 24 to 38 are an integral part of these financial statements.

Approved by the Board of Members on June 7, 2011.



Member



Member

# Anguilla Financial Services Commission

## Statement of Comprehensive Income For the year ended December 31, 2010

(Expressed in United States dollars)

	2010	2009
	\$	\$
<b>Revenues</b>		
Licence fees	1,075,744	1,064,753
Interest income	66,245	64,524
Other income	2,738	—
	1,144,727	1,129,277
<b>Operating expenses</b>		
Payroll and related costs (note 13)	426,943	467,005
Professional service fees	62,118	46,525
Bad debts	39,200	51,100
Travel and subsistence (note 14)	36,614	35,557
Board members' allowances	30,156	41,665
Subscriptions	26,867	25,644
Maintenance/technical support	22,642	23,831
Annual meeting	14,016	145
Depreciation (note 6)	6,742	5,759
Audit fees	6,000	6,000
Cleaning	6,000	6,000
Office supplies	4,753	4,586
Entertainment	2,719	4,420
Other expenses	2,390	3,375
Conference expenses (note 15)	2,294	2,017
Disposal of plant and equipment	1,843	—
Communications	1,807	2,608
Bank charges	406	632
	693,510	726,869
<b>Surplus for the year</b>	451,217	402,408
<b>Other comprehensive income for the year</b>	—	—
<b>Total comprehensive income for the year</b>	451,217	402,408

The notes on pages 24 to 38 are an integral part of these financial statements.

# Anguilla Financial Services Commission

## Statement of Changes in Accumulated Reserves

### For the year ended December 31, 2010

---

(Expressed in United States dollars)

	<b>Accumulated reserves \$</b>
<b>Balance as of December 31, 2008</b>	<b>1,038,224</b>
Comprehensive income for the year	402,408
Contribution to the Government of Anguilla (note 16)	_____(2,976)
<b>Balance as of December 31, 2009</b>	<b>1,437,656</b>
Comprehensive income for the year	451,217
Contribution to the Government of Anguilla (note 16)	_____(8,621)
<b>Balance as of December 31, 2010</b>	<b><u>1,880,252</u></b>

The notes on pages 24 to 38 are an integral part of these financial statements.

# Anguilla Financial Services Commission

## Statement of Cash Flows

### For the year ended December 31, 2010

(Expressed in United States dollars)

	2010	2009
	\$	\$
<b>Cash flows from operating activities</b>		
Surplus for the year	451,217	402,408
Item not affecting cash:		
Depreciation	6,742	5,759
Interest income	66,245	(64,524)
Loss on disposal of plant and equipment	1,843	–
	393,557	343,643
Changes in operating assets and liabilities		
(Increase)/decrease in accounts receivable	(783)	7,211
Decrease/(increase) in other assets	4,466	(1,813)
Increase/(decrease) in accounts payable and accrued expenses	7,022	(8,558)
Increase in statutory deposits	405,679	–
(Decrease)/increase in deferred revenue	(73,774)	116,408
	736,167	456,891
Cash generated from operations	736,167	456,891
Interest received	72,946	63,884
	809,113	520,775
<b>Net cash from operating activities</b>	<b>809,113</b>	<b>520,775</b>
<b>Cash flows from investing activities</b>		
Purchase of intangible assets	(60,000)	–
Purchase of property and equipment	(19,864)	(3,898)
(Decrease)/increase in investments	33,875	(380,349)
	(45,989)	(384,247)
<b>Net cash used in investing activities</b>	<b>(45,989)</b>	<b>(384,247)</b>
<b>Cash flows from financing activities</b>		
Contribution to the Government of Anguilla	(8,621)	(2,976)
	(8,621)	(2,976)
<b>Net cash used in financing activities</b>	<b>(8,621)</b>	<b>(2,976)</b>
<b>Net increase in cash and cash equivalents</b>	<b>754,503</b>	<b>133,552</b>
<b>Cash at beginning of the year</b>	<b>317,738</b>	<b>184,186</b>
<b>Cash at end of the year (note 6)</b>	<b>1,072,241</b>	<b>317,738</b>

The notes on pages 24 to 38 are an integral part of these financial statements.

# Anguilla Financial Services Commission

Notes to Financial Statements

For the period ended December 31, 2010

---

(Expressed in United States dollars)

## 1 General information

### Incorporation and principal activity

The Anguilla Financial Services Commission (“the Commission”) was established under the Financial Services Commission Act on November 26, 2003 and it commenced operations on February 2, 2004 in the Valley, Anguilla, BWI.

The principal activity of the Commission is to regulate the financial services industry in Anguilla in accordance with the prescribed financial services enactments and to carry out such other functions as are determined under section 3 of the Financial Services Commission Act, 2003.

