





*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 for the period ended 31 December 2012

### Certificate of Audit and Report of the Chief Auditor

Section 59(2) of the Financial Administration and Audit Act (Revised Statutes of Anguilla Chapter F27 as at 15 December 2010) (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 59(6) and (7) of the Act require me to issue a certification of audit and prepare a report that evidences 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 (Revised Statutes of Anguilla Chapter F28 as at 15 December 2010) 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 accepted 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 2012.

As recorded in their Auditor's Report, PwC have audited the Balance Sheet of the Financial Services Commission as of 31 December 2012, the statements of comprehensive income, changes in accumulated reserves 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 and the Financial Services Commission Act. 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 on 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 opinion.

In PwC's opinion the financial statements present fairly, in all material aspects, the financial position of the Anguilla Financial Services Commission as of 31 December 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### **Chief Auditor's report to the House of Assembly**

Note 5 to the accounts shows that at 31 December 2012 the Anguilla Financial Services Commission (the Commission) held US\$1,260,138 of cash in the National Bank of Anguilla;

Note 7 to the accounts shows that at 31 December 2012 the Commission held the following term deposits with the National Bank of Anguilla;

- US\$946,187 maturing March 22, 2013
- US\$192,815 maturing November 19, 2013

In August 2013 (after the date that the opinion on the accounts was issued by PwC) the National Bank of Anguilla (the Bank) was placed in conservatorship. While the amounts deposited by the Commission in the Bank as at 31 December 2012 have been repaid, subsequent deposits have been made. In addition, the Commission has continued to use the Bank for a portion of its day to day banking activities.

At the date of my report, the Commission held cash totalling US\$588,383 in two current accounts and there were no term deposits held at the Bank. If the Bank is unable to repay the cash holding, it could materially impact the Commission's liquidity, financial position and performance.

I have no further observations to make on these financial statements.



John Herniman  
Chief Auditor  
25 March 2014



## Independent Auditors' Report

**To the Chief Auditor of Anguilla  
Anguilla Financial Services Commission**

We have audited the accompanying financial statements of the **Anguilla Financial Services Commission**, which comprise the statement of financial position as at December 31, 2012, 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 for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the **Anguilla Financial Services Commission** as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Chartered Accountants  
June 26, 2013  
Basseterre, St. Kitts

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

# Anguilla Financial Services Commission

## Statement of Financial Position

### As of December 31, 2012



(Expressed in United States dollars)

	2012 \$	2011 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 5)	1,260,138	930,216
Accounts receivable (note 6)	14,028	4,534
Investments (note 7)	1,667,364	1,778,325
Other assets (note 8)	27,387	65,830
	2,968,917	2,778,905
<b>Non-current assets</b>		
Property and equipment (note 10)	80,736	37,571
Intangible assets (note 9)	60,000	75,000
	140,736	112,571
<b>Total assets</b>	3,109,653	2,891,476
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses (note 11)	96,138	81,369
Statutory deposits (note 12)	774,211	441,323
Deferred revenue (note 13)	178,767	219,667
	1,049,116	742,359
<b>Total liabilities</b>	1,049,116	742,359
<b>Equity</b>		
Accumulated reserves	2,060,537	2,149,117
<b>Total liabilities and equity</b>	3,109,653	2,891,476

The notes on pages 27 to 42 are an integral part of these financial statements.

Approved by Members of the Board on June 26, 2013

Member

Member



# Anguilla Financial Services Commission

## Statement of Comprehensive Income For the year ended December 31, 2012

(Expressed in United States dollars)