## 2 Summary of significant accounting policies

### a) Basis of preparation

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

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the Financial Services Commission Act, 2003 and under the historical cost convention.

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management’s best knowledge of current events and actions, actual results may differ from those estimates. See note 4.

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

#### ***(a) The following amendments to existing standards has been published and is mandatory for accounting periods beginning on or after January 1, 2010 but not currently relevant to the Commission***

- IAS 1 (amendment), ‘Presentation of financial statements’. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

# Anguilla Financial Services Commission

## Notes to Financial Statements

### For the period ended December 31, 2010

(Expressed in United States dollars)

## 2 Summary of significant accounting policies...continued

### a) Basis of preparation...continued

#### (b) Standards, amendments to published standards and interpretations that is not yet effective and have been early adopted by the Commission

- Revised IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted. However, the standard has not yet been endorsed by the EU. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities.
- IFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Commission's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. However, the standard has not yet been endorsed by the EU.

### b) Plant and Equipment

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

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

Depreciation is calculated using the straight-line method to allocate the cost of each asset to their residual values, if any, over the estimated useful lives indicated below.

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

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

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

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

# Anguilla Financial Services Commission

Notes to Financial Statements

For the period ended December 31, 2010

---

(Expressed in United States dollars)

## 2 Summary of significant accounting policies...continued

### c) Intangible assets

#### *Computer software*

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

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

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

### d) Accounts receivable

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

### e) Cash and cash equivalents

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

### f) Foreign currency transactions

#### *Functional and presentation currency*

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

#### *Transaction and balances*

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

**2 Summary of significant accounting policies...continued**

**g) Revenue recognition**

*Licence fees*

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

*Interest income*

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

**h) Financial assets**

*(i) Classification*

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

*(ii) Loans and receivables*

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

*(iii) Recognition and measurement*

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

*(iv) Offsetting financial instruments*

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

*(v) Impairment of financial assets carried at amortised cost*

The Commission assesses at the end of each reporting period whether there is objective evidence that a financial asset or company of financial assets is impaired. A financial asset or a company of financial

# Anguilla Financial Services Commission

Notes to Financial Statements

For the period ended December 31, 2010

---

(Expressed in United States dollars)

## 2 Summary of significant accounting policies...continued

### h) Financial assets...continued

assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or company of financial assets that can be reliably estimated.

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

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the Commission, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- (iv) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- (v) the disappearance of an active market for that financial asset because of financial difficulties; or
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - adverse changes in the payment status of borrowers in the portfolio; and
  - national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Commission first assesses whether objective evidence of impairment exists.

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

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

### i) Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying

**2 Summary of significant accounting policies...continued**

**i) Impairment of non-financial assets...continued**

amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

**j) Provisions**

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

**k) Employee benefits**

*Pension costs*

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

*Post-employment obligations*

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

**3 Financial risk management**

The Commission's activities expose it to a variety of financial risks: currency risk, credit risk, liquidity risk and interest rate risk.

**3.1 Financial risk factors**

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

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

# Anguilla Financial Services Commission

Notes to Financial Statements

For the period ended December 31, 2010

---

(Expressed in United States dollars)

## 3 Financial risk management...continued

### 3.1 Financial risk factors...continued

#### a) Market risk

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

#### i) Currency risk

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

The Commission's exposure to currency risk is limited as its transactions are mainly denominated in United States or Eastern Caribbean dollars. The exchange rate of the Eastern Caribbean dollar (EC\$) to the United States dollar (US\$) has been formally pegged at EC\$2.70 = US\$1.00 since July 1976. Management does not believe significant foreign exchange risk exists as of December 31, 2010.

#### ii) Interest rate risk

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

#### iii) Price risk

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

#### b) Credit risk

Credit risk arises from the possibility that counterparties may default on their obligations to the Commission. The Commission's credit risk arises from cash and cash equivalents, accounts receivable, loan receivables and amounts due from shareholders. The Commission uses internal

# Anguilla Financial Services Commission

## Notes to Financial Statements For the period ended December 31, 2010

(Expressed in United States dollars)

### 3 Financial risk management...continued

#### b) Credit risk...continued

ratings, assessment of credit quality of counterparty, taking into account its financial position, past experience and other factors. Any losses expected from non-performance from these counterparties are provided for through the use of an allowance for impairment account. Accordingly, the Commission's maximum exposure to credit risk is indicated by the carrying amount of its financial assets.

The following tables provide the credit quality and age analysis of the Commission's financial assets according to the Commission's credit ratings of debtors as of December 31, 2010 and 2009, respectively:

	Neither Past due nor Impaired (\$)	Age Analysis of Past Due but not Impaired			Past due and Impaired (\$)	Total (\$)
		<30 days	31-90 Days (\$)	Over 90 Days (\$)		
<b>December 31, 2010</b>						
Cash	1,072,241	–	–	–	–	1,072,241
Investments	1,398,476	–	–	–	–	1,398,476
Accounts receivable	7,822	–	–	–	–	7,822
	<b>2,478,539</b>	–	–	–	–	<b>2,478,539</b>
<b>December 31, 2009</b>						
Cash	317,738	–	–	–	–	317,738
Loan receivable	1,439,052	–	–	–	–	1,439,052
Accounts receivable	7,039	–	–	–	–	7,039
	<b>1,763,829</b>	–	–	–	–	<b>1,763,829</b>

#### c) Liquidity risk

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

# Anguilla Financial Services Commission

Notes to Financial Statements

For the period ended December 31, 2010

(Expressed in United States dollars)

## 3 Financial risk management...continued

### (c) Liquidity risk...continued

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

	Less than 1 year \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Total \$
<b>At December 31, 2010</b>					
Accounts payable and accrued expenses	59,078	-	-	-	59,078
Statutory deposit	405,679	-	-	-	405,679
Deferred revenue	239,617	-	-	-	239,617
	<b>704,374</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>704,374</b>
<b>At December 31, 2009</b>					
Accounts payable and accrued expenses	52,056	-	-	-	52,056
Deferred revenue	313,391	-	-	-	313,391
	<b>365,447</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>365,447</b>

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

	Within 1 year \$	1 to 5 years \$	Over 5 years \$	Total \$
<b>December 31, 2010</b>				
Cash	1,072,241	-	-	1,072,241
Investments	1,398,476	-	-	1,398,476
Accounts receivables	7,822	-	-	7,822
Prepayments	15,163	-	-	15,163
	<b>2,493,702</b>	<b>-</b>	<b>-</b>	<b>2,493,702</b>
<b>December 31, 2009</b>				
Cash	317,738	-	-	317,738
Investments	1,439,052	-	-	1,439,052
Accounts receivables	7,039	-	-	7,039
Prepayments	19,629	-	-	19,629
	<b>1,783,458</b>	<b>-</b>	<b>-</b>	<b>1,783,458</b>

**3 Financial risk management...continued**

**3.2 Fair value estimation**

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arms length transaction, other than in a forced liquidation or sale. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Commission for similar financial instruments.

**Fair value of financial assets and liabilities**

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

**3.3 Capital risk management**

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

In order to maintain or adjust the capital structure, the Commission may adjust the amount of dividends paid to common shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. No changes were made in the objectives, policies or processes during 2010 and 2009.

**4 Critical accounting estimates and judgements**

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

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

**5 Intangible assets**

During the year, the Commission entered into an agreement with AXSO Global Inc. to provide services in respect of the implementation of SIGMA Reporting and Analytics System. As at December 31, 2010, the SIGMA Reporting and Analytics System was in the development phase and costs amounted to \$60,000.

# Anguilla Financial Services Commission

Notes to Financial Statements

For the period ended December 31, 2010

(Expressed in United States dollars)

## 6 Plant and equipment

	Computers and Equipment \$	Furniture and Fittings \$	Total \$
<b>As at January 1, 2009</b>			
Cost	24,756	16,423	41,179
Accumulated depreciation	<u>(13,692)</u>	<u>(5,981)</u>	<u>(19,673)</u>
<b>Net book amount</b>	<b><u>11,064</u></b>	<b><u>10,442</u></b>	<b><u>21,506</u></b>
<b>Year ended December 31, 2009</b>			
Opening net book value	11,064	10,442	21,506
Additions	1,964	1,934	3,898
Depreciation charge	<u>(4,257)</u>	<u>(1,502)</u>	<u>(5,759)</u>
<b>Closing net book amount</b>	<b><u>8,771</u></b>	<b><u>10,874</u></b>	<b><u>19,645</u></b>
<b>As at December 31, 2009</b>			
Cost	26,720	18,357	45,077
Accumulated depreciation	<u>(17,949)</u>	<u>(7,483)</u>	<u>(25,432)</u>
<b>Net book amount</b>	<b><u>8,771</u></b>	<b><u>10,874</u></b>	<b><u>19,645</u></b>
<b>Year ended December 31, 2010</b>			
Opening net book value	8,771	10,874	19,645
Additions	5,813	14,051	19,864
Write back of depreciation	4,307	800	5,107
Disposal	<u>(4,307)</u>	<u>(2,643)</u>	<u>(6,950)</u>
Depreciation charge	<u>(3,867)</u>	<u>(2,875)</u>	<u>(6,742)</u>
<b>Closing net book amount</b>	<b><u>10,717</u></b>	<b><u>20,207</u></b>	<b><u>30,924</u></b>
<b>As at December 31, 2010</b>			
Cost	28,226	29,765	57,991
Accumulated depreciation	<u>(17,509)</u>	<u>(9,558)</u>	<u>(27,067)</u>
<b>Net book amount</b>	<b><u>10,717</u></b>	<b><u>20,207</u></b>	<b><u>30,924</u></b>