	2012 \$	2011 \$
<b>Income</b>		
Licence fees	953,259	1,062,713
Interest income	73,550	73,592
Other income	10,569	3,349
	<b>1,037,378</b>	<b>1,139,654</b>
<b>Operating expenses</b>		
Payroll and related costs (note 14)	663,270	569,552
Professional service fees	162,874	48,975
Board members allowance	53,040	29,096
Bad debts written off	37,189	28,150
Subscriptions	36,688	33,380
Office rent	35,934	–
Travel and subsistence (note 15)	25,718	48,748
Depreciation (note 10)	20,455	9,034
Utilities	17,610	–
Amortisation (note 9)	15,000	–
Cleaning	11,000	6,000
Other expenses	10,304	4,834
Maintenance/technical support	9,006	59,474
Audit fees	9,000	7,000
Office supplies	7,076	9,580
Entertainment	5,353	2,453
Communications	4,760	1,851
Annual meeting	1,220	12,000
	<b>1,125,497</b>	<b>870,127</b>
<b>Operating (loss)/income before financial cost</b>	<b>(88,119)</b>	<b>269,527</b>
Finance cost	(461)	(662)
	<b>(88,580)</b>	<b>268,865</b>
<b>(Loss)/surplus for the year</b>		
Other comprehensive income for the year	–	–
	<b>(88,580)</b>	<b>268,865</b>
<b>Total comprehensive (loss)/income for the year</b>		
	<b>(88,580)</b>	<b>268,865</b>

The notes on pages 27 to 42 are an integral part of these financial statements.

**Anguilla Financial Services Commission**  
Statement of Changes in Equity  
For the year ended December 31, 2012



(Expressed in United States dollars)

	<b>Accumulated Reserves \$</b>
<b>Balance as of December 31, 2010</b>	<b>1,880,252</b>
Income for the year	268,865
<b>Balance as of December 31, 2011</b>	<b>2,149,117</b>
Loss for the year	(88,580)
<b>Balance as of December 31, 2012</b>	<b>2,060,537</b>

The notes on pages 27 to 42 are an integral part of these financial statements.



# Anguilla Financial Services Commission

## Statement of Cash Flows

### For the year ended December 31, 2012

(Expressed in United States dollars)

	2012 \$	2011 \$
<b>Cash flows from operating activities</b>		
Surplus/(loss) for the year	(88,580)	268,865
Item not affecting cash:		
Interest income	(73,550)	(73,592)
Bad debts written off	37,189	28,150
Depreciation (note 10)	20,455	9,034
Amortisation (note 9)	15,000	–
	<b>(89,486)</b>	<b>232,457</b>
Changes in operating assets and liabilities:		
Increase in accounts receivable	(46,683)	(24,862)
Decrease/(increase) in other assets	38,443	(50,667)
Increase in accounts payable and accrued expenses	14,769	22,291
Increase in statutory deposits	332,888	35,644
Decrease in deferred revenue	(40,900)	(19,950)
Cash generated from operations	<b>209,031</b>	<b>194,913</b>
Interest received	<b>73,278</b>	<b>65,409</b>
<b>Net cash provided by operating activities</b>	<b>282,309</b>	<b>260,322</b>
<b>Cash flows from investing activities</b>		
Decrease/increase in investments	111,233	(371,666)
Purchase of property and equipment	(63,620)	(15,681)
Purchase of intangible assets	–	(15,000)
<b>Net cash from/(used in) investing activities</b>	<b>47,613</b>	<b>(402,347)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>329,922</b>	<b>(142,025)</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>930,216</b>	<b>1,072,241</b>
<b>Cash and cash equivalents at end of the year (note 5)</b>	<b>1,260,138</b>	<b>930,216</b>

The notes on pages 27 to 42 are an integral part of these financial statements.

# Anguilla Financial Services Commission

## Notes to Financial Statements

### For the period ended December 31, 2012



(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, R.S.A.c. F28 on November 26, 2003 and it commenced operations on February 2, 2004 in The Valley, Anguilla, BWI.

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

## 2 Significant accounting policies

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

### a) Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Commission’s accounting policies. As at December 31, 2012, there are no areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements.

Certain new standards, interpretations and amendments to existing standards have been published that became effective during the current financial year. The Commission has assessed the relevance of all such new standards, interpretations and amendments and the related effect on the financial statements.

#### *New and amended standards adopted by the Commission*

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that are expected to have a material impact on the Commission.

#### *New standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been early adopted in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Commission, except the following set out below:



# Anguilla Financial Services Commission

Notes to Financial Statements

For the period ended December 31, 2012

(Expressed in United States dollars)

## 2 Significant accounting policies...continued

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

#### *New standards and interpretations not yet adopted ... continued*

- Amendments to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.
- IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.
- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Commission is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015. The Commission will also consider the impact of the remaining phases of IFRS 9 when completed by the IASB.

### b) Property and Equipment

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

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

**Anguilla Financial Services Commission**  
Notes to Financial Statements  
For the period ended December 31, 2012



(Expressed in United States dollars)

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

**b) Property and Equipment...continued**

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

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

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

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

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

**c) Intangible assets**

*Computer software*

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

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

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

**d) Accounts receivable**

Accounts receivable are carried at original invoice amount less provision made for impairment. A provision for impairment 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 the 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 an account 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 obligors. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.



# Anguilla Financial Services Commission

Notes to Financial Statements

For the period ended December 31, 2012

(Expressed in United States dollars)

## 2 Significant accounting policies...continued

### 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, in hand and short-term investments.

### f) Foreign currency transactions

#### *Functional and presentation currency*

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

#### *Transaction and balances*

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

### g) Revenue recognition

#### *Licence fees*

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

#### *Interest income*

Interest income is recognised in the statement of comprehensive income for all interest bearing instruments on an accrual 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 statement of financial position.

(Expressed in United States dollars)

## 2 Significant accounting policies...continued

### h) Financial assets ... continued

#### *(iii) Recognition and measurement*

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

#### *(iv) Off setting financial instruments*

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

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

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

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

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



# Anguilla Financial Services Commission

## Notes to Financial Statements

### For the period ended December 31, 2012

(Expressed in United States dollars)

## 2 Significant accounting policies...continued

### h) Financial assets ... continued

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

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

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

### i) Impairment of non-financial assets

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

**Anguilla Financial Services Commission**  
Notes to Financial Statements  
For the period ended December 31, 2012



(Expressed in United States dollars)

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

**k) Employee benefits ... continued**

*Post-employment obligations*

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

**3 Financial risk management**

**3.1 Financial risk factors**

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

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

**a) Market risk**

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

**i) Currency risk**

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

The Commission's exposure to currency risk is limited as its transactions are mainly denominated in United States or Eastern Caribbean dollars. The exchange rate of the Eastern Caribbean dollar (EC\$) to the United States dollar (US\$) has been formally pegged at EC\$2.70 = US\$1.00 since July 1976. Management does not believe significant foreign exchange risk exists as of December 31, 2012.



# Anguilla Financial Services Commission

## Notes to Financial Statements

### For the period ended December 31, 2012

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(Expressed in United States dollars)

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

#### 3.1 Financial risk factors...*continued*

##### a) Market risk...*continued*

##### ii) Interest rate risk

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

##### iii) Price risk

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

##### b) Credit risk

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

All financial assets such as cash and cash equivalents, investments and accounts receivables are categorized as neither past due nor impaired in 2012 and 2011.

# Anguilla Financial Services Commission

## Notes to Financial Statements

### For the period ended December 31, 2012



(Expressed in United States dollars)

### 3 Financial risk management...continued

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

##### Credit Quality

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

	High Grade \$	Standard Grade \$	Total \$
<b>December 31, 2012</b>			
Cash and cash equivalents	1,260,138	–	1,260,138
Investments	1,667,364	–	1,667,364
Accounts receivable	–	14,028	14,028
	<b>2,927,502</b>	<b>14,028</b>	<b>2,941,530</b>
<b>December 31, 2011</b>			
Cash and cash equivalents	930,216	–	930,216
Investments	1,778,325	–	1,778,325
Accounts receivable	–	4,534	4,534
	<b>2,708,541</b>	<b>4,534</b>	<b>2,713,075</b>

The credit quality of financial assets were determined as follows:

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

#### 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 its short-term obligations.



# Anguilla Financial Services Commission

## Notes to Financial Statements

### For the period ended December 31, 2012

(Expressed in United States dollars)

### 3 Financial risk management...continued

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

The following tables analyse 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.