# Anguilla Financial Services Commission

## Notes to Financial Statements

### For the period ended December 31, 2010

(Expressed in United States dollars)

#### 7 Cash

	2010 \$	2009 \$
Operating bank accounts	705,200	317,738
<i>Loan and receivables</i>		
3 month term deposits held at National Bank of Anguilla Ltd, maturing on March 7, 2011 bearing interest 3% per annum	366,847	–
	1,072,047	317,738
Interest receivable	194	–
<b>Total cash</b>	<b>1,072,241</b>	<b>317,738</b>

The operating bank accounts are held with National Bank of Anguilla and bear interest at a rate of 1% per annum (2009: 1%).

#### 8 Investments

	2010 \$	2009 \$
<i>Loans and receivables</i>		
One (1) year term deposit held at National Bank of Anguilla Ltd, maturing on March 22, 2011 bearing interest at a rate of 3.5% per annum	883,194	–
One (1) year term deposit held at National Bank of Anguilla Ltd, maturing November 18, 2011 and bearing interest at a rate of 3.5% per annum (2009: 3.5%)	179,961	173,876
One (1) year term deposit held at National Bank of Anguilla Ltd, maturing November 18, 2011 and bearing interest at a rate of 3.5% per annum (2009: 3.5%)	158,772	153,403
One (1) year term deposit held with First Caribbean International Bank, maturing on October 31, 2011 bearing interest at a rate of 3% per annum	150,000	–
One (1) year term deposit held at National Bank of Anguilla Ltd, matured on March 18, 2010 bearing interest at a rate of 5.25% per annum	–	648,866
One (1) year term deposit held at National Bank of Anguilla Ltd, matured on February 25, 2010 and bearing interest at a rate of 3.25% per annum	–	429,657
	1,371,927	1,405,802
Interest receivable	26,549	33,250
<b>Total investments</b>	<b>1,398,476</b>	<b>1,439,052</b>

# Anguilla Financial Services Commission

Notes to Financial Statements

For the period ended December 31, 2010

(Expressed in United States dollars)

## 9 Other assets

	2010 \$	2009 \$
Prepayments	13,963	18,429
Housing deposits	1,200	1,200
<b>Other assets</b>	<b>15,163</b>	<b>19,629</b>

## 10 Accounts payable and accrued expenses

	2010 \$	2009 \$
Accrued expenses	37,727	27,763
Accrued gratuity	14,128	17,799
Trade payables	7,223	6,494
<b>Total accounts payable and accruals</b>	<b>59,078</b>	<b>52,056</b>

## 11 Statutory deposits

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

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

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

## 12 Deferred revenue

Deferred revenue consists of licence fees for the financial year ended December 31, 2011 paid during the current year.

# Anguilla Financial Services Commission

## Notes to Financial Statements

### For the period ended December 31, 2010

(Expressed in United States dollars)

#### 13 Payroll and related costs

	2010	2009
	\$	\$
Salaries	350,839	347,063
Gratuities	17,213	33,390
Housing allowances	14,400	33,000
Social security costs	13,907	11,681
Health insurance	12,677	7,945
Bonuses	9,343	14,096
Pension costs	8,564	5,841
Staff recruitment	–	13,989
<b>Total payroll and related costs</b>	<b>426,943</b>	<b>467,005</b>

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

	2010	2009
	\$	\$
Salaries	117,304	183,902
Board members' allowance	30,156	41,665
Gratuities	17,213	33,390
Housing allowances	14,400	33,000
Bonuses	–	14,096
<b>Total key management compensation</b>	<b>179,073</b>	<b>306,053</b>

#### 14 Travel and Subsistence

	2010	2009
	\$	\$
Chairman's travel and subsistence	23,164	5,555
Regulatory	10,280	6,765
Training	3,170	11,322
Industry support	–	11,915
<b>Total travel and subsistence</b>	<b>36,614</b>	<b>35,557</b>

# Anguilla Financial Services Commission

Notes to Financial Statements

For the period ended December 31, 2010

---

(Expressed in United States dollars)

## 15 Conference expenses

	2010	2009
	\$	\$
Training	2,294	122
Industry support	–	849
Other	–	756
Regulatory	–	290
<b>Total conference expenses</b>	<b>2,294</b>	<b>2,017</b>

## 16 Contribution to the Government of Anguilla

In accordance with the Financial Services Commission (Amendment) Act 2008, the Commission may make payments from its surplus to the Government of Anguilla after all its reserves have been adequately funded. During the year ended December 31, 2010, the Commission made a monetary contribution of \$8,621 (2009: \$2,976) to the Government of Anguilla. This was reflected in the statement of changes in accumulated reserves.