	<b>Less than 1 Year \$</b>
<b>At December 31, 2012</b>	
Accounts payable and accrued expenses	96,138
Total liabilities	96,138
Total assets held for liquidity purposes	2,947,830
<b>Net liquidity gap</b>	<b>(2,851,692)</b>
<b>At December 31, 2011</b>	
Accounts payable and accrued expenses	81,369
Total liabilities	81,369
Total assets held for liquidity purposes	2,753,063
<b>Net liquidity gap</b>	<b>(2,671,694)</b>

### 3.2 Fair value estimation of financial assets and liabilities

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

### 3.3 Capital risk management

The Commission's objectives when managing capital are to safeguard the Commission's ability to continue as a going concern.

# Anguilla Financial Services Commission

## Notes to Financial Statements

### For the period ended December 31, 2012



(Expressed in United States dollars)

#### 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 Cash and cash equivalents

	2012 \$	2011 \$
Cash at bank and on hand	1,260,138	752,588
3 month term deposit held at National Bank of Anguilla Limited, maturing on March 9, 2012 bearing interest at 3% per annum	—	177,628
	<u>1,260,138</u>	<u>930,216</u>
Interest receivable	—	—
<b>Total cash and cash equivalents</b>	<u><b>1,260,138</b></u>	<u><b>930,216</b></u>

The operating bank accounts held with National Bank of Anguilla Limited bears interest at a rate of 1% per annum (2011: 1%) and that at the Bank of Nova Scotia a rate of 3% per annum (2011: 3%).

#### 6 Accounts receivable

Accounts receivable consists of amounts outstanding for licence fee as at December 31, 2012 and 2011.



# Anguilla Financial Services Commission

Notes to Financial Statements

For the period ended December 31, 2012

(Expressed in United States dollars)

## 7 Investments

	2012 \$	2011 \$
<i>Loans and receivables</i>		
One (1) year term deposit held at National Bank of Anguilla Limited, maturing on March 22, 2013 bearing interest at a rate of 3.5% per annum (2011: 3.5%)	946,187	914,105
One (1) year term deposit held with CIBC FirstCaribbean International Bank, maturing on April 8, 2013 bearing interest at a rate of 3% per annum (2011: 3%)	334,185	324,399
One (1) year term deposit held at National Bank of Anguilla Limited, maturing November 19, 2013 and bearing interest at a rate of 3.5% per annum (2011: 3.5%)	192,815	186,260
One (1) year term deposit held with CIBC FirstCaribbean International Bank, maturing on October 14, 2013 bearing interest at a rate of 3% per annum (2011: 3%)	159,172	154,500
One (1) year term deposit held at National Bank of Anguilla Limited, matured on November 19, 2012 and bearing interest at a rate of 3.5% per annum.	–	164,329
	<b>1,632,359</b>	<b>1,743,593</b>
Interest receivable	<b>35,005</b>	<b>34,732</b>
<b>Total investments</b>	<b>1,667,364</b>	<b>1,778,325</b>

## 8 Other assets

	2012 \$	2011 \$
Prepayments	21,087	25,842
Housing deposits	6,300	2,400
Down payment for purchase of property and equipment	–	37,588
<b>Total other assets</b>	<b>27,387</b>	<b>65,830</b>

# Anguilla Financial Services Commission

## Notes to Financial Statements

### For the period ended December 31, 2012



(Expressed in United States dollars)

#### 9 Intangible assets

In 2010, the Commission entered into an agreement with AXSO Global Inc. to provide services in respect of the implementation of the SIGMA Reporting and Analytics System.

	<b>2012</b> \$
<b>Year ended December 31, 2011</b>	
Opening book value	60,000
Addition	15,000
<b>Closing net book value</b>	<b>75,000</b>
<b>As at December 31, 2011</b>	
Cost	75,000
Accumulated amortization	—
<b>Net book value</b>	<b>75,000</b>
<b>Year ended December 31, 2012</b>	
Opening book value	75,000
Amortization charge	(15,000)
	<b>60,000</b>
<b>As at December 31, 2012</b>	
Cost	75,000
Accumulated amortization	(15,000)
	<b>60,000</b>



# Anguilla Financial Services Commission

Notes to Financial Statements

For the period ended December 31, 2012

(Expressed in United States dollars)

## 10 Property and equipment

	Computers and equipment \$	Furniture and fittings \$	Leasehold equipment \$	Total \$
<b>Year ended December 31, 2011</b>				
Opening net book value	10,717	20,207	–	30,924
Additions	9,798	5,883	–	15,681
Depreciation charge	(5,958)	(3,076)	–	(9,034)
<b>Closing net book amount</b>	<b>14,557</b>	<b>23,014</b>	<b>–</b>	<b>37,571</b>
<b>As at December 31, 2011</b>				
Cost	38,024	35,648	–	73,672
Accumulated depreciation	(23,467)	(12,634)	–	(36,101)
<b>Net book amount</b>	<b>14,557</b>	<b>23,014</b>	<b>–</b>	<b>37,571</b>
<b>Year ended December 31, 2012</b>				
Opening net book value	14,557	23,014	–	37,571
Additions	7,124	22,464	34,032	63,620
Depreciation charge	(8,396)	(5,212)	(6,847)	(20,455)
<b>Closing net book amount</b>	<b>13,285</b>	<b>40,266</b>	<b>27,185</b>	<b>80,736</b>
<b>As at December 31, 2012</b>				
Cost	38,217	57,353	34,032	129,602
Accumulated depreciation	(24,932)	(17,087)	(6,847)	(48,866)
<b>Net book amount</b>	<b>13,285</b>	<b>40,266</b>	<b>27,185</b>	<b>80,736</b>

## 11 Accounts payable and accrued expenses

	2012 \$	2011 \$
Accrued expenses	53,595	67,233
Accrued gratuities	34,917	6,268
Trade payables	7,626	7,868
<b>Total accounts payable and accrued expenses</b>	<b>96,138</b>	<b>81,369</b>

# Anguilla Financial Services Commission

## Notes to Financial Statements

### For the period ended December 31, 2012



(Expressed in United States dollars)

## 12 Statutory deposits

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

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

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

At December 31, 2012 statutory deposits in the amount of \$774,211 (2011: \$441,323) were held by the Commission in connection with approved external insurers.

## 13 Deferred revenue

Deferred revenue consists of licence fees for the financial year ended December 31, 2013 paid during the current year.

## 14 Payroll and related costs

	2012	2011
	\$	\$
Salaries	544,955	496,288
Staff gratuities	28,650	(7,861)
Housing allowances	22,650	17,800
Staff recruitment	19,321	23,483
Health insurance	18,708	14,889
Social security costs	16,715	15,511
Pension costs	12,271	9,442
<b>Total payroll and related costs</b>	<b>663,270</b>	<b>569,552</b>



# Anguilla Financial Services Commission

Notes to Financial Statements

For the period ended December 31, 2012

(Expressed in United States dollars)

## 14 Payroll and related costs...continued

The remuneration of Board members and key management personnel during the year were as follows:

	2012 \$	2011 \$
Salaries	279,241	191,751
Board members' allowances	53,040	29,095
Gratuities	28,650	-
Housing allowances	22,650	17,920
<b>Total key management compensation</b>	<b>383,581</b>	<b>238,766</b>

## 15 Travel and subsistence

	2012 \$	2011 \$
Regulatory	10,422	32,591
Chairman's travel and subsistence	13,828	12,640
Training	1,468	3,517
<b>Total travel and subsistence</b>	<b>25,718</b>	<b>48,748</b>

## 16 Contribution to the Government of Anguilla

In accordance with Section 19 of the Financial Services Commission Act, the Commission may make payment from its surplus to the Government of Anguilla after all its reserves have been adequately funded. During the year ended December 31, 2012, there were no contributions paid to the Government of Anguilla.